
Statutory Audit Policy and Appointment Procedure



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1. Background

The Reserve Bank of India (RBI) has issued the circular no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 read with Frequently Asked Questions (FAQs) on June 11, 2021 on Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of NBFCs (including HFCs)

RBI circular require NBFCs to formulate a Board Approved Policy to be hosted on Company's official website. The policy shall act as a guideline for determining:

- a) The no. of SAs based on asset size.
- b) Criteria for selection of SAs.
- c) The procedure to be followed for appointment of SAs.

These guidelines supersede all previous guidelines issued on this matter. The Board will review and may amend this policy from time to time.

2. Intimation to RBI

The Company being a NBFC, must intimate the relevant Department of Supervision at the Regional Office of the Reserve Bank of India (RBI) about the appointment of Statutory within one month of the appointment by way of certificate in Form A. Refer Annexure – A for Format of Form A.

3. Number of SCAs / SAs

The Company shall decide on the number of statutory auditors taking into account the relevant factors such as asset size of the company. Considering the above factors and requirement of the Company, the actual number of statutory auditors to be appointed shall be decided subject to the limit on minimum and maximum number of statutory auditors prescribed by RBI guidelines.

4. Tenure and Rotation

The Company shall appoint the Statutory Auditor for a continuous period of three years, contingent upon the firm meeting annual eligibility criteria. If there's a decision to remove

the audit firm before completion of tenure of three years, then the RBI will be informed within one month of the decision with reasons and justifications for removal.

An audit firm is ineligible for reappointment for a period of six years (equivalent to two tenures) following the completion of a full or partial term of the audit tenure. If an audit firm conducted the company's audit for a part of the tenure (1 or 2 years) and was not appointed for the remaining duration, they are also barred from reappointment in the Company for Six years from the conclusion of the partial tenure.

5. Eligibility Criteria of Auditors for appointment as SCA / SA

The audit firm to be considered for appointment as statutory auditor shall fulfill the eligibility norms as prescribed in the RBI guidelines including number of full time partners.

In addition to the criteria outlined by the RBI, Company shall appoint Statutory Auditors who fulfill the criteria specified in accordance with the companies Act, 2013.

- a) The audit firm, proposed to be appointed as Statutory Auditor for Company, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- b) 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.
- c) The Company shall ensure that appointment of Statutory Auditor is in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.

6. Audit Fees and Expenses

The audit fees for Statutory Auditor 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 computerization, identified risks in financial reporting, etc.

As per Companies Act, 2013 payment of audit fee to statutory auditor shall be approved by shareholders in AGM/ EGM or Board if shareholder authorized Board to fix the audit fee. Board shall fix the audit fee on the recommendation of Audit Committee.

7. Other Condition

The Audit Committee of Company shall review the performance of Statutory Auditor on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditor 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 Audit Committee Board with the full details of the audit firm.

8. Procedure for Appointment of SCAs/SAs

The RBI guidelines prescribed the procedure for appointment of SAs, which includes the following:

- a) The company shall shortlist minimum two audit firms for every vacancy of SA with order of preference.
- b) The Company shall obtain a certificate from each of the audit firm proposed to be appointed as SAs that it 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 the appointment under the seal of said audit firm.
- c) The audit committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. SA shall be appointed post approval of shareholders.
- d) The appointment of SA in case of casual vacancy shall be ratified by the shareholder as per the provisions of the Companies Act, 2013.

9. Review of the Policy

The Board shall review the policy from time to time as and when it deems necessary.

10. Disclosure / Transparency

This Board Approved Policy shall be hosted on website of Company inclusive of necessary procedure thereunder to be followed for appointment of Statutory Auditors.

Annexure - 1

Form A

Information to be submitted by the Company 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: