



**POLICY FOR APPOINTMENT/RE-APPOINTMENT OF STATUTORY  
AUDITORS**

## **SBFC FINANCE PRIVATE LIMITED**

### **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<sup>th</sup> April, 2021 had issued a 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 2021-2022 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. SBFC Finance Limited is required to take steps to comply with the directive since its asset size is above Rs. 1,000 crore. The notification stipulates detailed conditions on the eligibility, procedures etc. for selection and appointment of Statutory Auditors. The guidelines, inter- alia, requires Regulated Entities (RE) to put in place a Board approved policy for selection and appointment of Statutory Auditors.

#### **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 Directives and Companies Act 2013.

#### **3. Definitions of the terms used:**

**"ACB"** means Audit Committee of the Board of Directors.

**"Company"** and **"SBFC"** means SBFC Finance Private Limited (Erstwhile Small Business FinCredit India Private Limited).

**"RBI"** means Reserve Bank of India.

**"RE"** means Regulated Entity.

**"Entities"** or **"Regulated Entity"** means All Commercial Banks (Excluding RRBs), All Primary (Urban) Co-operative Banks (UCBs), All Non-Banking Finance Companies (NBFCs) (Including Housing Finance Companies).

**"NBFCs"** means Non-Banking Finance Companies registered with the RBI.

**"SCA"** means Statutory Central Auditor.

**"SA"** means Statutory Auditor.

#### **4. Applicability of the Policy**

The policy is applicable for appointment of Statutory Auditors with immediate effect.

#### **5. Notification requirement to RBI and Registrar of Companies, Ministry of Corporate Affairs, Government of India:**

- (a) The Company shall inform appointment of auditor to the RBI in the prescribed Form A (Annexure 1) each year within one month of such appointment.
- (b) The Company shall file the notice of appointment of auditors with Registrar of Companies, Ministry of Corporate Affairs, Government of India within 15 days of appointment in eForm ADT-1 or within such period as may be prescribed under the Companies Act, 2013.

#### **6. Number of Statutory Auditors**

As per RBI stipulation, if the asset size of the Company is Rs. 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 audit firms (Partnership firms/Limited Liability Partnerships (LLPs)). In case asset size is below Rs. 15000 Crore then the Company should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Company 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 SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs. The Company is free to go for higher number as per limits prescribed by RBI from time to time. 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.

#### **7. Work Allocation between the joint Auditors**

The Company shall finalize the work allocation among the statutory auditors, before the commencement of the statutory audit, in consultation with them, as and when joint auditors are appointed.

## 8. 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 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. <b>(Note: 1)</b>	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 <b>(Note: 2)</b>	Minimum No. of years of Audit Experience of the firm <b>(Note: 3)</b>	Minimum No. of Professional staff <b>(Note: 4)</b>
Above Rs. 15,000 crore	5	4	2	15	18
Above Rs. 1,000 crore and Up to Rs. 15,000 crore	3	2	1	8	12
Upto Rs.1,000 crore	2	1	1 *	6	8

\* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 crore.

**Note 1:** There should be at least one-year continuous exclusive 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 exclusive association with the firm for at least 10 years.

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 the Chartered Accountants Act, 1949.

**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 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 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. Further, if any partner of a Chartered Accountant firm is a director in the Company, the said firm shall not be appointed as SA of any of the group entities 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 Company 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 31<sup>st</sup> 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.

### **9. Independence of Auditors**

- (a) The Audit 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.
- (b) 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 Statutory Auditor shall approach the Board of the Company, under intimation to the concerned SSM/RO of RBI.
- (c) Concurrent auditors of the Company should not be considered for appointment as SCAs/SAs of the same Company.

- (d) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditor for the Company or 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 Committee of the Board.
- (e) The restrictions as detailed in para 9.2 and 9.3 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.

#### **10. Professional Standards required of Statutory Auditor**

- (a) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (b) 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.
- (c) 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.

#### **11. Tenure and Rotation**

- (a) 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.

- (b) 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.)
- (c) One audit firm can concurrently take up statutory audit of a maximum of eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for the 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.

## **12. Audit Fees and Expenses**

- (a) The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions, as applicable.
- (b) 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.
- (c) The Board/ACB shall make recommendation to the competent authority (Shareholders in AGM/EGM) as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

## **13. Procedure to be followed for Appointment of SCAs/SAs**

- (a) The Company shall shortlist minimum of two audit firms for every vacancy of SA.



- (b) The Company shall obtain a certificate as per prescribed format (Annexure II Form B) from each of the audit firms proposed to be appointed as SAs that it complies 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. The Company shall also obtain a Certificate as per Section 139 of the Companies Act 2013 and Rule 4(1) of The Companies (Audit and Auditors) Rules, 2014.
- (c) 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 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.
- (d) The notice of appointment of auditors shall be filed with Registrar of Companies, Ministry of Corporate Affairs, Government of India within 15 days of appointment in eForm ADT-1 or such period as permitted under the Companies Act, 2013, from time to time.
- (e) The Company shall submit the information to RBI in the prescribed format within 30 days as prescribed in the RBI directive (Annexure I - Form A).

#### **14. Review of the policy, regulatory changes and conflict:**

The Audit Committee of the Board and / or Board of the Company may review the policy as and when required / need based.

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. If at any time, this Policy conflicts with the applicable guidelines / circulars / regulations issued by the Reserve Bank of India governing the subject matter of this Policy, the provisions of such guidelines / circulars / regulations shall prevail over this Policy. Any word(s) not defined in this Policy and defined in the RBI vide notification No. RBI/2021-22/25 Ref. No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated 27th April, 2021 shall have meaning provided in the said RBI circular.

#### **15. Hosting**

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

Approved on 08/09/2021

Annexure I

**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:

Annexure II

**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 Rs. 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.)