

RBI/2005-06/ 232

DNBS (PD).CC. No. 61 / 02.82 / 2005-06

December 12, 2005

The Managing Director

[All NBFCs including RNBCs with public deposits/deposits of Rs 50 crore and above]

Dear Sirs,

Rotation of partners of the statutory auditors audit firm - with public deposits/deposits of Rs 50 crore and above

The need for good corporate governance has been gaining increased emphasis over the years. Globally, Companies are adopting best corporate practices to increase the investors confidence as also that of other stakeholders. Scrutiny of the books of account conducted by auditors rotated periodically would add further value in strengthening corporate governance.

2. In this context, it would be desirable if NBFCs (including RNBCs) with public deposits/deposits of Rs 50 crore and above, stipulate rotation of partners of audit firms appointed for auditing the company. The partner/s of the Chartered Accountant firm conducting the audit could be rotated every three years so that same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC/RNBC after an interval of three years, if the NBFC/RNBC, so decides. Companies may incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Yours sincerely,

Sd/-

(P. Krishnamurthy)

Chief General Manager in-Charge