

Beyond Compliance:

Internal Auditor's Role in
Implementing SEBI's New
RPT Framework



The Securities and Exchange Board of India (SEBI) has introduced a new **Industry Standard on "Minimum Information to be Provided for Review by the Audit Committee and Shareholders for Approval of Related Party Transactions (RPTs)."**

This standard, effective from **April 1, 2025**, applies to all listed entities in India and aims to standardize reporting and disclosure requirements, thereby elevating the governance, transparency, and oversight of related party transactions (RPTs).

Here's a breakdown of what's required and how Internal audit teams should respond.





01

Identifying and Classifying RPTs:

A Foundational Step



- Ensure accurate identification of all **related parties** as per **Regulation 2(1)(zb)** of SEBI's LODR Regulations, 2015.
- Classify transactions based on materiality, distinguishing between
 - Material RPTs
 - Transactions involving **promoters or promoter groups** exceeding prescribed thresholds
 - **Residual RPTs** outside the above categories



Why It Matters

Proper classification is the key - it determines the approvals required and the level of disclosure requirements (Comprehensive/Limited/ Minimum Disclosures)

02



Documentation: **Building a Robust Audit Trail**

Internal auditors must verify that adequate documentation is maintained for each related party transaction (RPT), capturing all relevant details from the following, as applicable:

- Basic details of the related party
- Relationship and ownership of the related party
- Financial performance of the related party
- Details of previous transactions with the related party
- Amount of the proposed transactions
- Basic details of the proposed transaction
- Additional details for proposed transactions relating to
 - Sale, purchase or supply of goods or services or any other similar business transaction
 - Loans, inter-corporate deposits or advances given by the listed entity or its subsidiary
 - Investment made by the listed entity or its subsidiary
 - Guarantee (excluding performance guarantee), surety, indemnity or comfort letter, made or given by the listed entity or its subsidiary
 - Borrowings by the listed entity or its subsidiary
 - Sale, lease or disposal of assets of subsidiary or of unit, division or undertaking of the listed entity, or disposal of shares of subsidiary or associate
 - Payment of royalty



TIP

Ensure documentation aligns with the standardized format recommended by Industry Standards on Related Party Transaction (RPT) to ensure consistency and compliance



Approval Mechanism:

Ensuring Governance Alignment

03

Audit teams should confirm:

- All RPTs receive **prior Audit Committee approval** supported by the necessary documentation
- **Material RPTs** are escalated appropriately for **Board and shareholder approval**
- **Omnibus approvals**, where used, adhere to defined criteria and remain valid for no more than one financial year



Note: Transactions with a related party, whether entered into individually or together with previous transactions during a financial year, that amount to less than ₹1 crore do not require Audit Committee or shareholder approval but are subject to minimum disclosure requirements.



Focus Areas

Internal audit must review these processes for effectiveness and compliance readiness.



04

Ongoing Monitoring and Compliance Tracking

- Design and implement controls for **continuous monitoring** of RPTs post-approval
- Report deviations or non-compliance issues proactively to management and the Audit Committee



Best Practice

Integrate RPT monitoring into regular internal audit cycles to catch anomalies early.

05

Disclosure and Transparency: Strengthening Stakeholder Confidence



Internal auditors should validate:

- Accurate and complete disclosures in:
 - Financial statements
 - Explanatory notes to shareholders
 - Regulatory filings
- Clear, stakeholder-focused communication that explains the nature and rationale of RPTs



Value Add

Transparent disclosures build credibility with investors, regulators, and the board.



What should Internal Auditors do now?



Collaborate with compliance and legal teams to evaluate existing RPT policies and practices against the revised SEBI circular and industry disclosure standards



Familiarize with updated regulatory requirements, including the SEBI-prescribed RPT disclosure format.



Update RPT audit checklists and testing procedures to incorporate enhanced disclosure and approval requirements.



Integrate enhanced RPT controls into the internal audit framework for continuous monitoring and compliance.



Conduct readiness and gap assessments to identify control / process deficiencies and implement required updates.



Evaluate the operating effectiveness of RPT controls to ensure appropriate approvals are in place and disclosures meet regulatory requirements.





Pierag Consulting

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www.pierag.com | info@pierag.com



Gurugram Level 18, DLF Square, DLF Phase II, Gurugram, Haryana - 122002	Chandigarh W4-G, Level 4, Tower A, Godrej Eternia Towers, Industrial Area, Phase I, Chandigarh - 160002	Jaipur Level 5, Jaipur Centre, Tonk Road, Sector B4, Jaipur, Rajasthan - 302018	Bengaluru Brigade Software Park 27th Cross Rd, Banashankari Stage II, Bengaluru, Karnataka - 560070	Mumbai 1011-1012 Meadows, Sahar Plaza Complex, Andheri East, Mumbai - 400059	Washington, D.C. 1899 LST NW, Washington, D.C. - 20036	Singapore 12 Marina Boulevard Marina Bay Financial Centre, Singapore - 018982
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