

SFI FINANCIAL SERVICES PRIVATE LIMITED

Policy for Appointment/Re-appointment of Statutory Auditors

1. Background

Reserve Bank of India (RBI) vide notification No. RBI/2021-22/25 Ref.No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated 27.4.2021 has issues a set of guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

These guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs of the Entities. However, non- deposit taking NBFCs with asset size below Rs 1,000 Crores have the option to continue with their extant procedure.

Accordingly, SFI is required to take steps to comply with the directive, However the asset size of SFI is below Rs.1,000 Crores.

The notification 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. Accordingly, the following policy and procedures are proposed.

2. Objective of the policy

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

3. Definitions of the terms used:

“RBI” means Reserve Bank of India

“RE” means Regulated Entity.

“SCA” means Statutory Central Auditor

“SA” means Statutory Auditor.

“Company” and “SFI” means SFI Financial Services Private Limited.

4. Applicability of the Policy

The policy is applicable for appointment of Statutory Auditors for the financial year 2021/22 and onwards. The Asset size of SFI is below Rs. 1000 Crores only submission of Form A with RBI within 30 days of appointment of statutory auditor.

5. Notification requirement to RBI

Appointment of auditors to be informed to RBI in the prescribed Form A (Annexure 1)

6. Number of Statutory Auditors

As per RBI stipulation if asset size is of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs)). Regulated entities are free to go for higher number subject to a maximum of 4 SAs upto an Asset Size of Rs, 500,000 Crore

The Company shall decide on the number of SAs 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 minimum prescribed by RBI.

Accordingly, it is proposed to have two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. The Company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms.

5. Work Allocation between the joint Auditors

They shall finalise the work allocation among statutory auditors, before the commencement of the statutory audit, in consultation with them.

6. Eligibility Criteria of Auditors

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

A. Basic Eligibility

Asset Size of Company as on 31 st March of previous year	Minimum no. of full-time partners (FTPs) associated with the firm for a period of at least three (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 three (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 ₹15,000 crore	8	6	3	20	25

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.

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. 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 an RBI Regulated group Entity, the said firm shall not be appointed as SA of the Company. The Company shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.

(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 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 Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

7. Independence of Auditors

7.1 The Board 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.

7.2 In case of any concern with the management of the entities such as non-availability of information/non-cooperation by the management, which may hamper the audit process, the Statutory Auditor shall approach the Board of the Company, under intimation to the concerned SSM/RO of RBI.

7.3 Concurrent auditors of the entity should not be considered for appointment as SCAs/SAs of the same Entity.

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 Statutory Auditor for the Company or any audit/non-audit works for group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest. 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. The company shall take appropriate decision in this regard in consultation with the Audit Committee of the Board.

However, if an audit firm is involved in any non-audit work with the Company and/or any audit/non-audit work in other RBI Regulated Group Entities and completes or relinquishes the said assignment prior to the date of appointment as SA of the company for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Company for FY 2021-22.

8.04 The restrictions as detailed in para 8.02 and 8.03 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 required of Statutory Auditor

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

8.02 The Board 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 Board, with the full details of the audit firm.

8.03 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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Tenure and Rotation

9.1 To protect the independence of the auditors/audit firms, Company Should 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 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.

9.02 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 re-appointment in the Company for six years from completion of part-tenure.)

9.03. 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. 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.

10. Audit Fees and Expenses

10.01 The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.

10.02 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.

10.03 The Board shall make recommendation to the competent authority (By Shareholders in AGM) as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

11. Procedure to be followed for Appointment of SCAs/SAs

11.1 Procedure applicable for existing SA (Reappointment):

Preference will be given to existing SAs for re-appointment subject to being compliant with all applicable regulatory and internal policy provisions. The Company shall obtain the willingness from the existing SAs for re-appointment. In case such consent is not received from any of the

existing SAs, Company shall follow the process for appointment of New SA to fill that vacancy as detailed under the procedure applicable for Appointment of SA.

11.2 Procedure for appointment of new firm as SAs:

11.2.1 The company shall invite applications from eligible Audit firms including the Company's past auditors of the Company, other firms having associations with the Bank for one off assignments, firms with headquarters branches in Kochi and other firms subject to fulfilling the eligibility criteria as per this policy and applicable RBI stipulations for expression of interest (EOI) for appointment of Statutory Auditors. Expression of interest/applications received will be considered if they are found to be meeting all eligibility conditions. .

11.2.2 Interests/Applications received will be evaluated by the CEO in consultation with the Director based on the template for evaluation devised for the purpose. Based on the evaluation result Director in consultation with the Director &CEO will shortlist 2 firms for every vacancy identified. The shortlisted names will be presented to the Board. Board will select firms from the list as required. In case Board require shortlisted firms may be requested to give a presentation on their capability in brief.

11.2.3 Board will select the firms for adequate number (twice the number of vacancies from the shortlisted firms) of audit firm(s) indicating their names with the template score. Board shall select 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. However, in case of reappointment of SAs by the Company till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting.

11.2.4 Thereafter, the Company will approach the audit firms to obtain their irrevocable consent in writing strictly in order of preference. If the approached audit firm does not give consent, the Company will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms who have given the consent equals to number of vacancies for the particular year.

11.2.5. The Company shall obtain a certificate, along with relevant information as per Form B (Annexure II), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of the Company, under the seal of the said audit firm.

11.2.6 The SAs are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the SAs is auditors of a corporate client who is assisted by the Company, then files of such corporate client shall be audited by the other SA.

11.2.7 Thereafter, the Company shall submit the information to RBI in the prescribed format within 30 days as prescribed in the RBI directive

12 Review of the policy:

The Board of the Company may review the policy as and when required.

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.

13 The Board approved policy will be hosted on the Company's official website.

Annexure I.

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 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 st 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 / directors¹⁵ 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:

(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.)