

Chapter 7 : Long Form Audit Report for NBFCs

1. One of the items referred to the Committee was to design a suitable format of Long Form Audit Report (LFAR) which was proposed to be called for by RBI from the statutory auditors of the NBFCs. These reports would have served a useful purpose of supplementing the supervisory efforts of the Reserve Bank and would have been an effective input for determining the supervisory strategy of the Bank in respect of a particular NBFC. Accordingly, the Committee had designed a format after an exhaustive discussion on the aspects to be reported in the LFAR. However, in the meantime, a set of directions known as 'Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998' were issued to the statutory auditors of the companies vide Notification No.DFC.117/DG(SPT)-98 dated January 2, 1998. Under the provisions of these directions, statutory auditors of companies are required to make 'Exception Reports' to the bank in respect of, inter alia, on whether the company has applied for registration to the Reserve Bank, whether the deposits accepted from public (if any) are being held within the prescribed ceiling and are being repaid in time, etc., whether the company has been complying with the applicable provisions of the NBFC Prudential Norms (Reserve Bank) Directions, 1998. Statutory auditors are required to report to the Reserve Bank any violation of the provisions of the various directions issued by the RBI to the companies and any deviation from the norms prescribed for certain categories of companies. After the issue of directions to the statutory auditors of the NBFCs, the Committee felt that introduction of LFAR will be duplication of effort as the scope and coverage of the two reports would be overlapping. Consequently, the Committee does not recommend LFAR to be submitted by the statutory auditor of an NBFC and, accordingly, is not recommending any format for the purpose.