

## **Appointment of Statutory Auditors Policy**

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## 1. Objective:

The objective of this policy is to provide sufficient framework for the appointment of statutory auditors of the Company by prescribing the parameters and brief procedure to be followed by the Company conforming to all relevant applicable statutory/regulatory requirements.

This Policy is framed pursuant to RBI guideline for appointment of Statutory Auditors via circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/ 2021-22 dated April 27, 2021 (“the RBI Guidelines”), as may be amended or modified, replaced, substituted or clarified from time to time, read with the FAQs issued by RBI in this regard.

## 2. Statutory Auditors – Eligibility and Qualification:

The term ‘statutory auditor’ means the auditor referred to in Section 139 of the Companies Act (“the Act”). The person proposed to be appointed as statutory auditor should meet the eligibility criteria and possess the qualification prescribed under Sec 141 of the Act and also not be covered by the disqualifications specified therein. The audit firm shall also be subjected to the peer review process of Institute of Chartered Accountants of India and hold a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

In addition to the above, the company shall ensure that the person proposed to be appointed as statutory auditor meets the eligibility criteria prescribed under the RBI guidelines.

The Company shall appoint firms as statutory auditors who as of 31st March of previous year have at least:

- (a) Three full time partners of which at least two of them should be Fellow Chartered Accountants. Only those partners associated with the firm for a period of at least three years shall be considered for this purpose.
- (b) Two partners of the firm shall have continuous association with the firm for at least 10 years.
- (c) One full time partner or one full time Chartered Accountants (Cas) in the firm should possess CISA / ISA qualification. There should be at least one-year continuous association of paid Cas with CISA / ISA qualification with the firm.
- (d) Eight years of audit experience as statutory auditor of NBFCs or Statutory Central Auditor /Branch Auditor of commercial banks (excluding RRBs)/UCBs/NBFCs/AIFIs.
- (e) Twelve professional staff with at least one year of continuous association with the firm. Professional staff means persons with knowledge of book-keeping and accountancy including audit and article clerks engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc.

Note:

The full-time partner’s association with the firm would mean exclusive association. The definition of ‘exclusive association’ will be based on the following criteria:

- The full-time partner should not be a partner in other firm/s.
- She/He should not be employed full time / part time elsewhere.
- She/He should not be practicing in her/his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.
- The Board/ACB shall examine and ensure that the income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners, which will ensure the capability of the firm for the purpose.

Other criteria to be considered in the appointment of statutory auditor are as follows:

- (a) 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.
- (b) The appointment should be in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
- (c) The audit firm is not eligible for appointment if any of its partners is a director in any of the group entities of the Company.  
Explanation: 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.
- (d) Audit firms (including their network firms or any other firm having common partners) which are statutory auditor of an entity with large exposure (as defined in RBI instructions on Large Exposure Framework) to the company are not to be considered for appointment as statutory auditor.
- (e) The audit firm should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computer environment of the company where the accounting and business data reside in order to achieve audit objectives.
- (f) The audit firm is to be compliant with the limit prescribed under the RBI guidelines for statutory audit of Commercial Banks, All India Financial Institutions, Urban Cooperative Banks and NBFCs.
- (g) The audit firm has to ensure continued compliance with all the eligibility and qualification criteria prescribed under applicable statutes.
- (h) The audit firm should not have been engaged in any audit / non-audit work for the company and its group entities at least for one year before the appointment.

### 3. Procedure for appointment of Statutory Auditors

- Entity should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit
- Minimum of two audit firms for every vacancy of Statutory auditor is to be shortlisted 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 does not get delayed.
- The company shall obtain a certificate, along with relevant information as per the RBI guidelines- in Form B (Annexure II), from the audit firm(s) proposed to be appointed as Statutory auditor to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment, under the seal of the said audit firm.
- The Company shall inform about the appointment of statutory auditor(s) each year by way of a certificate in the prescribed Form A(Annexure I) within one month of such appointment to the RBI.

#### 4. Tenure and Rotation

The statutory auditor(s) is to be appointed for a continuous period of three years subject to the firm(s) satisfying the eligibility norms each year. The statutory auditor on completion of their term or part of their tenor shall be eligible for re-appointment after a period of six years.

Removal of statutory auditor before completion of their term will require special resolution passed at the general meeting and the Company shall comply with the procedure prescribed under section 140 of the Act and other requirements as applicable under the Act and SEBI Listing Regulations. Removal of statutory auditor shall be intimated to the RBI along with reasons/justification for the same, within one month of such decision being taken.

#### 5. Independence and Performance of Statutory auditors

The Audit Committee shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the Audit Committee to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) for the company by the proposed Statutory auditors or same network of audit firms or any other audit firm having common partners or any audit/non-audit works for its group entities should be at least one year before appointment. However, during the tenure as statutory auditor, an audit firm may provide such services to the Company which may not normally result in a conflict of interest, and the Company may take decision in this regard, in consultation with the Board/Audit Committee.

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

#### 6. Audit Fees and Expenses

- The audit fees and reimbursement of out-of-pocket expenses for Statutory auditors 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.
- The Board/ACB shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

\*\*\*\*\* End\*\*\*\*\*

## Annexure – I

### FORM A

#### Information to be submitted by the NBFCs regarding appointment of SA

1. 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.
2. 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.
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:

## Annexure – II

### FORM B

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

##### A. Particulars of the firm:

Asset Size of Entity as on 31 <sup>st</sup> 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

\*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<sup>1</sup> have been declared as willful 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:

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<sup>1</sup> For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.