

## Policy on appointment of Statutory Auditors of the Company

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## **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS**

### **1. Objective**

The objective of this Policy is to lay down the criteria to be considered by the Audit Committee of the Board (ACB) of the NBFC for appointment of Statutory Auditors (SAs). The Policy is framed under the Reserve Bank of India's ("RBI") Guidelines 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 (SAs) of NBFCs.

The main objective of this Policy is to act as a guideline for deciding on the number of SAs to be appointed for the Company and for determining their qualifications, eligibility and procedure for appointment / re-appointment.

### **2. Purpose**

To define the policy for appointment of SA in compliance with the extant norms of RBI and Companies Act 2013.

### **3. Definitions:**

- a) "Audit Committee" means the Audit Committee of the Board (ACB).
- b) "Board" means Board of Directors of the NBFC.
- c) "Statutory Auditors (SAs)" mean auditors appointed as per the policy to conduct statutory audit of the NBFC.
- d) "RBI Guidelines" means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22 dated April 27, 2021 as may be amended from time to time.
- e) "Group entities" shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter- promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above. [Note: "AS" means Accounting Standard notified under Companies Act, 2013]
- f) "Promoter" has the same meaning as per Section 2(69) of the Companies Act, 2013.
- g) "Potential Conflict of Interest" –  
Potential Conflict of Interest, with reference to a firm that is being considered for appointment as SCAs/ SA, may arise, in any of the following circumstances:

- i) the firm is engaged with audit/non-audit works for a Group Entity which is not regulated by RBI
- ii) the audit firm was engaged with audit/non-audit works for a Group Entity which is not regulated by RBI, and not more than one year has elapsed since the completion/ relinquishment of such engagement
- iii) a partner of the firm is a director in any of the Group Entities which are not regulated by RBI

#### **4. Applicability:**

This Policy will be applicable for appointment of Statutory Auditors.

#### **5. Intimation to RBI:**

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

#### **6. Criteria to be Considered Before Appointment of Statutory Auditors:**

The 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 NBFC
- 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 Company 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 (applicable to an audit firm under the same network of audit firms or any other audit firm having common partners). During the tenure as SA, an audit firm may provide such services to the Company which may not normally result in a conflict of interest, and the Company 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):
  - Tax audit, tax representation and advice on taxation matters,
  - Audit of interim financial statements.
  - Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
  - reporting on financial information or segments thereof)
  - Concurrent auditors of the Company should not be considered for appointment as SAs.
  - 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 Company as defined under these guidelines.
  - Any other applicable regulations for the Company from time to time.
  - Any services including re-statement of financial statements, audit for a broken past period , certification work etc to be done in the capacity of past-auditor for purposes of an equity raise (not limited to Initial Public Offer or Follow-on public offer) or any debt raise which requires any document to be certified by past auditor for the period under their audit
  - Any certifications including in the nature of due-diligence provided in the capacity of a past auditor for purposes of equity or debt raise by the company

## **7. Number of SAs and Branch Coverage:**

- Minimum number of SAs to be appointed by the Company shall be one.
- The number of SAs to be appointed for a financial year shall be decided, inter alia, taking into account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc. The actual number of SAs to be appointed shall be decided by Board subject to the limits as prescribed in the RBI guidelines.
- The Statutory Auditors shall visit and audit at least the Top 20 Branches/Top 20% of the branches of the company to be selected in order of the level of outstanding advances in such a manner as to cover a minimum of 15% of total gross advances of the Company. In addition, the Company shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding of audit of accounts of all branches.

**8. Procedure for Appointment / Reappointment of Statutory Auditors:**

- The Company shall shortlist minimum of two (2) audit firms for every vacancy of SAs as per the RBI guidelines as amended from time to time.
- The NBFC shall obtain a certificate on eligibility norms, along with relevant information from the audit firms proposed to be appointed/ reappointed as SAs by the NBFC as per RBI and other statutory requirements.
- The shareholders shall approve the appointment of SAs.

**9. Tenure of Appointment:**

As per RBI guidelines, NBFC shall appoint the SAs for a continuous period of three (3) years, subject to the firms satisfying the eligibility norms each year and the approval of the ACB and Board.

**10. Remuneration to 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 ACB & the Board to decide on the quantum of remuneration payable to each joint SA as appointed by the NBFC, depending upon their respective scope of work.

**11. 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.

**12. Review of Policy:**

This Policy shall be reviewed by the Board as and when any changes are to be incorporated in the Policy due to change in applicable law or regulation, or at least once in every three years and updated accordingly.

**13. Disclosure of Policy:**

The Policy will be available on the NBFC's website.

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