

# **POLICY ON APPOINTMENT OF STATUTORY AUDITORS**

Sattva Holding and Trading Private Limited

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## POLICY ON APPOINTMENT OF STATUTORY AUDITORS

### 1. OBJECTIVE & BACKGROUND

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 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 and SEBI in this regard.

### 3. APPLICABILITY

As per RBI Guidelines, for the entities with the asset size of Rs. 1000 crore and above shall appoint SA on Rotational basis.

And for Entities with asset size 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 auditfirms [Partnership firms/Limited Liability Partnerships (LLPs)].

The Guidelines is applicable for NBFCs / CICs from Financial Year 2022 onwards and since it is implemented for the first time, NBFCs / CICs have flexibility to adopt these guidelines from H2 FY 2022 in order to avoid disruptions. New joint SAs will commence audit/limited review from 1<sup>st</sup> Half of FY2022 once their appointment is approved by the Board and the members at the AGM.

No Prior approval from RBI is required for the appointment of SAs in NBFCs / CICs. However, Company need 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.

### 4. 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 ₹ 1000 crore, and less than Rs. 15,000 crore, the audit firms 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 ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

**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.

For all Commercial Banks (excluding RRBs), and UCBs/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:

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

The Company shall ensure that the firm proposed to be appointed as SA meets the following income criteria of full time partner:

- A Partner whose compensation from the firm/LLP during previous financial year is not below the following limit:
  - ACA partner Rs. 1.00 Lakh per month
  - FCA partner Rs. 1.25 Lakh per month

***\$ Compensation will be sum total of share of profit, remuneration and interest on capital received by the partner from the firm/LLP. Compensation received by the partners who join during the financial year, will be extrapolated to arrive at the deemed compensation for the complete financial year. Compensation criteria of FCA partner will apply on partners who become FCA during the financial year.***

**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 other Entities) 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)/ UCBs/NBFCs (Including CICs)/ 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 other Entities) 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 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
- (vii)

**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 may 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

## **5. COMPANY'S GOVERNANCE MECHANISM OVER STATUTORY AUDIT**

The Board prescribes additional minimum requirement for appointment of Statutory Auditors commensurate with the size and operations of the Company.

At every meeting of the Board wherein the financial statements of the Company are being discussed, the Statutory Auditors shall be invited to participate in the meeting.

## **6. INDEPENDENCE OF STATUTORY AUDITORS**

- 5.1 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 Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office(RO) of RBI.
- 5.2 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 Board of Directors Company, under intimation to the concerned SSM/RO of RBI.
- 5.3 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.
- 5.4 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.
- 5.5 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 Board 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 Board.

5.6 The restrictions as detailed in para 5.3 and 5.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners

## **7. NUMBER OF STATUTORY AUDITORS**

6.1 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 more than Rs. 1000 crore and less than ₹ 15,000 crore as per the last audited financials for the period ended 31<sup>st</sup> March 2021. Hence, the Company shall appoint 1 (one) SA during the FY 2022 and it shall appoint two once it crosses the asset size of more than Rs. 15000 crore and less than Rs. 5,00,000 lakh crore.

6.2 Company shall ensure that the joint auditors do not have any common partners and they are not under the same network of audit firms.

6.3 The Board may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with the SAs.

## **8. TENURE OF STATUTORY AUDITORS**

As per the provisions of the Companies Act, 2013, SA can be appointed for two terms consisting of five years each. RBI being the sectoral regulator, the appointment of SA shall be bound by the limitations/restrictions placed under RBI Guidelines.

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 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.

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.

## **9. 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 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.

## **10. REMOVAL OF STATUTORY AUDITORS**

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 RBI Guidelines.

As per RBI guidelines, NBFs / CICs removing the SAs 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.

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.

## **11. REPORTING REQUIREMENTS**

11.1 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.

11.2 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. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS**

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

12.2 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 should be sent with the approval/recommendation of the Board with the full details of the audit firm.

12.3 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.

## **13. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS**

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

12.1 The Company shall shortlist minimum of two audit firms for every vacancy of SA;

12.2 Company shall obtain a certificate along with 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;



12.3 The Board 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;

12.4 In case of casual vacancy caused by the resignation of the SAs, the Board of Directors of the Company shall appoint SAs and approval of the shareholders shall be obtained for such appointment within 3 months from the date of appointment as per the provisions of the Companies Act, 2013.

12.5 Managing Director/CEO/CFO/CS shall be authorized to 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. 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.

#### **15. AMENDMENTS IN POLICY**

To the extent any change/ amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law, however, notwithstanding such non-modification or pending such modification, the applicable law and regulations (as changed) shall prevail over the Policy, and the Policy shall be read accordingly. Such amended Policy shall be placed before the Board for noting and necessary ratification.

# 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 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 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.
- 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 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)