

Policy on Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs)

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Policy Owner: Chief Financial Officer

1. **Preamble:**

Reserve Bank of India, vide its circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, has issued detailed guidelines for appointment of Statutory Auditors (SAs) of Non-Banking Finance Companies (NBFCs) under provisions of Chapter IIIB of RBI Act, 1934. All prior guidelines on the subject have been superseded by these guidelines.

2. **Applicability:**

These guidelines are applicable to Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs from Financial Year 2021-22 onwards in respect of appointment/reappointment of Statutory Auditors (SAs) of the entities. As these guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for UCBs and NBFCs from FY 2021-22, and therefore they can have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

3. **Statutory Audit Policy and Appointment Procedure**

3.1 **Intimation to RBI:**

3.1.1 NIIF IFL does not have to take prior approval of RBI for appointment of SAs. However, the Company needs to inform RBI about the appointment of SAs for each year by way of a certificate in **Form A** as prescribed in RBI circular within one month of such appointment.

3.2 **Number of SCAs / SAs and Branch Coverage**

3.3 In terms of RBI guidelines for entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit is required to be conducted under joint audit of a minimum of two audit firms that can be Partnership firms or Limited Liability Partnerships (LLPs). Before appointment of Auditors, 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 as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

The Company will finalize the work allocation amongst the SCAs / SAs, in consultation with the SCAs/ SAs, before the commencement of the statutory audit for a year.

3.3.1 Following are the extant norms prescribed by the RBI for appointment of maximum number of SCAs/SAs:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

3.3.2 With a view to ensuring that the audits are conducted in a timely and effective manner, NIIF IFL will decide on the number of SCAs / SAs, taking into consideration, *inter alia*, the following factors:

- the size and spread of assets across sectors and geographies,
- accounting and administrative units,
- complexity of transactions,
- level of computerization,
- availability of other independent audit inputs, and
- identified risks in financial reporting, etc.

3.3.3 In terms of audit coverage, the SCAs/SAs shall audit in such a manner so as to cover substantial part of gross advances of the Company.

3.3. Eligibility Criteria of Auditors

Company will appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms given in **Annexure I**.

3.4. Independence of Auditors

3.4.1 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 will be flagged by the ACB to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

3.4.2 In case of any concern with the Management of NIIF IFL such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the ACB (*Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB*) of the Company, under intimation to the concerned SSM/RO of RBI.

3.4.3 Concurrent auditors of the Company will not be considered for appointment as SCAs/SAs. The audit of the Company and any 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.

3.4.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs/SAs for the Company or any audit/non-audit works for its group entities will be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may be permitted to provide such services to the Company which may not normally result in a conflict of interest, and Company's management will take decision in this regard, in consultation with the Board/ACB.

A conflict would not normally be created in the case of the following special assignments (indicativelist):

- (i) Tax audit, tax representation and advice on taxation matters,
- (ii) Audit of interim financial statements.
- (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements or as required under covenants agreed with lenders/investors.
- (iv) reporting on financial information or segments thereof

3.4.5 The restrictions as detailed in immediate above 2 paras, 3.4.3 & 3.4.4, shall 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.

3.5. Professional Standards of SCAs/SAs

3.5.1 The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

3.5.2 The ACB shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs/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.

3.5.3 In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to the Company, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

3.6. Tenure and Rotation

3.6.1 To protect the independence of the auditors/audit firms, NIIF IFL will appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Company will be entitled to remove the audit firms during the above period and 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.

3.6.2 An audit firm will not be reappointed by the Company for a period of six years, after completion of a full term of three years or a part of the term in case their appointment was terminated for any reason whatsoever.

3.7. Appointment Procedure

3.7.1 NIIF IFL shall shortlist minimum of 2 audit firms for every vacancy of SCAs/SAs so that even if firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of SCAs/SAs does not get delayed.

3.7.2 NIIF IFL shall obtain a certificate, along with relevant information as per **Form B as mentioned in RBI Circular**, from the audit firm(s) proposed to be appointed as SCAs/SAs by the Entity to the effect that the audit firm(s) 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 SCAs/SAs of the Entities, under the seal of the said audit firm.

3.8. Audit Fees and Expenses

3.8.1 The audit fees for SCAs/SAs of the Company shall be decided in terms of the relevant statutory/regulatory provisions.

3.8.2 The audit fees for SCAs/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.

3.8.3 The ACB of the NIIF IFL shall make recommendation to the Board of Directors as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

3.9. **Review of the policy:**

3.9.1 The Audit Committee of the Board and Board of the Bank may review the policy as and when required / need-based.

3.9.2 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.

3.9.3 The Board Approved Policy will be hosted on the website of the Company.

Eligibility Criteria for Appointment as SCA/SA

I. 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 shortlisting for considering them as full-time partners. Further, for appointment as SCAs/SAs of with asset size above ₹ 1,000 crore, 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:

- The full-time partner should not be a partner in other firm/s.
- She/He should not be employed full time / part time elsewhere.
- 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.

- (d) 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:

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.

II. Additional Consideration

- (i). The audit firm, proposed to be appointed as SCAs/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) Company will 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.
- (iv) 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 (*Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above*) of that Entity.

- (v) The auditors 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 entity where the accounting and business data reside in order to achieve audit objectives.

III. 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.
