

Roles & Responsibilities of Statutory Auditors of

NBFCs

- An overview

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CA Bhavesh Vora

WIRC of ICAI



Areas to discuss



Regulatory
Aspects



Financial Aspects



Practical Aspects



Proposed
Regulatory
Framework



Regulatory Aspects



Significant Laws / Regulations applicable to Audit of NBFCs



RBI Act
Companies Act
Income Tax Act
NHB Act
Factors Act
SARFAESI
PMLA



Auditors
Directions
Master
Directions
KYC Directions



RBI Notifications
RBI Specific
Instructions



ICAI Act and
Regulations
SAs
AS / IndAS
Technical Guides

Major Regulators



RBI



MCA – ROC
NFRA



SEBI – for
entities with
listed securities



FIU-Ind
(PMLA)

RBI Act, 1934

45MA



45MAA



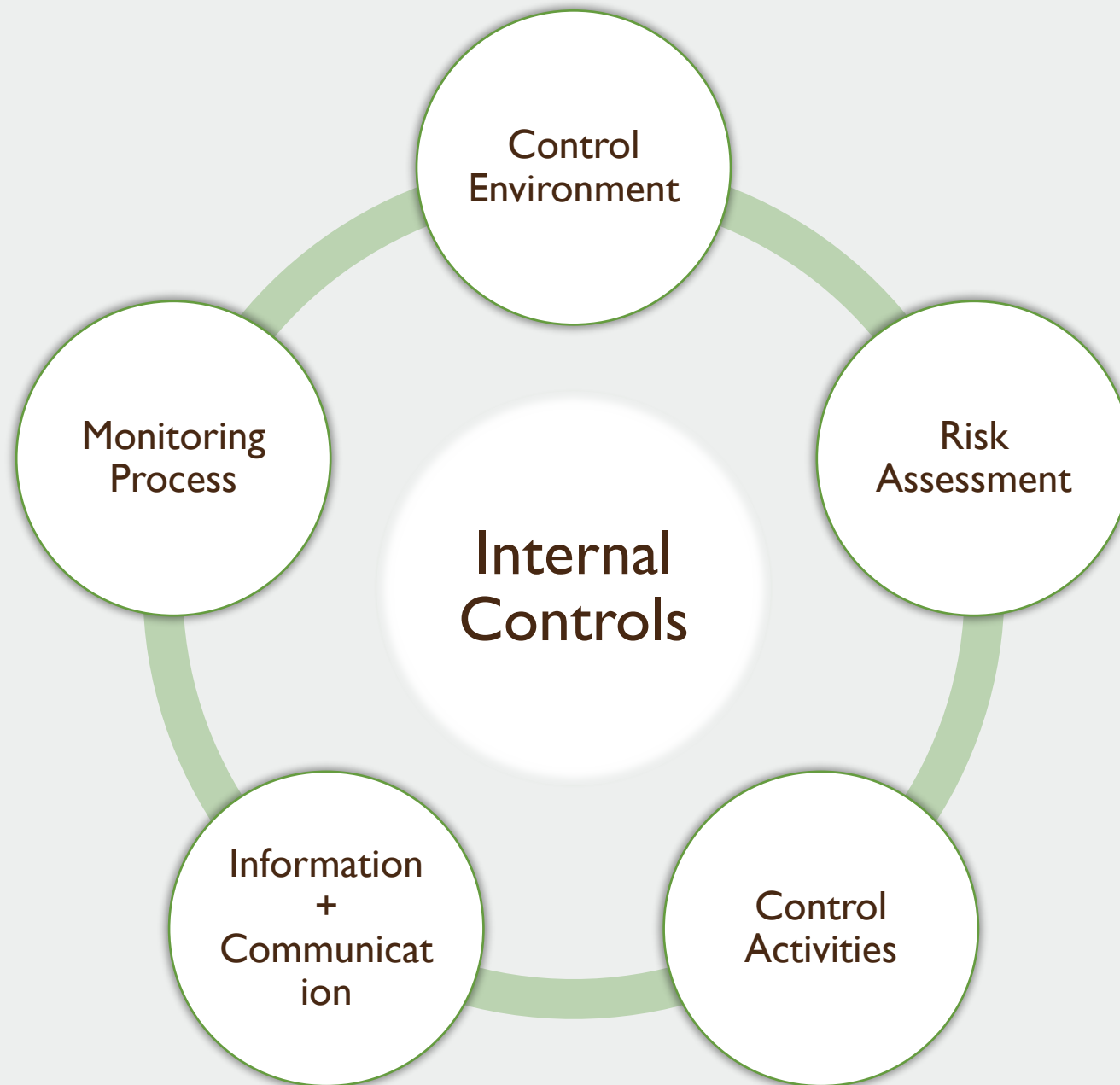
58B(4AA)



- RBI Act has laid down wide powers and responsibilities for Auditors
- The scope is not merely limited to NBFCs, but group of a NBFC / Other Companies as well

Standards on Auditing (With specific reference)

- SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements
 - Para 6(b) states *Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements*
 - Audit Procedures: (i) *Inquiring Management / TCWG whether the entity is in compliance with such laws and regulations AND (ii) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities*
 - Audit Procedures When Non-Compliance is Identified or Suspected: *Para 18 to 21*
- SA 260: Communication with Those Charged with Governance (TCWG)
- SA 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
- SA 330: Auditor's Responses to Assessed Risks
- Assessment of Internal Controls over Financial Reporting



Controls in a NBFC



Controls in a NBFC

- Assessment of Controls on the basis of Audit Plan
- Using the work of an Expert as per SA 620
- Areas of concern:
 - Other Financial Assets
 - Investments
 - Loans
 - Income Recognition
 - Asset Classification and Provisioning
 - Liquidity Management
 - Related Party transactions

Auditors Report Directions, 2016

- Applicable to every auditor of every NBFC
- Additional Report to be issued to the Board of Directors (TCWG)
 - Obtained CoR
 - PBC is met
 - NOF is adequate
 - Resolution for deposit acceptance
 - Whether accepted any public deposits
 - Compliance with applicable regulations
 - Capital Adequacy
 - Correct classification
 - Other deposit acceptance related clauses

Exception Reporting

- Obligation of Auditors to submit exception reporting to RBI if non-compliance with:
 - Chapter III B (Including Section 45-IA)
 - NBFC Deposit Acceptance regulations
 - NBFC SI / Non-SI regulations
- Exception report to be submitted to regional office of Department of Non-Banking Supervision (Now Department of Supervision) of Registered Office.

Non-SI / SI Directions

- Intimation of change in details of the auditor to RBI
- Disclosures in Financial Statements
- Accounting Standards / Indian Accounting Standards
- Income Recognition, Asset Classification and Provisioning
- Rotation of partner of Statutory Audit firm for SI

Corporate Governance

- Audit Committee requirements and independence
- Risk Management Committee
- Asset Liability Management Committee
- Fair Practices Code

Financial Aspects



Financial Statements

- Schedule III - Division I (Finance Company) / Division III
- Statement of Cashflows mandatory as per Accounting Standard 3 / Ind AS 7
- Provisioning Floor for Ind AS
- Regulatory Ratios vis a vis Ind AS

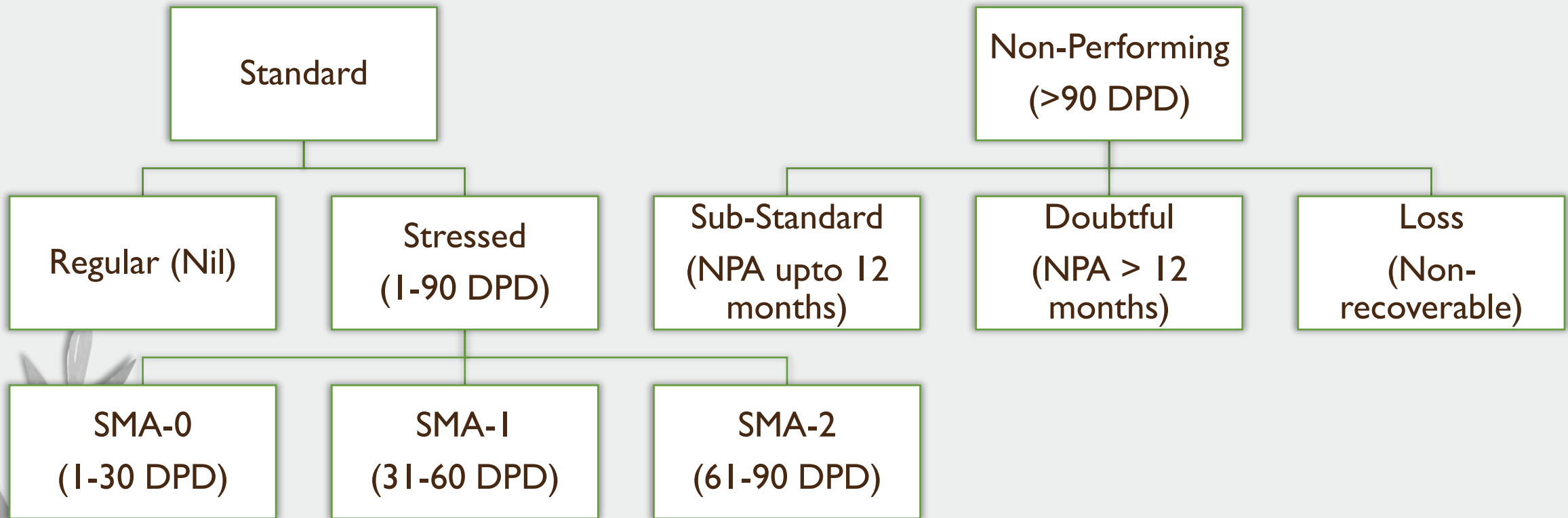
Disclosures in Financial Statements

- Para 19 disclosure
- Liquidity Risk Management disclosure
- Other regulators / licenses
- Ratings
- Penalties levied
- Asset-Liability profile
- Restructured Assets
- Capital & CRAR related disclosures
- Investment related disclosures
- Qualitative disclosures
- Exposure related disclosure
- IndAS implementation specific disclosures
- Other Disclosures

Accounting & Valuation of Investments

- Every NBFC is to frame an Investment Policy as per the applicable prudential norms for accounting of investments
- Investments are to be classified as current or long-term at the time of making such investment
- Inter Class transfer on ad-hoc basis not permitted
- Quoted Current Investment – Cost or Market Value
- Unquoted Equity Shares – Cost or Breakup/Fair Value
- Unquoted Preference Shares – Cost or Face Value

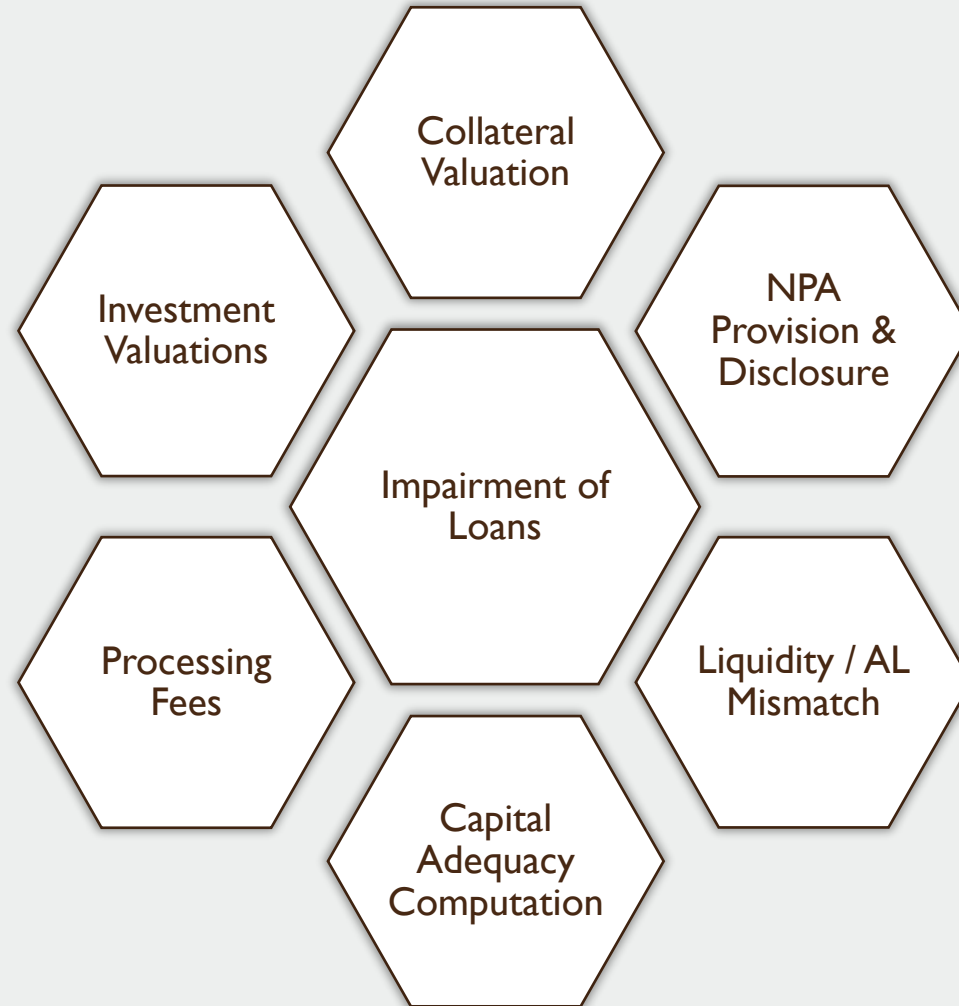
Asset Classification (for NBFC-SI & D)



Practical Aspects



Typical Accounting / Disclosure matters

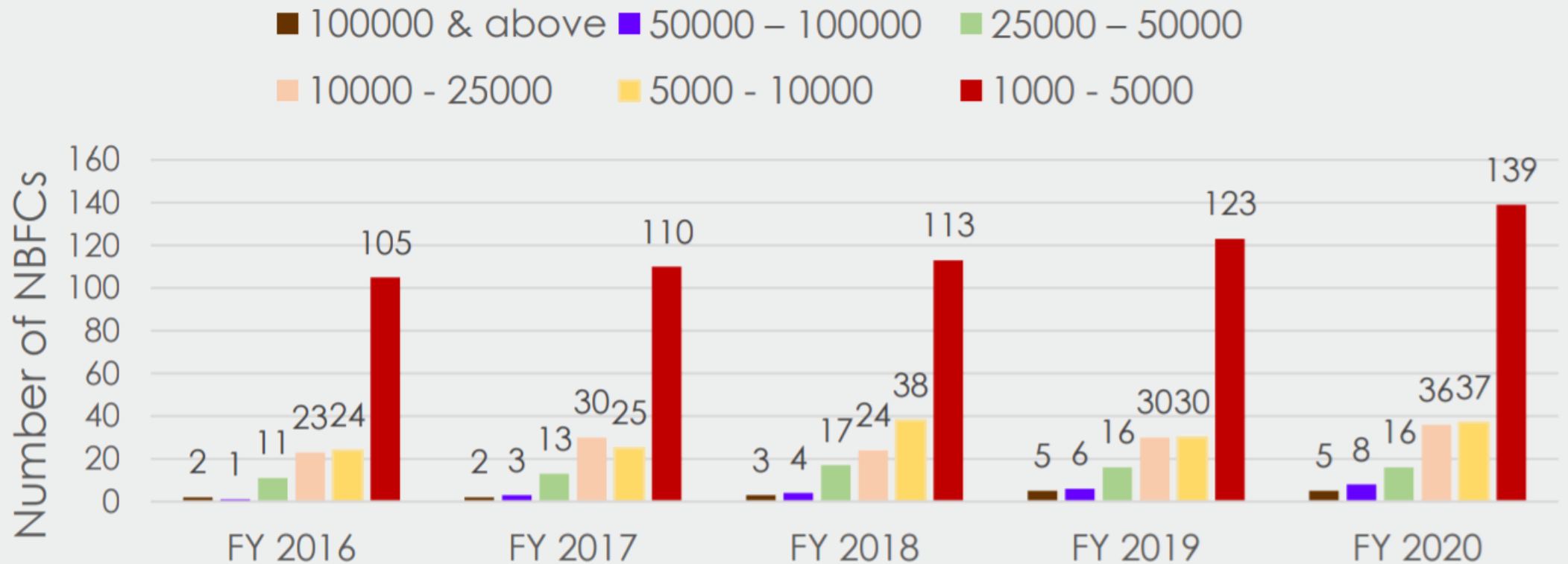


Deemed NBFCs

- Reporting to RBI as Exception Report
- Reporting under CARO
- Auditors Report to Board of Directors, as obligation for communication with TCWG
- Furnish additional information sought by RBI
- Over 12,60,000 active companies in India as on March 2020 - Total NBFCs registered with RBI are approx. 9,500 as on January 2021 – constituting only approx. 0.75% of active companies

Proposed Regulatory Framework

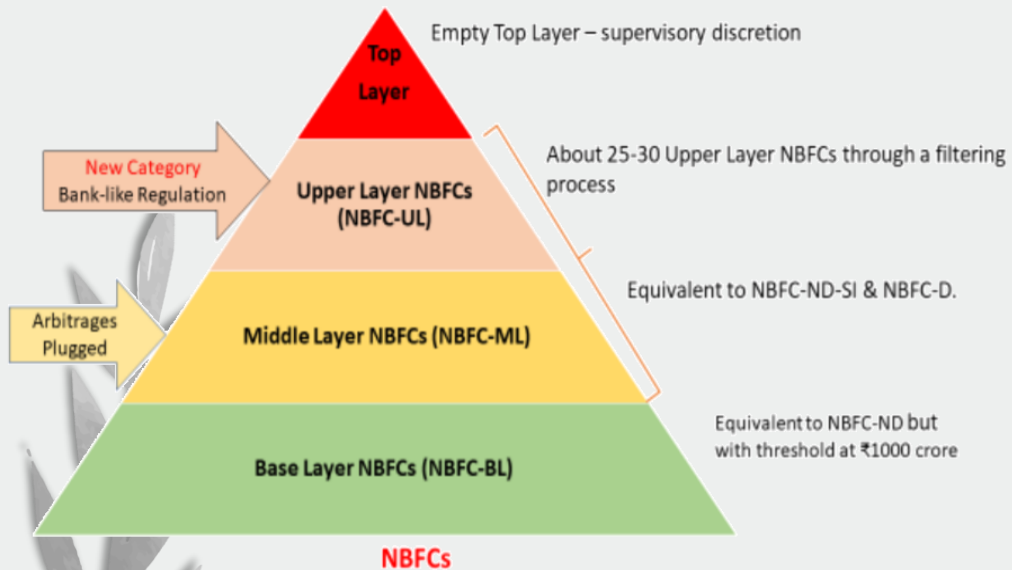
Proposed Regulatory Framework



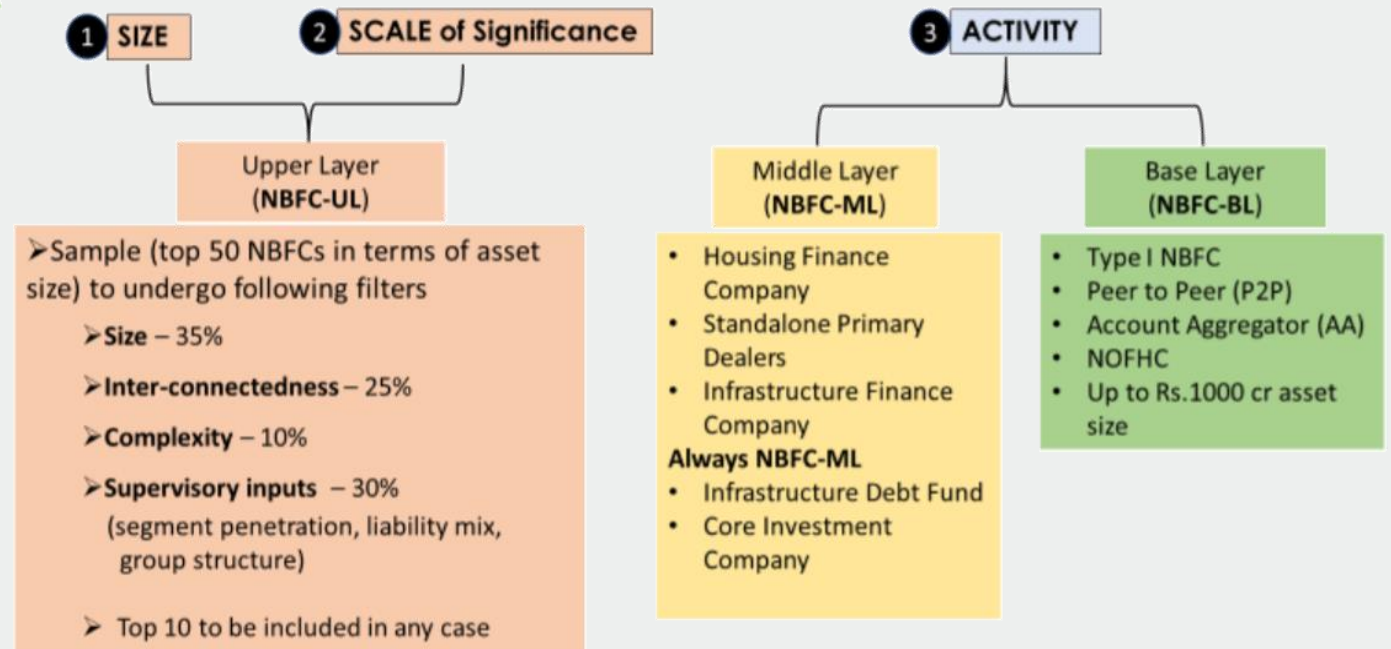
Number of NBFCs (excluding HFCs) - Asset size wise- ₹ crore

Proposed New Regulatory Framework

Scale Based Approach – Introducing Scale Based Framework



Scale Based Approach – The Filtering Process



Major Changes Proposed

Parameters	Existing	Proposed
Standard Asset Provisioning	0.25% for Non-SI	0.4%
NPA Classification	180 DPD for Non-SI	90 DPD
Credit Concentration Norms	Separate Limits for Lending and Investment Exposure	Single exposure limit
Restrictions on KMPs	No restrictions	KMP of an NBFC cannot hold office in any other NBFC-ML or NBFC-UL or Subsidiaries An Independent Director cannot be director in more than two NBFCs (NBFC-ML and NBFC-UL) at the same time
Risk Management Committee (RMC)	NA for Non-SI	Board level RMC applicable
Lending Restrictions	Minimum	Additional restrictions proposed
Core Banking Solution	NA	Mandatory for NBFCs with more than 10 branches
Minimum NOF	INR 2 Crores (Minimum of all types)	INR 20 Crores



Q&A



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