Avendus

AVENDUS FINANCE PRIVATE LIMITED

Policy for Appointment of Statutory Auditors

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1.1	October 20, 2022	Compliance & Finance	Board of Directors	Reference of RBI Circulars
1.2	November 9, 2023	Compliance &Finance	Board of Directors	Reference of Master Direction - RBI(NBFC-Scale Based Regulation)Direction, 2023 added

Background:

The Circular dated April 27, 2021 on 'Guidelines for Appointment of Statutory Central Auditors ("Guidelines") (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs), has been issued by Reserve Bank of India ("RBI") read with RBI Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation)Direction, 2023 as amended from time to time with the basic objectives of putting in place ownership-neutral regulations, ensuring independence of auditors, avoiding conflict of interest in auditor's appointments and to improve the quality and standards of audit in RBI Regulated Entities. These guidelines will also help in streamlining the procedure for appointment of Statutory Auditors across all the Regulated Entities and ensure that appointments are made in a timely, transparent and effective manner.

Pursuant to these Guidelines, the Regulated Entities shall comply with these Guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

Avendus Finance Private Limited (AFPL/the Company) has formulated the following Policy in pursuance of this Circular**.**

1. Number of Statutory Auditors and Branch Coverage:

Since the asset size of AFPL is below INR. 15,000 crore as at the end of previous year and the current volume of business, it shall appoint minimum one audit firm (Partnership firm/LLPs) for conducting statutory audit.

Since all the business operations are centrally driven by the Corporate & Registered Office of the Company, the statutory audit shall cover the branches of the Company, if required by the Auditors.

2. Eligibility Criteria of Auditors:

The Statutory Auditors shall be selected who shall fulfill the eligibility norms set as under:

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 ₹ 1,000 crore and Up to ₹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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as full time partners. Further, for appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities 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.

For all NBFCs with asset size above ₹ 1,000 crore, 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:

(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.
(d) In case of PSBs, the income of the partner from the firm/LLP should not be below the threshold limits prescribed by the Office of C&AG for the purpose of consideration as full-time partners for appointment as auditors of Public Sector Undertakings. For other Entities, the Board/ACB/LMC 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:
For NBFCs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority to firms with full time partners or full time CAs having 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:
For NBFCs, 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

In addition to the basic eligibility, the SA should also fulfill the additional consideration and continued compliance with basic eligibility as mentioned in the Guidelines.

Along with the criteria as specified by the RBI, the Company shall appoint the SA's fulfilling/meeting the criteria as per the Companies Act, 2013.

3. Independence of Auditors:

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)/Regional Office (RO) of RBI.

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 Auditors shall approach the ACB of the Entity, under intimation to the concerned SSM/RO of RBI.

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.

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.

The Audit Committee shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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 of Directors with the full details of the audit firm.

4. 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, pursuant to Guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SA for a continuous period of three years (one term), subject to the firms satisfying the eligibility norms each year.

If the Company removes the SA before completion of three years tenure it shall be subject to the provisions of Companies Act, 2013 and the Company shall inform the 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 would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure.

5. Procedure for appointment of SAs

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

i) The Company shall shortlist minimum of two audit firms for every vacancy of SA.

ii) Company shall obtain a certificate as prescribed in 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.

6. 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.

7. Reporting requirements:

The Company shall inform the Central Office of RBI (Department of Supervision), Mumbai region, about the Appointment of Statutory Auditors for each year by way of certificate as per Form A of the Guidelines within one month of the appointment.

All other clauses mentioned in the Guidelines as applicable to AFPL and the SA appointed shall be adhered to.

8. Review:

This Policy shall be reviewed as and when deemed necessary and/or on annual basis and will be submitted for approval to the Board. Any amendments to the policy required as a result of amendment/modifications to the Companies Act, 2013/ RBI guidelines shall be presented to the Board of Directors for its approval.