SMFG India Credit Company Limited

Policy for Appointment of Statutory Auditors

1. **Background**

Reserve Bank of India, vide circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, has issued detailed guidelines for appointment of Statutory Auditors (SA/SAs) of NBFCs. As per RBI circular, Company, is required to formulate a Board Approved Policy for appointment of SA and host it on its official website / public domain.

2. **Applicability**

This Policy will be applicable to the Company for Financial Year 2021-22 and onwards in respect of appointment / reappointment of SAs.

3. **Communication to RBI on appointment**

The Company shall inform RBI about the appointment of SAs for each year by way of a certificate in Form-A, annexed (**Annexure 1**) to this Policy within one month of such appointment. In the subsequent year of the appointment, Form A shall be submitted by the Company within one month of the appointment.

4. **Number of SAs and branch coverage**

Number of SAs

i. If company's asset size as on March 31 of previous year is ₹15,000 crore and above, the statutory audit of the Company shall be conducted under joint audit by a minimum of two SAs.

ii. The number of SAs to be appointed over and above the mandatory requirement for a financial year shall be decided, inter alia, taking into account the following factors:
   a. the size and spread of assets, accounting and administrative units,
   b. complexity of transactions,
   c. level of computerization,
   d. availability of other independent audit inputs,
   e. identified risks in financial reporting, etc.

   NBFCs with asset size up to ₹ 500,000 crore can appoint maximum 4 audit firms as SAs as per RBI guidelines.

iii. Before appointment of SAs, the Company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms. The term 'same network' as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control of audit firms.

iv. The Company shall finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with the SAs.

Branch Coverage

SAs shall visit and audit at least the Top 20 branches / Top 20% branches of the Company (in case number of branches are less than 100); to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Company. In addition, the Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

5. Eligibility criteria

Before appointment of SAs the Company needs to ensure that audit firm(s) are fulfilling the eligibility norms as prescribed in "**Annexure 2"** annexed to this Policy**.** The Company shall obtain a certificate, along with relevant information in Form B (Annexure 3) annexed to this Policy, from the SAs proposed to be appointed by the Company to the effect that the firm 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 of SAs of the Company, under the seal of the said audit firm.

6. Independence of Auditors

Audit Committee of the Board (ACB) will ensure independence of the Auditors.

i. ACB 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 would be flagged to the Board and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.

ii. In case the management of the Company, is of the view that, independence of auditors may be compromised, the same would need to be informed to ACB on immediate basis for further assessment.

iii. In case SAs observe 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.

iv. Internal auditors / Concurrent auditors of the Company will not be considered for appointment as SAs of the Company.

v. Entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework') to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.

vi. 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 concerned entities which may not normally result in a conflict of interest, and the Company shall take its decision in this regard, in consultation with the ACB.

   A conflict would not normally arise in the case of the following special assignments (indicative list):

   a. Tax audit, tax representation and advice on taxation maters
   b. Audit of interim financial statements.
   c. Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements or by the lenders of the Company
   d. reporting on financial information or segments thereof

vii. The restrictions as detailed in point (iv), (v) and (vi) above, should 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.

7. Professional standards of SAs and review of performance

i. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
ii. 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.
iii. In the event of lapses in carrying out audit assignments resulting in misstatement in 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.

8. Tenure, rotation and reporting:

i. To protect the independence of the auditors/audit firms, the appointment of SAs will be for a continuous period of three years, subject to the SAs satisfying the eligibility norms each year.
ii. Further, if the SA is removed before completion of term, then the Company 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.
iii. An audit firm would not be eligible for reappointment as SA of the Company for six years (two tenures) after completion of full term of 3 years or part of the term of the audit tenure.

9. 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 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 computerization, identified risks in financial reporting, etc.
iii. The ACB shall approve the audit fees of SAs or ACB can authorize CEO or / and CFO of the Company to finalize and approve the audit fees as per the relevant statutory/regulatory instructions.

10. Statutory auditor appointment procedure

The Company has in place detailed procedural guidelines, in conformity with the instructions under this policy and all relevant statutory/ regulatory requirements for appointment of Statutory Auditors.

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11. Definitions

Term used	Definition
RBI	Reserve Bank of India
NBFC	Non-Banking Finance Company
SA	Statutory Auditor
Same network of audit firms	Firms operating or functioning under the same brand name, trade name or common control of audit firms
ACB	Audit Committee of Board
SSM	Senior Supervisory Manager
RO	Regional Office
Large Exposure	As defined in RBI instructions on 'Large Exposures Framework'
CEO	Chief Executive Officer
CFO	Chief Financial Officer
FCA	Fellow Chartered Accountant
FTPs	Full time partners
CISA	Certified Information system Auditor
ISA	Information system Audit
ICAI	Institute of Chartered Accountants of India
CA	Chartered Accountant
RRB	Regional Rural Bank
UCB	Urban Co-operative Bank
CAATT	Computer Assisted Audit Tools
GAS	Generalized Audit Software
NFRA	National Financial Reporting Authority

12. Policy Review

In case of any subsequent changes in the provisions of the RBI Regulations, the relevant amended provisions would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

This Policy shall be reviewed by the Board at least once in a year and shall be amended as and when any changes are to be incorporated in the Policy due to change in applicable law /regulations. or as may be felt appropriate.

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Annexure- 1

Form A

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

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.
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.
The firm has no past association/association for years with the Company as SCA/SA/SBA.
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:

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Annexure – 2

Eligibility Criteria for Appointment as SA

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
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 Crore	2	1	1	6	8

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.

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 Chartered Accountants Act, 1949.
d) The Board/ACB shall examine and ensure that 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: Audit experience shall mean experience of the audit firm as Statutory Central/ Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ 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 Consideration

1) The audit firm, proposed to be appointed as SAs of the Company, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.

2) 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.

3) 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.

4) If Partner of a Chartered Accountant firm is a director in any group entity which is regulated by RBI/NHB, the said firm shall not be appointed as SA of any of the Company.

5) The auditors for entities with asset size above ₹1,000 crore 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 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. In such a scenario, the audit firm and the Company will approach the RBI for necessary permission.

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Annexure 3

Eligibility Certificate form (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 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 / directors[15] 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: