

POLICY ON APPOINTMENT OF STATUTORY AUDITORS

Sattva Holding and Trading Private Limited

Amended by the Board of Directors on 29th March, 2023
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POLICY ON APPOINTMENT OF STATUTORY AUDITORS

1. OBJECTIVE & BACKGROUND

The policy has been formulated considering the relevant provisions of Chapter X of the Companies Act, 2013 and Companies (Audit and Auditors) Rules, 2014 provide for the appointment of statutory auditors in a Company registered under the Companies Act, 2013

The Reserve Bank of India (“RBI”) has issued circular bearing Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including CICs), as may be amended or modified, replaced, or substituted from time to time (“the RBI Guidelines”) for Appointment of Statutory Auditors of Non-Banking Finance Companies. The Guidelines provides necessary instructions for appointment of SAs, the number of auditors, eligibility criteria, tenure and rotation as well as norms for ensuring the independence of auditors.

The objective of this Policy is to lay down the criteria to be considered by the Board of Directors of the Company before the appointment of statutory auditors (SAs).

2. SCOPE

This policy shall form the basis for the appointment of SAs. The Company shall further ensure compliance 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 and SEBI in this regard.

3. RESPONSIBILITY OF AUDIT COMMITTEE (ACB)

The responsibility of the Audit Committee for the appointment and performance evaluation of the statutory Auditor is:

- a. To monitor and assess the independence of the auditors based on the “conflict of interest” position evaluate in terms of relevant regulatory provisions, standards and best practices and raise concerns, if any.
- b. To address the concerns of the appointed Statutory auditor
- c. To validate an audit firm providing services results in a conflict of interest or not and can be appointed as auditors
- d. To review the performance of the Statutory Auditor
- e. To submit the lapse or negligence in audit responsibilities to the RBI on recommendation of the board
- f. To recommend the audit fees to be paid to the Statutory Auditor
- g. To 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

4. RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board shall be responsible for the overall implementation of the policy and following relevant matters

- a. Appoint the Statutory Auditors and ensure that a process for the appointment of the SAs’ is duly followed
- b. Ensuring adherence with the applicable RBI and other legal provisions for the appointment of the SAs’

- c. Additional minimum requirement for appointment of Statutory Auditors commensurate with the size and operations of the Company.
- d. At every meeting of the Audit Committee wherein the financial statements of the Company are being discussed, the Statutory Auditors shall be invited to participate in the meeting.

5. APPLICABILITY OF PROVISIONS

As per RBI Guidelines, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)] as the company has an asset size ₹15,000 crore and above as at the end of previous year whereby a minimum of two audit firm (Partnership firm/LLP) for conducting statutory audit. The regulatory prescribed limit for minimum audit firms shall be appointed unless the RBI specifies otherwise or the board determines otherwise considering the increase in size of the company.

The above-stated Guidelines shall be adopted by the company for appointment of the auditors from Financial Year 2022-2023 onwards and since it is implemented for the first time, the company shall exercise the available flexibility to adopt these guidelines from H2 of FY 2022-2023 in order to avoid disruptions.

The Company will intimate the RBI about the appointment of SAs for each year by way of a certificate in the format as prescribed (**Form A**) within one month of such appointment along with the eligibility certificate to be obtained from the auditors in the format prescribed by the RBI (**Form B**).

The Audit Committee of the Board (ACB) shall ensure the compliance with the relevant regulations of the RBI.

6. ELIGIBILITY CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS

The RBI Guidelines prescribe certain eligibility norms which the audit firms are required to fulfil, based on the asset size of the Company. The Company's asset size, being more than Rs. 15,000 crore, the audit firms shall be subject to joint audit whereby each auditor shall fulfil the following minimum criteria for being eligible to be considered for appointment as auditor of the Company

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 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	5	4	2	15	18

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment 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: 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 Board 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 3: CISA/ISA Qualification:

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the proposed firm as on the date of shortlisting (for other Entities) for evaluating eligibility

Note 4: Audit Experience:

Audit experience shall mean experience of the proposed audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs (Including CICs)/ AIFIs. In case of merger and demerger of audit firms, the extant guidelines of RBI shall be evaluated and adhered to.

Note 5: 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 other Entities) for evaluating eligibility.

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 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 Company, the said firm shall not be appointed as SA of any of the group entities of the Company.
- (v) The auditors should 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.

(vi) The Audit firm shall be a Peer Reviewed Level 1 Audit Firm.

C. Continued Compliance with basic eligibility criteria

The appointed audit firm is expected to comply with all the eligibility norms for their appointment. If in case the disqualification is attracted due to resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc., the audit firm may promptly approach the board/Audit Committee with full details of such change within the timeline stated in the letter of appointment.

The Audit Firm shall take all the necessary steps to become eligible within a reasonable time as intimated to the board.

However, 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 auditor shall with prior permission of the RBI 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 auditors and conflict of interest position in terms of relevant regulatory provisions (such as the Companies Act 2013 restrictions, ICAI's Code of Ethics), standards and best practices.
- 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 RBI.
- 7.3 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 Company which may not normally result in a conflict of interest, and Company may take its own decision in this regard.
- 7.4 Concurrent auditors of the Company should not be considered for appointment as SAs of the Company. The audit of the Entity and any entity with large exposure, as defined in RBI instructions on 'Large Exposures Framework' to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 7.5 However, 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 SCAs/SAs, it would be the responsibility of the ACB of the concerned RBI Regulated Entity to ensure that there is **no conflict of interest** and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of the ACB.
- 7.6 The restrictions detailed in the policy also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

8. NUMBER OF STATUTORY AUDITORS

- 8.1 Based on the guidelines, since the asset size of the Company is more than ₹ 15,000 crore as per the last audited financials for the period ended 31st March 2021. Hence, the Company shall appoint 2 (two) SA and be required to get a joint audit conducted. The Joint Audit shall be conducted by the auditor's as per the relevant Standards on Auditing and the ICAI guidance.
- 8.2 Company shall ensure that the joint auditors do not have any common partners and they are not

under the same network of audit firms.

- 8.3 The Auditor's shall jointly finalise the work allocation amongst them, before the commencement of the statutory audit in consultation with the company personnel (if required) and intimate the same to the Audit Committee.

9. TENURE OF STATUTORY AUDITORS

As per the provisions of the Companies Act, 2013, SA can be appointed for two terms consisting of three years each subject to the fulfillment of Eligibility Criteria each year.

The company shall during the tenure of appointment of the SAs for a continuous period of 3 years, evaluate the eligibility norms each year.

As per Guidelines, 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.

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

10. REMUNERATION OF STATUTORY AUDITORS

The audit fees for SAs shall be in terms of applicable regulatory provisions and shall be reasonable and commensurate with their respective 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.

Further, it shall be the discretion of the Board post the recommendation of the ACB to decide on the quantum of remuneration payable to SA as appointed by the Company, depending upon their respective scope of work as authorized by the shareholders at the AGM.

11. REMOVAL OF STATUTORY AUDITORS

If the Company removes SAs before completion of 3 years of tenure, it shall inform the concerned Regional Office 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 and subject to the provisions of the applicable law, including the Companies Act, 2013, the Company can remove an audit firm during their tenure with the approval of the shareholders complying with the relevant provisions of the Companies Act, 2013 and any other Act in force.

An audit firm would not be eligible for reappointment in the Company for six (6) years (i.e. two tenures of three years each) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other companies.

12. REPORTING REQUIREMENTS

- 12.1 Post appointment of SAs, the Company shall file necessary e-forms as required under the Companies Act, 2013 within the timeliness provided under the Companies Act, 2013.

- 12.2 Company shall inform the Regional Office of RBI (Department of Supervision), under whose jurisdiction the Registered Office is located about the appointment of SAs for each year by way

of a certificate in Form A within one month of such appointment.

12.3 Further the intimation shall ensure compliance with relevant provisions as per the Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016, the company for intimation to the RBI on change of auditors

13. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS

13.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence. The minimum expected include standards prescribed by ICAI, but not limited to:

- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality
- Professional Behavior

The ACB shall conduct an analysis to ensure that there is no conflict of interest with the auditors proposed to be adopted.

13.2 The ACB 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 should be sent with the approval/recommendation of the Board with the full details of the audit firm.

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

14. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

The RBI guidelines prescribe the procedure for appointment of SAs as approved by the board of directors and duly uploaded on the website, includes the following:

14.1 ACB shall deal with appointment procedure including screening of firms, assessing experience, eligibility criteria, making recommendations to the Board for approval, signing the appointment letters and related documents, finalizing the fees and payment terms, providing management representation to the auditors and do the needful for all related matters.

14.2 The Company shall shortlist minimum of two audit firms for every vacancy of SA as recommended by the Audit Committee in order of preference

14.3 Company shall obtain a certificate alongwith relevant information as per Form B from the audit firm(s) proposed to be appointed as SAs from the audit firm(s) proposed to be appointed as SAs to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. 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;

14.4 The ACB shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SAs in Annual General Meeting;

in case there is a delay or ineligibility attracted at any time or of casual vacancy caused by the

resignation of the SAs, the Board of Directors of the Company shall appoint SAs and the auditors at 2nd preference and subsequently be ratified by the shareholders in the General Meeting within 3 months from the date of appointment as per the provisions of the Companies Act, 2013.

15. 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.

16. Update and Review

The policy shall be subject to the review by the Audit Committee followed by the Board of Directors and shall be updated as per the applicable regulatory changes from time to time by the board as per the changes recommended by the Audit Committee.

Form A

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

The Company has appointed M/s_____, Chartered Accountants (Firm Registration Number _____) as 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 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 SA/SBA.

The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of NBFCs / CICs.

Signature

(Name and Designation)

Date:

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 / CICs with asset size of more than ₹ 1,000 crore

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

B. 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 SCASA 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.

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 willful 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)