

Policy for appointment of Statutory Auditors for the Company

Introduction:

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 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.

Profectus Capital Private Limited (PCPL) in compliance with RBI circular no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 is adopting the following policy on appointment of Statutory Auditors (SA).

Highlights of the Policy:

The key highlights of the policy is as under;

- 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 (Form A) within one month of the appointment.
- iii) For NBFCs with asset size of up to ₹ 15,000 Crore as at the end of previous year, the statutory audit should be conducted by minimum one audit firm. The guidelines also prescribe the maximum number of SAs required, based on the asset size of the NBFC. It shall be ensured that joint SAs of the entity do not have any common partners and they are not under the same network of audit firms.
- 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.

Objective of the Policy:

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.

Number of SAs and Branch Coverage:

Based on the guidelines, the Company with an asset size of more than 1,000 crores and less than 5,00,000 crores as on the last reporting period ie March can appoint a minimum of 1 SA and a maximum of 4 SAs. The Board will decide on the number of SAs to be appointed taking into account relevant factors like 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.

As per the guidelines, all NBFCs shall ensure adherence to the provisions of section 143(8) of The Companies Act 2013 regarding audit of accounts of all branches.

In case of PCPL, the appointment will be restricted to 1 SA and the audit will be conducted at the Corporate office for the following reasons;

- 1) Centralised accounting - The Company's accounts are maintained at the Corporate office in Mumbai and all necessary accounting records are available centrally;
- 2) Level of automation – Access to the accounting system (SAP), all loan management and peripheral systems, is available online for audit purposes. Further, the Company has digitised the operations to a great extent, eliminating maintenance of physical records for the purpose of audit. The Company has a robust retrieval system, whereby documents, records can be made available for audit purposes within reasonable time.

Criteria for Appointment of SAs:

The guidelines have specified the eligibility criteria based on the asset size of the Company as under;

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 : At least two partners of the firm shall have continuous association with the firm for at least 10 years. Full time partners association with the firm would mean exclusive association which is defined as under;

- 1) The full-time partner should not be a partner in other firm/s.
- 2) She/He should not be employed full time / part time elsewhere.
- 3) 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.
- 4) The Board/ACB 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 : 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 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 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.

Along with the criteria mentioned above, PCPL will ensure fulfilling /meeting the criteria as per The Companies Act 2013 for appointment of SAs.

Additional Consideration:

- 1) The audit firm, proposed to be appointed as SCAs/SAs for Entities, 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) PCPL shall ensure that appointment of SCAs/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 any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities of that Entity.
- 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.

The above mentioned eligibility criteria and performance will be monitored by the Board / ACB on an annual basis.

Procedure for Appointment of SAs:

Guided by the RBI guidelines, PCPL prescribes the procedure for appointment of SAs as under;

- i) PCPL shall shortlist minimum of two audit firms for every vacancy of SA
- ii) PCPL shall obtain a certificate (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.
- iii) 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.

Tenure and Rotation:

PCPL will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

In the event of removal of SAs before completion of three years tenure, PCPL 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.

An audit firm which has completed one term (3 years) of audit of PCPL would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure

Audit fees and expenses:

PCPL shall ensure that the audit fees of the SA 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.

The Board/ACB shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

Review:

The Company will abide by all guidelines, directives instruction and advices of Reserve Bank of India as will be in force from time to time. The content of this policy shall be read in conjunction with above mentioned RBI guidelines.

Any other regulatory changes in this regard will stand updated in the policy from time to time.