



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

**RBI/DNBS/2016-17/48**

**Master Direction DNBS. PPD.03/66.15.001/2016-17**

**September 29, 2016**

**Master Direction - Non-Banking Financial Companies Auditor's Report  
(Reserve Bank) Directions, 2016**

In exercise of the powers conferred by sub-section (1A) of Section 45MA of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and of all the powers enabling it in this behalf, and in supersession of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008, the Reserve Bank of India (the Bank) hereby issues Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016 (the Directions) to every auditor of every non-banking financial companies.

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## **Chapter – I**

### **Preliminary**

#### **1. Short Title and Commencement.**

- a) These Directions shall be called Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016.
- b) These directions shall come into force with immediate effect.

#### **2. Applicability**

The Directions shall apply to every auditor of a non-banking financial company as defined in section 45 I(f) of the Reserve Bank of India Act, 1934 ( the RBI Act ) hereinafter called as 'non-banking financial company'.

## **Chapter- II**

### **Auditors to submit additional Report to the Board of Directors**

In addition to the Report made by the auditor under Section 143 of the Companies Act, 2013 or section 227 of the Companies Act, 1956 (Act 1 of 1956) on the accounts of a non-banking financial company examined 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. Material to be included in the Auditor's report to the Board of Directors**

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**

- I. Conducting Non-Banking Financial Activity without a valid Certificate of Registration (CoR) granted by the Bank is an offence under chapter V of the RBI Act, 1934. Therefore, if the company is engaged in the business of non-banking financial institution as defined in section 45-I (a) of the RBI Act and meeting the Principal Business Criteria (Financial asset/income pattern) as laid

down vide the Bank's press release dated April 08, 1999, and directions<sup>1</sup> issued by DNBR, auditor shall examine whether the company has obtained a Certificate of Registration (CoR) from the Bank.

- II. In case of a company holding CoR issued by the Bank, whether that company is entitled to continue to hold such CoR in terms of its Principal Business Criteria (Financial asset/income pattern) as on March 31 of the applicable year.
- III. Whether the non-banking financial company is meeting the required net owned fund requirement as laid down in [Master Direction - Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company \(Reserve Bank\) Directions, 2016](#) and [Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#)

Note: Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered, within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year. The format of Statutory Auditor's Certificate (SAC) to be submitted by NBFCs has been issued vide [DNBS. PPD.02/66.15.001/2016-17](#) Master Direction- Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016.

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

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

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<sup>1</sup> Master Direction – Para 69 of [Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company \(Reserve Bank\) Directions, 2016](#) and Para 82 of Master Direction - [Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#)

- (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 (if it is a public limited company); and
  - (c) which are not excluded from the definition of 'public deposit' in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016, are within the limits admissible to the company as per the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016;
- (ii) Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it under the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 are regularised in the manner provided in the said Directions;
- (iii) Whether the non banking financial company is accepting "public deposit" without minimum investment grade credit rating from an approved credit rating agency as per the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.
- (iv) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in terms of the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 has been correctly determined and whether such ratio is in compliance with the minimum CRAR prescribed therein;
- (v) In respect of non-banking financial companies referred to in clause (iii) above,
- (a) whether the credit rating, for each of the fixed deposits schemes that has been assigned by one of the Credit Rating Agencies listed in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 is in force; and
  - (b) whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency;
- (vi) Whether the company has violated any restriction on acceptance of public deposit as provided in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

(vii) 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;

(viii) 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 Bank in terms of the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

(ix) Whether the company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 45-IB of the RBI Act and whether the details of the designated bank in which the approved securities are held is communicated to the office concerned of the Bank in terms of NBS 3; Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016

(x) Whether the company has furnished to the Bank within the stipulated period the return on deposits as specified in the NBS 1 to – Non- Banking Financial Company Returns (Reserve Bank) Directions, 2016

(xi) Whether the company has furnished to the Bank within the stipulated period the quarterly return on prudential norms as specified in the Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016

(xii) Whether, in the case of opening of new branches or offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, the company has complied with the requirements contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

**(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 non- acceptance of any public deposits;

(ii) Whether the company has accepted any public deposits during the relevant period/year.

(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 in terms of Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016;

(iv) In respect of Systemically Important Non-deposit taking NBFCs as defined in Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016:

(a) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS- 7, has been correctly arrived at and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank;

(b) Whether the company has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period.

(v) whether the non banking financial company has been correctly classified as NBFC Micro Finance Institutions (MFI) as defined in the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

**(D) In the case of a company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions**

Apart from the matters enumerated in (A)(I) above where a company has obtained a specific advice from the Bank that it is not required to hold CoR from the Bank, the auditor shall include a statement that the company is complying with the conditions stipulated as advised by the Bank.

**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.

**Chapter- III**

**Auditors to submit Exception Report to the Bank**

**5. Obligation of auditor to submit an exception report to the Bank**

(I) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavorable or qualified, or in the opinion of the auditor the company has not complied with:

- (a) the provisions of Chapter III B of RBI Act (Act 2 of 1934); or
- (b) Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; or
- (c) Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

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 Bank under whose jurisdiction the registered office of the company is located as per first Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions.

#### **Chapter IV**

#### **Repeal Provisions**

6. With the issue of the directions, the instructions / guidelines contained in the circular mentioned in the Appendix, issued by the Bank stand repealed.

7. All approvals / acknowledgements given under the circular mentioned hereinafter shall be deemed as given under the directions.

8. The repealed circular as mentioned hereinafter is deemed to have been in force prior to the coming into effect of these directions.

## Appendix

### List of Circulars or part thereof repealed with the issuance of Master Direction

| Sr. No. | Circular No. and Date                                | Subject                                                                                |
|---------|------------------------------------------------------|----------------------------------------------------------------------------------------|
| 1       | DNBS (PD)201/DG(VL)/2008<br>dated September 18, 2008 | Non-Banking Financial Companies<br>Auditor's Report (Reserve Bank)<br>Directions, 2008 |