

# POLICY ON THE APPOINTMENT OF STATUTORY AUDITORS (SAs)

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Svamaan Financial Services Private Limited

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## 1. Introduction:

The Reserve Bank of India vide its Circular DOS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 (“**RBI Circular**”), has issued guidelines on appointment of Statutory Auditors (“SAs”) by NBFCs.

In terms of the RBI Guidelines, this Policy on Appointment of Statutory Auditors (“the Policy”) has been recommended by the Audit Committee and approved by the Board of Directors.

## 2. Objective:

The objective of the policy is to lay down a framework of guidance and procedures for appointing Statutory Auditors of the Company who fulfil the eligibility criteria and other conditions prescribed under RBI Guidelines, Companies Act, 2013 and other applicable laws.

## 3. Applicability:

The Policy will apply to the Company's appointment of Statutory Auditors as determined by the Regulators from time to time. However, non-deposit taking NBFCs with asset size below ₹1,000 crore have the option to continue with their extant procedure.

## 4. Appointment of SAs:

No prior approval of RBI is required for appointment of SAs by the Company. However, necessary intimation shall be given to RBI regarding appointment of SAs for each year within one month of such appointment by way of a certificate in [Form A](#) in the format as per Annexure I as prescribed by RBI.

## 5. Number of SAs and Branch Coverage:

5.1 At any given point of time if the Company's Asset Size as on March 31 of the previous financial year is less than ₹ 15,000 Crores, the Company shall appoint one audit firm for conducting statutory audit. If the Asset Size crosses ₹15,000 Crores or more as on March 31 of the previous financial year, the Company shall appoint a minimum of two audit firms for conducting Joint Statutory Audit (JSA).

5.2 The Company can appoint more than one audit firm based on the Board / Committee approval, depending upon the relevant factors such as 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., or such other terms and conditions as may be specified by RBI from time to time.

5.3 The Company shall ensure compliance with the provisions of Section 143(8) of Companies Act, 2013, regarding audit of accounts of all branches.

## 6. Eligibility criteria for appointment as statutory auditor:

### A. **BASIC ELIGIBILITY:**

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

Asset Size 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	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
Above ₹15,000 crore	5	4	2	15	18
Above ₹1000 crore and upto ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

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

6.2 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 a continuous association with the firm for at least 10 years.

6.3 For all NBFCs with asset size above ₹ 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:

6.3.1 The full-time partner should not be a partner in another firm/s.

6.3.2 She / He should not be employed full time / part time elsewhere.

6.3.3 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.

6.3.4 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.

6.4 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.

6.5 Audit Experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs. In the case of a merger and demerger of audit firms, a merger effect will be given after 2 years of merger while a demerger will be effected immediately for this purpose.

6.6 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 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 the 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 entity, the said firm shall not be appointed as SA of any of its group entities of that entity.

(v) The auditors for Entities with asset size above ₹1,000 crore 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 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 31<sup>st</sup> 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, 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 (ACB) shall monitor and assess the independence of the SAs 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 ACB 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 ACB of the Company, under intimation to the concerned SSM/RO of the RBI.

7.3 The audit of the Company and any entity with large exposures to the Company for the same reference year shall be explicitly factored in while assessing the independence of the auditor.

7.4 The time gap between any non-audit work i.e., services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc. by the SAs of the Company or any audit/non-audit work for the Company's group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as SAs, an audit firm may provide such services to the concerned entities, which may not normally result in a conflict of interest, and Company may take their own decision in this regard, in consultation with the ACB.

7.5 The restrictions as detailed in para 6.3 and 6.4 above shall apply to an audit firm under

the same network of audit firms or any other audit firm having common partners.

## **8. Tenure and rotation:**

- 8.1 As per the provisions of the Companies Act, 2013, Audit firm 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.
- 8.2 The audit firm will not be eligible for reappointment in the Company for six years (two tenures) after the completion of full or part of one term of the audit tenure.
- 8.3 In case an audit firm has conducted audit of the Company for part-tenure (1 year or 2 years) and then is not appointed for remainder tenure, they would not be eligible for reappointment in the Company for six years from completion of part-tenure.
- 8.4 If the Company removes SAs before completion of 3 years of tenure, the same shall be in accordance with the relevant provisions of the Companies Act, 2013 and rules made thereunder and it shall inform the concerned SSM /RO at RBI about the same, along with the reasons / justification within a month of such decision being taken.
- 8.5 One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules.

## **9. Audit fees and expenses:**

- 9.1 The Audit Committee shall decide and recommend the audit fees to the Board of Directors in accordance with the relevant statutory/regulatory provisions.
- 9.2 While recommending the audit fees, the Audit Committee shall ensure that the same 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.
- 9.3 The ACB shall approve the audit fees of SAs or ACB can authorize CEO of the company to finalise and approve the audit fees as per the relevant statutory / regulatory instructions.

## **10. Procedure for appointment of statutory auditors:**

- 10.1 The Company shall shortlist a minimum of two audit firms for every vacancy of SAs.
- 10.2 The Company shall obtain a certificate in the Format as prescribed in Annexure II pursuant to RBI Guidelines, from the audit firm(s) proposed to be appointed as SAs to the effect 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.
- 10.3 The Audit Committee shall recommend the appointment of the SAs to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the SAs except the first SAs and the appointment of SAs in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

## 11. Reporting requirements:

- 11.1 The Company will inform the concerned SSM / RO of RBI about the appointment of the SAs as prescribed in the RBI Guidelines read with Para 41 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, within one month of such appointment.
- 11.2 An intimation will also be made to the Ministry of Corporate Affairs as required under the provisions of the Companies Act, 2013 and rules made thereunder.
- 11.3 Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SAs or any other matters considered as relevant shall be placed before the Audit Committee or Board and along with its recommendations, the same shall be reported to the concerned SSM /RO of RBI within two months from completion of the annual audit.
- 11.4 Any concerns in the matters related to independence of auditors and conflict of interest positions may be highlighted by the Audit Committee to the Board and concerned SSM / RO of the RBI.

## 12. Review:

This policy shall be reviewed annually or at such intervals as and when deemed necessary to align the same with the prevalent regulatory requirements.

## 13. Website disclosure:

The policy shall be hosted on the website of the Company.

## 14. Annexures

### Annexure I

#### FORM A

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

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.

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.

The firm has no past association/association for \_\_\_\_\_ years with the company as SCA/SA/SBA.

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)**

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 ₹ 1,000 crore**

#Details may be furnished separately for experience as SCAs/SAs and SBAs

Additional Information:

Copy of Constitution Certificate.

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.

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.

Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.

Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

**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>15</sup> 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:

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