

RBI 2006-07/ 37

DNBS (PD) CC No. 71/03. 02.01/ 2006-07

July 1, 2006

To

The Chairman/CEOs of all Non-Banking Financial Companies (as defined in Section 45 I (f) of the Reserve Bank of India Act, 1934)

Dear Sir,

Master Circular – “Non-Banking Financial Companies Auditor’s Report (Reserve Bank) Directions, 1998”

The directions to the auditors of a Non-Banking Financial Companies were issued by Reserve Bank of India on January 2, 1998, vide Notification No. DFC. 117 /DG (SPT)-98. The said Notification duly updated as on June 30, 2006 is reproduced below.

Yours faithfully,

(P. Krishnamurthy)
Chief General Manager In-Charge

**RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE I, WORLD TRADE CENTRE,
CUFFE PARADE, COLABA,
MUMBAI 400 005.**

(Master Notification amended up to June 30, 2006)

Notification No.DFC. 117 /DG(SPT)-98 dated the January 2, 1998.

In exercise of the powers conferred by sub-section (1A) of section 45MA of the Reserve Bank of India Act, 1934 (2 of 1934), Reserve Bank of India, hereby, gives to every auditor the directions hereinafter specified.

1. Short title, application and commencement of the directions

(1) These directions shall be known as "Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998."

(2) These directions shall apply to every auditor of a non-banking financial company as defined in Section 45I(f) of the Reserve Bank of India Act, 1934 (2 of 1934).

(3) These directions shall come into force with effect from January 2, 1998.

2. Auditor's Report to contain matters specified in paragraphs 3 and 4

In addition to every report made by the auditor under Section 227 of the Companies Act, 1956 (1 of 1956) on the accounts of a non-banking financial company examined by him for every financial year ending on any day on or after the commencement of these directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.

3. Matters to be included in the auditor's report

The auditor's report on the accounts of a non-banking financial company shall include a statement on the following matters, namely, :

(A) In the case of all non-banking financial companies

whether the company has applied for registration as provided in Section 45IA of the Reserve Bank of India Act, 1934 (2 of 1934), if it is a company incorporated before January 9, 1997 and whether it has received any communication from Reserve Bank of India about the grant of or refusal of certificate of registration to it, and whether the company has obtained a certificate of registration from the Reserve Bank of India if it is a company incorporated on or after January 9, 1997.

(B) In the case of a non-banking financial company accepting/holding public deposits

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely, :-

(i) whether the public deposits accepted by the company together with other borrowings indicated below viz.,

- (a) from public by issue of unsecured non-convertible debentures/bonds;
- (b) from its shareholders by a public limited company and
- (c) any other type of deposit which has not been excluded from the definition of 'public deposit' in the Non-Banking Financial Companies (Reserve Bank) Directions, 1998

are within the limits admissible to the company as per the provisions of the Non-Banking Financial Companies (Reserve Bank) Directions, 1998;

¹ [(ia) whether the public deposit held by the company in excess of the quantum of such deposit permissible to it under the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 are regularised in the manner provided in the directions;]

(ii) whether the credit rating for fixed deposits of _____ (mention the rating) assigned by the Credit Rating Agency viz., _____ (Name of the agency) on _____ (the date) is in force and the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the Rating Agency;

(iii) whether the company has defaulted in paying to its depositors the interest and /or principal amount of the deposits after such interest and/or principal became due;

(iv) whether the company has complied with the prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, and concentration of credit/investments as specified in the directions issued by the Reserve Bank of India in terms of the Non-Banking Financial Companies Prudential Norms(Reserve Bank) Directions, 1998.

(v) whether the capital adequacy ratio as disclosed in the return submitted to the Reserve Bank of India in terms of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 has been correctly determined and whether such ratio is in compliance with the minimum Capital to Risk Asset Ratio prescribed by Reserve Bank of India;

(vi) Whether the company has complied with the prescribed liquidity requirement and kept the approved securities with a designated bank.

(vii) whether the company has furnished to the Reserve Bank of India within the stipulated period the half-yearly return on prudential norms as specified in the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998; and

(viii) whether the company has furnished to the Reserve Bank of India within the stipulated period the return on deposits as specified in the First Schedule to the Non-Banking Financial Companies (Reserve Bank) Directions, 1998.

² [(ix) In case of opening of new branches or offices to collect deposits or closure thereof and in the case of appointment of agent, whether the company has complied with the requirements contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 contained in Notification No. DFC. 118/DG (SPT)-98 dated January 31, 1998].

¹ Inserted vide Notification No. 130 dated December 18, 1998

² Inserted vide, Notification No.137 dated January 13, 2000

(C) In the case of a non-banking financial company not accepting public deposits

Apart from the aspects enumerated in (A) above, the auditor shall include a statement on the following matters, namely, :

- (i) whether the Board of Directors has passed a resolution for the non- acceptance of any public deposits.
- (ii) whether the company has accepted any public deposits during the relevant period/year; and
- (iii) whether the company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it.

(D) In the case of a non-banking financial company which is an investment company not accepting public deposits and which has invested not less than 90 percent of its assets in the securities of its group/holding/subsidiary companies as long term investments

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely, :

- (i) whether the Board of Directors has passed a resolution for the non- acceptance of public deposits;
- (ii) whether the company has accepted any public deposits during the relevant period/year;
- (iii) whether the company has through a Board resolution identified the group/holding/subsidiary companies;
- (iv) whether the cost of investments made in group or holding or subsidiary companies is not less than 90 percent of the cost of the total assets of the company at any point of time throughout the accounting period/year.
- (v) whether the company has continued to hold securities of group or holding or subsidiary companies as long term investments and has not traded in those investments during the accounting year/period.

4. Reasons to be stated for unfavourable or qualified statements

Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 3 above his report shall indicate such fact together with reasons therefor.

5. Obligation of auditor to report to Reserve Bank of India

Where, in the case of a Non-Banking Financial Company, the statement regarding any of the items referred to in paragraph 3 above is unfavourable or qualified, or in the opinion of the auditor the company has not complied with the provisions of the Non-Banking Financial Companies (Reserve Bank) Directions, 1998³ or the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 to the extent applicable to the

³ Now Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998

said company or the provisions of the Chapter IIIB of the Reserve Bank of India Act, 1934 (2 of 1934), it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Reserve Bank of India under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies (Reserve Bank) Directions, 1998.

6. **Applicability of Non-Banking Financial Companies (Reserve Bank) Directions 1998⁴**

For the purposes of this Order, reference to the Non-Banking Financial Companies (Reserve Bank) Directions 1998 shall include the Non-Banking Financial Companies (Reserve Bank) Directions 1977 as in force for the relevant period.

sd/-

(S. P. TALWAR)
DEPUTYY. GOVERNOR

⁴ Now Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998