

SWASTIKA FIN-MART PRIVATE LIMITED

POLICY ON APPOINTMENT OF STATUTORY AUDITORS OF THE COMPANY

MAY, 2022

Version Control

Version	Date of Adoption	Description	Owner	Approving Authority
0	02 nd May, 2022	Framing of the policy for appointment of Statutory Auditors as per RBI notification dated April 27, 2021	Finance and Accounts	Board of Directors

1. BACKGROUND:

RBI vide its circular Ref. No. DoS. CO. ARG/SEC.01/08.91.001/2021-22 dated April 27th, 2021 has issued guidelines for Appointment of Statutory Auditors (SAs) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines require lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of SAs.

Key highlights of the circular are:

- i. The guidelines are applicable to NBFCs (including HFCs) from FY-2022 onwards, with a flexibility to adopt these guidelines from H2 to avoid any disruption.
- ii. NBFCs are required to inform RBI about the appointment of SA for each year by way of certificate in the prescribed format within one month of the appointment.
- iii. These guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities) for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs of the Entities. However, non-deposit taking NBFCs with asset size below ₹1,000 crore have the option to continue with their extant procedure.
- iv. NBFCs are required to decide on the number of audit firms based on the Board approved policy, taking into account various factors, such as size and spread of assets, complexity, level of automation, etc.
- v. The Audit Committee of the Board shall monitor and assess the independence of the SA, and conflict of interest, if any. If there are any concerns, the same shall be highlighted to the Board of Directors of the Company, and to the SSM / RO of RBI.
- vi. There must be a time gap of one year, between any non-audit work by the audit firm for the entity, and any audit / non-audit works for its group entities before and after the firm's appointment as SA. RBI has clarified that, this stipulation shall be applicable prospectively, i.e. from FY 2022-23. It has further clarified that the Group entities for this purpose shall mean RBI regulated entities. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit/non-audit work in other RBI regulated entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Entity for FY 2021-22.
- vii. 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 SAs, there shall be no conflict of interest and independence of auditors must be ensured; and this shall be suitably recorded in the minutes of the meetings of Board of Directors /Audit Committee of the Board.
- viii. The Board/Audit Committee shall review the performance of SA on an annual basis.
- ix. In order to protect the independence of the auditors/audit firms, lending institutions will have to appoint the auditors for a continuous period of 3 years, subject to firms

satisfying the eligibility norms each year. NBFCs which remove SA before completion of 3 years of tenure shall inform concerned Regional Officer at RBI about the same along with the reasons.

2. OBJECTIVE:

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors.

The Objective of the Policy is:

- i. Deciding the number of SAs based on various parameters;
- ii. Criteria for appointment of SAs; and
- iii. The procedure to be followed for appointment of SAs.

3. SCOPE:

This policy shall form the basis for 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.

In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail.

Further, in the event any guidance on the regulatory framework/ RBI regulations/ guidelines is required; the same shall be referred to the Finance & Accounts/ Regulatory Compliance Department for its final views on the matter.

4. NUMBER OF SA:

These guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities) for Financial Year 2021-22 and onwards in respect of appointment/ reappointment of SCA/SA of the Entities. However, non-deposit taking NBFCs with asset size below ₹ 1,000 crore have the option to continue with their extant procedure. Based on the guidelines, since the asset size of the Company is less than ₹ 1,000 crore as at last reporting period, (i.e., March 31, 2022), due to the same company is continue with its extant procedure.

5. TENURE AND ROTATION OF SAs:

As per the provisions of the Companies Act, 2013 SA 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. If the Company removes SAs before completion of 3 years of tenure, it shall inform the concerned Regional Officer 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.

However, non-deposit taking NBFCs with asset size below ₹ 1,000 crore have the option to continue with their extant procedure, based on the guidelines. Since the asset size of the Company is less than ₹ 1,000 crore as at last reporting period, (i.e., March 31, 2022), due to the same company is continue with its extant procedure of Companies Act, 2013.

6. CRITERIA FOR APPOINTMENT OF SAs

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 is below ₹ 1,000 crore, the audit firms shall fulfil all the criteria as mentioned in Companies Act, 2013.

7. PROCEDURE FOR APPOINTMENT OF SAs

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 is below ₹ 1,000 crore, the audit firms shall be appointed as per the procedure as mentioned in Companies Act, 2013.

8. AUDIT FEE AND EXPENSES

The Company shall ensure that the audit fees of the Company 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 computerisation, identified risk in financial reporting, etc.

9. REVIEW

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Board. Any amendments to the policy required as a result of amendment / modifications to the Companies Act, 2013 / RBI guidelines shall be presented to the Board of Directors for its approval.