



(CIN:U74899DL1994PLC062407)

## **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS**

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## 1. Background

The objective of this Policy is to lay down the criteria to be considered for selection of statutory auditors ('SA') for Dhani Loans and Services Limited ('Company').

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 ("RBI Circular") 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 policy approved by the Board of Directors ("the Board") to be hosted on its official website and formulate necessary procedures thereunder to be followed for the appointment of SAs.

This Policy shall act as a guideline for establishing proper procedures for determining, inter-alia, qualifications, eligibility and procedure for appointment of the SAs that conform with the extant norms of applicable laws and regulations.

## 2. Objective

The Policy shall act as a guideline for appointment of the Statutory Auditors of the Company. The objective of the policy is to:

- a) Determine the number of SAs based on various parameters;
- b) Criteria for appointment of SAs; and
- c) Procedure to be followed for appointment of SAs.

## 3. Procedural Aspects

### i) Applicability

This Policy will be applicable for appointment of Statutory Auditors by the Company from second half of the financial year 2021-22 and onwards, including any amendments if any, made from time to time by the Regulators.

### ii) Number of SAs and Branch Coverage

Since the asset size of the Company is above ₹1,000 crore and less than ₹15,000 crore as at last reporting period i.e. March 31, 2021, the Company can appoint minimum one SA and maximum four joint SAs.

The Statutory Auditors shall visit and audit at least the Top 20 Branches/ Top 20% of the branches of the Company (in case of Company having less than 100 branches) 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 NBFC. In addition, the Company shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding of audit of accounts of all branches.

### iii) Minimum Eligibility Criteria of Auditors

In accordance with the RBI circular, since the Company's asset size is more than ₹ 1,000 crore and less than ₹15,000 crore, the audit firms shall fulfil the following minimum criteria for being eligible to be considered for appointment as SA of the Company:

- a) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three. At least two partners of the firm shall have continuous association with the firm for at least 10 years.
- b) Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be two.
- c) Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be one.
- d) Minimum number of years of relevant audit experience of the firm should be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI, and
- e) Minimum number of professional staff should be twelve.

Along with the criteria as specified by the RBI, the Company shall appoint the SA's meeting the criteria as per section 141 of the Companies Act, 2013

Any firm under debarment by any Government Agency, National Financial Reporting Authority, the Institute of Chartered Accountants of India, RBI or any other Regulator regulating the Company shall also not be considered eligible for appointment as SA.

The Company shall ensure that appointment of SAs is in line with the Institute of Chartered Accountants of India's Code of Ethics/ any other such standards adopted and does not give rise to any conflict of interest.

#### **iv) Independence of the Statutory 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 ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Mumbai Regional Office (MRO) 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 SAs shall approach the Board/ACB of the Company, under intimation to the concerned SSM/RO of RBI.
- c) Concurrent auditors of the Company will not be considered for appointment as Statutory Auditors. The audit of the Company and any entity with large exposures to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- d) The time gap between any non-audit work i.e. services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc. by the Statutory Auditors of the Company or any audit/non-audit work for the Company's group entities should be at least one year, before or after its appointment as Statutory Auditors. 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, and Company may take their own decision in this regard, in consultation with the Board/ACB.
- e) The restrictions as detailed in para c) and d) above, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

#### **v) Procedure for Appointment of Statutory Auditors**

The RBI circular prescribe the procedure for appointment of SAs, which includes the following:

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

- b. The Company shall obtain a certificate, along with relevant information as per **Form B** (Format of Form B as per RBI circular), 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.
- c. The ACB shall recommend the appointment of the SA to the Board and the Board shall recommend the same for the approval of the shareholders. The 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.

#### **vi) RBI reporting**

The Company will inform the Mumbai Regional Office of RBI (Department of Supervision), with respect to the appointment of SAs for each year by way of a certificate in Form A (as prescribe by RBI) within one month of such appointment.

#### **vii) Tenure and Rotation**

As per the provisions of the Companies Act, 2013; SA can be appointed for two terms consisting of five years each.

However, as per the RBI Circular, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. If the Company removes SAs before completion of 3 years of tenure, it shall inform Mumbai Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company will not re-appoint an audit firm for six years (two tenures) after the completion of full or part of one term of the audit tenure.

RBI being the sectoral regulator, the Company shall appoint the SA as per the RBI guideline.

#### **viii) Audit Fees and Expenses**

The Company shall ensure that the audit fees 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 computerisation, identified risk in financial reporting etc.

The Audit fees shall be approved by the ACB of the Board in consultation with the SA or as permitted by the Shareholders of the Company.

#### **ix) Professional Standards of SA**

The Board/ACB of Company shall review the performance of SA 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/ACB, with the full details of the audit firm.

### **4. Review of the Policy**

This Policy shall be reviewed as and when deemed necessary and will be submitted to the Board for its approval on the recommendation of the ACB. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall stand modified in accordance with regulations.

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