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AUDIT-95

CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



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Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
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Bank Audit

<p>Banks' distinguishing characteristics</p> <ul style="list-style-type: none"> • Custody of large volumes of monetary items • Transactions requiring complex a/c'ing & ICS • Operation through wide network of geographically dispersed branches • Transactions initiated at 1 location, recorded & managed at another location • Direct Initiation & completion of transactions by customer without intervention by bank • Regulatory requirements by Govt 	<p>Special audit considerations in banks due to</p> <ul style="list-style-type: none"> • Scale of operations & significant exposures within short period of time • Effect of regulatory requirements • Continuing development of new products • Extensive dependence on IT of transactions • Particular nature of risks in transactions <p>Legal Framework</p> <ul style="list-style-type: none"> • Banking Regulation Act, 1949 • State Bank of India Act, 1955 • Reserve Bank of India Act, 1934 • Companies Act, 2013 • Info Technology Act, 2000 • Prevention of Money Laundering Act, 2002
<p>Form & Content of FS</p> <ul style="list-style-type: none"> • Form A of 3rd Schedule to Banking Regulation Act, 1949 for B/S & Form B for P/L • Ind AS is deferred by RBI for all Scheduled Commercial Banks (SCBs) presently 	<p>Audit & Appointment of Auditor</p> <p>Nationalised or Public sector banks appoints 4 or more CA firms as Statutory Central Auditors (SCAs) & 1 CA firm as Statutory Branch Auditors (SBAs)</p>
<p style="text-align: center;">Appointment letter sent by banks to SCAs contains</p> <ul style="list-style-type: none"> • Procedural requirements to be complied in accepting assignment • Period of appointment • Particulars of other central auditors • Particulars of previous auditors <ul style="list-style-type: none"> • Statement of division of work among joint auditors in nationalised banks • Scope of assignment including special reports in addition to main report • For SBAs, appointment letter is same as above except for other auditor & work division 	
<p style="text-align: center;">Appointing Authority</p> <ul style="list-style-type: none"> • Banking co. - AGM Shareholders • Nationalised bank - BOD <ul style="list-style-type: none"> • For Both, approval of RBI is required 	
<p>Conducting Audit - Stages</p> <ol style="list-style-type: none"> 1. <u>Initial Considerations</u> <ul style="list-style-type: none"> • Acceptance & Continuance • Terms of Audit Engagements • Communication with Previous Auditor 2. <u>Understanding</u> <ul style="list-style-type: none"> • Understanding Bank & Its Environment • Understand Bank's A/c'ing Process 	<p>Special Considerations in IT Environment</p> <p><u>Bank shall share below info with auditors -</u></p> <ul style="list-style-type: none"> • Overall IT policy, structure & environment • Data processing & interface under systems • Data integrity & security • MIS reports generated & their periodicity • Major exception report & generation process • Process of generating info for FS disclosures

<ul style="list-style-type: none"> • Understanding Risk Mgt Process - <u>Effective Risk Mgt System Requires</u> - <ul style="list-style-type: none"> ○ Oversight by TCWG ○ Identification & monitoring of risks ○ Control activities ○ Monitoring activities ○ Reliable Info Systems <p>3. <u>Risk Assessment</u></p> <ul style="list-style-type: none"> • Identifying & Assessing ROMM • Assess Specific Risks • Assess Risk of Fraud <p>4. <u>Execution</u></p> <ul style="list-style-type: none"> • Engagement Team Discussions • Prepare response to Assessed Risks • Establish Overall Audit Strategy <p>5. <u>Reporting</u> - Discussed Later</p>	<p>Key security control aspects that auditor addresses in computerised bank</p> <ul style="list-style-type: none"> • Verify changes are authenticated • Verify charges calculated manually are properly accounted & authorised • Ensure system prevents unauthorised amendments to programmes • Verify SODs ensured in granting access • Ensure authorised, accurate & complete data is available for processing • Verify if access controls match with responsibilities
<p>General ICs</p> <ul style="list-style-type: none"> • Work of 1 person shall be checked by another • Staff shall be shifted from 1 position to another frequently & without prior notice • All bank forms kept in possession of officer & another officer shall verify them • Signature book kept with responsible officer & access allowed only to authorised officers • Mail opened by responsible officer. Sign on letters checked by officer with sign book • Arithmetical accuracy of books shall be proved independently every day 	<p>Loans & Advances ICs</p> <ul style="list-style-type: none"> • Bank make advances only after satisfying as to creditworthiness of borrowers • Sufficient margin shall be kept against securities to cover decline in value • All securities received & returned by responsible officer & in custody of 2 officers • All securities are registered in name of bank • All a/cs kept within drawing power & sanction limit. Additional temporary limit, for max 20% of existing limit & max 90 days • Operation in each a/c shall be reviewed at least once every year
<p>Cash ICs</p> <ul style="list-style-type: none"> • Cash in joint custody of 2 responsible officer • Cash shall be test-checked daily • Actual cash in hand shall agree with balance in Day Book every day • High value cash receipts & payments shall be verified by higher officer • Payments shall be made only after vouchers are approved by authorised officer • Cashier shall have no access to customer's a/cs & Day Book 	<p>Credit Card Operations ICs</p> <ul style="list-style-type: none"> • Effective screening of applications with good credit assessments • Strict control over storage & issue of cards • System whereby merchant confirms unutilised limit before accepting card • System of prompt reporting by merchants of all settlements accepted by them • Reimbursement to merchants only after verification of acceptance of cards • All reimbursement immediately charged to customer's a/c

<p>Internal Audit & Inspection - RAP includes</p> <ul style="list-style-type: none"> • Identification of inherent business risks in activities of branches • Assessment of effectiveness of control for monitoring inherent risks (Control risk) • Assessment of level of risk areas & overall business risk & control risk • Drawing up risk matrix considering factors 	<p>Clearings ICs</p> <ul style="list-style-type: none"> • Auditor shall check whether sign of drawer of cheque is verified by staff • Under Cheque Truncation System, electronic image of cheque is transmitted to paying branch through clearing house • Branch shall call/email customer for cheque of Rs. 5 lakhs & above for inward clearings • Unpaid cheques shall be sent to customers
<p>Compliance with CRR & SLR requirements - Procedures</p> <ul style="list-style-type: none"> • Obtain understanding of circulars of RBI, regarding composition of DTL • Request branch auditors to send weekly trial balance as on Friday to be consolidated at HO • Examine, on test basis, DTL consolidations • <u>Items excluded from liabilities in DTL are -</u> <ul style="list-style-type: none"> ○ Recoveries from borrowers for bad debts ○ Un-adjusted deposits lying in link branches for agency business to extent not adjusted ○ Margins held & kept in sundry deposits ○ Amounts received in INR for import bills & held in sundry deposit pending final rates ○ Paid up capital, reserve, credit balance in P/L, loan from RBI & refinance from EXIM bank, NHB, SIDBI & NABARD • <u>Items included in liabilities in DTL are -</u> <ul style="list-style-type: none"> ○ Net credit bal in branch adjustment a/cs ○ Borrowings from abroad by Indian banks needs to be considered at gross level ○ Reconciliation of Nostro a/cs with Mirror A/cs needs to be scrutinized carefully 	<p>Special-purpose Certificates of Investments - Procedures</p> <ul style="list-style-type: none"> • Banks shall get their investments under PMS separately audited by external auditors • Examine if bank is maintaining separate a/cs for investment in own Investment A/c, in PMS clients' a/c & on behalf of other constituents • Banks shall do half-yearly reviews as of 30th Sep & 31st March of investment portfolio • IA shall do concurrent audit of treasury transactions & its report shall be submitted to CMD once every month <p>Auditor obtains evidence about following while auditing advances</p> <ul style="list-style-type: none"> • Advances are outstanding on date of B/S • Advances represent amounts due to bank • Amounts due to bank are appropriately supported by loan docs • There are no unrecorded advances • Stated basis of valuation of advances is appropriate & recoverability is recognized • Advances are disclosed as per a/cing policies
<p>Evaluation of ICs over Advances - Procedures</p> <ul style="list-style-type: none"> • Examine area of credit appraisal & verify if procedure for credit worthiness are followed • Examine all necessary loan docs are executed after sanction but before disbursals • Examine existence & valuation of securities • Review operations of a/cs & adverse features • Examine if system for review of advances is being followed • Review whether drawing power is calculated on basis of stock statements 	<p>Substantive Audit Procedures for Advances</p> <ul style="list-style-type: none"> • Examine all large advances & others on sample • Verify correctness of master data in CBS • Verify completeness & accuracy of interest • Carry out appropriate AP • Examine a/cs adversely commented by concurrent auditors/RBI • Examine quick/early mortality a/cs (which became NPA within 12 months of its sanction)

<p>Recoverability of Advances – Procedures</p> <ul style="list-style-type: none"> • Review periodic statements submitted by borrowers • Review latest FS of borrowers • Review reports on inspection of security • Review auditor's reports for borrowers having credit facilities beyond cut-off limit 	<p>A/cs regularized near B/S date</p> <ul style="list-style-type: none"> • If regularised before B/S date through genuine source, a/c not be treated as NPA • If subsequent to repayment, branch provided further funds to borrower, carefully assess if repayment was out of genuine source/not • Where a/c indicates inherent weakness, it shall be deemed as NPA
<p>Drawing Power Calculation</p> <ul style="list-style-type: none"> • Ensure that drawing power is calculated as per extant guidelines of BOD • Special consideration to reporting of sundry creditors & stocks under LCs/guarantees • DP is calculated carefully for working capital advances for construction business • Stock audit shall be done for all a/cs having exposure of more than stipulated limit 	<p>A/cs with temporary deficiencies</p> <ul style="list-style-type: none"> • Not classify as NPA merely due to temporary deficiencies like non-availability of DP based on latest stock statement, balance outstanding exceeding limit temporarily & non-renewal of limits on due date • Stock statements for determining drawing power shall not be older than 3 months otherwise irregular
<p>Govt Guaranteed Advances</p> <ul style="list-style-type: none"> • If Govt guaranteed advance becomes NPA, then for income recognition, interest shall not be accounted unless realized & for asset classification, in case of CG Guarantee, treated as NPA only when CG repudiates its guarantee, when invoked & in case of SG Guarantee, treated as NPA if overdue for > 90 days • If bank has not invoked CG Guarantee though overdue for long, reason reported in LFAR <p>Agricultural Advances NPA as per crop season decided by State Level Bankers' Committee depending on duration of crop - short term (if overdue for > 2 crop seasons)/ long term (if overdue for > 1 crop season)</p> <p>Basel III accord aims at</p> <ul style="list-style-type: none"> • Improving bank's ability to absorb shocks from stress • Improving risk mgt & governance • Strengthening transparency & disclosure 	<p>Sale/Purchase of NPAs – Examine</p> <ul style="list-style-type: none"> • Asset sold shall be NPA for at least 2 years • Policy of BOD for procedures & valuation • Assets are sold/purchased "without recourse" only i.e entire credit risk is transferred • NPA are sold at cash basis only • Subsequent to sale of NPA, bank does not have any risk for sold NPAs • Not purchase NPA which it had originally sold <p><u>For sale of NPA, ensure -</u></p> <ul style="list-style-type: none"> • On sale, NPA is removed from books of bank • If sale is at price below net book value (NBV), shortfall is debited to P/L • If sale is for value higher than NBV, excess provision is not reversed but utilised to meet shortfall on sale of other NPAs <p><u>For purchase of NPAs, verify -</u></p> <ul style="list-style-type: none"> • For capital adequacy, banks assign 100% risk weights to NPAs purchased • NPA purchased is subjected to provisioning requirements as per classification • Recovery from NPA purchased is 1st adjusted against acquisition cost & extra as profit

<ul style="list-style-type: none"> • Tier I capital consists share capital & disclosed reserves & it's highest quality capital as it is fully available to cover losses • Tier II capital consists certain reserves & subordinated debt. Its Loss absorption capacity is lower than Tier I 	<p>Capital Risk Adequacy Ratio (CRAR) $\frac{\text{Eligible Total Capital} \times 100}{\text{Risk weighted assets \& off B/S items}}$</p> <p>Minimum CRAR required - 9%</p>
<p>Current & saving a/cs - Procedures</p> <ul style="list-style-type: none"> • Verify on sample basis CASA opened during year for KYC • Verify bal in individual a/cs on sample basis • Check interest on test check basis • Examine if balance confirmation is obtained periodically, examine on sampling basis • Ensure debit bal in current a/c are not netted out with liabilities but shown as advances • Inoperative/dormant a/cs when there are no transactions for over period of 2 years. Verify on sample basis 	<p>Disclosure Requirement for Contingent Liabilities</p> <ul style="list-style-type: none"> • Other items where bank is contingently liable • Claims against bank not acknowledged as debt • Liability for partly paid investments • Acceptances, endorsement & other obligation • Guarantees given on behalf of constituents • Liability for outstanding forward exchange derivative contracts
<p>For Contingent Liability, Auditor shall obtain Mgt representation that</p> <ul style="list-style-type: none"> • 'All off B/S transaction' is accounted in BOA • Above are entered with due procedure • Above are supported by underlying docs • All year end contingent liability are disclosed • Disclosed contingent liabilities do not include crystallised liabilities like loss/expense • Estimated financial effect of contingent liability is based on best estimate (AS 29) 	<p>Contingent Liabilities - Procedures</p> <ul style="list-style-type: none"> • Ensure system that non-fund-based facilities are extended only to regular constituents • Verify if bank has extended non-fund facility to other than its regular customers • Verify for LCs for import of goods, payment to suppliers is based on shipping docs • Review if comfort letters issued are considered as contingent liabilities • Ascertain if a/cing system provides maintenance of adequate records • Test completeness of recorded obligations
<p>Auditor's Report For nationalised bank, Report to CG includes -</p> <ul style="list-style-type: none"> • Whether, in auditor's opinion, B/S exhibit true & fair view of affairs of bank • Whether P/L shows true balance of P/L • If transactions of bank were within powers • If return received from branch are adequate • In case auditor called for explanation, whether it is given & if it is satisfactory • Other matter to be brought to notice of CG <p>For unaudited branches, number of branches, quantification of advances, deposits, interest income & expense is disclosed in audit report</p>	<p>Reports & certificates</p> <ul style="list-style-type: none"> • Report on adequacy & operating effectiveness of IFC over FR • Long form audit report • Report on compliance with SLR requirements • Report on compliance for implementation of recommendations of Ghosh Committee for frauds & of Jilani Committee on IC • Report on instances of adverse credit-deposit ratio in rural areas • Authentication of capital adequacy ratio • Asset liability Mgt • Certificate on Corporate Governance for listed banks

Long Form Audit Report (LFAR)	
<ul style="list-style-type: none"> It is to be given by SCAs & SBAs SBAs LFAR is in form of questionnaire where comments are provided & submitted to SCAs LFAR is submitted by SCAs to Mgt after consolidation at HO level 	<ul style="list-style-type: none"> LFAR is submitted to ACB indicating action taken for irregularity & copy of LFAR & agenda, with Board views, is submitted to RBI within 60 days of LFAR submission by SCAs
Scope of Concurrent Audit	
<ul style="list-style-type: none"> Cash Investments Deposits 	<ul style="list-style-type: none"> Advances Foreign Exchange House Keeping
Foreign Exchange - Procedures	Advances - Procedures
<ul style="list-style-type: none"> Check FCNR if debit & credits are permissible Ensure balances in Nostro a/cs in diff foreign currencies are within limit Ensure verification/reconciliation of Nostro & Vostro a/c transactions/balances Check if inward/outward remittance are properly accounted Check foreign bills negotiated under LCs Examine extension & cancellation of forward contracts for foreign currency 	<ul style="list-style-type: none"> Ensure advances are sanctioned properly as per delegated authority Ensure securities are received Ensure post disbursement supervision & follow-up is proper Verify if misutilisation & diversion of funds Check if letters of credit issued are within delegated power & for genuine transactions Check bank guarantees are properly worded Ensure follow-up of overdue bills of exchange
Appointment of Concurrent Auditors	Reporting Systems of Concurrent Auditors
<ul style="list-style-type: none"> Option of bank's own staff or external auditors is at discretion of banks If own officials, they shall be experienced, well trained & senior & independent of branch where audit is to be conducted ACB of bank shall decide maximum tenure of external auditors which shall not be >5 years continuously & for branch/units not > 3 years If external firms are appointed & serious omissions or commissions are noticed in their working their appointments may be cancelled & reported to RBI & ICAI 	<ul style="list-style-type: none"> Proper reporting of findings. Quarterly review submitted to ACB Zone-wise reporting of findings & annual report of audit shall be submitted to ACB Before submission discuss important issues Minor irregularities rectified in timely manner. Serious irregularities shall be reported to HOs for immediate action Fraud immediately reported to Inspection & Audit Dept (HO) & Chief Vigilance Officer & Branch Managers (unless he is involved) Follow-up on report be given high priority
MCQ Points	
<ul style="list-style-type: none"> RBI requires SCAs to verify compliance with SLR requirements of 12 odd dates in diff months of fiscal year not being Fridays Pay special attention to credit & debit entries in reconciliation statement provided by RBI remaining unresponded for > 15 days 	<ul style="list-style-type: none"> <u>Non-Banking Assets Acquired in Satisfaction of Claims</u> - recorded at lower of net book value of advance or NRV of asset acquired All commercial banks (excluding RRBs & LABs) shall follow 'Stress Testing framework' Non-Resident (External) Rupee a/c opened by NRIs & persons of Indian origin & Non-

- Balances with banks **outside India converted** into INR at **exchange rates as on B/S date**
- Investments are **classified as NPA** when interest/principal is **overdue for > 90 days**
- A/cs where **limits are not reviewed within 180 days** from due date/date of sanction, shall be **treated as NPA**
- Asset **classification** to be **borrower wise** & not facility wise - All facilities granted to borrower will be treated as NPA
- **Fixed assets** is **classified** into Premises & Other Fixed Assets
- **Banking co.** is **prohibited** from holding any **acquired immovable property** for period **exceeding 7 years** from date of acquisition, **except** for its **own use**

- **Resident Ordinary Rupee** a/c opened by all NREs. NRE a/c is repatriable & NRO a/cs are not repatriable except for all current income
- For **bulk deposits** (>= **Rs. 2 crores** for SCBs), **verify correct rate of interest** is offered
- Deposits designated in foreign currencies - **Interest** is paid on basis of **360 days** in year
- **Inter-office** transactions are **not borrowings**
- Circular for **recommendations** of **Committee** on Legal Aspects of **Bank Frauds** is applicable to all SCBs (**excluding RRBs**)
- **Remuneration** of **Concurrent Auditor** For external firms is **fixed by ACB**
- **Bulk Paper of Security Paper** is to be written off **over time**

NBFC

Definition of NBFC

- A **financial institution** which is co.
- A **non-banking institution** which is co. & having **principal business** receiving of deposits
- Other non-banking institution as RBI may, with **previous approval of CG**, specify
- Co. will be treated as NBFC when its **financial assets** constitute **> 50% of total assets (netted off by intangible assets)** & **income** from financial assets constitute **> 50% of gross income** as per last audited FS & will be required to be **registered as NBFC** by RBI

U/s **45-IA** of RBI Act, **no NBFC** is allowed to commence business **without** -

- **RBI certificate of registration (CoR)**
- Having **net owned fund of Rs. 10 Crores (2 crores for P2P, AA, & NBFCs with no public funds & no customer interface)**

Co. exempted from registration under RBI

- **Housing Finance** (regulated by NHB)
- **Merchant Banking Co.** (SEBI)
- **Stock Exchanges** (SEBI)
- Co. engaged in **stock-broking** (SEBI)
- **Venture Capital Fund Co.** (SEBI)
- **Nidhi Co.** (MCA, GOI)
- **Insurance Co.** (IRDA)
- **Chit Co.** (Chit Funds Act)
- Specified **Micro Finance Co.**
- **Mutual Benefit Co**
- **Securitisation & Reconstruction Co.**
- **CIC** which is not Systemically Important
- **Alternative Investment Fund**
- **CIC** with **asset** size of < Rs 100 crores & those with asset size of Rs 100 crores & above but **not accessing public funds**

NBFCs are categorized as

- **Deposit & Non-Deposit** accepting NBFCs
- **Non deposit taking NBFCs** into **systemically important** & **non-systemically important (NBFC-ND-SI & NBFC-ND)** &
- By kind of **activities**, they conduct as -
 - Investment & Credit Co. (**ICC**)
 - Infrastructure Finance Co. (**IFC**)

Scale Based Regulation - 4 Layers

- Base Layer (BL) - Comprise of
 - **NBFC-ND** below **asset of Rs 1000 crores**
 - **Below NBFCs (always in BL)** -
 - **Peer to Peer Lending (NBFC-P2P)**
 - **A/c Aggregator (NBFC-AA)**
 - **NOFHC**

- Systemically Important CIC (**CIC-ND-SI**)
- Infrastructure Debt Fund (**IDF-NBFC**)
- Micro Finance Institution (**NBFC- MFI**)
- Factors (**NBFC Factors**)
- Non-operative financial holding (**NOFHC**)

Diff B/w Banks & NBFCs

- NBFC **cannot accept demand deposits**, some NBFCs can accept Term Deposits
- NBFCs are **not part of payment & settlement system & cannot issue cheques**
- Deposit insurance facility of **DICGC is not available** to depositors of NBFCs, unlike banks
- **No Minimum Exposure to Priority Sector** required by NBFCs

Capital Requirements

- Every NBFC-D & NBFC-ND-SI shall maintain **minimum capital ratio of 15%**
- **Tier I** capital (other than for MFI & IDF) at any point of time, shall **not be < 10%**
- NBFCs lending for **gold jewellery** (such loans comprising **50% or more of financial assets**) shall maintain **minimum Tier I** capital of **12%**

Risk Weights for Assets

- Cash & bank, FDs, certificates of deposits with banks, Approved Securities, Loans fully secured against deposits held, Loans to staff, Income tax deducted at source, Advance tax paid, Interest due on Govt securities, Fund based claims on CG, Direct loan & investment in SG securities & CG guaranteed claims - **0%**
- **Bonds** of public sector banks & **SG guaranteed** claims, not in default/are in default for **<= 90 days** - **20%**
- All assets covering **PPP & post commercial operations** date infrastructure projects over year of commercial operation - **50%**
- **Rest All** - **100%**

- NBFCs **not** availing **public funds** & not having any **customer interface**

- Middle Layer (ML) - Consist of
 - **All NBFC-Ds**, irrespective of asset size,
 - **NBFC-ND** with **asset >= Rs 1000 crores**
 - Standalone Primary Dealers (**SPDs**)
 - Infrastructure Debt Fund (**IDF-NBFCs**)
 - **CIC**
 - Housing Finance Co. (**HFCs**)
 - Infrastructure Finance Co. (**NBFC-IFCs**)

- Upper Layer (UL) - NBFCs **identified by RBI** warranting enhanced regulatory requirement. **Top 10 eligible NBFCs** in terms of their **asset size** shall always reside in upper layer

- Top Layer (TL) - It will ideally remain empty unless there is **substantial increase** in **potential systemic risk** from specific NBFC

- Note
 - NBFC-D, CIC, IFC & HFC will be included in ML or UL (& not in BL). SPD & IDF-NBFC will always remain in ML
 - ICC, MFI, Factors & Mortgage Guarantee Co. can be in any layers
 - Govt NBFCs shall be in BL/ML not in UL

- All references to NBFC-ND means BL & NBFC-D & NBFC-NDSI means ML or UL
- Existing NBFC-ND-SIs having asset b/w Rs. 500 Crores & below Rs. 1000 Crores (except those mandatorily in ML) is known as NBFC-BL

Income Recognition

- Income on **NPA** shall be recognised **only when** it is **actually realised**
- Income recognised before asset became NPA & **remaining unrealised shall be reversed**

Asset classification - Every NBFC (except MFIs)

- **Standard asset** is asset for which, **no default in repayment** of principal or interest is perceived

	NBFC-ND	NBFC-D & ND-SI
NPA - Overdue for	>= 6 months	>= 3 months
NPA for Lease/Hire Purchase - Overdue for	>= 12 months	>= 3 months
Sub-Standard Asset - Classified as NPA for	<= 18 months	<= 12 months
Doubtful Asset - Remained Sub-Standard for	> 18 months	> 12 months

<ul style="list-style-type: none"> • Sub-Standard Asset includes asset where terms are renegotiated until expiry of 1 year of satisfactory performance • NPA classification is borrower wise & not facility wise (same as Banks) except for lease & hire purchase 	<p>Loss Asset means -</p> <ul style="list-style-type: none"> • Asset identified as loss asset by NBFC or its auditor or RBI, to extent not written off • Asset adversely affected by threat of non-recoverability due to erosion in value of security or non-availability of security or any fraudulent act of borrower
<p>Provisioning Requirements (except MFI)</p>	
<p>NBFC Acceptance of Public Deposit (RB) Directions, 2016 - Whether co. has complied below aspects for mobilisation of public deposits-</p> <ul style="list-style-type: none"> • Ceiling on quantum of deposits is linked to credit rating by approved rating agency • If downgrading of credit rating is below minimum specified investment grade, NBFC shall regularise excess deposit as - <ul style="list-style-type: none"> ○ With immediate effect, stop accepting fresh deposits & renewing existing ones ○ All existing deposit shall run to maturity ○ Report position within 15 working days, to concerned Regional Office of RBI where NBFC is registered ○ No matured deposit be renewed without express & voluntary consent of depositor • Ascertain if NBFC has accepted deposit only after written application from depositor • For NBFCs not accepting public deposits, check if BR is passed • Verify deposit register maintained by NBFC • Test check interest calculations for deposits • Check if NBFC has filed its returns timely 	<p>NBFC Prudential Norms</p> <ul style="list-style-type: none"> • Auditor shall ensure BOD of NBFC granting demand/call loans shall implement policy • Check compliance of prudential IRACP norms • Auditor shall assess if NBFC has complied with prudential norms of classification • For NPAs, auditor shall check if unrealised income is not taken to P/L on accrual basis • Check if all NPAs in previous year also continue to be shown as such in current year <p>Classification of Frauds by NBFC</p> <ol style="list-style-type: none"> Misappropriation & criminal breach of trust Fraudulent encashment through forged instruments, manipulation of BOA Unauthorised credit facilities for reward Negligence & cash shortages Cheating & forgery Irregularities in foreign exchange transaction Any other type of fraud <p>d. & f. are fraud if intention to cheat is proved /suspected. If not, then fraud in below cases -</p> <ul style="list-style-type: none"> • Cash shortages > Rs 10,000 • Cash shortages >5000 if detected by Mgt/ auditor/officer & not reported by Cashier
<p>Audit Check-list for ICC</p> <ul style="list-style-type: none"> • Physically verify all shares held by NBFC • Share held by depository obtain confirmation 	<p>Audit Report for NBFC accepting public deposits</p> <ul style="list-style-type: none"> • Whether NBFC is accepting deposit without minimum investment grade credit rating

<ul style="list-style-type: none"> • Verify if NBFC has not advanced any loans against security of its own shares • Verify dividend if declared, is received by NBFC & interest if due [except NPAs] is accounted. Dividend on shares of Co. & units of mutual funds are recognised on cash basis. NBFC has option to a/c dividend on accrual basis, if it is declared by Co. in AGM & its right to receive payment is established. Income from bonds of Co. is taken on accrual basis only if interest rate is predetermined & is serviced regularly not in arrears • Auditor ascertains if requirements of AS 13 "A/cing for Investments" are complied • Verify Board Minutes for purchase & sale of investments • Check if investments are valued as per NBFC Prudential Norms 	<ul style="list-style-type: none"> • Whether capital adequacy ratio in return submitted to RBI is correctly determined • Whether deposits in excess of deposits permissible are regularised in manner • Whether co. has violated any restriction on acceptance of public deposit • Whether co. has defaulted in paying interest/principal • Whether co. has complied with prudential norms on IRACP • Whether co. has furnished to RBI return on deposits in NBS 1 • Whether co. has furnished to RBI quarterly return on prudential norms
<p>Audit Report for All NBFC</p> <ul style="list-style-type: none"> • If co. is NBFC & meeting Principal Business Criteria, auditor shall examine if co. has obtained CoR from RBI • For co. holding CoR, whether it is entitled to continue to hold CoR as per its Principal Business Criteria as on March 31 of year • Whether NBFC is meeting NOF requirement • <u>Note</u> - Every NBFC shall submit Certificate from its Statutory Auditor that it is eligible to hold CoR to Regional Office of Dept of Non-Banking Supervision under whose jurisdiction NBFC is registered, within 1 month from date of finalization of B/S or 30th December, whichever is earlier 	<p>Audit Report for NBFC not accepting deposits</p> <ul style="list-style-type: none"> • If BOD has passed BR for non-acceptance • If co. has accepted deposits during year • If co. has complied with prudential norms for IRACP • <u>For NBFC-ND-SI</u> - <ul style="list-style-type: none"> ○ Whether capital adequacy ratio as in NBS-7 is correct ○ Whether co. has furnished to RBI annual statement of capital funds, risk assets & risk asset ratio (NBS-7) • Whether NBFC is correctly classified as Micro Finance Institutions
<ul style="list-style-type: none"> • For co. not required to hold CoR subject to conditions - include statement that co. is complying with conditions of RBI • Reasons to be stated for unfavourable or qualified statements - If auditor is unable to express opinion on items above, his report shall indicate such fact with reasons 	
<p>Auditor to submit exception report to RBI</p> <ul style="list-style-type: none"> • If statement for above item, is unfavourable or qualified, or co. has not complied with - <ul style="list-style-type: none"> ○ Chapter III B of RBI Act or ○ NBFC Acceptance of Public Deposits (RB) Directions, 2016 or 	<p>Applicability of Ind AS</p> <ul style="list-style-type: none"> • <u>Periods starting 1 April 2018</u> - NBFCs having net worth of Rs 500 crores or more & holding, subsidiary, joint venture or associate co. of such NBFCs • <u>Periods starting 1 April 2019</u> - NBFCs having net worth of Rs 250 crore or more & holding,

<ul style="list-style-type: none"> ○ NBFC-ND (RB) Directions, 2016 & NBFC-D & ND-SI (RB) Directions, 2016 ○ Auditor shall report to Regional Office of Non-Banking Supervision of RBI under whose jurisdiction NBFC is located ● Duty of Auditor under above para is to report only contraventions & not compliance 	<p>subsidiary, joint venture or associate co. of such NBFCs</p> <ul style="list-style-type: none"> ● Net worth as per standalone FS as on 31st March 2016 or 1st audited FS for period which ends after that date
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Diff b/w Division II (Other than NBFCs) & Division III (NBFCs) of Schedule III

- NBFCs are allowed to **present B/S in order of liquidity** which is not allowed to other Co.
- NBFC is required to **separately disclose** any item of '**other income**' or '**other expenditure**' which **exceeds 1% of total income**. Division II requires disclosure exceeding 1% of revenue from operations or Rs 10 lakhs, whichever is higher
- NBFCs are required to **separately disclose** under '**receivables**', debts due **from any LLP** in which its **director is partner or member**
- NBFCs are required to disclose items comprising '**revenue from operations**' & '**OCI**' on **face of P/L** instead of showing as part of notes
- **Separate disclosure** of **receivable** having **significant increase in credit risk** & credit impaired
- **Conditions** for distribution of **statutory reserves** to be separately disclose in notes