

Policy for Appointment of Statutory Auditors

Finova Capital Private Limited

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BACKGROUND

Reserve Bank of India (RBI) vide its notification No. RBI/2021-22/25 having Ref.No. DoS.CO. ARG/SEC.01/ 08.91.001/2021-22 dated 27.4.2021 has issued a set of **“Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)”** [“RBI Guidelines/Directive”].

The aforesaid guidelines stipulates detailed conditions on the eligibility, procedures etc. for selection and appointment of Statutory Auditors. The Directive inter alia require Regulated Entities (RE) to put in place a Board approved policy for selection and appointment of Statutory auditors for the financial Year 2021-22 and onwards.

As per the aforesaid guidelines, the Company has formulated a Board Approved Policy to be hosted on its website and necessary procedure thereunder to be followed for appointment of Statutory Auditors (SAs). Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

OBJECTIVE OF THE POLICY

The objective of the policy is to lay down a framework of guidance, eligibility and procedures for appointing Statutory Auditors in compliance with the aforesaid RBI guidelines and the Companies Act, 2013.

APPLICABILITY OF THE POLICY

This policy shall be applicable on the Company for appointment/re-appointment of the Statutory Auditors for the financial year 2021-22 and onwards.

NUMBER OF STATUTORY AUDITORS

The Company shall decide on the number of SAs to be appointed after considering 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, subject to the limits prescribed by RBI.

As per the RBI stipulation, if asset size of the entity is Rs. 15,000 crore and above as at the end of previous year, the statutory audit shall be conducted under joint audit of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs)). The entities with asset size below Rs. 15,000 crore shall appoint minimum one SA for conducting statutory audit.

Regulated entities are free to go for higher number of SAs subject to a maximum limit prescribed by RBI.

***Note:** *In case of Joint auditors, it shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.*

ELIGIBILITY CRITERIA OF AUDITORS

The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be as under:

A. Basic Eligibility

Asset Size of Company as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTP)s associated with the firm for a period of at least 3 years (Note 1)	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least 3 years	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification (Note 2)	Minimum No. of years of Audit Experience of the firm (Note 3)	Minimum No. of Professional staff (Note 4)
Above Rs. 15,000 Crore	5	4	2	15	18
Above Rs. 1,000 Crore and upto Rs. 15,000 Crore	3	2	1	8	12
Upto Rs. 1,000 Crore	2	1	1	6	8

** Not mandatory for the company (being NBFC) if having asset size of upto ₹ 1,000 crore.*

- **Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full-time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

In case the Company having an asset size above Rs. 1,000 crore, 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 Audit Committee 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.

- **Note 2: CISA/ISA Qualification:** There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.
- **Note 3: Audit Experience:** Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs/ UCBs/NBFCs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.
- **Note 4: Professional Staff:** Professional staff includes audit and article clerks with knowledge of book- keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of shortlisting for considering them as professional staff for the purpose.

B. Additional Conditions

- I. The audit firm, proposed to be appointed as SAs, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- II. 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.
- III. The Company shall ensure that appointment of SAs 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.
- IV. If any partner of a Chartered Accountant firm is a director in any RBI Regulated Entity, the said firm shall not be appointed as SA of the Company.
- V. The SAs should preferably 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 Entities where the accounting and business data reside in order to achieve audit objectives.

C. Continued Compliance with basic eligibility criteria.

In case the audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), it shall promptly approach the Company with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, the Company may approach RBI and the RBI will have discretion to allow the concerned audit firm to complete the audit, as a special case.

INDEPENDENCE OF AUDITORS

1. The Audit Committee of the Board (ACB) 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 of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
2. In case of any concern with the Management of the Company such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditor shall approach the Audit committee of the Company, under intimation to the concerned SSM/RO of RBI.
3. Concurrent auditors of the Company shall not be considered for appointment as SAs of the Company.
4. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditor for the Company or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest and the Company may take its own decision in this regard in consultation with the Audit Committee.
5. Such activities may include but not limited to activities such as 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 etc.
6. The restrictions as detailed in para 7.3 and 7.4 above, will also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

Procedure for appointment of SAs:

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

1. The Company shall shortlist minimum of two (2) audit firms for every vacancy of SA.
2. The Company shall obtain a certificate along with relevant information in **form B (annexed below as Annexure A)** from each of the audit firm(s) proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI and 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.
3. The Audit Committee following the guidelines specified by RBI as aforesaid and after taking into consideration the qualifications and experience of the audit firm proposed to be considered for appointment as SA, shall recommend the name of the audit firm for appointment along with their remuneration and terms of appointment to the Board for its consideration and the Board shall further recommend the same to the members for their approval at the Annual general meeting.

Appointment of Auditor in Casual Vacancy

1. Any casual vacancy in the office of an auditor shall be filled by the Board of Directors on recommendation from Audit Committee within thirty days from the occurrence of casual vacancy.
2. In case the casual vacancy is caused as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three (3) months of the recommendation of the Board and the auditor shall hold the office till the conclusion of the next annual general meeting.

FILING AND INTIMATIONS

1. The company shall inform the auditor concerned of its appointment, and also file a notice of such appointment in **form ADT-1** with the Registrar within fifteen (15) days of the meeting in which the auditor is appointed.
2. The company shall inform the 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 certificate in **form A (annexed below as Annexure B)** within one month of such appointment and other Regulatory Authorities within such timeline, as may be prescribed and applicable.

PROFESSIONAL STANDARDS REQUIRED OF STATUTORY AUDITOR

1. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
2. The Audit Committee 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 shall be sent with the approval / recommendation of the Audit Committee, with the full details of the audit firm.
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 in relation to the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

TENURE AND ROTATION

1. To protect the independence of the auditors/audit firms, the Company shall have to appoint the Statutory Auditor for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. For removing the Statutory Auditor before completion of three years tenure, the company 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.
2. An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure.

3. In case an audit firm has conducted audit of the Company for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Company for six years from completion of part-tenure.
4. One audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Company and within overall ceiling prescribed by any other statutes or rules.
5. A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of Statutory Audit accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

AUDIT FEES AND EXPENSES

1. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
2. The audit fees for SAs 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.
3. The Audit Committee shall make recommendation to the Board and the Board shall further recommend the same to the members as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

REVIEW OF THE POLICY

The Board and/or Audit Committee of the Company may review the policy as and when required.

Further, this policy may be amended subject to the approval of the Board on recommendation of the Audit Committee of the Company, from time to time in line with the business requirement of the Company or any regulatory / statutory enactment or amendment thereto. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

ANNEXURE A
FORM B
Eligibility Certificate from (Name and Firm Registration Number of the firm)
A. Particulars of the firm:

Asset Size of the Entity as on 31 st March of Previous Year	Number of Full-Time Partners (FTP) 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 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:

ANNEXURE B

FORM A

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

1. 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: