
POLICY ON APPOINTMENT OF STATUTORY AUDITORS

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Version Control

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POLICY ON APPOINTMENT OF STATUTORY AUDITORS

1. OBJECTIVE & BACKGROUND

- 1.1. Chapter X of the Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014 provide for the appointment of Statutory Auditors in the Company registered under the Companies Act, 2013.
- 1.2. The Reserve Bank of India (“RBI”) has issued circular bearing Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27th April, 2021 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, read with the FAQs issued on 11th June, 2021 (“the RBI Guidelines”) for Appointment of Statutory Auditors of Non-Banking Finance Companies. The Guidelines provides necessary instructions for appointment of Statutory Auditors, the number of Auditors, eligibility criteria, tenure and rotation as well as norms for ensuring the independence of Auditors.
- 1.3. Provided that, non-deposit taking NBFCs with asset size below Rs. 1,000 crore have the option to continue with their extant procedure.
- 1.4. The objective of this Policy is to lay down the criteria to be considered by the Audit Committee of the Board (ACB) and the Board of Directors of India Factoring & Finance Solutions Private Limited (Company or IFFS) before the appointment of Statutory Auditors (SAs).

2. SCOPE:

- 2.1. This policy shall form the basis for the appointment of Statutory Auditors. 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 this regard.
- 2.2. The objective of this policy is to establish proper procedure for appointment of Statutory Auditors and to conform to the extant norms of Reserve Bank of India, and applicable provisions of the Companies Act, 2013.

3. DEFINITIONS:

- a. “Company”: means India Factoring and Finance Solutions Private Limited or IFFS
- b. “Audit Committee” means the Audit Committee of the Board.
- c. “Board” means Board of Directors of the Company.
- d. “Statutory Auditors (SAs)” mean auditors appointed as per the policy to conduct statutory audit of the Company.

- e. "RBI circular" or "RBI guidelines" means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22. dated 27th April, 2021.

4. APPLICABILITY & REPORTING:

- 4.1. The RBI Guidelines is applicable for NBFCs from the Financial Year 2021-22 onwards and since it is implemented for the first time, the NBFCs have flexibility to adopt these guidelines from H2 (Second Half) Financial Year 2021-22 in order to avoid disruptions. This policy and procedure after approval by the board shall be applicable to the company for FY 2022-23.
- 4.2. No prior approval from the RBI is required for the appointment of Statutory Auditors in NBFCs. However, the Company need to inform RBI about the appointment of Statutory Auditors for each year by way of a Certificate in **Form A (Annexure-II)** within one month of such appointment.

5. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE:

- 5.1. The Company to appoint such number of SAs as prescribed by RBI from time to time, through its various circulars and guidelines, subject to approval and recommendation from Board and Audit committee.
- 5.2. The Company shall ensure that both minimum and maximum numbers of SAs appointed are within the limits set by RBI from time to time. Accordingly, based on current circular, on achieving Asset size of over Rs. 15,000 crs, IFFS shall appoint minimum of two SAs firm for conducting its joint statutory audit.
- 5.3. Till the time the asset size of the Company is below 15,000 Crore, the Company should appoint a minimum of One Audit Firm (Partnership firm/LLPs) for conducting statutory audit.
- 5.4. The Company shall ensure that joint Auditors of the Company do not have any common Partners and they are not under the same network of Audit Firms. The Company shall finalise the work allocation among Statutory Auditors, before the commencement of the Statutory Audit, in consultation with their Statutory Auditors.
- 5.5. The number of Statutory Auditors 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 Statutory Auditors to be appointed shall be decided by Board subject to the limits as prescribed by RBI from time to time.
- 5.6. The Statutory Auditors shall visit and audit at least the Top 20 Branches / Top 20% of the branches of the Company (in case of company having less than 100 branches), 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 Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

6. ELIGIBILITY CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS:

6.1 SAs should fulfil all eligibility criteria as prescribed by RBI from time to time through various circulars and guidelines.

6.2 To be eligible for appointment as Statutory Auditors, the audit firm will need to fulfill requirements as explicitly specified in Annexure 1 to the RBI Guidelines in regard to the number of full time partners, number of full-time partners with FCA accreditation, minimum audit experience of the firm, number of professional staff, number of CISA/ISA qualified partners/paid CAs, etc. as scaled to the asset size of the Company as on March 31 of the previous year.

6.3 Additional Consideration:

- (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) Further, if any partner of a Chartered Accountant firm is a director in IFFS, the said firm shall not be appointed as SA of any of the group entities of IFFS.
 - *For the purpose of this circular, 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.*
- (v) As per RBI Guidelines, The auditors of the Company with asset size above ₹1,000 crore should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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.
- (vi) SA shall fulfil all the eligibility criteria as prescribed and amended by RBI from time to time

6.4 Continued Compliance with basic eligibility criteria

In case any 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 RBI will have the discretion to allow the concerned Audit Firm to complete the audit, as a special case.

7. INDEPENDENCE OF STATUTORY AUDITORS:

- 7.1. The Audit Committee of the Board, at the time of appointment and thereafter shall monitor and assess the eligibility, 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.
- 7.2. 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 SAs shall approach the Audit Committee of the Company, under intimation to the concerned SSM/RO of RBI.
- 7.3. Concurrent auditors of the Company should not be considered for appointment as SAs of the same Company. The audit of the Company and any companies with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 7.4. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the 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 Companies which may not normally result in a conflict of interest*, and Company may take their own decision in this regard, in consultation with the Audit Committee.

**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. (iv) reporting on financial information or segments thereof.*

7.5. 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.

8. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS:

8.1. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

8.2. 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.

8.3. In the event of lapses in carrying out audit assignments resulting in misstatement of 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 Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. TENURE AND ROTATION OF STATUTORY AUDITORS:

9.1. As per the provisions of the Companies Act, 2013, SA can be appointed for two terms consisting of five years each. However, the RBI being the Sectoral Regulator, the appointment of SA shall be bound by the limitations / restrictions as mentioned in 9.2 below

9.2. 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.

9.3. If the Company removes SAs before completion of 3 years of tenure, it shall inform the concerned SSM/RO at RBI about the same, along with the reasons / justification for the same, within a month, of such decision being taken.

9.4. The Company cannot reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

9.5. A group of audit firms having common partners and / or under the same network will be considered as one entity / one audit firm.

10. AUDIT FEES AND EXPENSES:

- 10.1. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- 10.2. 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.
- 10.3. The Board/Audit Committee shall make recommendation to the competent authority which shall be fixed in its general meeting or in such manner as may be determined therein as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

11. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS:

- 11.1. The Company shall shortlist minimum of 2 Audit Firms for every vacancy of SAs 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 of SAs does not get delayed.
- 11.2. The Company shall obtain a certificate, along with relevant information as per **Form B (Annexure-III)**, from the audit firm(s) proposed to be appointed as SAs by the Company 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 of SAs of the Company, under the seal of the said audit firm.

12. COMPLIANCE UNDER COMPANIES ACT:

- 12.1 IFFS shall ensure that it complies with requisite provisions as mentioned under Companies Act 2013, and in case of any conflict among guidelines issued by RBI or any other regulatory authority and provisions of Companies Act 2013, it will take conservative approach and follow the stricter regulation/provisions.
- 12.2 Eligibility, qualifications and disqualification of SAs shall also follow provisions of Companies Act 2013, which allows a firm to be appointed as SAs.
- 12.3 The written consent, and a certificate from the auditor or auditors to such appointment, shall be in accordance with the conditions as prescribed by applicable regulations from time to time.
- 12.4 The company shall inform the auditor / firm concerned of his or its appointment, and also file a notice of such appointment with the Registrar in such manner as may be prescribed under the Companies Act, 2013.

13. 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.

14. REVIEW OF THE POLICY:

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

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

The Board approved Policy will be hosted on Company official website.

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## Annexure-I

### Eligibility Criteria for Appointment as SCA/SA

#### A. Basic Eligibility:

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

\* Not mandatory for UCBs/NBFCs with asset size of upto Rs. 1,000 crore.

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of short listing for considering them as full time partners. Further, for appointment as Statutory Auditors of the Entities with asset size above Rs. 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all NBFCs with 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:

- (a) The full-time partner should not be a partner in other firm/s.
- (b) She/He should not be employed full time / part time elsewhere.
- (c) 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.
- (d) The 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.

**Note 2: CISA/ISA Qualification:**

For all NBFCs with asset size upto Rs. 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority to firms with full time partners or full time CAs having 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:**

For all NBFCs, audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of 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.

**Annexure-II**

**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:

Annexure-III

FORM B

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

A. Particulars of the firm:

| Asset Size of Entity as on 31st 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 Rs. 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.

*\*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.*

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:

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