

GODREJ FINANCE LIMITED

Policy for appointment of Statutory Auditor

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Introduction

Statutory Auditors play an important role in corporate environment. Their role and responsibilities are clearly defined under provisions of Companies Act, 2013, SEBI guidelines (applicable only to listed entities) and other extant laws specific to industry. For Non-Banking Financial Companies (NBFCs), Reserve Bank of India (RBI) has specified several confirmations / certifications which are to be given by Statutory Auditors to RBI and to the Board of Directors of NBFCs.

On 27th April 2021, RBI issued Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) (RBI Guidelines) which prescribes detailed guidelines for qualification, appointment, and review of Statutory Auditors. Further, RBI issued FAQs on these guidelines on 11th June 2021.

A Policy for Appointment of Statutory Auditors (Policy) is being drafted to regulate and prescribe the conduct of the Company for actions related to Statutory Auditor.

Regulatory Guidelines

Following guidelines are being considered with respect to Statutory Auditors:

- Companies Act, 2013 and applicable Rules,
- Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) issued by RBI and FAQs issued thereupon

Applicability & Policy Requirement

RBI Guidelines are applicable on NBFCs including HFCs from FY 2021-22 onwards and onwards in respect of appointment/reappointment of SCAs/SAs¹ of the Entities.

Definition

Auditor means Statutory Auditor of the Company appointed to conduct audit of the Company as per Companies Act, 2013 and RBI Guidelines

Conflict – A conflict would not normally be created in the case following special assignments (indicative list) are undertaken by Auditors for company:

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

Group – 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 Ind AS 27), Joint venture (defined in terms of Ind AS 31), Associate (defined in terms of Ind AS 28), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party defined in terms of Ind AS 24. For clarification reference to Group Entities mean RBI regulated entities in Group.

Large Exposure shall be as defined under RBI framework

RBI Guidelines means the Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) issued by RBI on 27th April 2021 and FAQs issued thereafter.

Total Assets means total assets of a company.

Statutory Auditors – Principal Guidelines

Eligibility

- a. Auditor should meet eligibility criteria as provided in Annexure I,
- b. Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity,
- c. An audit firm should not take audits of more than 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, and within overall ceiling prescribed by any other statutes or rules,
- d. Auditor to provide confirmation of eligibility with extant regulations in format provided at Annexure II
- e. Auditor has to comply with all eligibility norms prescribed in Company Act, 2013

Other Services

- a. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Auditors 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 Auditors,
- b. During the tenure as Auditor, an audit firm may provide such services to the Company which may not normally result in a conflict of interest provided these activities approved by their Audit Committee,

Tenure

- a. Statutory Auditor to be appointed for a continuous period of three years, subject to the firms satisfying the eligibility norms each year,
- b. An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure
- c. In event, company removes Auditor before completion of three years tenure it 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

Lapse

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

Fees

- a. The audit fees shall be decided in terms of the relevant statutory/regulatory provisions,
- b. The audit fees 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.

Continuation of existing Firm

- a. The existing Auditors can continue only if they fulfil the eligibility criteria and have not completed the stipulated tenure of three years as Auditors of a RBI regulated entity,
- b. 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 is required to approach Company with full details,
- c. 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.

- d. 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, Company shall apply to RBI which has the discretion to allow the concerned audit firm to complete the audit, as a special case.

Procedure for Appointment of Auditor

RBI Guidelines allow for continuation of existing auditors for the remaining term subject to them meeting the prescribed criteria on continuing basis. For appointment of new Statutory auditors, following procedure shall be followed:

1. Shortlisting of minimum 2 firms who meet Eligibility Criteria (Annexure I) and provide certificate regarding same,
2. Placement of shortlisted firms details before Audit Committee of Board for review and recommendation to Board,
3. Review and recommendation of Audit firm by Board to Shareholder,
4. Review and approval of Audit Firm by Shareholders,
5. Intimation of appointment to RBI and filing of forms as per Companies Act, 2013

Role of Audit Committee of Board

1. To review the performance of Auditors on an annual basis,
2. To report any serious lapses/negligence in audit responsibilities or conduct issues on part of the Auditors or any other matter considered as relevant to be reported to RBI within two months from completion of the annual audit,
3. To monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards, and best practices,
4. To flag concerns on independence of Auditors to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI,
5. To make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs,
6. To ensure that there is no conflict of interest and independence of auditors is ensured in event an audit firm is engaged with audit / non-audit works for the Group Entities (which are not regulated by RBI) and is being considered by any of the RBI Regulated Entities in the Group for appointment as Auditor, and to record the non-conflict in the minutes of the meetings,
7. If the Auditor is conducting audit of any entity with large exposure to the Entity for the same reference year, then to explicitly factor the matter while assessing independence of the auditor

Statutory Auditor – Operational Guidelines

- Auditor to ensure eligibility with the guidelines on continuing basis and confirm eligibility on annual basis,
- Auditor shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence
- Auditor to visit and audit at least the Top 20 branches / Top 20% of the branches of Company, which is 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 Entities,
- Provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches to be followed,
- If audit firm is being considered by any of the RBI Regulated Entities in the Group for appointment as Auditor, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board.

Other Services

Auditor may provide different services to Company or to other Group Companies. Following shall be adhered:

Service Receiver	Type of Service
Non-Audit Services to Company	Time gap to be 1 year before or after appointment as Statutory Auditor, Can be provided during tenure subject to no conflict of interest ascertained by Audit Committee
Audit / Non-Audit Services to RBI Regulated Entities in Group	
Audit / Non-Audit Services to other entities	Can be provided subject to no conflict of interest ascertained by Audit Committee

Reporting & Disclosure

- Annual Information to RBI about appointment of Statutory Auditor as per certificate provided in Annexure III within 1 month of appointment along with:
- Auditor is complying with eligibility norms,
- Audit Committee has confirmed that there is no conflict of interest
- Policy to be hosted on Company's official website,

Review & Update

- There shall be an annual review of the Policy by the Board of Directors,
- Board of Directors can at any time modify or amend, either the whole or any part of Policy

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Annexure I – Eligibility Criteria

Eligibility Criteria for Appointment as SCA/SA

A. 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 ₹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

* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 crore.

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 Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size above ₹ 1,00 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:

- The full-time partner should not be a partner in other firm/s.
- She/He should not be employed full time / part time elsewhere.
- 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.
- 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 UCBs and 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 Commercial Banks (excluding RRBs), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. For UCBs and 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.

B. Additional Consideration

- (i) The audit firm, proposed to be appointed as SCAs/SAs for Entities, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- (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 Entities shall ensure that appointment of SCAs/SAs is in line with the ICAI's 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 any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities¹³ of that Entity.
- (v) The auditors for Entities with asset size above ₹1,000 crore 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 Entities where the accounting and business data reside in order to achieve audit objectives.
- (vi) For audit of UCBs, the SA of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the state in which the UCB/branch of the UCB is located.

C. Continued Compliance with basic eligibility criteria

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 Entity 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

¹³ For the purpose of this circular, 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.

Annexure II – Declaration by Auditor

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 (FTP)s 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 ₹ 1,000 crore**

#Details may be furnished separately for experience as SCAs/SAs and SBAs.

B. Additional Information:

- Copy of Constitution Certificate.
- 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.
- 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.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- 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 / directorshave 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:

Annexure III – Intimation to RBI

Information to be submitted by the NBFCs regarding appointment of SCA/SA

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

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

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

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

Signature

(Name and Designation)

Date: