

## **Policy on Appointment of Statutory Auditors**

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### **Hiranandani Financial Services Private Limited**

#### **Policy Control**

<b>Date</b>	<b>Approved By</b>	<b>Owner</b>
October 25, 2023	Board of Directors	Board of Directors
October 28, 2024	Board of Directors	Board of Directors
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## 1. **INTRODUCTION/ BACKGROUND**

Hiranandani Financial Services Private Limited [the “**Company/HFS**”], is a Non-Deposit taking Systemically Important Non-Banking Financial Company [“**NBFC-ND-SI**”] categorised as NBFC-ML (Middle Layer) registered with the Reserve Bank of India [“**RBI**”] under section 45-IA of the Reserve Bank of India Act, 1934 [“**RBI Act**”].

Reserve Bank of India (RBI) vide its notification No. RBI/2021-22/25 having Ref.No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27,2021 has issued a set of “Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)” as amended from time to time [“RBI Guidelines/Directive”].

HFS in compliance with above mentioned RBI Directive, adopting this Policy on “Appointment of Statutory Auditors”

## 2. **OBJECTIVE**

The Objective of this policy is to provide the framework for appointment of Statutory Auditors of the Company by prescribing the number of auditors, eligibility criteria and procedure to be followed for appointment of Statutory Auditors (“SAs”) of the Company in accordance with the extant norms of Reserve Bank of India(“RBI”), Companies Act, 2013 (“the Act”) and other applicable / relevant statutory requirements.

## 3. **APPLICABILITY**

HFS being a Systematically Important Non-Deposit taking Non-Banking Financial Company (Middle Layer NBFC) with an asset size of more than ₹ 1,000 crores, is required to comply with the RBI Guidelines.

All words and expression used herein, unless defined herein, shall have the same meaning as respectively assigned to it or them under the RBI Guidelines.

## 4. **NUMBER OF STATUTORY AUDITOR AND BRANCH AUDIT**

- a. Based on the guidelines, the Company with an asset size of more than 1,000 crores and upto Rs. 5,00,000 crores as on the last reporting period i.e March can appoint a minimum of 1 SA and a maximum of 4 SAs.

The Company shall decide on the number of SAs after considering 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. subject to the minimum prescribed by RBI. Considering the Company's present asset size is below ₹5,00,000 crore, the maximum number of statutory auditors to be appointed shall not exceed four.

Statutory Auditors of the company shall visit and audit at least Top 20 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-.

The company shall ensure adherence to the provisions of section 143(8) of the Companies Act 2013 regarding audit of accounts of all branches.

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.

#### **5. ELIGIBILITY CRITERIA OF STATUTORY AUDITORS**

- i. The audit firm that is being considered for appointment as SA must fulfil the requirements and have the credentials outlined in section 141 of the Companies Act of 2013 (the "Act") or any other applicable law, as amended from time to time, and it shall not be disqualified under the provisions of Companies Act, 2013, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder.
- 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. The appointment of SCAs/SAs shall be in line with the Institute of Chartered Accountants of India's (ICAI) 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 the Company, the said firm shall not be appointed as SCA/SA of any of the group entities of the Company.
- v. Since the Company has asset size above ₹1,000 crore, the proposed audit firm 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 Company where the accounting and business data reside in order to achieve audit objectives.
- vi. One audit firm can concurrently take up statutory audit of a maximum of eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules. A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of statutory auditors accordingly. Shared/sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.
- vii. 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.
- viii. In addition to the above, the minimum standards and eligibility norms as per the RBI Guidelines for audit firms to be appointed as SAs shall be, as given below:

➤ **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	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
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

Since, the Company currently falls under the category of “**above ₹ 1,000 crore and up to ₹15,000 crore**”, the proposed audit firm shall fulfil the eligibility criteria as mentioned in the table above.

➤ **Continued Compliance**

- a. 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 may 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, the Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

**6. INDEPENDENCE OF STATUTORY AUDITORS**

- i. The Audit Committee of the Board of Directors of the Company shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices.
- ii. Any concerns in this regard shall be flagged by the Audit Committee to the Board of Directors of the Company and concerned Senior Supervisory Manager /Regional Office of RBI.
- iii. The time gap between any non-audit works by the Statutory Auditor(s) for the Company or any audit/non-audit works for its RBI regulated group entities (if any), should be at least the

minimum period specified in the RBI Guidelines, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditors, an audit firm may provide such services to the Company which may not normally result in a conflict of interest, as per the applicable provisions of RBI Guidelines and provisions of Companies Act, 2013.

- iv. Such activities may include but not limited to activities such as Tax audit, tax representation and advice on taxation matters, Audit of interim financial statements. Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements, reporting on financial information or segments thereof etc.

#### **7. PROFESSIONAL STANDARDS AND PERFORMANCE REVIEW**

- i. The auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- ii. The Audit Committee 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 and recommendation of the Board, with the full details of the audit firm.
- iii. 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, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory / regulatory framework.

#### **8. PROCEDURE OF APPOINTMENT OF STATUTORY AUDITORS AND INTIMATION TO REGULATORS**

- i. The Company 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.
- ii. The Company shall obtain a certificate along with relevant information in form B (annexed below as Annexure-I) from each of the audit firm(s) proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI and such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal/ rubber stamp 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 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.
- iv. The Company shall intimate such appointment of SA for each year in the format as specified by RBI guidelines, form A (Annexure-II) within one month of such appointment to the concerned Regional office of RBI (Department of Supervision) under whose jurisdiction the registered office of the Company is located.
- v. The company shall inform the auditor concerned of its appointment, and also file a notice of such appointment in form ADT-1 or such other form as may be prescribed, with the Registrar of Companies ("ROC") within fifteen (15) days of the meeting in which the auditor is appointed.

## 9. **TENURE AND ROTATION**

- i. The Company shall appoint the SAs for a continuous period of three years i.e one tenure, subject to the satisfaction of eligibility norms each year.
- ii. The SAs can be removed before completion of three years tenure and the Company 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.
- iii. An SAs would not be eligible for reappointment in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure. 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, it also would not be eligible for reappointment in the Company for six years from completion of part-tenure.

## 10. **APPOINTMENT OF STATUTORY AUDITOR IN CASE OF CASUAL VACANCY**

Any casual vacancy in the office of an auditor shall be filled by the Board of Directors on recommendation from Audit Committee within thirty days from the occurrence of casual vacancy.

In case the casual vacancy is caused as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three (3) months of the recommendation of the Board and the auditor shall hold the office till the conclusion of the next annual general meeting.

## 11. **AUDIT FEES AND EXPENSES**

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions, and 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. **REVIEW OF THE POLICY**

This Policy shall be reviewed periodically to ensure its effectiveness and alignment with regulatory changes. Any updates or amendments to this Policy shall be approved by the Board of Directors. The policy shall be reviewed as and when considered necessary by the Management of the company.

To the extent any change or amendment is required in terms of change in any applicable law or regulations, the applicable law/ regulation shall prevail over the Policy and the Policy shall be read accordingly.