

Arohan Financial Services Limited

Policy on Appointment of Statutory Auditor

Version 1.0

Prepared by : Accounts Department
Approved by : Board of Directors
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1 BACKGROUND

Reserve Bank of India (RBI) vide its circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and subsequent FAQ had issued guidelines for Appointment of Statutory Auditor (SA) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines requires lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of SA.

2 OBJECTIVE

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditor in compliance with the RBI Directive and Companies Act 2013.

3 SCOPE

This policy shall form the basis for appointment of SA. 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. In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail. Further, in the event any guidance on the regulatory framework/ RBI regulations / guidelines is required; the same shall be referred to the Finance & Accounts / Compliance Department for its final views on the matter.

4 NUMBER OF STATUTORY AUDITORS

The Company is required to decide on the number of SAs based on the guidance provided under this policy.

Minimum number of SA to be appointed by the Company shall be one for conducting statutory audit, if the Company's asset size as on March 31 of previous year does not exceed ₹15,000 Crore. For asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms. The Company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms. The Company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

The number of SAs to be appointed for a financial year shall be decided, inter alia, 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. The actual number of SAs to be appointed shall be decided by Board subject to the following limits:

Asset Size of the Company	Maximum No. of Auditors
Upto ₹5,00,000 crore	4
Above ₹5,00,000 crore and upto ₹10,00,000 crore	6
Above ₹10,00,000 crore and upto ₹20,00,000 crore	8
Above ₹20,00,000 crore	12

5 TENURE AND ROTATION OF STATUTORY AUDITORS

In order to protect the independence of the auditors/audit firms, the Company will have to appoint the Statutory Auditors for a continuous period of three (3) years, subject to the SA satisfying the eligibility norms each year. If the Company removes SAs before completion of three years of tenure, the Company 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.

6 CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS

The RBI guidelines prescribe certain eligibility norms which the audit firms are required to fulfil, based on the asset size of the Company. The Company's asset size, being more than ₹ 1,000 crore and less than ₹ 15,000 crore, the audit firm shall fulfil the following minimum criteria for being eligible to be considered for appointment as auditor of the Company:

- i) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three.
- ii) Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be two
- iii) Minimum one full-time partner / paid Chartered Accountant (CA) with CISA1 / ISA qualification.
- iv) Minimum number of years of relevant audit experience of the firm should be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI, and
- v) Minimum number of professional staff should be twelve.

SA firm shall also adhere to the additional eligibility criteria and continued compliance with basic eligibility criteria as mentioned in the RBI Circular in accordance with the asset size of the Company. 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.

7 PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

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 (Format as prescribed by RBI) 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.

8. INDEPENDENCE OF AUDITORS

The Audit Committee 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 Audit Committee 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 Auditor shall approach the Board of Directors of the Company, under intimation to the concerned SSM/ RO of RBI.

The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditor for the Company or any audit/non-audit works for group entities should be at least one year, before or after its appointment as SCAs/SAs (subject to subsequent FAQ released by RBI). 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. 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. The Company shall take appropriate decision in this regard in consultation with the Audit Committee.

The restrictions mentioned above shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

9. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS:

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

The Board/ACB of the Company 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/ACB, with the full details of the audit firm.

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.

10 AUDIT FEE 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. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.

11 REVIEW

This Policy shall be reviewed as and when deemed necessary and 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.