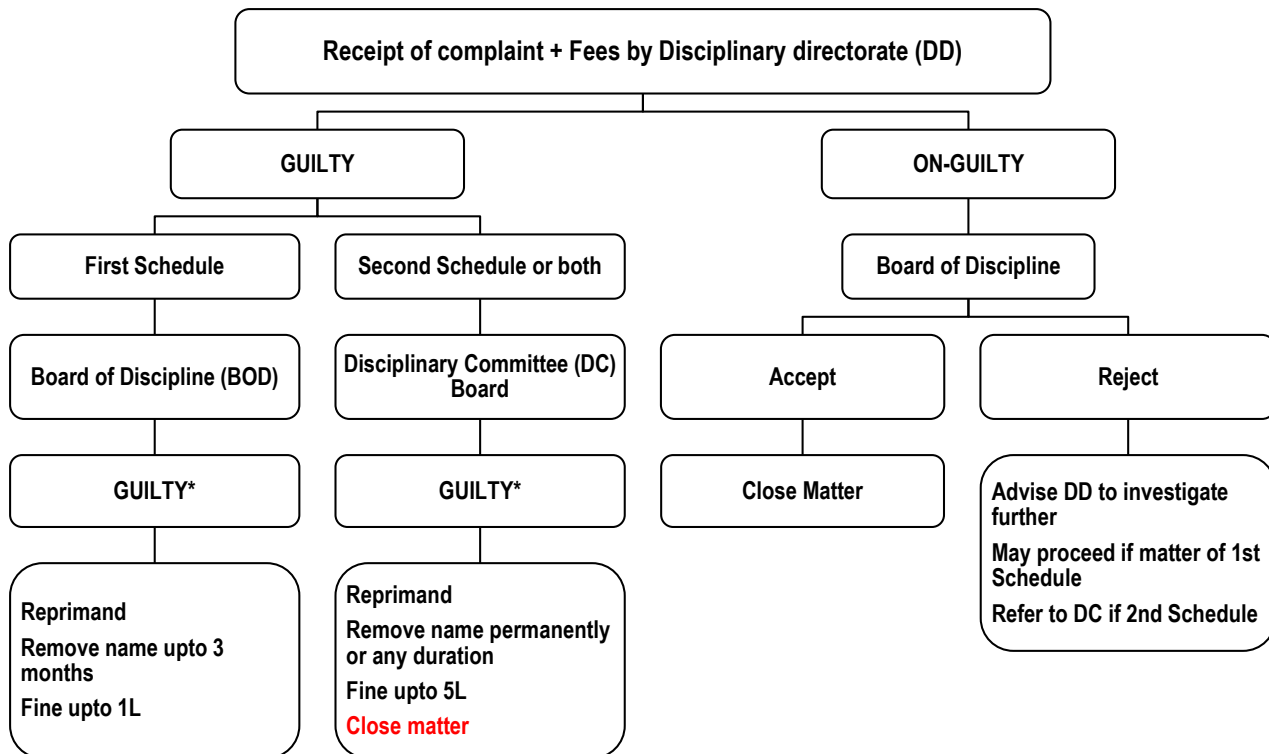


CA FINAL – ADVANCED AUDITING – AMENDMENTS

SL.NO.	AMENDMENT	PG.NO.
1)	Professional Ethics <ul style="list-style-type: none"> • NOCLAR • Fees Disclosure 	1-4
2)	Peer Review	4 - 12
3)	NBFC Classification	13 - 17
4)	Small Company Definition	17-18

1. PROFESSIONAL ETHICS

DISCIPLINARY PROCEEDINGS:



If not found guilty → Matter closed

Appeal:

Can be made by member or Director (Discipline) within 90 days → Appellate Authority

Orders possible:

- a) Confirm, modify or set aside order.
- b) Impose, set aside, reduce or enhance penalty.
- c) Remit case to BOD/DC to reconsider.

Such order if thinks fit.

NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR):

NOCLAR comprises acts of omission or commission, intentional or unintentional, ^{against} contrary to prevailing laws or regulations committed by:

- 1) a client/professional accountant's employer;
- 2) or TCWG or Mgt of client/employer or
- 3) other individuals working for or under direction of a client/ employing organization.

Examples of Laws & Regulations

Fraud, corruption and bribery	Money laundering, terrorist financing and proceeds of crime	Environmental protection.
Banking and other financial products and services.	Data protection	Public health and safety
Securities markets and trading	Tax and pension liabilities and payments (wcf)	

Some important facts about NOCLAR are given below:

- 4) Expertise of Laws not Required: Expected to apply knowledge and expertise, and exercise professional judgment.
- 5) Certain Matters Expressly out of Purview: Matters clearly insignificant, or relating to personal misconduct unrelated to business of client not covered.
- 6) Disclosure, which is Contrary to Law not Required

APPLICABILITY OF NOCLAR IN INDIA:

(Amendment)

- 1) The IESBA Code of Ethics makes NOCLAR applicable to all assignments (members in practice), and to all employers (members in service).
- 2) ICAI Code has restricted applicability of NOCLAR to
 - CAiP: Audit engagements of LISTED entities having net worth ≥ 250 cr &
 - **Members in service:** Senior Professional Accountants (KMP) in service, being employees of listed entities.

Steps to be taken for responding.

- a) Obtain Understanding of Matter
- b) Addressing matter
- c) Seeking advice
- d) Determining if further action needed
- e) Determining whether to disclose to (Appropriate Authority)
- f) Imminent Breach → Significant Harm
- g) Documentation

Documentation Requirements in NOCLAR: Revised Code over and above require professional accountant to follow additional documents requirements as under:

- How management / TCWG have responded to the matter
The course of action accountant considered, judgments made and decisions that were taken, having regard to reasonable and informed third party test.
- How accountant is satisfied that responsibility of public interest has been fulfilled.

NOCLAR vs. SA 250:**Coverage of laws**

- 1) SA 250 talks of auditor's responsibilities for
 - laws having direct effect on the determination of material amounts and disclosures in the financial statements (such as tax and labour laws); and
 - other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business.

NOCLAR being unlike to SA 250, also accounts for non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

Definition of Stakeholders

- 2) SA 250 doesn't define stakeholders. NOCLAR is related to effect of non-compliance on investors, creditors, employees as also the general public.

FIRST SCHEDULE:

Part I: Professional misconduct in relation to Chartered Accountants in practice A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he:

Clause (1) Allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.

Clause (2) Pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Clause (10) Fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

Part II: Professional misconduct in relation to members of the Institute generally A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he:

Clause (1) Contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

Clause (2) Being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer.

Clause (3) Includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Clause (4) Defalcates or embezzles money received in his professional capacity.

Part III: Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.

ANNEXURE:

Public interest entity [PIE] listed entity or

- a) Listed entity or
- b) An entity:
 - i) Defined by regulation or legislation as PIE or
 - ii) For which audit is required by regulation or legislation to be conducted in compliance with same independence requirements that apply to audit of listed entities.

Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Note: Banks and Insurance Companies are to be considered as Public Interest Entities.

Summary: Listed Entities/Banks/InsuranceCos. → PIE

Disclosure to ICAI:

Where for 2 consecutive years, total fees from audit client and its related entities represent more than

- 20% [PIE] → 15%
- 40% [other entities] → 15%

of the total fees received by firm expressing opinion on F.S.

Firm shall disclose this fact to ICAI.

Exemptions:

- Client fees upto ₹20 lakhs
- Audit of Govt Companies, public undertakings, nationalised banks, public financial institution, regulators or where appointments of auditors are made by Govt.

Example:

Uday Majnu & Co. is Audit firm doing following Audits.

Client	Type of Entity	PIE/Not	Audit fees (₹ in Cr)	% of total fees	Ceiling	Disclosure required?
ITC	Listed	Yes	4	26.67%	20	✓
Bandhan Bank	Listed	Yes	2	13.33%	20	X
XYZ Insurance	Insurance	Yes	1	6.67%	20	X
Potato chips Ltd	Unlisted Public Co	No	2	13.33%	40	X
Orange juice Pvt Ltd	Unlisted Pvt Co	No	6	40.00%	40	✓
			15			

2. PEER REVIEW

① "PEER REVIEW" MEANS:

- 1) An examination and review of systems and procedures
- 2) To determine whether same have been put in place by Practice Unit (PU)
- 3) For ensuring quality of assurance services as envisaged by
- 4) Technical, Professional and Ethical Stds including Audit Quality Maturity Model wherever applicable or any other regulatory requirements as may be prescribed by Council or any Committee and whether same were consistently applied during period under review.

② "New Unit" - means a firm whose date of establishment is less than 12 months immediately preceding date of receipt of application of Peer Review and which may or may not have rendered any assurance service during said period or P.U. in existence for a period exceeding 12 months but not rendering any assurance services.

SPEC
SAE
③

③ "Branch Peer Reviewer" - means a Reviewer appointed to conduct P.R. of Branch of a P.U. Qualifications and other obligations and duties of Branch Peer Reviewer shall be same as that of Reviewer.

OBJECTIVES OF PEER REVIEW: The main objective to ensure that in carrying out assurance service assignments, members:

- 1) Comply with TPE Stds including other regulatory requirements &
- 2) Have in place proper systems including documentation to amply demonstrate quality of assurance services.

Thus, primary objective is not to find out deficiencies but to improve quality of services rendered by members.

SCOPE OF PEER REVIEW:

- 1) Compliance with Technical, Professional and Ethical Standards. Quality of reporting.
- 2) Systems and procedures for carrying out assurance services.
- 3) Self-evaluation under Audit Quality Maturity Model or any other guideline issued by Centre for Audit Quality.
- 4) Training programmes for staff (including articled and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure.
- 5) Compliance with directions and / or guidelines issued by Council to Members, including Fees to be charged, Number of audits undertaken, register for Assurance Engagements conducted during year.
- 6) Compliance with directions and / or guidelines issued by Council relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments.

As per the Statement on Peer Review, Technical, Professional and Ethical Standards - means

- 1) Accounting Standards issued by ICAI applicable for entities other than companies under Companies Act, 2013;
- 2) Accounting Standards prescribed under section 133 of Companies Act; 2013 by CG based on recommendation of ICAI in consultation with NFRA
- 3) Ind AS prescribed under section 133 of Companies Act 2013 by CG based on recommendation of ICAI in consultation with NFRA
- 4) Standards **SQC, SAE, SRE, SRS, SA&, PCA, SPA**

→ AFRP

- 5) Framework for preparation and presentation of F.S., Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements.
- 6) Provisions of relevant statutes and / or rules or regulations which are applicable in context of specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in scope of assurance engagements.
- 7) Any other TPE Stds and other Stds issued by any authority governing profession of CA.

ASSURANCE ENGAGEMENT DOES NOT INCLUDE

- 1) Management Consultancy Engagements.
- 2) Representation before various Authorities
- 3) Engagements to prepare tax returns or advising clients in taxation matters.
- 4) Engagements for the compilation of financial statements.
- 5) Engagements solely to assist client in preparing, compiling or collating information other than financial statements.
- 6) Testifying as an expert witness (Forensic Audit)/Accounting
- 7) Providing expert opinion on points of principle, such as Accounting Standards or applicability of certain laws, on basis of facts provided by client; and
- 8) Engagement for Due diligence.
- 9) Any other service rendered, or function performed by practitioner not prescribed by the Council to be 'Assurance Engagement'.

APPLICABILITY [Amendment]:

PU's subject to Review:

- 1) Mandatory - Peer Review can be mandated for such PUs as may be decided by Council. or,
- 2) Voluntary - Any P.U. may, suo motu, apply to Board for conduct of its Peer Review. or,
- 3) Special Case - Board, based on specific information received from Secretary, ICAI or Disciplinary Directorate or any other Regulator, which in opinion of Board requires a special Peer Review of P.U. may conduct a special Peer Review of P.U. for such a period determined by Board.

Holding a valid Peer Review certificate by P.U.s should be a prerequisite for undertaking audit of all entities falling under phase I; II; III and IV of the mandate from respective dates of mandate becoming operative.

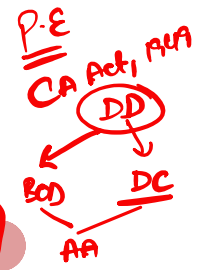
Phase	Category of firms covered for Mandatory Peer Review	Date from which Peer Review is Mandatory
I	PU doing audit of Listed enterprises	1.4.22
II	PU doing audit of Unlisted Public Cos:	1.4.23
	• PUSC >= 500 Cr or	
	• T/o >= 1000 Cr or	
	• L/D/U >= 500 Cr as on 31st Mar of PY	
	[Same limit as NERA] OR	
	P.U. rendering attestation services having 5 or more partners	
III	Stat Audit of	1.4.24
	• Entities raised funds from public or banks or FIs of over 50 Cr during period under review OR	

	• Any body corporate including trusts which are covered under public interest entities OR	
	• P.U. rendering attestation services having 4 or more partners	
IV	Audits of branches of Public Sector banks OR	1.4.25
	Having 3 or more partners	

Note: If P.U. already has Peer Review Certificate, there is no need of once again subjecting P.U. to Peer Review, till conclusion of validity period of said Certificate. It is necessary to possess a new Peer Review Certificate on conclusion of validity of Certificate.

PEER REVIEW BOARD:

- 1) Min 6 members, Max 12 members, >=50% from Council of ICAI
- 2) Chairman & VC from council (maybe rotated every year)
- 3) Term of 2/3rd members ▶ 3 years or Council term (earlier)
- 4) Casual Vacancy filled by council
- 5) Member of Disciplinary board/committee not be member of Board



Provisions related to time, place and quorum of Meetings of Peer Review Board as well as procedure for transaction of business shall be governed by Chartered Accountants Regulation, 1988.

ELIGIBILITY OF BECOMING PEER REVIEWER:

- 1) Member in practice at least 7 yrs of assurance practice experience.
- 2) Moved from Industry Practice then 10 yrs Industry + 3 yrs exp. in practice.
- 3) Requisite training & test
- 4) Furnish declaration as prescribed by Board + sign Declaration of Confidentiality
- 5) Not eligible if:
 - a) Disciplin. Action pending against him
 - b) Guilty of misconduct by Council/BOD/DC
 - c) Convicted by Comp. court within or o/s India offence involving Moral Turpitude & imprisonment
 - d) Partner or personnel has obligation or conflict of intt with PU
 - e) He has undergone training/articleship under any of the partner of Practice Unit
- 6) Reviewer shall not accept prof assignment from PU 2 yrs from/before date of appointment

QUALIFIED ASSISTANT:

- 1) CA + No disqualification u/s 8 or 21 of CA Act 1949
- 2) Name intimated to Board & PU b4 P/R
- 3) Sign Declaration of Confidentiality
- 4) No direct interface with PU or Board
- 5) Should be from firm of reviewer as partner or Paid Ass as per records of ICAI

APPROACH OF PEER REVIEWER:

- 1) Gain understanding of Engg letter that defines scope & nature of assurance engg.
- 2) No of assurance engagements to be selected requires prof judgment based on replies of questionnaire & size of PU.
- 3) The PU may have policies and procedures for accepting particular engg. Check compliance with such P&P.
- 4) Reviewer may follow combination of compliance & substantive procedures throughout the process.
- 5) Evaluating records consider following:
 - a) Any significant issues, matters, problems, arose during engg have been appropriately considered resolved & documented
 - b) Evidence & reasonableness of conclusion
 - c) Significant decisions, prof judgment, resolution of significant matters documented

OBLIGATIONS OF PRACTICING UNIT (PU):

- 1) Produce or allow access to record doc or register maintained by PU
- 2) Provide expln or further particulars/info.
- 3) All assistance
- 4) If info not in legible form → PU will translate to English/hindi → PU shall be responsible and accountable for accuracy and truthfulness of translation so provided.

OBLIGATION OF REVIEWER:

- 1) The reviewer shall not take PU's client's file or records examined by him
- 2) Complete review in prescribed time & submit report to Board.

The Reviewer shall document all his working papers and submit a copy of his working papers to the Board, if called for by the Board within 18 months of submission of Review Report.

PEER REVIEW PROCESS (AMENDMENT):**Procedure for initiating Peer Review:**

- 1) P.U.s which desire to get Peer Reviewed shall make application for P.R. in Application cum Questionnaire in Form 1.
- 2) In case PR is initiated by Board, Application cum Questionnaire in Form 1 should be submitted by P.U. on request of Peer Review Board Secretary.
- 3) Application mentioned above received by Board shall be duly numbered.
- 4) On receipt of said Application cum Questionnaire, names of 3 Reviewers shall be recommended by Board to P.U. within 3 working days.
- 5) P.U. shall select 1 out of 3 Reviewers and intimate Board within 1 working day of receipt of names.
- 6) Board shall appoint Peer Reviewer selected by P.U. in accordance with these Guidelines.
- 7) Board shall intimate Reviewer so selected to submit a Declaration of Confidentiality(DoC) in Form 2 to P.U. within 2 working days from receipt of choice of name of Reviewer from P.U.
- 8) P.U. shall also provide a copy of Application cum Questionnaire(AcQ) in Form 1 submitted to Board to Reviewer within 2 working days of appointment of Reviewer.

SUMMARY: Application [Form 1] ► Reviewer Options [3 within 3 days] ► Selection 1/3 in 1 day ► Board Intimation to Reviewer to submit DOC [Form 2] in 2 days ► P.U. share copy of AcQ [2 days] with Reviewer

PEER REVIEW PROCEDURE TO BE FOLLOWED BY THE PEER REVIEWER:

- 1) Before commencement, Reviewer shall ensure that DoC is furnished to P.U. and acknowledgement of receipt is obtained by him.
- 2) On receiving AcQ in Form 1 from P.U, Reviewer shall initiate P.R. by intimating P.U. of proposed visit and proposed samples selected to be kept ready by P.U. Proposed samples selected are to be intimated by Reviewer in Form 5 prescribed by Board.
- 3) Reviewer may seek further/ additional clarification in Form 6 from P.U. which it shall provide to Reviewer within 1 working day.
- 4) Reviewer shall, within 2 working days of receiving information from P.U, select assurance service engagements that he would like to review and intimate to P.U. and Board in Form 5.
- 5) Reviewer shall plan for an “on–site review” visit for initial meeting in consultation with P.U. Reviewer shall give P.U. at least 2 working days to keep ready necessary records of selected assurance services.
- 6) Reviewer and P.U. shall mutually co-operate and ensure that entire review process is completed within 20 working days from
 - » date of receipt of application from P.U. for being Peer Reviewed or
 - » from date of notifying P.U. about its selection for Review as the case may be.
- 7) In case of Peer Review of a New Unit, Reviewer and Practice Unit shall mutually co-operate and ensure that entire review process is completed within 7 working days from date of receipt of AcQ from P.U. for being Peer Reviewed”

Execution

Onsite Review: This on-site Review should not extend beyond 6 working days based on size of PU.

Compliance Review- General Controls

- Independence
- Maintenance of professional skills & stds
- Outside consultation
- Staff recruitments, Supervision & Developments
- Office admin

Selection of Assurance Service Engagements for Review:

- a) The no. of assurance service engagements to be reviewed shall depend upon:
 - i) The SQCs generally prevailing;
 - ii) The size and nature of assurance engagements undertaken by PU;
 - iii) The methodology generally adopted by PU in providing assurance services.
 - iv) The no. of partners / members involved in assurance service engagements in PU; The no. of locations / branch offices of PU;
 - v) The Fees charged / received / GST paid by PU.
- b) From initial sample selected at planning stage Reviewer, in consultation with Peer Review Board, may reduce or enlarge initial sample size of assurance service engagements for Review.

Compliance Approach: To check controls that audit is performed as per TPE Stds.

Following areas to be considered:

- Assurance services records for administration
- Review & evaluation of system of internal Controls
- Substantive tests
- Financial Statements Presentation & disclosure 'WRC'
- Assurance services conclusion (CSAAE)
- Assurance services Reporting

Substantive Approach: Review of workpapers to check work done as per TPE Stds

PROCEDURE FOR PEER REVIEW OF A NEW UNIT:

- 1) PR of a New Unit is to be conducted based on antecedents of partners and policy parameters announced by P.U. for conduct of attest function.

Reviewer has to verify the same from AcQ submitted by P.U. in Form 1 as well as an onsite visit to P.U. which shall be restricted to one day.

- 2) Reviewer shall thereafter submit a Report to Board in the formats as prescribed by it.

REPORTING BY THE PEER REVIEWER [AMENDMENT]

After completing on-site review, Reviewer, shall submit Report to Board along with Form 9 if in his opinion, P.U. has adequate systems and procedures in compliance with TPE Standards. A copy of report shall also be forwarded to P.U.

- 1) Preliminary Report for Deficiencies In case, in opinion of Reviewer, systems and procedures of P.U. are deficient or non-compliant or if there are other matters where he wants to seek clarification, he shall communicate to P.U. in a Preliminary Report issued by him.
- 2) P.U. shall, within 2 working days of date of receipt of findings, make its submissions or representations, in writing to Reviewer.
- 3) If Reviewer is satisfied with reply received from P.U., he shall submit unqualified Report to Board along with Form 9. A copy of report shall also be forwarded to P.U.
- 4) In case Reviewer is of opinion that response submitted by P.U. is not satisfactory, Reviewer shall submit Qualified Report to Board incorporating his reasons for the same along with Form 9. A copy of report shall also be forwarded to P.U.
- 5) Report should state that system of quality control for assurance services of P.U. for period under Review has been designed to ensure assurance services comply with TPE Standards.
- 6) Documents to be submitted along with Peer Review Report:
 - a) Annexures to Report as prescribed by Board
 - b) Copy of Questionnaire as received from P.U.
 - c) List of samples selected by him as per the criteria prescribed by Board.
 - d) Preliminary Report if issued along P.U.'s submissions on the same.
- 7) P.U. as well as Reviewer shall ensure that all documents submitted to Board are duly dated, signed and complete in all aspects.
- 8) Reviewer and P.U. shall mutually co-operate and ensure that entire review process is completed within _____.
- 9) In case of PR of New Unit, Reviewer and P.U. shall mutually co-operate and ensure that entire review process is _____.

Review of report by Peer Review Secretariat under the supervision and directions of Peer Review Board Secretary

- 1) PR Board Secretary shall ensure that report is accompanied by all documents as per the Guidelines. Also ensure that documents are complete in all aspects.
- 2) All reports shall be placed before Board or its Sub-Committee for its consideration and issuance of Peer Review Certificate.
- 3) In case of a qualified report, Board Secretary shall place report before the Board for consideration. Board may decide for a "Follow On" Review after a period of one year from date of issue of report by Reviewer. If Board so decides, period of one year may be reduced but shall not be less than six months from date of issue of report.

ISSUANCE OF PEER REVIEW CERTIFICATE (AMENDMENT):

- 1) Unqualified report: PR Board Secretary shall place report before Board or its Sub-Committee for consideration and issuance of PR Certificate to P.U, but only after Peer Reviewer confirms the fee receipt from P.U by him.
- 2) A Peer Review Certificate shall be issued to New Units subject to Procedures followed by reviewer as per these Guidelines and other clauses of these Guidelines, as case may be.
- 3) Certificates so issued by Board or Sub-Committee shall be noted by Board at its meeting.
- 4) Certificate shall be duly signed by the Chairman, Vice Chairman and Secretary of Board mentioning validity period.
- 5) PR Board Secretary shall serve Peer Review Certificate upon the P.U.
- 6) P.R. Board Secretary shall update List of P.U.s having a valid Peer Review certificate incorporating names of PUs to whom Peer Review certificates have been issued on ICAI website.
- 7) Qualified Report: PR Board Secretary shall inform P.U. that certificate can't be issued along with reasons as well as due date for conducting a follow on review as may be decided by Board.

VALIDITY OF PEER REVIEW CERTIFICATE (AMENDMENT):

- 1) P.U. can't continue with existing certificate, whose validity has expired.
- 2) All docs signed by P.U. during intervening period (i.e., expiry of previous certificate and issuance of new certificate) will be invalid.
- 3) It is responsibility of P.U. to complete Peer Review of firm and submit all necessary documents at least 1 month before date of expiry of previous certificate.
- 4) P.R. Certificate issued to a P.U. shall be valid for 3 years or such other period as may be decided by Board commencing from date of receipt of Peer Review report by Board.
- 5) Validity of P.R. Certificate issued to New Units shall be decided by Board.

Extension of Validity:

- a) Council may for such reasons as may be prescribed by it extend validity of existing P.R. certificate granted to P.U.
- b) P.U. shall make an Application in Form 8 requesting for extension of validity.

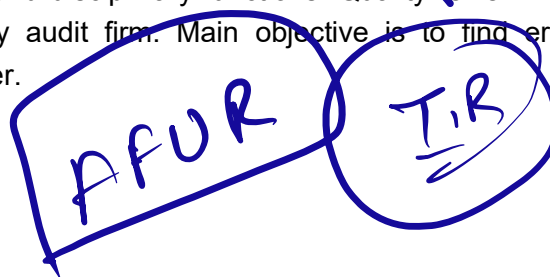
INHERENT LIMITATIONS OF PEER REVIEW:

- 1) The reviewer conducts review in accordance with Statement on Peer Review.
- 2) The review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of assurance services since it would be based on selective tests.

- 3) As there are inherent limitations in effectiveness of any system of quality control which happens to be subject-matter of review, departure from system may occur and may not be detected.

DIFFERENCE BETWEEN PEER REVIEW & QUALITY REVIEW:

- 1) Peer review is review of systems and procedures of audit firm. Although sample audit files are inspected by peer reviewer, it is done for purpose of testing effectiveness of systems and procedures. Intention is not to find faults but help the firm develop effective systems. It is kind of mentoring process. Peer review is part of activities of ICAI aimed at improving quality of service.
- 2) In contrast, quality review is supposed to act as deterrent. Quality Review Board (QRB) is constituted by CG and is independent of ICAI. As per Sec 28A of CA's Act, CG has authority to constitute QRB which carries out supervisory and disciplinary functions. Quality review normally pertains to one particular audit conducted by audit firm. Main objective is to find errors or inadequacies disciplinary action against member.



3. NBFC AUDIT

DEFINITION:

- 1) A Financial Institution which is a Company.
- 2) A non-banking institution (NBI) which is a Co. & principal business receiving deposits & lending.
- 3) Such other institution as RBI may with approval of CG & notification in official gazette specify.

Co.= NBFC, if,

Financial Assets (FA) > 50% of total assets (netted off by intangible assets) & Income from FA > 50% of gross income. If both criteria fulfilled, qualify as NBFC & registered with RBI.

Compulsory Registration

Sec 45 IA of RBI Act 1997, no NBFC can do business of Non-Banking Financial Institution without

- Certificate of Registration (CoR) issued by RBI
- Minimum Net owned Funds (NoF) of 2 Cr.

NBFC CLASSIFICATION (AMENDMENT): NBFC classification based on 4 layers based on their size, activity, and perceived riskiness.

Base Layer

Base Layer shall comprise of

- 1) Non-deposit taking NBFCs below asset size of ₹1000 Cr &
- 2) NBFCs undertaking following activities-
 - a) NBFC-Peer to Peer Lending Platform (NBFC-P2P),
 - b) NBFC-Account Aggregator (NBFC-AA),
 - c) Non-Operative Financial Holding Company (NOFHC) and
 - d) NBFCs not availing public funds and not having any customer interface.

Middle Layer

Middle Layer shall consist of

- 1) All deposit taking NBFCs (NBFC-Ds), irrespective of asset size,
- 2) Non-deposit taking NBFCs with asset size of ₹1000 crore and above and
- 3) NBFCs undertaking the following activities.
 - a) Standalone Primary Dealers (SPDs),
 - b) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs),
 - c) Core Investment Companies (CICs),
 - d) Housing Finance Companies (HFCs) and (NHB)
 - e) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

NBFCs which are specifically identified by RBI warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in Appendix to this circular. Top 10 eligible NBFCs in terms of their asset size shall always reside in upper layer, irrespective of any other factor

Top Layer

It'll ideally remain empty. This layer can get populated if RBI is of opinion that there is substantial increase in potential systemic risk from specific NBFCs in Upper Layer. Such NBFCs shall move to Top Layer from Upper Layer.

Spl Points:

- NBFC-P2P, NBFC-AA, NOFHC and NBFCs w/o public funds and customer interface will always remain in Base Layer.
- NBFC-D, CIC, IFC and HFC will be included in Middle Layer or Upper Layer (not in Base layer), as case may be. SPD and IDF-NBFC will always remain in Middle Layer.
- Remaining NBFCs,
 - Investment and Credit Companies (NBFC-ICC),
 - Micro Finance Institution (NBFC-MFI), NBFC-Factors and
 - Mortgage Guarantee Companies (NBFC-MGC)
 could lie in any of layers of regulatory structure depending on parameters.
- Government owned NBFCs Base Layer or Middle Layer. Not in Upper Layer till further notice.

(Cos exempt from RBI registration) (Doing financial business but regulated by other regulators)

- Housing Fin Institution (regulated by NHB)
 - Merchant banking cos. (SEBI)
 - Stock ex. (sebi)
 - Stock broking/sub-broking(sebi)
 - Venture cap fund (SEBI)
 - Nidhi (MCA, GOI)
 - Insurance (IRDA)
 - Chit (Chit fund Act)
 - Alt Inv Fund Cos. (SEBI)
 - Mutual Benefit Cos.
 - Mortgage Guarantee Cos.
 - Core investment Cos with asset size < 100 Cr & other that are not accessing public funds.
- Producer Co*
- NSF*
- > 100 Cr*

DIFF B/W BANK & NBFC:

- NBFC can't accept DD, but some NBFC can accept Term Deposits
- NBFCs don't form part of payment & settlement system & can't issue cheques drawn on itself.
- Deposit insurance facility of DICGC not available to depositors of NBFC unlike banks
- No min. exposure to priority sector in case of NBFC

PRUDENTIAL NORMS:

Capital Adequacy Ratio

Min capital ratio consisting of tier I & II capital not less than 15% of agg. Risk weighted assets.

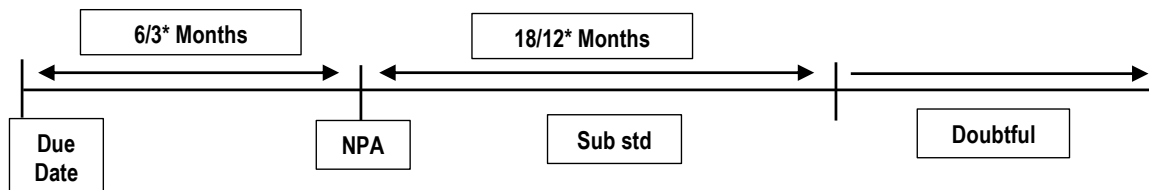
Tier I not less than 10% at any point of time. In case of lending against Gold jewellery (such loans >= 50% of financial assets) → min tier I cap 12%

Risk Weights

Nos	Head	Weight
1	Cash Bank	0
2	Approved securities	0
3	Loan & advances fully secured + loans to employees	0
4	TDS Deducted	0
5	Advance tax	0
6	Intt on Govt security	0
7	Fund based claims on CG	0
8	CG Guarantee claims	0
9	SG securities	0
10	SG guarantee claims not in default > 90 days	20
11	Bonds of PS Banks	20
12	Post commercial operations date (PCOD) projects exist over 1 yr operation	50
13	Others	100

1) **Income Recognition:** Based on recognised accounting principles. Income on NPAs to be recognised on realisation basis. Any such income, which was recognised before asset became NPA & is unrealised Reversed.

Asset Classification:



*3/12 months in case of NBFC - ML/UL

Spl point for NPA: The lease rental and hire purchase instalment, which has become overdue for period of 12 months or more; (NBFC NBFC - ML/UL its 3 months only)

Provisioning:

Loss Assets: 100%

Doubtful Assets: Unsecured 100%

for which Secured Asset has been

% of Provision

considered as doubtful	
Up to 1 year	20
1-3 years	30
More than 3 years	50
Sub std asset: 10%	

Std asset: 0.40% for NBFC- ML/UL & 0.25% for NBFC- BL

AUDIT PROCEDURES:

- 1) Ascertaining business of Co
 - a) Check MOA & AOA (Memorandum & Articles)
 - b) Check business policy to ascertain main business of co.
 - c) Minutes of Board Meeting & discuss with top level mgt
- 2) Evaluation of Internal Control System
 - a) Understand a/c system & related internal controls
 - b) Review effectiveness of system of recovery
 - c) Periodical review of advances facilitate monitoring & follow up
- 3) Registration with RBI
 - a) Sec 45 IA, min Net owned fund of 2 cr
 - b) Obtain copy of Certificate of Reg, or copy of application
 - c) If NBFC holds Public Deposits then it should invest % in liquid assets as per RBI
 - d) Qtr return filed with RBI maintenance of liquid assets.
- 4) NBFC Acceptance of Public Deposit Directions (NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 2016)
 - a) Check NBFC appropriately classified.
 - b) Ceiling on quantum of deposits as per credit rating by approved credit rating agency
 - i) Obtain copy of cr. Rating & check PD as per the rating assigned
 - ii) In event of up/downgrading → increase/decrease deposits → inform RBI

for which Secured Asset has been

% of Provision

considered as doubtful	
Up to 1 year	20
1-3 years	30
More than 3 years	50
Sub std asset: 10%	

Std asset: 0.40% for NBFC- ML/UL & 0.25% for NBFC- BL.**AUDIT PROCEDURES:**

- 1) Ascertaining business of Co
 - a) Check MOA & AOA (Memorandum & Articles)
 - b) Check business policy to ascertain main business of co.
 - c) Minutes of Board Meeting & discuss with top level mgt
- 2) Evaluation of Internal Control System
 - a) Understand a/c system & related internal controls
 - b) Review effectiveness of system of recovery
 - c) Periodical review of advances facilitate monitoring & follow up
- 3) Registration with RBI
 - a) Sec 45 IA, min Net owned fund of 2 cr

- b) Obtain copy of Certificate of Reg, or copy of application
 - c) If NBFC holds Public Deposits then it should invest % in liquid assets as per RBI
 - d) Qtr return filed with RBI maintenance of liquid assets
- 4) NBFC Acceptance of Public Deposit Directions (NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 2016)
- a) Check NBFC appropriately classified.
 - b) Ceiling on quantum of deposits as per credit rating by approved credit rating agency
 - i) Obtain copy of cr. Rating & check PD as per the rating assigned.
 - ii) In event of up/downgrading → increase/decrease deposits → inform RBI

4. SMALL COMPANY

A company that is not a public company and has:

- Paid-up share capital \leq ₹4 crore &
- Turnover as per preceding F.Y \leq ₹40 crore

Not treated as small company:

- Holding or a subsidiary company.
- Sec-8 Co.
- Body corporate or company governed by any special act.

Impact on Topics:

- CARO 2020 N.A.

Note: In case a company is covered under definition of small company, it will remain exempted from applicability of Order even if it falls under any of criteria specified for private company.

Short Quiz:

Hera Pheri Pvt Ltd	Bhagam Bhaag Pvt Ltd	De Dana Dan Pvt Ltd
<u>31.3.22</u> PUSC = 2.5 Cr T/o = 35 Cr	<u>31.3.22</u> PUSC = 3.5 Cr T/o = 42 Cr	<u>31.3.22</u> PUSC = 4.5 Cr T/o = 55 Cr
<u>31.3.23</u> PUSC including R&S = 4 Cr T/o = 32 Cr Borrowings = 40 Lakhs	<u>31.3.23</u> PUSC including R&S = 90 Lakhs T/o = 9 Cr Borrowings = 55 Lakhs	<u>31.3.23</u> PUSC including R&S = 80 L T/o = 8 Cr Borrowings = 65 Lakhs [During the year 1.5 Cr was borrowed and repayed]
CARO Applicable =		

- Limit of 20 max stat audits N.A.
- Rotation of Auditors N.A.

HAPPY LEARNING