



POLICY ON APPOINTMENT OF STATUTORY AUDITORS

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1. BACKGROUND

The Reserve Bank of India (“RBI”) has issued circular bearing Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs), as may be amended or modified, replaced, or substituted from time to time (“the RBI Guidelines”) for Appointment of Statutory Auditors of Non-Banking Finance Companies. The Guidelines provides necessary instructions for appointment of SAs, the number of auditors, eligibility criteria, tenure and rotation as well as norms for ensuring the independence of auditors.

The objective of this Policy is to lay down the criteria to be considered by the Board of Directors of the Company before the appointment of statutory auditors (SAs).

2. SCOPE

This policy shall form the basis for the appointment of SAs. 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 and SEBI in this regard.

3. APPLICABILITY

As per RBI Guidelines, for the entities with the asset size of Rs. 1000 crore and above shall appoint SA on Rotational basis.

The statutory audit should be conducted under joint auditors of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)] for entities with asset size of ₹15,000 crore and above as at the end of previous year.

The Guidelines is applicable from Financial Year 2022 onwards.

NBFC’s don’t need to take prior approval from RBI for the appointment of SAs in NBFCs/CICs. However, Company need to inform the RBI about the appointment of SAs for each year by way of a certificate in **Form A** within one month of such appointment.

4. ELIGIBILITY CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS

The RBI Guidelines prescribe certain eligibility norms which the audit firms are required to fulfil, based on the asset size of the Company. The Company’s asset size, being more than ₹ 1000 crore, and less than Rs. 15,000 crore, the audit firms shall fulfil the following minimum criteria for being eligible to be considered for appointment as statutory auditor of the Company. The Company shall ensure

adherence to the aforesaid guidelines and request confirmation from statutory auditor before appointment.

The Audit Committee of Board (ACB) shall consider the following factors before appointment of Statutory Auditors:

- Provisions of the RBI Guidelines
- Eligibility criteria of the SAs as prescribed by RBI from time to time based on the asset size of the Bank
- Qualification as an auditor as per Section 141 of the Companies Act, 2013.
- The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- The appointment of SAs should be in line with the ICAI's Code of Ethics/ any other such standards adopted and should not give rise to any conflict of interest.
- Written consent of the auditor to such appointment and certificate that the appointment, if made, shall be in accordance with the conditions stipulated under the RBI Guidelines and other statutory provisions.
- The prescribed limit on minimum and maximum number of joint auditors based on asset size of the NBFC and other prescribed factors from time to time including in terms of the RBI Guidelines.
- Limit on NBFC audits by SAs as prescribed by RBI from time to time.
- The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SAs for the NBFC or any audit/non-audit works for its group entities (as defined under the RBI guidelines) should be at least one year, before or after its appointment as SAs. The look back stipulation of one year shall be applicable from FY 2022-23. During the tenure as SA, an audit firm may provide such services to the NBFC which may not normally result in a conflict of interest, and the NBFC shall decide in this regard, in consultation and approval of the ACB. (A conflict would not normally be created inter alia in the case of the following special assignments (indicative list): (i) Tax audit, tax representation and advice on taxation matters, (ii) Audit of interim financial statements. (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements. (iv) reporting on financial information or segments thereof)
- The restrictions would also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- Any restrictions due to the directorship of a partner of an audit firm in the group entity of the NBFC as defined under these guidelines.
- Any other applicable regulations for the NBFC from time to time.

5. NUMBER OF STATUTORY AUDITORS

5.1 The Company is required to decide on the number of SAs based on the guidance provided under this Policy. Based on the guidelines, entities with asset size of ₹15,000 crore and above based on the last audited balance sheet 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.

5.2 According to the guidelines relating to joint auditors is not applicable to the company.

6. TENURE OF STATUTORY AUDITORS

As per the RBI guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year.

As per Guidelines, one audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks, eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each entity and within overall ceiling prescribed by any other statutes or rules.

A group of audit firms having common partners and/or under the same network, will be considered as one entity/one audit firm.

7. REMUNERATION OF STATUTORY AUDITORS

The audit fees for SAs shall be in terms of applicable regulatory provisions and shall be reasonable and commensurate with their respective scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, identified risks in financial reporting, etc.

Further, it shall be the discretion of the Board to decide on the quantum of remuneration payable to SA as appointed by the Company, depending upon their respective scope of work as authorized by the shareholders at the AGM.

8. REMOVAL OF STATUTORY AUDITORS

Subject to the provisions of the applicable law, including the Companies Act, 2013, the Company can remove an audit firm during their tenure with the approval of the shareholders complying with the relevant provisions of the Companies Act, 2013 and RBI Guidelines.

As per RBI guidelines, NBFCs/CICs removing the SAs before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

An audit firm would not be eligible for reappointment in the Company for six (6) years (i.e. two tenures of three years each) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other companies.

9. REPORTING REQUIREMENTS

9.1 Post appointment of SAs, the Company shall file necessary e-forms as required under the Companies Act, 2013 within the timeliness provided under the Companies Act, 2013.

9.2 The Company shall inform the Regional Office of RBI (Department of Supervision), under whose jurisdiction the Registered Office is located about the appointment of SAs for each year by way of a certificate in Form A within one month of such appointment.

10. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS

10.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

10.2 The Board shall review the performance of SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SAs or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board with the full details of the audit firm.

10.3 In the event of lapses in carrying out audit assignments resulting in misstatement of Company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

11. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

11.1 The Company shall shortlist minimum of two audit firms for every vacancy of SA so that even if firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of SAs does not get delayed.;

11.2 Company shall obtain a certificate alongwith relevant information in prescribed format from the audit firm(s) proposed to be appointed as SAs from the audit firm(s) proposed to be appointed as SAs to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. 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;

11.3 The ACB shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SAs in Annual General Meeting;

11.4 In case of casual vacancy caused by the resignation of the SAs, the Board of Directors of the Company shall appoint SAs and approval of the shareholders shall be

obtained for such appointment within 3 months from the date of appointment as per the provisions of the Companies Act, 2013.

11.5 The Managing Director/CFO shall be authorized by the Board to deal with appointment procedure including screening of firms, assessing experience, eligibility criteria, making recommendations to the Board for approval, signing the appointment letters and related documents, finalizing the fees and payment terms, providing management representation to the auditors and do the needful for all related matters.

12. CONFLICT IN POLICY

In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail.

13. AMENDMENTS IN POLICY

To the extent any change/amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law, however, notwithstanding such non- modification or pending such modification, the applicable law and regulations (as changed) shall prevail over the Policy, and the Policy shall be read accordingly. Such amended Policy shall be placed before the Board for noting and necessary ratification.



Form A

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

The Company has appointed M/s _____ , Chartered Accountants
(Firm Registration Number

_____) as Statutory Auditor (SA) for the financial year
for their 1st/2nd/3rd term.

The Company has obtained eligibility certificate from (name and Firm Registration
Number of the audit firm) appointed as SA of the company for FY along with relevant
information in the format as prescribed by RBI.

The firm has no past association/association for _____ years with the company as
SA/SBA.

The company has verified the said firm's compliance with all eligibility norms
prescribed by RBI for appointment of SAs of NBFCs /CICs.

Signature

(Name and Designation)

Date: