

Policy on appointment of Statutory Auditors of the Company

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1 BACKGROUND:

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 has issued guidelines for Appointment of Statutory Auditors (SAs) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines require lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of SAs.

Key highlights of the circular are:

- i) The guidelines are applicable to NBFCs (including HFCs) from FY 2022 onwards, with a flexibility to adopt these guidelines from H2 to avoid any disruption.
- ii) NBFCs are required to inform RBI about the appointment of SA for each year by way of certificate in the prescribed format within one month of the appointment.
- iii) For NBFCs with asset size of ₹ 15,000 Crore and above as at end of previous year, the statutory audit should be conducted under joint audit of minimum two audit firms. The guidelines also prescribe the maximum number of SAs required, based on the asset size of the NBFC. It shall be ensured that joint SAs of the entity do not have any common partners and they are not under the same network of audit firms.
- iv) NBFCs are required to decide on the number of audit firms based on the Board approved policy, taking into account various factors, such as size and spread of assets, complexity, level of automation, etc.
- v) The Audit Committee of the Board shall monitor and assess the independence of the SA, and conflict of interest, if any. If there are any concerns, the same shall be highlighted to the Board of Directors of the Company, and to the SSM / RO of RBI.
- vi) There must be a time gap of one year, between any non-audit work by the audit firm for the entity, and any audit / non-audit works for its group entities before and after the firm's appointment as SA. RBI has clarified that, this stipulation shall be applicable prospectively, i.e. from FY 2022-23. It has further clarified that the Group entities for this purpose shall mean RBI regulated entities. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit / non-audit work in other RBI regulated entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Entity for FY 2021-22.
- vi) If an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SAs, there shall be no conflict of interest and independence of auditors must be ensured; and this shall be suitably recorded in the minutes of the meetings of Board of Directors /Audit Committee of the Board.
- vii) The Board / Audit Committee shall review the performance of SA on an annual basis.
- viii) In order to protect the independence of the auditors/audit firms, lending institutions will have to appoint the auditors for a continuous period of 3 years, subject to firms satisfying the eligibility norms each year. NBFCs which remove SA before completion of 3 years of tenure shall inform concerned Regional Officer at RBI about the same along with the reasons.

2.OBJECTIVE:

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors. The Objective of the Policy is:

- i) Deciding the number of SAs based on various parameters.
- ii) Criteria for appointment of SAs; and
- iii) The procedure to be followed for appointment of SAs.

3. SCOPE:

This policy shall form the basis for 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.

In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail.

4. NUMBER OF SAs:

The Company is required to decide on the number of SAs based on the guidance provided under this policy. Based on the guidelines, since the asset size of the Company is less than ₹ 15,000 crore as at last reporting period, (i.e, March 31, 2022), minimum of one SA shall be appointed for conducting statutory audit.

5. ELIGIBILITY NORMS:

Before appointment of SAs, the Company needs to ensure that audit firm(s) are fulfilling the eligibility norms as per the RBI guideline.

6. TENURE AND ROTATION:

As per the provisions of the Companies Act, 2013 SA can be appointed for two terms consisting of five years each.

However, 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. If the Company removes SAs before completion of 3 years of tenure, it shall inform the concerned Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company cannot reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

RBI being the sectoral regulator and its guidelines being more stringent, the Company shall appoint the SA as per the RBI guideline.

7. INDEPENDENCE OF AUDITORS:

Audit Committee of the Board (ACB) will ensure independence of the Auditors.

- a) 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 would be flagged to the Board and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.
- b) In case management of the Company, is of the view that, independence of auditors may be compromised, the same would need to be informed to ACB on immediate basis for further assessment.
- c) In case of SAs observe 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 SAs shall approach the ACB of the Company, under intimation to the concerned SSM / RO of RBI.
- d) Internal Auditors of the Company will not be considered for appointment as SAs of the Company.
- e) Entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework) to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- f) 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 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 entities may take their own decision in this regard, in consultation with the ACB. A conflict would not normally be created 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 or by the lenders of the Company
 - (iv) reporting on financial information or segments thereof
- g) The restrictions as detailed in point (d), (e) and (f) above, should 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.
- h) For good governance, SA should meet with the Audit Committee of the Board (ACB) at least once a year (without the presence of Management) and advise irregularities, if any, or other material observations which should be highlighted to the ACB

8. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS:

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

- a) The Company shall shortlist minimum of two audit firms for every vacancy of SA.
- b) Company shall obtain a certificate from each of the audit firms 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 appointment under the seal of the 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. Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.
- d) While Company do not have to take prior approval of RBI for appointment of SAs, Company needs to inform RBI about the appointment of SAs for each year by way of a certificate in **Form A** within one month of such appointment.

9. AUDIT FEES AND EXPENSES:

The Company shall ensure the that the audit fees 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, identified risk in financial reporting, etc.

10. REVIEW:

The policy shall be reviewed at yearly intervals or as and when considered necessary bythe Board of Directors of the Company.