

Reserve Bank of India

Risk-Based Internal Audits Mandatory for select NBFCs, UCBs

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Relevant to M&M FSL

Background of the Auditing system

- It is an audit methodology that links the overall risk management framework of an organisation.
- It also provides an assurance to the board of directors and the senior management regarding the quality and effectiveness of risk management, internal controls and systems & processes related to the governance.
- RBI had also introduced the RBIA system for the scheduled commercial banks (SCBs) in the year 2002.

The Changes

- As per the norms, all the deposit-taking non-banking financial companies (NBFCs) with the asset size of Rs 5,000 crore will have to implement this system.
- Also, the UCBs having asset size of Rs 500 crore will have to implement the system.
- The system is required to be implemented by March 31, 2022.
- The performance of the RBIA system will be looked by the board of the entity or its audit committee. The board of the entity is already responsible to look after the internal audit function of the organisation.

The Need for the New System

- Though NBFCs and UCBs already have internal audit systems. But it usually focuses to test the transaction, to check the accuracy & reliability of accounting records and to make financial reports etc. but, the risk-based internal audit system will enhance the efficacy of internal audit systems and processes which are followed by both the entities.

- Further, these entities have grown in size over time and has become systemically important. So, the different audit systems for lending entities were creating inconsistencies, risks and gaps. Thus, the need of new system felt.

For Further Reading

1. <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12018&Mode=0>
2. <https://www.gktoday.in/current-affairs/rbi-makes-risk-based-internal-audit-mandatory/>
3. <https://www.cnbctv18.com/economy/rbi-to-issue-guidelines-to-ucbs-and-nbfcs-for-adoption-of-risk-based-internal-audit-8191751.htm>