

Policy on Appointment of Statutory Auditors of the Company

Version 2.0

Approved by:

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1 Background

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 (“RBI Circular”) has issued guidelines for Appointment of Statutory Auditors of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs) (hereinafter referred to as **Entities**). The guidelines require lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of Statutory Auditors (hereinafter referred to as **SA**).

Key highlights of the circular, (relevant to the Company) are:

- i) NBFCs are required to inform RBI about the appointment of SA for each year by way of certificate in the prescribed format within one month of the appointment.
- ii) NBFCs are required to decide on the number of audit firms based on the Board approved policy, taking into account various factors, such as size and spread of assets, complexity, level of automation, etc.
- iii) The Audit Committee of the Board shall monitor and assess the independence of the SA, and conflict of interest, if any. If there are any concerns, the same shall be highlighted to the Board of Directors of the Company, and to the SSM / RO of RBI.
- iv) There must be a minimum time gap of one year between any non-audit work by the audit firm for the entity, and any audit / non-audit works for its group entities before and after the firm’s appointment as SA. It has further been clarified that the Group entities for this purpose shall mean RBI regulated entities.
- v) If an audit firm engaged with audit / non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SA, there shall be no conflict of interest and independence of auditors must be ensured; and this shall be suitably recorded in the minutes of the meetings of Board of Directors / Audit Committee of the Board.
- vi) The Board / Audit Committee shall review the performance of SA on an annual basis.
- vii) In order to protect the independence of the auditors/audit firms, lending institutions will have to appoint the auditors for a continuous period of 3 years, subject to firms satisfying the eligibility norms each year. NBFCs which remove SA before completion of 3 years of tenure shall inform concerned Regional Officer at RBI about the same along with the reasons.

2 Objective

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the SA.

The Objectives of the Policy are:

- i) Deciding the number of SAa based on various parameters.
- ii) Criteria for appointment of SA and
- iii) The procedure to be followed for the appointment of SA.

3 Applicability

RBI Circular is applicable to the Company with respect to appointment of SA.

4 Scope

This policy shall form the basis for the appointment of Statutory Auditors. The Company shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder, and the regulations/ guidelines / circulars / notifications as issued by the Reserve Bank of India. In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail. Further, in the event any guidance on the regulatory framework / RBI regulations / guidelines is required; the same shall be referred to the Finance & Accounts / Regulatory Compliance Department for its final views on the matter.

5 Number of Statutory Auditors

For Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network³ of audit firms. Further, the Entity may finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.

The company need not have joint Auditors as per the circular. However, if the Company desires to have two joint SAs, it shall make a representation to the Board, giving reasons for increasing the number of SAs.

6 Tenure and Rotation of Statutory Auditors

As per the RBI guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SA for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. If the Company removes SA before completion of 3 years of tenure, it shall inform the concerned Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken.

The Company cannot reappoint an audit firm for six years (two tenures) after the completion of full or part of one term of the audit tenure. RBI being the sectoral regulator and its guidelines being more stringent, the Company shall appoint the SA as per the RBI guideline.

7 Criteria for Appointment of Statutory Auditors

Assets Size of Entity as on March 31 st of Previous Year	Up to Rs 1000 crores	Above Rs 1000 crores but up to Rs 15000 crores	Above Rs 15000 crores
Minimum No. of Full Time Partners (FTPs) associated with the firm for a period of at least three (3) years	2	3	5
Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) partners associated with firm for the period of at least three years	1	2	4
Minimum No. of Full Time Partners/Paid CAs with CISA/ISA Qualification	1*	1	2
Minimum No. of Year of Audit Experience of the Firm	6	8	15
Minimum No. of professional staff	8	12	18

8 Procedure for Appointment of Statutory Auditors

The RBI guidelines prescribe the procedure for appointment of SA, which includes the following:

- iv) The Company shall shortlist a minimum of two audit firms for every vacancy in SA.
- v) The Company shall obtain a certificate as per Form B (Annexure 2), from each of the audit firm(s) proposed to be appointed as SA that complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- vi) The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the

Companies Act, 2013.

- vii) The Company shall inform about the appointment of SCAs/SAs for each year by way of a certificate in Form A within one month of such appointment.

9 Audit Fee and Expenses

The Company shall ensure that the audit fees of the Company shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of IT systems, identified risk in financial reporting, etc.

10 Review

The Board of Directors of the Company shall review and amend the policy on an annual basis. This policy shall be hosted on website of the Company.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall stand modified in accordance with regulations.

Annexure -1

FORM A

Information to be submitted by the NBFCs regarding appointment of SCA/SA

The company has appointed M/s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Central Auditor (SCA)/Statutory Auditor (SA) for the financial year ____ for their 1st/2nd/3rd term.

2. The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SCA/SA of the company for FY ____ along with relevant information in the format as prescribed by RBI.
3. The firm has no past association/association for _____ years with the company as SCA/SA/SBA.
4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of NBFCs.

Signature

(Name and Designation)

Date:

FORM B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

Asset Size of Entity as on 31st March of Previous Year	Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years	Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years	Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Number of Years of Audit Experience#	Number of Professional staff
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*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore

#Details may be furnished separately for experience as SCAs/SAs and SBAs

B. Additional Information:

- (i) Copy of Constitution Certificate.
- (ii) Whether the firm is a member of any network of audit firms, or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- (iii) Whether the firm has been appointed as SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- (iv) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v) Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (as applicable). It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors have been declared as wilful defaulter by any bank / financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner
(Name of the Partner)

Date: