

# POLICY FOR APPOINTMENT OF STATUTORY AUDITORS OF THE COMPANY

Latest Review/Amendment Date

Date	Review/ Amendments	Reviewed/ Amendment Approved By
August 5, 2022	Review	Board of Directors

## POLICY FOR APPOINTMENT OF STATUTORY AUDITORS OF THE COMPANY

(Pursuant to RBI Circular RBI/2021-22/25 having Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021)

### 1. Introduction:

- 1.01 Reserve Bank of India (RBI) vide its circular dated April 27, 2021, has issued fresh guidelines for appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) ("RBI Circular"), thereby superseding earlier guidelines issued. Further, RBI on June 11, 2021 published certain clarifications to its circular dated April 27, 2021 in the form of Frequently Asked Questions (FAQs). Accordingly, Paisalo Digital Limited, being a Non-Deposit taking Systemically Important Non-Banking Financial Company (NBFC-ND-SI) has prepared the policy for appointment of Statutory Auditor(s) in line with norms applicable to NBFCs.

### 2. Purpose:

- 2.01 To formulate necessary procedure to be followed for appointment of SAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to RBI guidelines for appointment of SAs, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

### 3. Definitions:

- a) "Audit Committee" means the Audit Committee of the Board.
- b) "Board" means Board of Directors of the Company.
- c) "Company/Paisalo" means Paisalo Digital Limited.
- d) "Statutory Auditor(s) (SAs)" mean Auditors appointed as per the policy to conduct statutory audit of the Company.
- e) "RBI circular" means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22. dated April 27, 2021.
- f) 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. [Note: "AS" means Accounting Standard notified under Companies Act, 2013].
- g) Potential Conflict of Interest –  
Potential Conflict of Interest, with reference to a firm that is being considered for appointment as SAs, may arise, in any of the following circumstances:

- i. the firm is engaged with audit/non-audit works for a Group Entity which is not regulated by RBI
- ii. the audit firm was engaged with audit/non-audit works for a Group Entity which is not regulated by RBI, and not more than one year has elapsed since the completion/relinquishment of such engagement
- iii. a partner of the firm is a director in any of the Group Entities which are not regulated by RBI

However, a conflict would not normally be created in the case of the following special assignments (indicative list):

- i. Tax audit, tax representation and advice on taxation matters.
- ii. Audit of interim financial statements.
- iii. Certificates required to be issued by the SAs in compliance with statutory or regulatory requirements.
- iv. reporting on financial information or segments thereof

#### 4. **Applicability:**

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- 4.01 This Policy will be applicable to the Company from H2 (second half) of FY 2021-22 and onwards in respect of appointment/reappointment of SAs.

#### 5. **Intimation to RBI:**

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- 5.01 The Company shall inform Regional Office of RBI (Department of Supervision) at Delhi about the appointment of SAs for each year by way of a certificate in Form A (Annexure I) within one month of such appointment.

**Note:** In case of appointment of SAs in the General Meeting of the Company pursuant to Section 139 of the Companies Act, 2013, the intimation has to be done within 1 month of the General Meeting. For the remaining tenure, the Audit Committee shall verify the eligibility of the auditor based on the eligibility certificate received from the auditors. Accordingly, in case of ratification, the intimation shall be made within 1 month of the Audit Committee meeting where such ratification is made.

#### 6. **Number of Statutory Auditor(s):**

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- 6.01 Subject to provisions of the RBI Guidelines minimum number of SAs to be appointed by the Company shall be one audit firm (Partnership firm/LLPs) for conducting statutory audit.
- 6.02 The Company, through its Board, shall decide on the number of SAs, for any financial year/period after taking into account 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.

- 6.04 If the Company appoints more than one SAs (Joint Auditors) then the Company shall ensure that Joint Auditors of the Company do not have any common partners and they are not under the same network of audit firms. The Company shall finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.
- 6.04 Considering the above factors and the other requirements of the Company, the actual number of SAs to be appointed, shall be subject to the following limits:

Sr. No.	Assets Size of the Company	Maximum Number of SAs
1	Upto INR 5,00,000 crore	4
2	Above INR 5,00,000 crore and upto INR 10,00,000 crore	6
3	Above INR 10,00,000 crore and upto INR 20,00,000 crore	8
4	Above INR 20,00,000 crore	12

#### 7. Coverage of Audit:

- 7.01 The SAs 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 Company. 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.

#### 8. Minimum Eligibility Criteria of Auditors:

- 8.01 The Company shall adhere to the minimum eligibility criteria as mentioned in the RBI circular for appointment of the SAs considering the asset size of the Company.

#### 9. Independence of Auditors:

- 9.01 Audit Committee of the Board of Directors of the Company (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.
- 9.02 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 ACB/ Board of the Company, (Board shall be directly approached only when ACB is non-existent in the Company or the auditors notice a matter of concern involving any member of the ACB) under intimation to the concerned SSM/RO of RBI.
- 9.03 Concurrent auditors of the Company should not be considered for appointment as SAs. 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.

- 9.04 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SAs for the Company or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Company, which may not normally result in a conflict of interest<sup>1</sup>, and Company may take their own decision in this regard, in consultation with the Board/ACB.

*<sup>1</sup>A conflict would not normally be created in the case of the following special assignments (indicative list):*

- i. Tax audit, tax representation and advice on taxation matters,*
- ii. Audit of interim financial statements,*
- iii. Certificates required to be issued by the SAs in compliance with statutory or regulatory requirements,*
- iv. reporting on financial information or segments thereof.*

- 9.05 The restrictions as detailed in para 9.3 and 9.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## 10. Professional Standards of Statutory Auditors:

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- 10.01 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 10.03 The ACB of the Company 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 should be sent with the approval/recommendation of the ACB, with the full details of the audit firm.
- 10.03 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:

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- 11.01 In order to protect the independence of the auditors/audit firms, Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Company can remove the Statutory Auditors before completion of three years tenure 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.

- 11.02 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<sup>2</sup>.  
*<sup>2</sup>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.*

- 11.03 An audit firm proposed to be appointed as Statutory Auditor of the Company, can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year, A group of audit firms having common partners and/or under the same network, will be considered as one entity. 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

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- 12.01 The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- 12.02 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.
- 12.03 The Board/ACB shall make recommendation to the competent authority (Shareholders in AGM) as per the relevant statutory/regulatory instructions for fixing audit fees of SAs

## 13. Statutory Auditor - Appointment Procedure

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- 13.01 Process for appointment of Statutory Auditor:

Company shall approach and receive the expression of interest (EOI) and eligibility confirmation letter for appointment of SAs from audit firms.

Managing Director and One Executive Director/Chief Financial Officer shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditor 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 Statutory Auditor does not get delayed.

After verifying compliance with the eligibility norms as prescribed by RBI; under Companies Act, 2013 and SEBI Listing Regulations for Statutory Auditor, ACB shall select adequate number of the audit firm(s) for recommending the same to Board of Director of the Company.

After selection by the ACB the name of Audit firm(s) shall be put to Board for recommendation to the Shareholders for their approval at the next Annual General Meeting.

13.02 General process to be followed:

The Company shall obtain a certificate, along with relevant information as per Form B (Annexure II), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ continue to act as SAs of the Company, under the seal of the said audit firm.

The ACB shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose.

14. **Review of the policy:**

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

14.02 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.

15. **Hosting of Policy on the website of the Company:**

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

Annexure I

**FORM A**

**Information to be submitted by the Company regarding appointment of Statutory Auditor**

The company has appointed M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor (SA) for the financial year \_\_\_\_ for their 1st/2nd/3rd term.

The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SA of the company for FY \_\_\_\_ along with relevant information in the format as prescribed by RBI.

The firm has no past association/association for \_\_\_\_\_ years with the company as SCA/SA/SBA.

The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of NBFCs.

For Paisalo Digital Limited

(Name and Designation)

Date:



## Annexure I

### 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 wilful 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.