

**Muthoot Vehicle & Asset Finance Limited**

**Policy for Appointment of Statutory Auditors**

**Version Control:**

<b>Version</b>	<b>Date of Adoption</b>	<b>Description</b>	<b>Owner</b>	<b>Approving Authority</b>
1		Framing of the policy for appointment of Statutory Auditors as per RBI notification dated April 27, 2021	Secretarial Department	Board of Directors

## **1. OBJECTIVE & BACKGROUND**

Chapter X of the Companies Act, 2013 and Companies (Audit and Auditors) Rules, 2014 provide for the appointment of Statutory Auditors (SAs) in a Company registered under the Companies Act, 2013.

The Reserve Bank of India (“RBI”) has issued circular bearing Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs), as may be amended or modified, replaced, or substituted from time to time, read with the FAQs issued on June 11, 2021 (“the RBI Guidelines”) for Appointment of Statutory Auditors of Non-Banking Finance Companies. The Guidelines provides necessary instructions for appointment of SAs, the number of auditors, eligibility criteria, tenure and rotation as well as norms for ensuring the independence of auditors.

The objective of this Policy is to lay down the criteria to be considered by the Audit Committee of the Board (ACB) and the Board of Directors of the Company before the appointment of statutory auditors (SAs).

## **2. SCOPE**

This policy shall form the basis for the appointment of SAs. The Company shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder and the regulations/ guidelines/ circulars/ notifications as issued by the Reserve Bank of India.

## **3. APPLICABILITY**

The Guidelines is applicable for NBFCs from Financial Year 2022 onwards and since it is implemented for the first time, NBFCs has flexibility to adopt these guidelines from H2 FY 2022 in order to avoid disruptions. Accordingly, Company shall appoint new SA in H2 FY2022. New SAs will commence audit/limited review from Q3FY2022 once their appointment is approved by the Board. No Prior approval from RBI is required for the appointment of SAs in NBFCs. However, Company need to inform RBI about the appointment of SAs for each year by way of a certificate in Form A within one month of such appointment.

## **4. ELIGIBILITY**

The audit firms to be considered for appointment as SA of the Company shall fulfill the eligibility norms as prescribed in the RBI Guidelines including, number of full-time partners, number of Fellow Chartered Accountants, number of full time partners/paid CAs with CISA/ISA qualification, number of years of audit experience of the firm, minimum number of professional staff and eligibility in terms of Section 141 of the Companies Act, 2013.

The Company shall decide on the number of SAs to conduct joint statutory audit, 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. Considering the above

factors and the requirements of the Company, the actual number of SAs to be appointed shall be decided subject to the limit on minimum and maximum number of SAs prescribed by the RBI Guidelines.

## **5. INDEPENDENCE OF THE STATUTORY AUDITORS**

- 5.1 The 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 shall be flagged by the ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.
- 5.2 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.
- 5.3 Concurrent auditors of the Entity should not be considered for appointment as SAs of the same Entity. The audit of the Entity and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 5.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the 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 SA, an audit firm may provide such services to the Company which may not normally result in a conflict of interest, and Company may take its own decision in this regard.
- 5.5 The restrictions as detailed in para 5.3 and 5.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners

## **6. TENURE & ROTATION OF STATUTORY AUDITORS**

As per the provisions of the Companies Act, 2013, SA can be appointed for two terms consisting of five years each. RBI being the Regulator, the appointment of SA shall be bound by the limitations/restrictions placed under RBI Guidelines.

As per the RBI guidelines, 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 the concerned Regional Office at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company cannot reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

As per Guidelines, one audit firm 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, 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 / one audit firm.

## **7. AUDIT FEE AND EXPENSES**

The Company shall ensure that the audit fees charged by the SAs are 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 risk in financial reporting, etc.

Further, it shall be the discretion of the Company to decide on the quantum of remuneration payable to SA as appointed by the Company, depending upon their respective scope of work.

## **8. REMOVAL OF STATUTORY AUDITORS**

Subject to the provisions of the applicable law, including the Companies Act, 2013, the Company can remove an audit firm during their tenure with the approval of the shareholders complying with the relevant provisions of the Companies Act, 2013 and RBI Guidelines.

As per RBI guidelines, NBFCs removing the SAs before completion of three years tenure 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.

An audit firm would not be eligible for reappointment in the Company for six (6) years (i.e. two tenures of three years each) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other companies.

## **9. REVIEW OF THE PERFORMANCE OF STATUTORY AUDITORS**

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

The Audit Committee 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 Audit Committee, with the full details of the audit firm.

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

## **10. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS**

The Company shall follow Guidelines on minimum procedural requirements given as annexure II of the RBI Guidelines as may be applicable to the Company for appointment of

statutory auditor. The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders.

The Company shall inform concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office falls about the appointment of SA for each year by way of a certificate in **Form A** prescribed in RBI Guidelines within one month of such appointment.

#### **11. CONFLICT IN POLICY**

In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail.

#### **12. AMENDMENTS IN POLICY**

To the extent any change/ amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law, however, notwithstanding such non-modification or pending such modification, the applicable law and regulations (as changed) shall prevail over the Policy, and the Policy shall be read accordingly. Such amended Policy shall be placed before the ACB and the Board for noting and necessary ratification.

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