

## WT 7 (Ch. 14 and 15 – Audit of Banks, NBFC and PSU)

## Part – A (Multiple Choice Questions)

- Q.1 (c) (2 Marks)
- Q.2 (b) (1 Marks)
- Q.3 (d) (2 Marks)
- Q.4 (c) (2 Marks)

## Part B (Descriptive Questions)

## Q.1 (a) Reporting requirements as per relevant NBFC provisions:

In exercise of the powers conferred u/s 45-IA of the RBI Act, the Bank hereby specifies ₹ 2 Crore as the Net Owned Fund (NOF) required for a non-banking financial company to commence or carry on the business of non-banking financial institution, except wherever otherwise a specific requirement as to NOF is prescribed by the Bank. (1 Mark)

It will be incumbent upon such NBFCs, the NOF of which currently falls below ₹200 lakh, to submit a statutory auditor's certificate certifying compliance with the prescribed levels by the end of the period as given above. (1 Mark)

NBFCs failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the CoR as NBFCs. Every non-banking financial company shall submit a certificate from its Statutory Auditor that it is engaged in the business of a 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. (1 Mark)

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. (1 Mark)

**Conclusion:** It is the responsibility of the Statutory Auditor, i.e., Mr. Shyam, to report where NOF has fallen below ₹ 200 Lakhs.

**Note:** For all companies currently applying for registration as a NBFC, minimum NOF requirement is ₹ 10 Crores (earlier it was ₹ 2 crores). All existing companies should meet NOF of ₹ 10 Crores in a phased manner by 31<sup>st</sup> March 2027.

- (b) **Methods which could be used in conducting performance audits** No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Selection of approach also determine methods and means used for conducting the audit.

Some methods that can be used in conducting performance audits include:

- (a) **Analysis of Procedures:** Review of systems in place for planning, conducting, checking and monitoring the activity.
- (b) **Case Studies:** Analysis of a particular issue within the context of the whole area under review.
- (c) **Use of Existing Data:** Investigate the data held by the entity management and other relevant sources.
- (d) **Surveys:** It is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions.
- (e) **Analysis of results:** Analysis of input-output to determine the efficiency of programme.
- (f) **Quantitative analysis:** Examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc.

(1 Mark for each correct point – Any 4 Points)

- Q.2 Audit procedures regarding the evaluation of internal controls over advances, substantive audit procedures and recoverability of advances**

<p><b>Evaluation of Internal Control</b></p>	<p>(1) Examine loan documentation.</p> <p>(2) Examine the validity of the recorded amounts.</p> <p>(3) Examine the existence, enforceability and valuation of the security.</p> <p>(4) Ensure compliance with the terms of sanction and end use of funds.</p> <p>(5) Ensure compliance with Loan Policy of Bank as well as RBI norms including appropriate classification and provisioning</p> <p>(6) Review the operation of the accounts.</p> <p style="text-align: center;"><b>(2 Marks for each correct point – Any 2 Point)</b></p>
<p><b>Substantive Audit Procedure</b></p>	<p>(1) Verify correctness of master data of loan accounts updated in CBS.</p> <p>(2) Verify that each customer of bank is tagged under Single customer id in respect of all its accounts.</p> <p>(3) Examine all large advances while other advances may be examined on a sample basis.</p>

	<p>(4) Examine accounts identified to be problem accounts but which have not yet slipped into NPA category.</p> <p>(5) Examine those accounts which have been adversely commented upon by concurrent auditors/bank's internal inspection/RBI inspection team.</p> <p>(6) Examine list of restructured accounts to ensure that restructure is as per RBI guidelines.</p> <p>(7) Examine quick/early mortality accounts. Any advance slippage to NPA within 12 months of its sanction is called as quick/early mortality case.</p> <p>(8) Verify completeness and accuracy of interest being charged.</p> <p style="text-align: center;"><b>(2 Marks for each correct point – Any 2 Point)</b></p>
<p><b>Examination of recoverability</b></p>	<p>(i) Review periodic statements submitted by the borrowers.</p> <p>(ii) Review latest financial statements of borrowers.</p> <p>(iii) Review reports on inspection of security.</p> <p>(iv) Review auditor's reports in case of borrowers having credit facilities beyond a cut-off limit fixed by board of directors of bank.</p> <p style="text-align: center;"><b>(1 Mark for each correct point – Any 1 Point)</b></p>

**Q.3: Obligation of Auditor to submit exception report to RBI:**

Para 5 of NBFC Auditor's Report (Reserve Bank) Directions, 2008 provides that where, in the case of a NBFC, the statement regarding any of the items referred to in para 3, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

- (a) the provisions of Chapter III B of Reserve Bank of India Act, 1934; or **(1 Mark)**
- (b) the NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 2016; or **(1 Mark)**
- (c) NBFC Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and NBFC-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 **(2 Marks)**

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. **(1 Mark)**

**Q.4: C&AG Role in functioning of financial committees of Parliament and State Legislature:**

C&AG plays a key role in functioning of financial committees of Parliament & State Legislatures. He has come to be recognised as a 'friend, philosopher and guide' of the Committees.

- (i) Reports of CAG form the basis of Committees' working, *i.e.*, committees examine the issues raised by C&AG Reports. **(1 Mark)**
- (ii) Committees requires assistance of C&AG for scrutinising the notes which Ministries submit to the Committees insofar as to check the correctness of submissions to the Committees and facts and figures in their draft reports; **(1 Mark)**
- (iii) Reports of Committees are being submitted to the Parliament/State Legislature with their observations and recommendations. C&AG assists various committees in suggesting recommendations. **(1 Mark)**
- (iv) Audit Reports, which could not be discussed in detail by Committees, written answers are obtained from Department/Ministry concerned.

This ensures that Audit Reports are not taken lightly by Government, even if the entire report is not deliberated upon by the Committee. **(2 Marks)**



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