

Policy for Appointment / Re-appointment of Statutory Auditors

1. Background

Reserve Bank of India (RBI) vide notification No. RBI /2021-22/25 Ref. No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated 27.4.2021 has issued set of guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

These guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs for Financial Year 2021-22 and onwards in respect of appointment / reappointment of SCAs / SAs of the Entities. However, non-deposit taking NBFCs with asset size below Rs.1,000 Crore have the option to continue with their extant procedure.

Consequently, Shriram Housing Finance Limited being an HFC is required to take necessary steps in order to fall in line with the said directions.

The notification stipulates detailed conditions on the eligibility, procedures, etc. for selection and appointment of Statutory Auditors. The Directive *inter-alia* requires Regulated Entities (RE) to put in place a Board approved policy for selection and appointment of Statutory Auditors for the financial year 2021-22 and onwards.

2. Objective of the policy

The objective of the policy is to lay down a framework of guidance and procedures for appointing Statutory Auditors in compliance with the RBI Directions and the Companies Act, 2013.

3. Definitions of the terms used:

“RBI” means Reserve Bank of India “RE” means Regulated Entity.

“SCA” means Statutory Central Auditor “SA” means Statutory Auditor.

“Company” and “SHFL” means Shriram Housing Finance Limited

4. Applicability of the Policy

The policy formulated for appointment of Statutory Auditors is effective from financial year 2021-22.

5. Number of Statutory Auditors

As per RBI regulation, the requirement of having minimum number of auditors shall be based on the asset size of the regulated entities which is tabled below:

Total Assets Size (in Rs. crore)	Minimum	Maximum
Upto 15,000	1	4
Above 15,000 and upto 5,00,000	2	4
Above 5,00,000 and upto 10,00,000	2	6
Above 10,00,000 and upto 20,00,000	2	8
Above 20,00,000	2	12

The Company shall decide on the number of SAs after considering 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. subject to the minimum prescribed by RBI.

Since, the asset size of SHFL falls within the first category, SHFL will appoint one audit firm for conducting statutory audit which will be commensurate with the its asset size of the Company.

6. Eligibility Criteria of Auditors

The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

A. Basic Eligibility

Asset Size of Company as on 31 st 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 Profession al staff Note 4
Above Rs.1,000 crore and Up to Rs. 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 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.

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 pad 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 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 / stenographers / 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 Conditions

- (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 an RBI Regulated group Entity, the said firm shall not be appointed as SA of the Company. The Company shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
- (v) The SAs 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 shall 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, the Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

7. Independence of Auditors

7.1 The Audit and Risk Management 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, standards, and best practices. Any concerns in this regard may be flagged by the Audit Committee to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.

- 7.2 In case of any concern with the Management of the Entities such as non-availability of information / non-cooperation by the Management, which may hamper the audit process, the Statutory Auditor shall approach the Board of the Company, under intimation to the concerned SSM / RO of RBI.
- 7.3 Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity.
- 7.4 The time gap between any non-audit works (services mentioned at Section 144 of the Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditor for the Company any audit / non-audit works for group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest. Such activities may include but not limited to activities such as Tax audit, tax representation and advice on taxation matters, Audit of interim financial statements. Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements, reporting on financial information or segments thereof etc. The Company shall take appropriate decision in this regard in consultation with the Audit and Risk Management Committee of the Board. However, if an audit firm is involved in any non-audit work with the Company and/or any audit/non- audit work in other RBI Regulated Group Entities and completes or relinquishes the said assignment prior to the date of appointment as SA of the company for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Company for FY 2021-22.
- 7.5 The restrictions as detailed in para 8.3 and 8.4 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.

8. Professional Standards required of Statutory Auditor

- 8.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 8.2 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 shall be sent with the approval / recommendation of the ACB, with the full details of the audit firm.
- 8.3 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.

9. Tenure and Rotation

- 9.1 To protect the independence of the auditors/audit firms, Company should appoint the Statutory Auditor for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. For removing the Statutory Auditor before completion of three years tenure, 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.
- 9.2 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. (In case an audit firm has conducted audit of the Company for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Company for six years from completion of part-tenure.) However, audit firms can continue to undertake statutory audit of other Entities.
- 9.3 One audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Company 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 and they will be considered for allotment of Statutory Audit accordingly. Shared / Sub-contracted audit by any other / associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

10. Audit Fees and Expenses

- 10.1 The audit fees for SAs shall be decided in terms of the relevant statutory / regulatory provisions.
- 10.2 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.
- 10.3 The Board / ACB shall make recommendation to the competent authority as per the relevant statutory / regulatory instructions for fixing audit fees of SAs.

11. Procedure to be followed for Appointment of SCAs/SAs

- 11.1 The Company shall shortlist minimum of two audit firms for every vacancy of SA.
- 11.2 The Company shall obtain a certificate as per prescribed format (Annexure II Form B) from the audit firm proposed to be appointed as SAs confirming its compliance with all the eligibility norms prescribed by RBI. 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.

11.3 The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

11.4 Thereafter, the Company shall submit the information to RBI in the prescribed format (Annexure I -Form A) within 30 days of such appointment.

12. Review of the policy.

The Audit Committee of the Board and Board of the Company may review the policy as and when required.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended appropriately. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

13. The Board approved Policy will be hosted on the Company's official website.

FORM A

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

1. 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.
2. 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.
3. The firm has no past association/association for _____ years with the company as SCA/SA/SBA.
4. 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:

FORM B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

Asset Size of Entity as on 31 st 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 Yearsof Audit Experience# Number of Professional staff

*Exclusively associated in case of all Commercial Banks (excluding RRBs), andUCBs/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 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)

Date:

(For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.)