

CredRight Finance

Appointment of Statutory Auditor

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1. Objective

Reserve Bank of India (RBI) vide its Circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, has issued Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) for Financial Year 2021-22 and onwards. RBI has provided flexibility to NBFCs to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption regarding appointment of SAs. As per the RBI guidelines it is required to formulate 'Statutory Audit Policy and Appointment Procedure of Statutory Auditors' and the same is also required to be hosted on official website of the Company.

2. Number of SAs

The Company shall appoint minimum one audit firm (Partnership firm/LLP) for conducting statutory audit. After crossing asset size of ₹15,000 crore and above as at the end of any year, the company is required to appoint joint auditor of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs).

The company shall decide on the number of SAs after 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 company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms. Further, the company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with SAs.

3. Eligibility Criteria for SAs

The company is required to appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed by RBI in its guidelines as under:

A. Basic Eligibility

Asset size of the Company as on 31st March of the 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 INR 15,000 Cr	5	4	2	15	18

Above INR 1,000 Cr and up to INR 15,000 Cr	3	2	1	8	12
Up to INR 1,000 Cr	2	1	1*	6	8

* Not mandatory for UCBs/NBFCs with asset size up to INR 1,000 crores.

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.

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:

- i. The full-time partner should not be a partner in other firm/s.
- ii. She / He should not be employed full time / part time elsewhere.
- iii. 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.
- iv. The Audit Committee of 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 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 shall mean experience of the audit firm as Statutory 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 affected 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 Consideration

- i. The audit firm, proposed to be appointed as SAs, should be duly qualified for appointment as auditor in terms of Section 141 of the Companies Act, 2013.
- ii. The audit firm should not be under debarment by any Government Agency, NFRA, 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 that Company.
- v. The auditors 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.

4. Independence of Auditors

The Board of Directors 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 to the Board of Directors of the NBFC and concerned Regional Office (RO) of RBI.

The audit of the Company and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

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 the Company will take a decision in this regard, in consultation with the Board of Directors.

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

The restrictions as detailed 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.

Professional Standards of SAs

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

The Board of Directors 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 of Directors with the full details of the audit firm

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.

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6. Tenure and Rotation

The SA shall be appointed for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. SAs can be removed before the completion of three years tenure and shall inform concerned 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 for six years (two tenures) after completion of full or part of one term of the audit tenure.

7. Audit Fees and Expenses

- i. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- ii. 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.
- iii. The Board of Directors shall make recommendation to the Board/Shareholders for approval as per the applicable statutory/regulatory instructions for fixing audit fees of SAs.

8. Procedure for appointment of Statutory Auditors

CredRight Finance Limited shall obtain a certificate, along with relevant information as per Form B (as prescribed by RBI guidelines) 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 signed by the main partner/s of the audit firm proposed for appointment of SAs under the seal of the audit firm.

In addition to the above, prior to such appointment, the written consent of the auditor to such appointment and a certificate in compliance with applicable provisions of the Companies Act, 2013 and the rules made thereunder, shall be obtained from the SAs.

The Board of Directors will review the independence, eligibility norms, terms of appointment and remuneration of the audit firm proposed to be appointed as SAs and recommend the appointment of the audit firm for approval of the Board. The Board will approve the appointment of SAs subject to approval of the shareholders in the ensuing Annual General Meeting.

CredRight Finance Limited shall file a notice of such appointment with the Registrar of Companies within 15 days of the meeting in which the auditor is appointed.

CredRight Finance Limited shall inform the concerned Regional Office of RBI about the appointment of SAs for each year by way of a certificate in Form A within one month of such appointment.

9. Review of the Policy

The policy will be approved by the Board and hosted on the official website of CredRight Finance Private Limited. The Policy will be reviewed on an annual basis or as and when deem necessary by the Board of Directors and Board in the context of changing regulation and guidelines.

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.