

SA 800 Special Considerations – Audits of FS prepared in accordance with Special Purpose Frameworks (Revised)



A Scope of this SA

1. Deals with special considerations in application of SAs to an audit of FS prepared per SPF.
2. Relevant for complete set of FS prepared under SPF.
3. Does not override other SAs.
4. May not deal with all special considerations relevant in the circumstances of engagement.

B Objective

To address appropriately special considerations relevant to:

Acceptance of engagement; 1

Planning & Performance of engagement 2

3 Forming an opinion and reporting on FS



C Definitions

- Special purpose FS: FS prepared as per SPF.
- Framework

General Purpose Framework

FRFW designed to meet:

- Common financial info needs
- Of wide range of users.

Special Purpose Framework

FRFW designed to meet:

- Financial info. needs
- Of specific users.

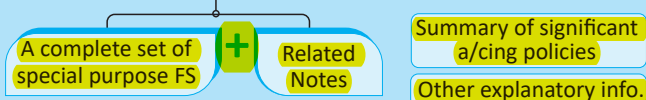
- FRFW (Types)
 - Fair presentation framework
 - Compliance framework

Examples:

- Cash basis of a/cing and also cash flow info. that an entity may be required to prepare for creditors.
- FR as per provisions established by a regulator to meet the requirements of that regulator; or
- FR as per provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

Note:

1. Financial Statements means



2. Requirements of applicable FRFW determine-

Form & content of FS & What constitutes a complete set of FS.

D Considerations when Accepting the Engagement

How Acceptability of FRFW is determined?

1. Meet the financial info. needs of IU.



2.

*A-FRFW may encompass Financial reporting standards (FRS) established by

Authorised/Recognised Org.

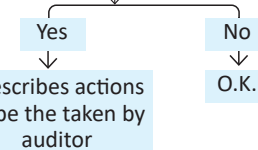
LorR to be used by MGT.

*In absence of indications to the contrary, such FRFW is presumed acceptable for special purpose FS.

3.

If FRS supplemented by legislative or regulatory requirements,

Auditor to determine whether there is any conflict b/w FRS and legal requirements & additional requirements of SA 210 applicable.



4.

A-FRFW may encompass FR as per provisions of a contract or sources (other than above)

In such case, acceptability is determined considering whether framework exhibits attributes normally exhibited by A-FRFW, which is a matter of PJ.

E Considerations when Planning and Performing the audit

(1) SA 200 requires auditor

to comply with

Relevant ethical requirement (inc. independence)

All SAs relevant to audit*

* 1. Auditor to comply with each requirement of SA unless,

Entire SA not relevant

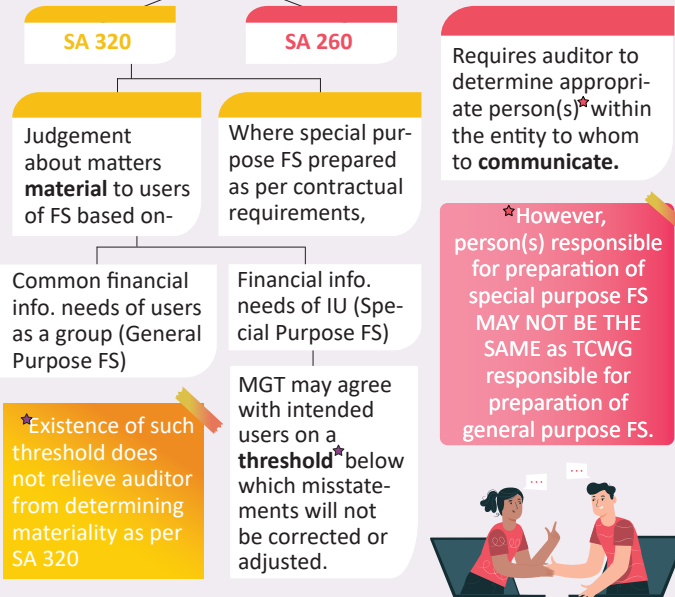
Requirement not relevant

2. In exceptional circumstances, auditor may depart from relevant requirement of SA

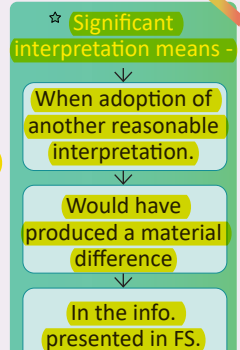
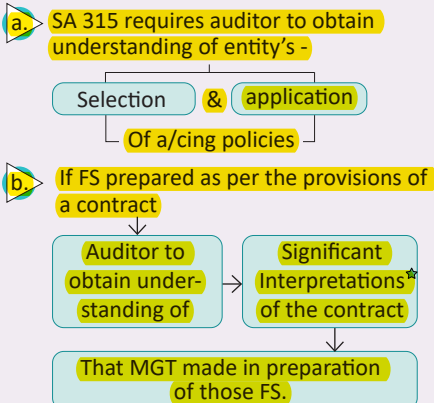
perform alternative audit procedures to achieve aim of requirement.

E Considerations when Planning and Performing the audit

(2)
Determine whether application of SAs requires special consideration

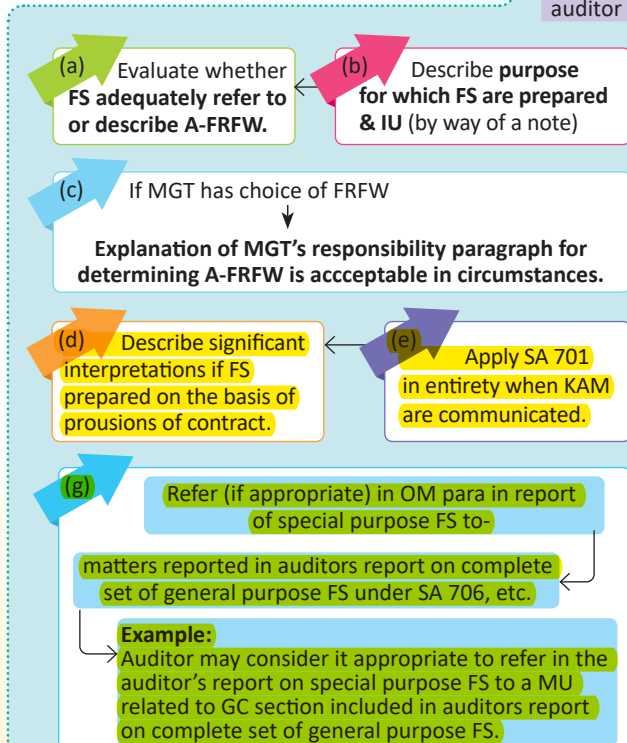


(3)

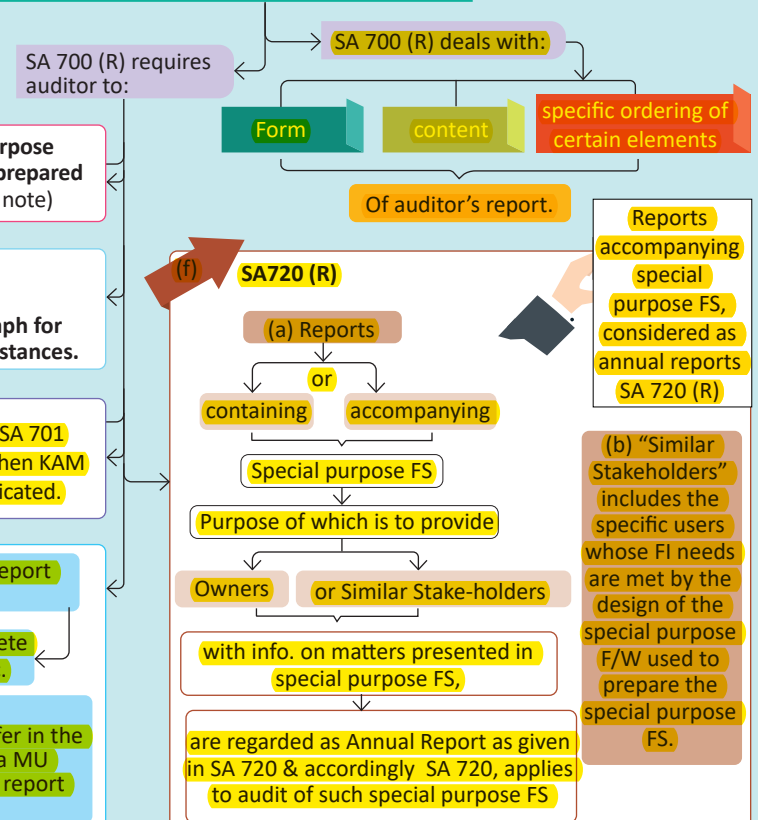


F Forming an opinion & Reporting considerations

Requirements stated in SA 700 (R) shall apply.

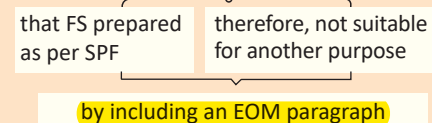


G Description of the A-FRFW



H Alerting Readers in EOM para that FS are prepared in accordance with SPF

Auditor alerts users of report:



I Restriction on distribution or use

- Auditor may **restrict distribution or use** of report to be meant only for specific users, depending on LorR.
- This is included in a para alerting readers. Heading can be modified accordingly.

Example of Emphasis of Matter -
We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company 1 and Company 2 and should not be distributed to or used by parties other than the Company 1 or Company 2. Our opinion is not modified in respect of this matter.

SA 805

Special Considerations – Audits of Single FS and Specific Elements, Accounts or Items of a FS

Whether audit of schedule of net tangible assets, inc. related notes covered under SA 805?
Yes! It is an audit of specific element of FS.

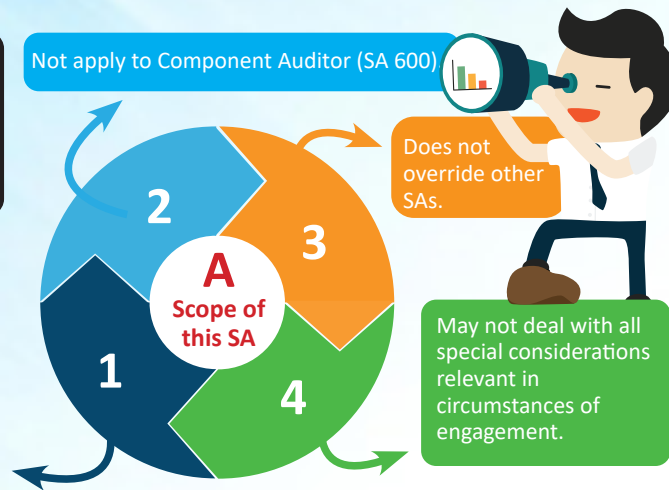
Deals with special considerations in application of SAs to an audit of:

- Single FS, or
- Single element, a/c or item of FS

prepared as per

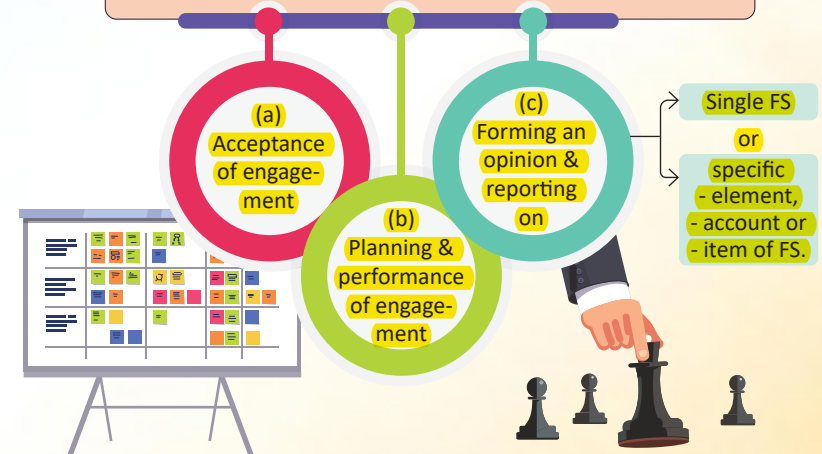
General Purpose Framework (GPF) or Special Purpose Framework (SPF)

In this case SA 800 additionally relevant



B Objective

To address appropriately special considerations relevant to:



C Definitions

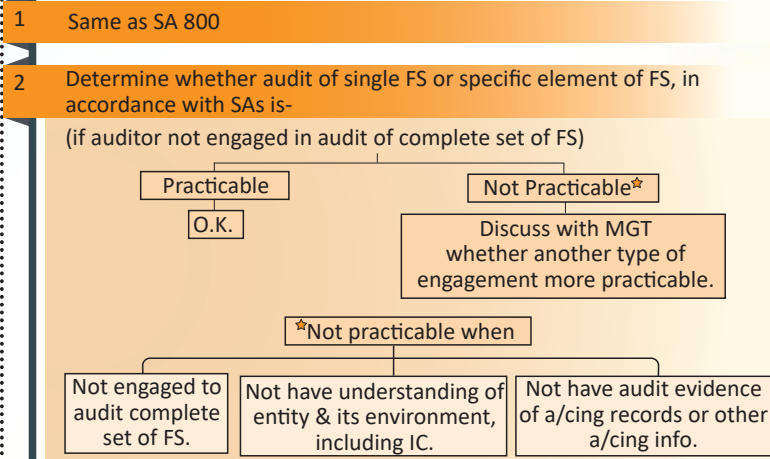
"Element of a FS" or "element" - Element, a/c or item of a FS. For e.g. Trade Receivables or Cash and Bank balances.

Single FS - Distinguished from complete set of FS. For e.g. Cash Flow Statement is a single FS

In both cases it includes related notes comprising, summary of significant a/cing policies & other explanatory info.

D

Considerations when Accepting the Engagement



3 Acceptability of FRFW

- SA 210 requires auditor to determine acceptability of FRFW applied in preparation of FS.
- Determine whether FRFW provides adequate disclosures
 - to enable IU
 - to understand info. conveyed

AND

effect of material transactions & events on info. conveyed.
- Where single FS or specific element of FS prepared as per A-FRFW which in turn is:
 - based on FRFW established by authorised or recognised standard setting organisation for complete FS (e.g. FRFW).

↓

consider whether A-FRFW includes all relevant requirements of the framework

 - relevant to presentation of single FS or specific element of FS
 - including disclosures.

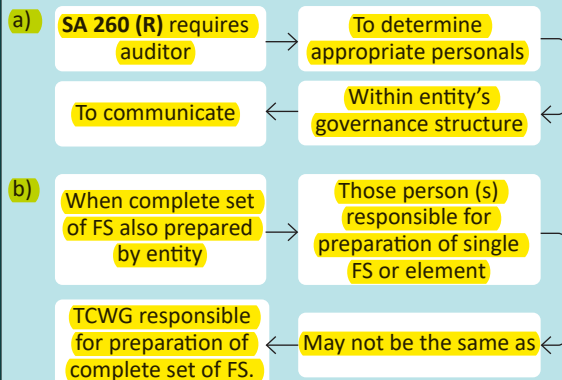
E Considerations when Planning and Performing the Audit

1 Adapt all SAs relevant to the audit.

2 SAs such as SA 240, SA 550 and SA 570 (R) are, in principle, relevant, even if, only a specific element of FS is subject of audit.

- This is because element could be misstated due to Fraud,
- Effect of related party transactions, or
- Incorrect application of going concern basis of a/cing under A-FRFW.

3



4

Materiality determined for single FS or for specific element of FS,

↓

LOWER THAN

↓

Materiality determined for complete set of FS.

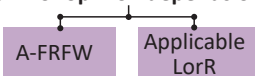
↓

To affect NTE of audit procedures & evaluation of uncorrected misstatements.

SA 210 requires -
→ Agreed terms of engagement → include → expected form of AR

F Form of opinion

Form of opinion depends on -



SA 700 (R)

When expressing unmodified opinion on a complete set of FS prepared as per-

Fair Presentation Framework

Auditor's opinion states that, (unless otherwise required by L or R), uses one of the following phrases:

- FS present fairly, in all material respects,
 - FS give a true and fair view
- in accordance with A-FRFW;

Compliance Framework

Auditor's opinion states that, FS prepared, in all material respects, in accordance with A-FRFW.

A-FRFW may not explicitly address the presentation of the FS or the element.

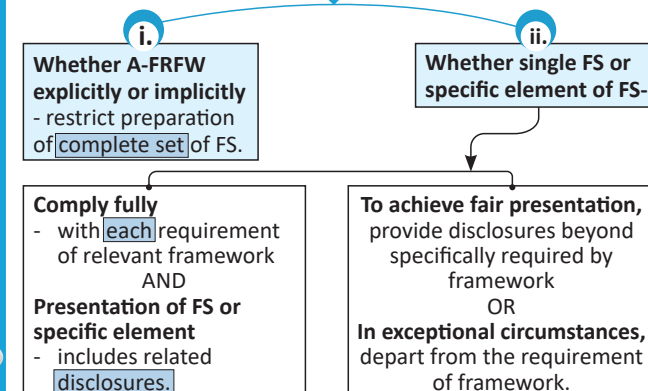
Consider whether expected form of opinion is appropriate in light of A-FRFW or specific element of FS.

Auditor's decision on
- expected form of opinion
- matter of PJ

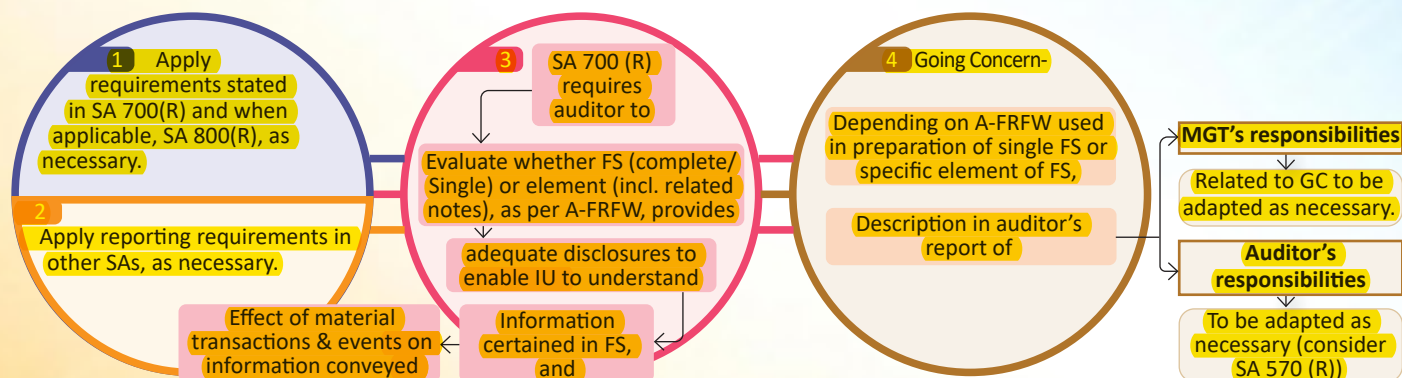
★Affected by:

- Phrases used in auditor's opinion on single FS or specific element of FS.
- Generally accepted in particular jurisdiction.

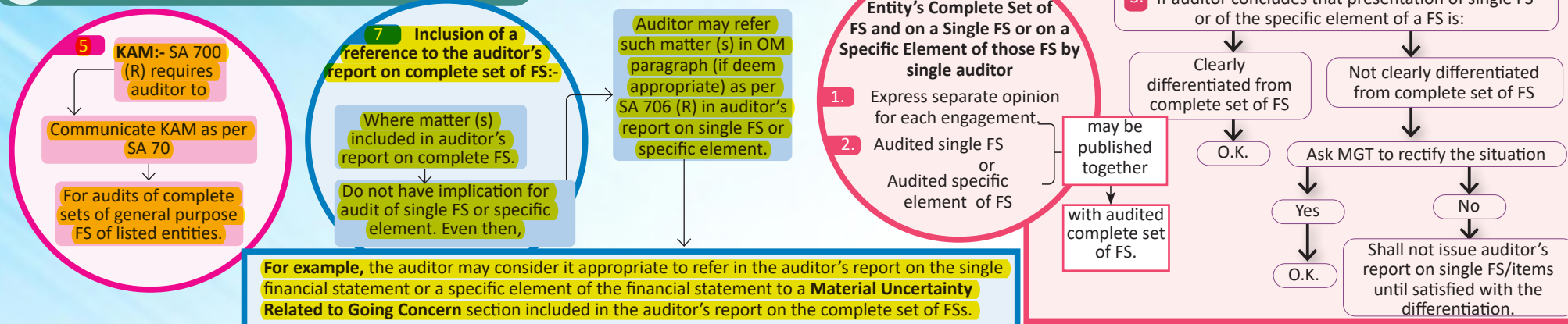
Factors affecting auditor's considerations whether to use phrases "presents fairly" or "gives a true & fair view" include:



G Forming an opinion and reporting considerations



G Forming an opinion and reporting considerations (contd...)



6 Other Information

a SA 720 deals with auditors responsibilities relating to other information.

b As per this SA, reports

Containing or accompanying

Single FS or specific element of FS

Then such reports are considered to be annual reports, as per SA 720.

Purports to provide owners (or similar stake holders) with info. on matters presented in single FS or specific elements of FS

c If such annual report is planned to be issued by entity

Requirement of SA 720 → Apply to the audit of single FS or element.

d Signature of auditor:

Auditor's report shall be signed by-

Where individual auditor is appointed

Where firm is appointed as auditor

Auditor (i.e. engagement partner) in his personal name with his ICAI membership member.

Personal name of auditor with his ICAI membership and number

Name of audit firm with FRN (wherever applicable)

a This SA requires auditor to apply prof. judgement

while considering (implication) (if any) of certain matters

included in auditor's report on complete set of FS

for audit of single FS or specific element

for auditor's report there on.

Factors that may be relevant in considering those implications include:

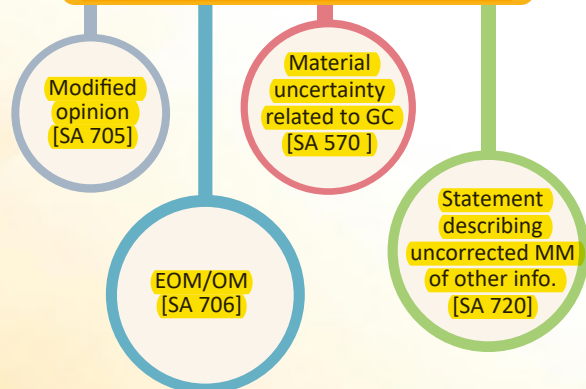
- Nature of matter (s) described in auditor's report on complete FS & Extent to which it relates to what is included in single FS or specific element
- Pervasiveness of matter(s) described in auditor's report on complete FS.
- Nature & Extent of differences b/w A-FRFW.
- Extent of difference b/w
 - Period covered by complete FS
 - Compared to Period (s) or dates of single FS or element
- Time elapsed since date of auditor's report on complete FS. See Example on right

For example, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the Statement of Profit and Loss, or if the specific element of the financial statement relates to accounts receivable.

9

IMPACT OF : Matters included in Auditor's Report on entity's Complete set of FS
Audit of Single FS or Specific element of FS;
and for Auditor's Report thereon.

If auditor's report on complete FS includes:



Consider implications (if any) on audit of single FS or specific element and auditors report thereon.

CHAPTER-8 : SPECIALISED AREAS SA 805

9A Combined Report

Adverse Opinion or Disclaimer of Opinion (in AR on complete FS):

SA 705 prohibits auditor to give unmodified opinion on single FS or specific element if to be given in same AR.

This is because such unmodified opinion would contradict adverse opinion or disclaimer of opinion on entity's complete FS.

9B Separate Report

Adverse / Disclaim of Opinion on Complete set of FS - but, - Unmodified Opinion on Specific Element included in those FS



Auditor shall do so if:

- Not prohibited by LorR
- AR expressing unmodified opinion and modified opinion, not published together.
- Specific element
 - Does not constitute major portion of complete set of FS.

9C Separate Report

Auditor shall not express:

- Unmodified opinion on single FS.*

&

Modified opinion on complete set of FS
-Even if both reports are not published together.

*Single FS deemed to constitute major portion of complete set of FS.

9D AR on complete Set of FS:

Disclaimer of opinion on SPL & Cash Flow but unmodified opinion on BS in permitted since disclaimer of opinion is not in respect of FS as a whole



Examples of Specific Elements, Accounts or Items of FS are:

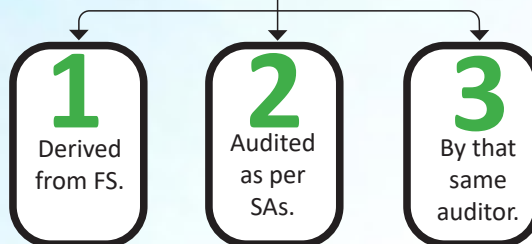
1. Accounts receivable, allowance for doubtful accounts receivable, inventory, liability for accrued benefits of a private pension plan, recorded value of identified intangible assets, or liability for "incurred but not reported" claims in an insurance portfolio, including related notes.
2. A schedule of-
 - Externally managed assets and income of a private pension plan, including related notes.
 - Net tangible assets, including related notes.
 - Disbursements in relation to a lease property, including explanatory notes.
3. **Profit participation or employee bonuses, including explanatory notes.**

SA 810 - Engagements to report on Summary FS



Suppose a company is permitted to share summary of FS to its members in the annual report provided it has to supply complete FS on demand. Such summary FS needs to be prepared appropriately so that no material information is hidden and hence auditor needs to share a separate report whether the summarised FS represent a fair view of complete FS.

A Scope of this SA



C Requirements

C-I Engagement Acceptance

C.1.1 Auditor of complete FS and summary FS shall be same

Accept engagement only when -
engaged to conduct audit of complete set of FS as per SAs.

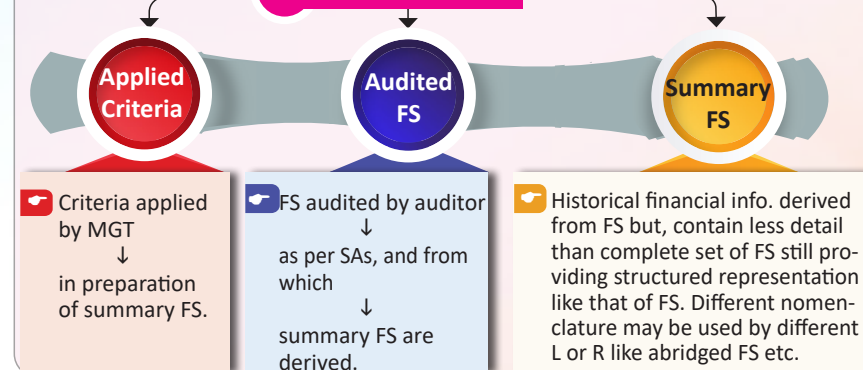
Possess necessary knowledge
• to discharge responsibilities
• in relation to Summary FS.

This SA not provide SAAE to base opinion on Summary FS
• if not audited complete set of FS.

C.1.2 Pre-conditions for acceptance of an engagement

- 1 Determine whether AC are acceptable**
 - a) MGT to determine:**
 - The info. that needs to be reflected in summary FS so that it is consistent or represent fair summary of audited FS.
 - Since summary FS contain aggregated info. with limited disclosure, risk of misleading FS is high.
 - Risk further increases when established criteria does not exist.
 - b) Factors affecting acceptability of AC:**
 - Nature of entity
 - Purpose of summary FS
 - Info. needs of IU
 - Whether AC will prepare summary FS that is not misleading in circumstances.
 - c) Presume criteria is acceptable, when established by-**
 - Authorised or recognised standards setting organisation. **OR** LorR
 - d) If established criteria does not exist -**
AC developed by MGT is considered

B Definitions



2

Obtain written agreement of "MGT" that it Acknowledges & Understands it's responsibility -

For preparation of summary FS

Make audited FS available to IU ★ without undue difficulty. Factors to assess to conclude whether audited FS available without undue difficulty:

To include auditor's report in summary FS

★ If LorR prohibits such availability, and establishes criteria - then describe that LorR provisions

★ **Consider factors like -**

- Summary FS describe clearly - from whom or where audited FS are available.
- Audited FS available on public record.
- Process established by MGT by which IU can obtain - readily access to audited FS.

3 Agree with MGT on form of opinion to be expressed

If auditor concludes that AC are:

Acceptable

Ok, accept the engagement

Unacceptable / unable to obtain MGT agreement

Do not accept, unless required by LorR

C-II Nature of Procedures to be Performed

1 Evaluate whether summary FS

Adequately disclose:

a) Summarised nature

b) Identify audited FS

2 When summary FS not accompanied by audited FS

Evaluate whether they describe clearly:

from whom or where audited FS available

- LorR that specifies audited FS need not be made available to IU and establishes criteria for Summary FS.

3 Evaluate whether summary FS adequately disclose the AC

5 Evaluate whether summary FS prepared as per AC

4 Compare summary FS with - related info. in audited FS

To determine

whether it agrees with or can be re-calculated from related info.

6 Summary Contains necessary info. & at appropriate level of aggregation

7 Evaluate ★ whether

Audited FS – made available to

IU of summary FS, without undue difficulty (unless otherwise provided by LorR)

C-III Form of Opinion

When unmodified opinion on summary FS is appropriate - use one of the following phrases ★:

Accompanying summary FS are consistent, in all material respects, with audited FS, in accordance with AC, or

Accompanying summary FS are a fair summary of the audited FS, in accordance with AC.

★ If LorR prescribes different wording, auditor shall -

Perform further procedures to enable him to express prescribed opinion

Yes

Evaluate whether IU misunderstands auditor's opinion

No

O.K.

Evaluate whether additional explanation in auditor's report on summary FS can mitigate possible misunderstanding

Yes

Accept the engagement

No

Do not accept the engagement (unless required by LorR)

If so, do not indicate that engagement conducted as per this SA in report



C-IV Auditor's Report on Summary FS

1 It includes the following elements:

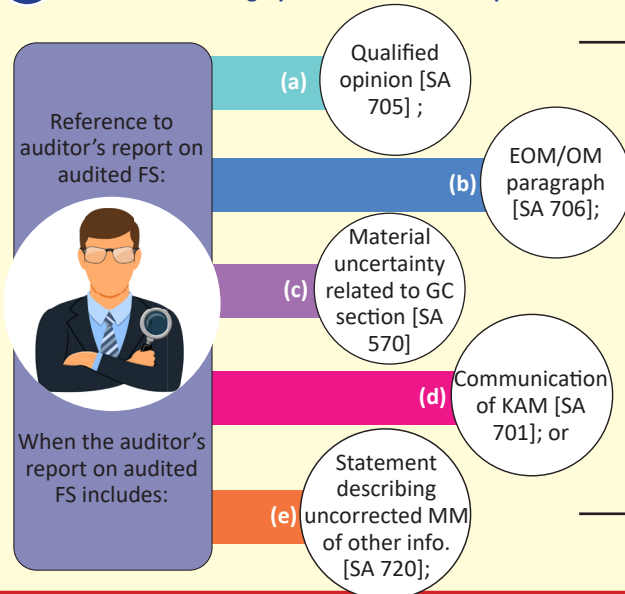
- Title** → Indicating it is an Independent Auditor's Report
- Addressee** → If different from users of audited FS- evaluate its appropriateness considering terms of engagement, nature of entity, and purpose of summary FS.
- Identification of summary FS**, including title of each statement included in summary FS (if document in which summary FS given contains other information, consider if giving page no's. of summary FS will be appropriate presentation).
- MGT Responsibility** → Identification of audited FS.
- Opinion paragraph**

- Statement that -**
Summary FS do not contain all disclosures required by FRFW. Reading summary FS and its audit report is not a substitute for reading audited FS and its auditor's report.
- Statement that summary FS and audited FS do not reflect effects of events occurred subsequent to date of report on audited FS.**
- Reference of Audited FS's report**
Reference to auditor's report on audited FS
Date of that report
Fact that an unmodified opinion is expressed

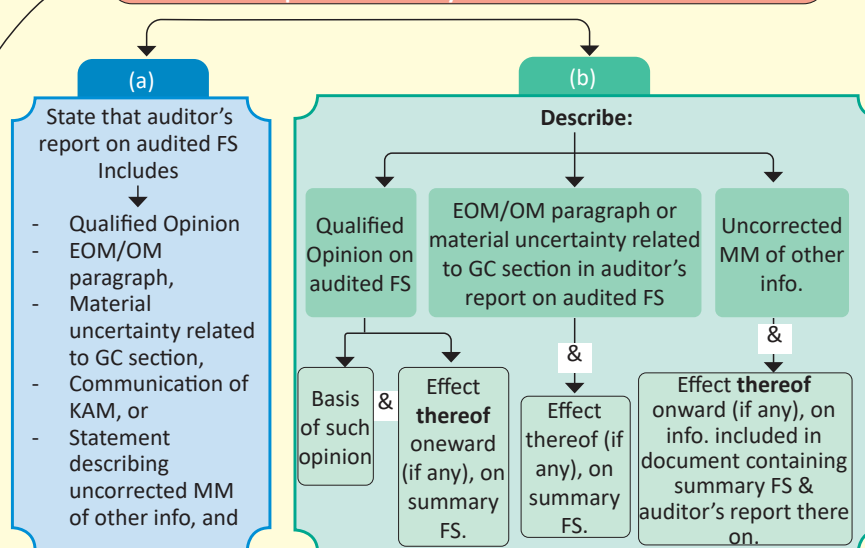
- Management's Responsibility:**
To prepare summary FS as per AC.
- Auditor's Responsibility**
For expressing an opinion based on procedures conducted as per this SA, on whether summary FS are-
Consistent, in all material respects with OR are a fair summary of Audited FS.

- Signature**
Auditor's Signature
FRN
ICAI Membership No.
UDIN
- Date of report**
not earlier than
Date on which SAAE obtained to base opinion incl. WR on mgt. responsibility and
Date of report on audited FS
- Place of signature**

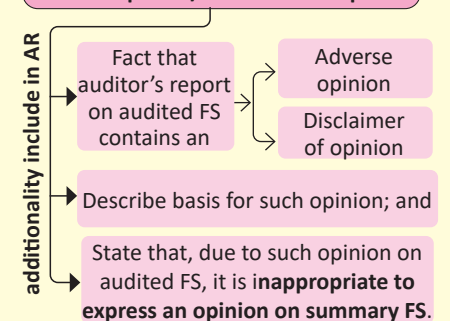
2 Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited FS



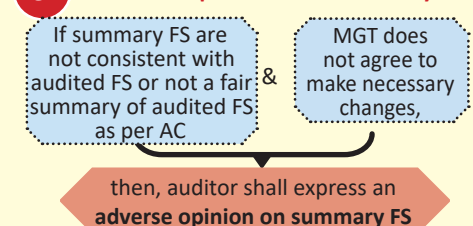
and auditor is satisfied that summary FS are consistent, in all material respects, with or are a fair summary of audited FS as per AC, Auditor's report on summary FS shall also include-



Adverse opinion/Disclaimer of opinion



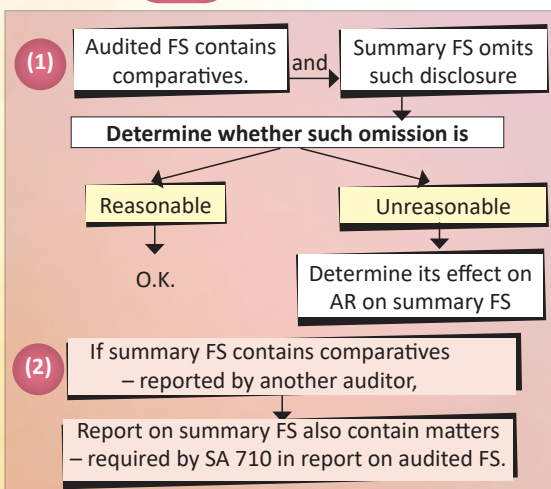
3 Modified Opinion on the Summary FS



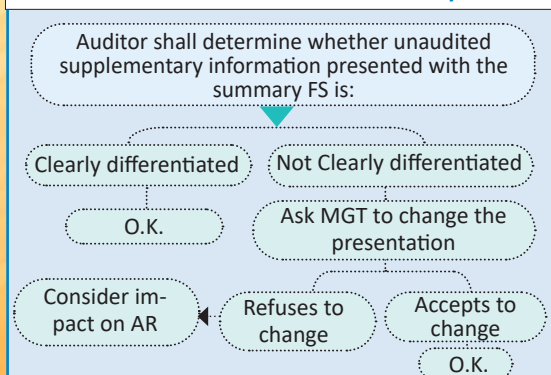
C-V Restriction on Distribution or Use or Alerting Readers to the Basis of A/cing.

Similar restriction or alert to be given as given in audit report on audited FS.

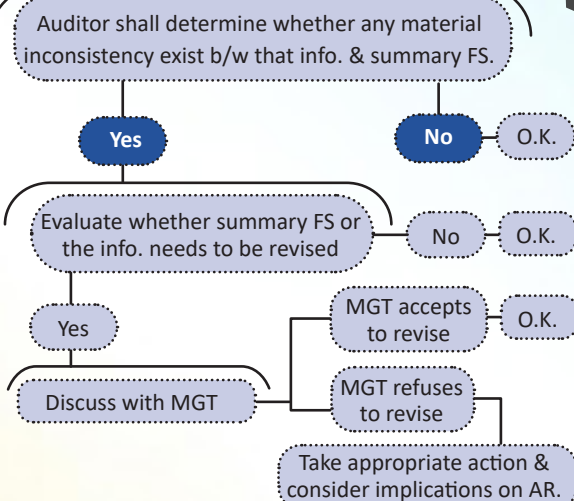
C-VI Comparatives



C-VII Unaudited Supplementary Information Presented with Summary FS



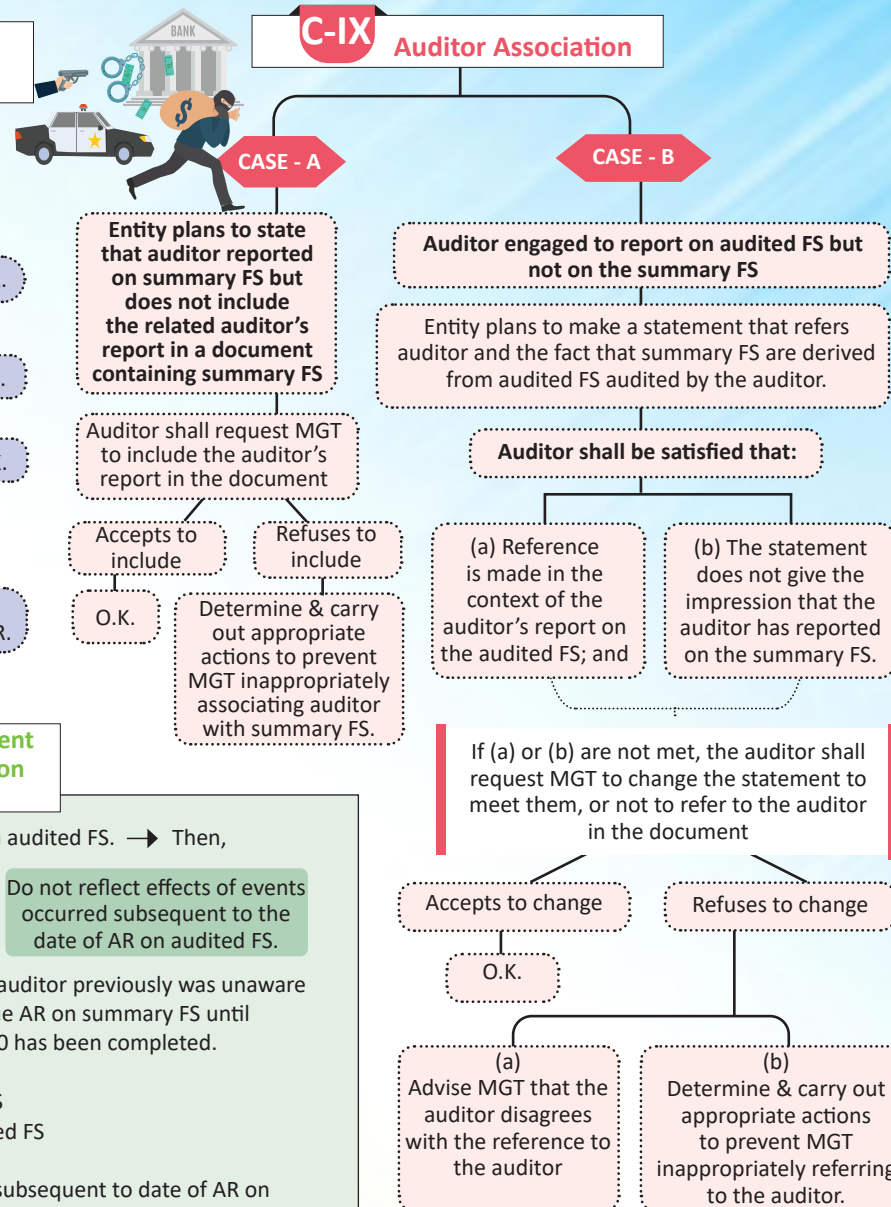
C-VIII Information in Documents Containing Summary FS



C-X Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

- AR on summary FS dated later than date of AR on audited FS. → Then,
 - AR on summary FS shall state that- $\left\{ \begin{array}{l} \text{Summary FS} \\ \& \\ \text{Audited FS} \end{array} \right\}$ Do not reflect effects of events occurred subsequent to the date of AR on audited FS.
- Facts existed at the date of AR on audited FS but auditor previously was unaware → in such cases, → auditor shall not issue AR on summary FS until auditor's consideration of such facts as per SA 560 has been completed.
- AR on summary FS after completion of audit of FS
 - No need to obtain additional AE on audited FS
 - Or
 - Report on the effects of events occurred subsequent to date of AR on audited FS.

C-IX Auditor Association



7. Compliance with CRR & SLR requirements

7.A Cash Reserve Ratio

Meaning

- A specified minimum fraction
- of customers total deposits
- which commercial banks hold as reserves
- either in cash or as deposits with central bank.

Maintenance

- Banking Co. as required by Banking Regulation Act, 1949
- Schedule bank as required by RBI Act, 1934

DID YOU KNOW?

RBI reviews liquidity situation, accordingly decide CRR requirement by scheduled commercial banks.

7.B Statutory Liquidity Ratio (SLR) Requirements

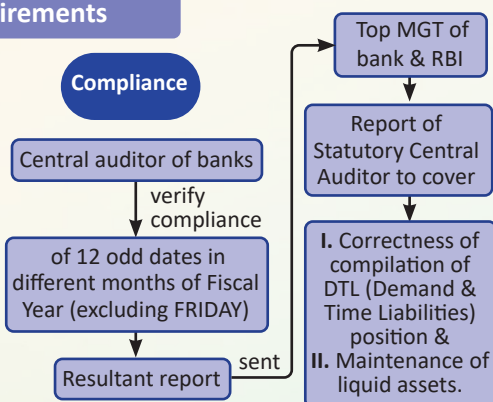
Meaning

- Every scheduled commercial bank in India
- is required to maintain SLR
- in the form of certain liquid assets
- such as gold, cash and government approved securities
- before providing credit to the customers.

Objective

To meet unexpected/ sudden increase in demand from the depositors.

Compliance

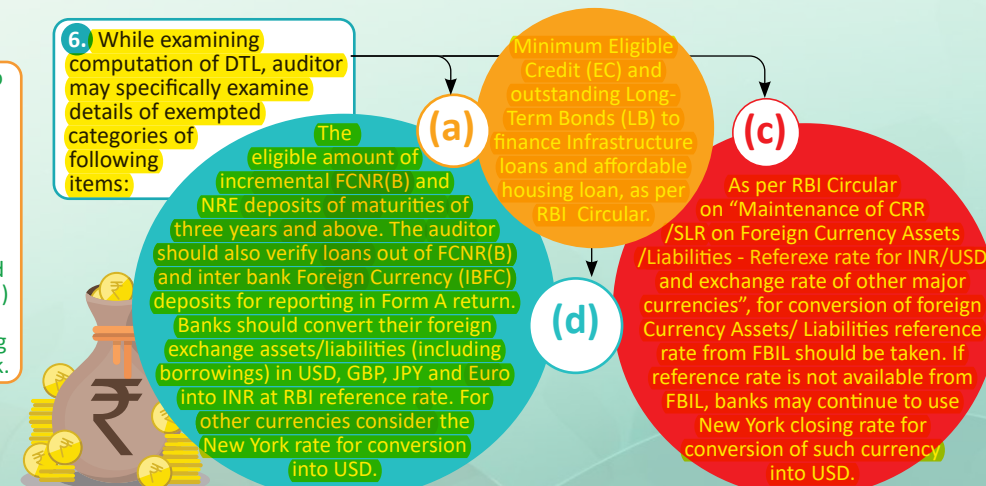


5. Following items have been **included** in DTL as per RBI guidelines:

- Net credit balance in branch adjustment accounts. Credit outstanding for **more than 5 years** are to be considered at gross.
- Interest accrued on deposits should be calculated on each reporting fortnight, whether or not such interest is accounted for in books of accounts, so that the bank's liability in this regard is fairly reflected in the total NDTL of the same fortnightly return.
- Cash collaterals received under collateralized derivative transactions as these are in the nature of 'outside liabilities'.
- Borrowings from abroad by banks in India:** considered as 'liabilities to other' unlike; Liabilities towards banking system in India; **To be netted off against 'assets towards banking system in India.** Thus, adverse balances in Nostro Mirror Account considered as 'Liabilities to other'.

The reconciliation of Nostro accounts (with mirror A/c) needs to be scrutinized carefully to analyse and ascertain if any **inwards remittances** received on behalf of customers / bank constituents and have **remained unaccounted** and / or any **other debit** (inward) **entries have remained unaccounted** and pertaining to any liabilities for the bank.

6. While examining computation of DTL, auditor may specifically examine details of exempted categories of following items:



7.C Audit Approach & Procedures

Area of Focus:

Compliance with CRR and SLR requirements:

- Obtain understanding of RBI circulars/ instructions, particularly composition of DTL items.
- Request branch auditors to send their weekly T.B. as on Friday and these are consolidated at the H.O.
- Based on this consolidation, DTL position is determined for every reporting Friday.
- Verify correctness of T.B. at selected dates
- Examine-
 1. Branch's cash balance on selected dates.
 2. Consolidations regarding DTL position (on test basis)
 3. Valuation of securities as per RBI guidelines.
 4. Following items have been **excluded** from DTL as per RBI guidelines:

- Paid up Share Capital, reserve, Cr. bal. in P&L, loan taken from RBI & Refinance taken from EXIM bank, NHB, SIDBI & NABARD
- Bills discounted by a bank with eligible financial institutions as approved by the RBI.
- Net Income tax provision.
- Amount received from DICGC towards claims held by banks pending adjustments thereof.
- Amount received from ECGC by invoking the guarantee.
- Amount received from insurance companies for ad hoc settlement of claims pending judgement of court.
- Amount received from court receiver.
- Net unrealized gain/loss arising from derivatives transactions under trading portfolio.
- Income flows received in advance such as annual fees and other charges which are not refundable.
- Liabilities arising on account of utilisation of limit under 'Bankers' Acceptance Facility' (BAF).
- Recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.
- Amounts received against import bills held in sundry deposits pending receipts of final rates.
- Un-adjusted deposits/balances lying in link branches for agency business like dividend warrants, interest warrants, refund of application money etc. In respect of shares/debentures to the extent of payment made by other branches but not adjusted by link branches.
- Margins held and kept in sundry deposits for funded facilities.

7. Whether bank's consolidations include the relevant info. in respect of all branches.

8. Examine whether the balances in Branch Adjustment Accounts of foreign branches have been taken into account in arriving at the net balance in Branch Adjustment Accounts.

9. Examine correctness of data in **Form A** return for CRR and Return in **Form VIII** for SLR purposes on sample basis.

10. As stated in the preceding paragraphs, a considerable part of the information required by the SCA for reporting on compliance with the SLR requirements will flow from the branches. It is suggested that the relevant information pertaining to the branches within a region may be consolidated at the regional level. The auditor of the region concerned should verify the same in the manner described in the above paragraphs and report on the same. The consolidated statement should also be counter-signed by the regional manager. The auditor at the central level should apply the audit procedures listed in the above paragraphs to the overall consolidation prepared for the bank as a whole. Where such a procedure is followed, the SCA should adequately describe the same in his certificate.

11. Auditor to apply audit procedures to overall consolidation.

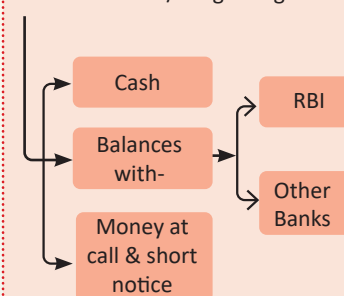
12. Specify the no. of unaudited branches and fact that he has relied on return of unaudited branches.

13. Develop necessary audit procedures related to ADF (Automated Data Flow) for CRR & SLR reporting.

8. Verification of assets

8.A Cash, Bank Balances and Money at call and Short Notice

III Schedule to Banking Regulation Act, 1949, requires disclosures in B/S regarding:



Audit Approach:

- **Objective**- Verify existence and completeness on B/S date.
- **Cash**- appearing in all branches B/S
- **Money at call and short notice**- handled by H.O treasury department.
- **Balance with other banks**- reconciled periodically.
- Ensure effective operation and implementation of IC.

Cash (physical verification, bal. tally)

- Conduct physical verification of cash (inc. FC, ATM & CDM)
- Cash Bal. – tally with – Cash register/ Balance in CBS (Core Banking System)

Balance with Banks (other than RBI) (O/S- Dr. charges, cheque clearance, bills. window dressing, bal. with foreign banks)

- Examine-**
 - No debit for charges or credit for interest is O/S.
 - No cheque sent or received in clearing is O/S.
 - All bills or outstation cheques sent for collection and O/S as on closing date- credited subsequently.
- Verify bal. with foreign banks.**

Audit Procedures:

I **Cash**

II **Balance with RBI** (applicability, verify ledger bal., Reco. St.)

- Applicability** – branches having a/c with RBI
- Verify ledger bal.** (at yr. end) – with -
 - Bank confirmation certificates
 - Reco. statements
- Review Reco. Statement**, consider-
 - Unresponded cash transactions
 - Revenue items requiring adjustments / write-offs
 - Unresponded Cr. & Dr. entries for > 15 days.

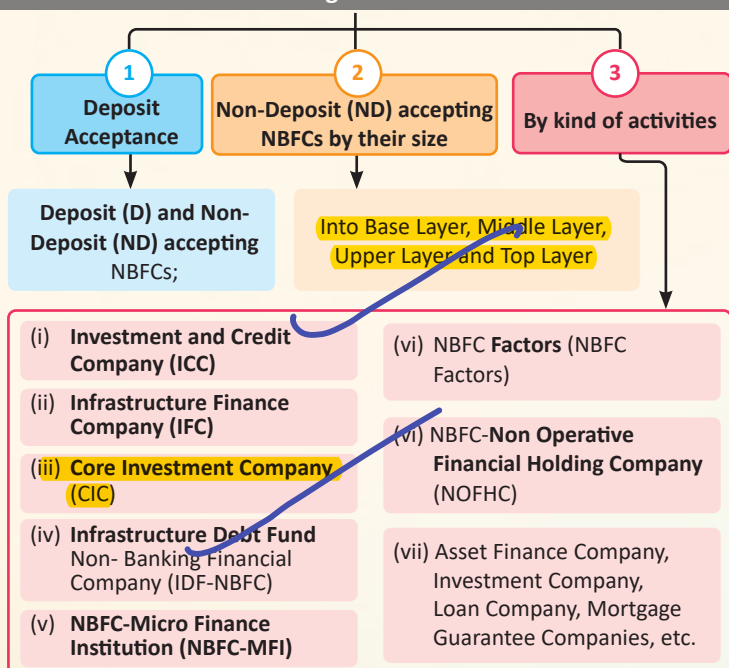
III **Balance with Banks (other than RBI)**

IV **Money at Call and Short Notice** (authorization, compliance, bal. tally, repayment, call loans, interest)

- Examine-**
 - There is proper authorization.
 - Compliance with branch's H. O/C.O. instructions/guidelines, incl. limits on lending's in inter-bank call money market.
 - Aggregate bal. - tally with- control a/cs.
 - Subsequent repayments received from borrowing banks.
- Call loans- verify with-**
 - Borrower's certificates
 - &
 - Call loan receipts
- Verify interest-** properly accrued & accounted for.

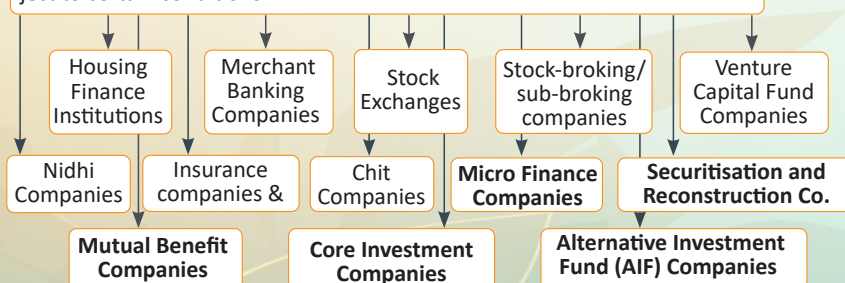
DID YOU KNOW?
RBI reviews liquidity situation, accordingly decide CRR requirement by scheduled commercial banks.

1. Classification of NBFC'S registered with RBI



2. NBFC's exempted from registration with RBI

Following NBFCs since regulated by other Regulators have been exempted from the requirement of registration u/s 45 -IA of the RBI Act, 1934 subject to certain conditions.



Note- Core Investment Companies with:

- Asset size < 100 Cr.; and
 - Asset size ≥ 100 Cr. (not accessing public funds)
- Exempted from registration with RBI

Types of NBFCs- Compliance & Regulatory perspective:



3. Classification of NBFC as per Scale Based Regulation (SBR)

A Revised Regulatory Framework for NBFCs, (effective from 01 October, 2022), RBI revised different facets of existing NBFC- based on four layers- based on their size, activity, and perceived riskiness.

Base Layer (BL)

It comprise of:

- NBFCs-NDs (asset size < ₹1000 crores); and
- NBFCs undertaking the following activities-

- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P),
- (ii) NBFC-Account Aggregator (NBFC-AA),
- (iii) Non-Operative Financial Holding Company (NOFHC); and
- (iv) NBFCs not availing public funds and not having any customer interface.

Middle Layer (ML)

It consist of:

- All (NBFC-Ds), irrespective of asset size,
- NBFC-NDs (asset size ≥ ₹1000 crores)*; and
- NBFCs undertaking the following activities

- (i) Standalone Primary Dealers (SPDs),
- (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs),
- (iii) Core Investment Companies (CICs),
- (iv) Housing Finance Companies (HFCs); and
- (v) Infrastructure Finance Companies (NBFC-IFCs).

*Irrespective the date on which such asset size is attained.

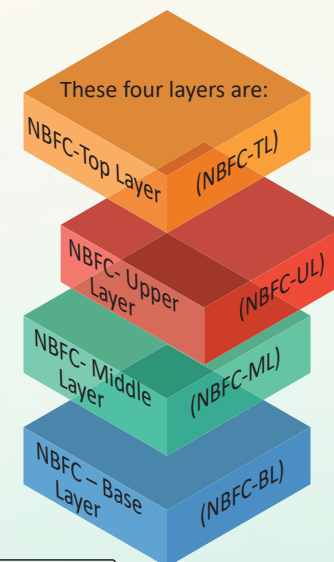
Upper Layer (UL)

NBFCs- specifically identified by RBI- as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology.

Note: The top ten eligible NBFCs in terms of their asset size shall always reside in UL, irrespective of any other factor.

Top Layer (TL)

- Ideally remain empty
- It can get populated if RBI opine that there is a substantial increase in potential systemic risk from specific NBFCs in UL.
- Such NBFCs shall move to TL from UL.



CHAPTER 14 : SPECIAL FEATURES OF AUDIT OF NON-BANKING FINANCIAL COMPANIES (NBFCs)

Imp.

Categorisation of NBFCs carrying out specific activity

As the regulatory structure envisages **scale based as well as activity-based** regulation, the following prescriptions shall apply in respect of the NBFCs.

NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface

Base Layer

1

NBFC-D, CIC, IFC and HFC

Middle Layer or Upper Layer

2

SPD and IDF-NBFC

Middle Layer

3

Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC)

any of the layers depending on the parameters of the scale based regulatory framework.

4

Government owned NBFCs

Base Layer or Middle Layer (not in Upper Layer)

5

The following glide path is provided for the existing NBFCs, viz., NBFC-ICC, NBFC-MFI and NBFC-Factor to achieve the NOF of ₹ 10 crore:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹ 2 crore	₹ 5 crore	₹ 10 crore
NBFC-MFI	₹ 5 crore (₹ 2 crore in NE Region)	₹ 7 crore (₹ 5 crore in NE Region)	₹ 10 crore
NBFC-Factor	₹ 5 crore	₹ 7 crore	₹ 10 crore

?

Deemed NBFC ABC Ltd. is a company registered under the Companies Act, 2013. The company is engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures / securities issued by Government or local authorities. For the year ended 31st March, 2021 following are some extracts from the financial statements:

1	Paid-up share capital	→ ₹ 40.53 Cr.	
	Non-Current Assets - Loans & Advances	→ ₹ 55.90 Cr.	2
3	Current Assets - Loans and advances	→ ₹ 344.47 Cr.	
	Total assets of the company	→ ₹ 530 Cr.	4
5	Intangible assets	→ ₹ 3 Cr.	
	Profit for the Year	→ ₹ 7.25 Cr.	6
7	Income from interest and dividends	→ ₹ 52 Cr.	
	Gross income	→ ₹ 102.57 Cr.	8

Directors do not intend to apply for registration as Non-Banking Financial Company (NBFC) under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997. Advise. (Dec-21-New)
Hint: Apply 50:50 Test.

Financial Asset = $\frac{55.90 + 344.47}{530 - 3} > 50\%$ and

Income from Financial Assets = $\frac{52}{102.57} > 50\%$ hence deemed NBFC.

2. Difference between Bank and NBFC

NBFC cannot accept Demand Deposits. However some NBFCs can accept Term Deposits;

Deposit insurance facility of DICGC is not available to depositors of NBFC's unlike in case of banks.

(i)

(ii)

(iii)

(iv)

NBFC do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

No Minimum Exposure to Priority Sector required by NBFCs.

3.

Prudential Norms

3.A Capital Requirements

Applicable NBFC

as defined in the Master Direction

RBI (NBFC – Scale Based Regulation) Directions, 2023 shall maintain: **Minimum Capital Ratio** (consisting of **Tier-I and Tier-II capital**) - which shall not be less than:

15% of its aggregate RWA on B/S & of risk adjusted value of off- B/S items.

Tier-I Capital in respect of NBFC (except NBFC – MFI and NBFC primarily engaged in lending against gold jewellery at any point of time, **shall not be less than 10%.**

"Tier 1 Capital" for NBFCs (except NBFCs – BL) is the sum of:

Owned fund
reduced by

Investment in shares of other NBFCs and in shares, debentures, bonds, o/s loans & advances incl. hire purchase & lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of owned fund; and

Perpetual debt instruments issued by ND – NBFCs in each year to the extent it does not exceed 15% of aggregate Tier – 1 Capital of such company as on March 31 of previous a/cing year.
Note – NBFCs – BL not eligible to include perpetual debt instruments in their Tier – 1 Capital.

"Tier 2 Capital" for NBFCs (except NBFCs – BL) is the sum of:

(i) Preference Shares (except compulsorily convertible into equity);

(ii) Revaluation reserves at discounted rate of 55%

(iii) General provisions (incl. Std. assets) & loss reserves to the extent not attributable to actual diminution in value or identifiable potential loss in any specific asset & available to meet unexpected losses, to the extent of 1.25% of RWA;

point (iv), (v) & (vi) on next page.

DID YOU KNOW?

Applicable NBFC primarily engaged in lending against **gold jewellery** (such loan comprising **50% or more** of their Financial Assets) shall maintain a minimum **Tier-I capital of 12%.**

- (iv) Hybrid debt capital instruments;
(v) Subordinated debt;
(vi) Perpetual debt instruments issued by ND – NBFC which is in excess of what qualifies for Tier – 1 Capital.
Note – NBFCs – BL not eligible to include perpetual debt instruments in their Tier – 2 capital.

S.N.	WEIGHTED RISK ASSET ON BALANCE SHEET ITEMS	% WEIGHT
1.	Cash and bank balances including fixed deposits and certificates of deposits with banks.	0
2.	Investments: a. Approved securities [Except at (c) below] b. Bonds of public sector banks. c. FD/ certificates of deposits/bonds of PFI. d. Shares of all companies and debentures/bonds/commercial papers of all companies and units of all M.F. e. All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation	0 20 100 100 50
3.	Current Assets: (Other FA) a. Stock on hire (NBV) b. Inter corporate loans/deposits c. Loans & Advances fully secured against deposits held d. Loans to staff e. Other secured loans & advances considered good (i) Consumer credit exposure (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans (ii) Credit Card Receivables [Except at (vi) below] f. Bills purchased/discounted. g. Others (to be specified)	100 100 0 0 100 125 125 100 100
4.	Fixed Assets (net of depreciation): a. Assets leased out (net book value) b. Premises c. Furniture & fixture	100 100 100
5.	Other Assets: a. Income tax deducted at source (net of provision) b. Advance Tax paid (net of provision) c. Interest due on Govt. Securities d. Others (to be specified)	0 0 0 100
6.	Domestic Sovereign: a. Fund based claims on the Central Government b. Direct loan / credit / overdraft exposure and investment in State Government securities c. Central Government guaranteed claims d. State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days e. State Government guaranteed claims, which have remained in default for a period of more than 90 days.	0 0 0 20 100

3.B Income Recognition

- Based on recognized **a/cing principles**.
- Income inc. interest/discount/hire charges/ lease rentals or any other **charges on NPA** recognized **only when actually realized**.
- Income recognized before asset became non-performing and remaining unrealized- **be reversed**.

2. STANDARD ASSET

Meaning: Provision: Not netted off from gross advance:

Asset in respect of which-
• **no default in repayment** (principal/ interest)
• **not disclose any problem, or**
• **not carry more than normal business risk**

0.40% of O/S amount- for NBFC - ML & not UL - SI and NBFC - D
0.25% of O/S amount- for NBFC – BL

Shown as 'Contingent Provisions against Standard Asset' in BS. Do not reduce from Advances.

3. SUB-STANDARD ASSET

- Asset classified as NPA for a period not exceeding:
for all NBFC except ML & above (18 months) NBFC ML and above (12 months)
- Asset where terms of agreement (regarding interest and/or principal)-
• re-negotiated; or
• rescheduled; or
• restructured after commencement of operations, until the expiry of 1 yr of satisfactory performance under the renegotiated or rescheduled or restructured terms.
- Provision: **10%** of total O/S.

1. NPA

- Overdue > 180 days** [180 days limit to change as per glide path given] here
- Overdue considered of-

Installment-
• Term loan
• Lease rental
• Hire purchase

Bill overdue

Dues on a/c of sale of assets or services rendered remitted

Demand or Call Loan (from date of demand or call) Or on which interest amount remained overdue

Interest in respect of (a) an asset or (b) term loan or (c) debt or income on receivables U/H 'other current assets' in the nature of short term loans/advances, which facility remained overdue

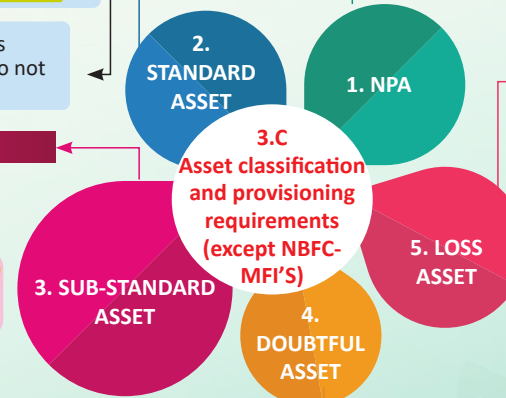
Non-Performing Asset (referred as "NPA") Glide Path:

The extant NPA classification norm stands changed to the overdue period of more than 90 days for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under -

- NPA Norms	Timeline
> 150 days overdue	By March 31, 2024
> 120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

Note: The glide path will not be applicable to NBFCs which are already required to follow the 90 day NPA norm.

- If one facility of borrower- classified as NPA,
all credit facilities classified as NPA (except for Lease & HP transaction)
- NPA not upgraded**- if regularised due to rescheduling/restructuring- unless satisfactory performance for 1 yr.



5. LOSS ASSET

- Asset identified as loss asset- by:
o applicable NBFC o IA
o EA o Bank
- Asset- adversely affected by-potential threat of non-recoverability-due to:
o erosion in security value; or
o non-availability of security; or
o fraudulent act; or
o omission by borrower.

Provision:

100% of O/S amount (written off or provided for)
Note: Above guidelines to be amended- after introduction of SBR for NBFC.

4. DOUBTFUL ASSET

Asset which remains a sub-standard for a period exceeding -

for all NBFC except ML & above (18 months) For NBFC-ML and above (12 months)

Secured Portion Provision:

Period for which the asset has been considered as doubtful	% of provision
Upto 1 year	20
1 to 3 years	30
More than 3 years	50

Unsecured Portion Provision:
100% provision (extent to which advance not covered by security's realizable value)

CHAPTER 14 : SPECIAL FEATURES OF AUDIT OF NON-BANKING FINANCIAL COMPANIES (NBFCs)

17. Bill Discounting

Ensure that **proper records** maintained for **every bill discounted/rediscout.**
Test check transactions w.r.t the documents maintained to ascertain A/Cing of **discounting charges.**

18. Ceiling on Loan/Investments

Ensure that the NBFC has **not lent/invested** in **excess of the specified limits to any single borrower/group of borrowers as per RBI directions.**

Single Co.	15% (Investment or loan)	of Total Assets
Single Co.	25% (Investment & loan)	
Group Co.	40% (Investment & loan)	

A. In Case of NBFC'S:-

- Whether Co. engaged in the **business of NBFC** as per the Principal Business Criteria (50-50 Test).
- Whether it has **obtained a RC** from the Bank.
- Whether such co. is **entitled to continue to hold RC** in terms of its asset/ income as on **March 31st** of the applicable year.
- Whether it meets the **NOF requirements.**
- Every NBFC shall submit a certificate from its statutory auditors, that it is engaged in the business of NBFC and required and eligible to hold registraion certificate. Submit to RO-Department of NBS within 5 working days from the date of signing of A/R, but not later than Dec. 31st of that year. (Format given in NBFC - FSR, 2024).**

B. In case the NBFC accepting / holding public deposits: Additionally include:-

Deposits

(Within Limits, Excess repaid, Overdue & violation)

- Whether following are within limits:
 - PD
 - Other borrowings: Like from-
 - SH (in case of Public Ltd. NBFC)
 - Public (Unsecured Non-convertible bonds); and
 - Entities (excluded from the definition of PD).
- Excess deposits above limits, whether regularized [as per NBFC PD, 2016].**
- Default in paying interest and/or principal.**
- Any **violation of restrictions** on acceptance of deposits.

Credit Rating/ CAR

(Invest., grade rating, CRAR disclosure, FD Rating, Excess)

- Whether-
- NBFC accepting PD without min. investment grade credit rating.**
 - CAR submitted to the Bank - correctly determined.**
 - Credit rating for each FD Scheme is in force.
 - Aggregate deposit O/S at any point exceeded the limit specified. (as per NBFC - SBR, 2023).**

Prudential Norms & Returns

Whether Co.-

- Complied with the prudential norms on-**
 - Income Recognition.
 - Accounting standards.
 - Asset classification.
 - Provisioning for bad & doubtful debt.
 - Concentration of credit / investments.
- Furnished in time to RBI:**
 - In **DNBS 01 - Return of deposits.**
 - Quarterly return on prudential norms.**

Compliance with requirements

(Liquid assets, Approved Securities, Branch & Agent)

Whether-

- Co. complied with liquid asset requirement (u/s 45-IB).**
- Details of designated bank in which the approved securities are held communicated in **NBS-3.**
- Opening/Closing of new branches; or In case of closure of existing branches / offices; or appointment of agent; co. complied with the requirements contained in the NBFC PD, 2016.**

C. In case of NBFC not accepting PD: Include additionally in report:-

Whether-

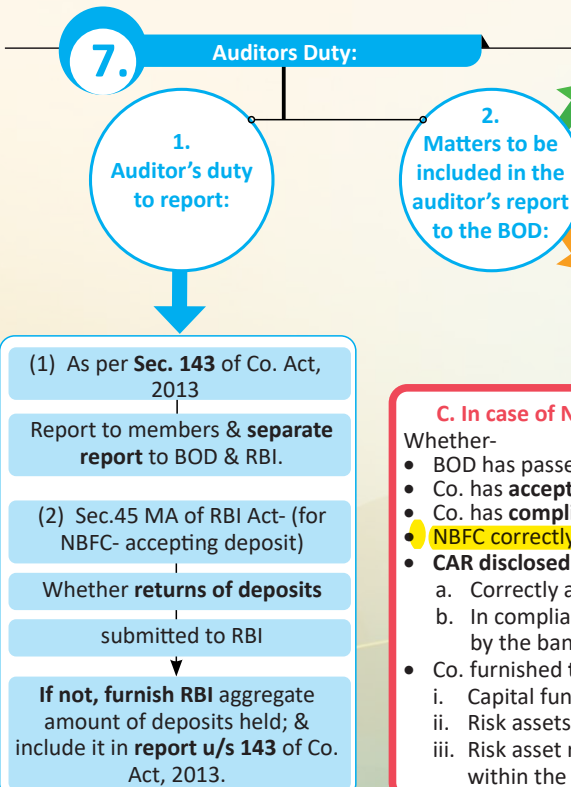
- BOD has passed a **resolution for non-acceptance** of any deposits.
- Co. has **accepted any PD** during the relevant period.
- Co. has **complied with prudential norms.**
- NBFC correctly classified as NBFC-MFI as defined in NBFC-SBR, 2023**
- CAR disclosed in return-**
 - Correctly arrived
 - In compliance with min. CRAR prescribed by the bank (**Form NBS-7**)
- Co. furnished to RBI - **Annual statement of:**
 - Capital funds,
 - Risk assets / exposures; and
 - Risk asset ratio within the stipulated period (**Form NBS-7**).

D. In case of a Co. engaged in the business of non-banking financial Institution not required to hold certificate of registration subject to certain conditions :-

Where co. has been **specifically advised** by the bank to **not hold RC**, check compliance with the conditions stipulated.

Modified/Reporting

- Where, in AR, the statement related to **above matters** is **unfavorable or qualified,** → **state reasons for such opinion.**
- Where, auditor is **unable to express any opinion** on above matters, → **indicate such fact with reasons thereof.**



8.

Schedule-III (Division-III)

1

2

3

1. Applicability of Ind AS on NBFC

NBFCs are required to comply with Indian Accounting Standards (Ind AS) as Rule 4 (I)(iv) of the Companies (Indian Accounting Standards) Rules, 2015 and as amended by the Companies (Indian Accounting Standards) (Amendment) Rules, 2023,

Division II

Division III

2. Differences between Division II & III (Liquidity order, Disclosure- Other Income/ Expense, Receivables, RFO & OCI, Cr. Risk & Cr. Impaired, Restrictions attached to SR)

- NBFCs allowed to present B/S items in **order of their liquidity**. Co.s following Division II are not allowed.
- An NBFC is required to separately disclose by way of a note any item of 'other income' or 'other expenditure' which **exceeds 1 per cent of the total income**. Division II, on the other hand, requires disclosure for any item of income or expenditure which **exceeds 1 per cent of the revenue from operations of ₹ 10 lakhs, whichever is higher**.
- NBFCs are required to separately disclose under 'receivables', the **debts due from any LLP in which its director is a partner or member**.
- NBFCs are also required to disclose items comprising 'revenue from operations' and 'other comprehensive income' on the **face of the Statement of profit and loss** instead of as part of the notes.
- Separate disclosure** of trade receivable which have **significant increase in credit risk & credit impaired**.
- The **conditions or restrictions** for distribution attached to **statutory reserves** have to be separately disclose in the notes as stipulated by the relevant statute.

3. Update - Scale Based Regulation (SBR) for NBFC:

RBI has introduced a revised framework for "SBR for NBFCs" wherein **RBI would categorise NBFCs in four layers** – (based on their size, activity, and perceived riskiness) classified as:

- NBFC-Top Layer (NBFC-TL),
- Upper Layer (NBFC-UL),
- Middle Layer (NBFC-ML),
- Base Layer (NBFC-BL).

Accordingly various existing provisions would change over time, which will be shared as NBFC updates (Scan QR)

QR

Format for preparation of FS by NBFCs under Ind -AS & NBFC updates



SCAN

9.

Provision in CARO 2020 for NBFC auditors

Whether the company is **required to be registered under section 45-IA** of the RBI, 1934 and if so, whether the registration has been obtained;

Whether the company has **conducted any Non-Banking Financial or Housing Finance** activities without a valid Certificate of Registration (CoR) from the RBI as per the RBI Act, 1934;

Whether the company is a **Core Investment Company (CIC)** as defined in the regulations made by the RBI, if so, whether it continues to fulfill the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfill such criteria;

Whether the **Group has more than one CIC** as part of the Group, if yes, indicate the number of CICs which are part of the Group;

Exception Reporting to RBI

OBLIGATION OF AUDITOR TO SUBMIT AN EXCEPTION REPORT TO THE BANK

(I)

In case any of the matters to be included in the auditor's report is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

(II)

The duty of the Auditor shall be to **report only the contraventions** of the provisions of RBI Act, 1934, and such report shall not contain any statement with respect to compliance of any of those provisions

i

The provisions of **Chapter III B of Reserve Bank of India Act, 1934; or**

ii

The **NBFC-PD, 2016; or**

iii

NBFC-SBR, 2023; or

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, to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank** as per Second Schedule to the NBFC - PD, 2016.

Chapter XVI -

(Amended Logo Guideline and ESB Decisions)

Logo Guidelines -

Guidelines issued in 2023 for using the new CA India logo for CA members prescribes that-

- The logo consists of the letters 'CA' in blue colour with a tri colour tick mark (upside down) with white background.
- The blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability, and depth.
- The upside-down tick mark, typically used by Chartered Accountants, has been included to symbolise the wisdom and value of the professional.
- 'India' is also added in the logo, as it epitomizes the Institute's connection to India First approach and commitment to the serve the Indian economy in public interest.
- There should be no alteration of the font (colour, bold/unbold, size).

Moreover, there should be no change in spacing and dimensions.

- The colour palette is  #F37920 C0 M62 Y91 K0  #145886 C93 M61 Y24 K9  #F37920 C0 M62 Y91 K0
- Do not change the design and colours including the white background.
- Refrain from rotating or tilting the logo clockwise and anti-clockwise.
- The logo should not be shrunk or distorted changing the original proportion.

Note: While members are encouraged to use the new CA India Logo as published on letterheads, visiting cards, website etc, a transition time of one year has been provided to use existing stationary/signage replacement etc.



Common CA Logo

- a. To promote the brand of CA profession and responding to the long felt need to have a symbol of CA Profession in India, ICAI came up with a unique logo which could be used by all members, whether in practice or not.
- b. Encapsulating the current beliefs, attitudes and values of the profession, the CA Logo seeks to enhance the identity of the members.
- c. Guidelines issued in 2023 for using the new CA India logo for CA members (Refer PG xxx)

RECENT DECISIONS OF ETHICAL STANDARDS BOARD
(Clause reference given in side margin)

52. It is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" (Ref. SEBI circular dt. 12.07.2023) for the same client.
53. There is no conflict of interest in a Chartered Accountant, who is a member of a Trust, being the auditor of the said trust. It is subject to the exception where a particular statute governing a Trust prescribes prohibition on the member of the Trust to be its Auditor or otherwise where there is conflict of interest as per the provisions of Code of Ethics.