

**SAKTHI FINANCE LIMITED
COIMBATORE - 18**

**POLICY FOR APPOINTMENT OF
STATUTORY AUDITORS**

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POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

1. INTRODUCTION

- 1.1 Sakthi Finance Limited ("**our Company or SFL**") is a Deposit Taking - Systemically Important Non-Banking Finance Company ("**NBFC-D-SI**") and is registered with Reserve Bank of India ("**RBI**") as an "Investment and Credit Company"(formerly an Asset Financing Company).
- 1.2 The Equity Shares and Non-Convertible Debentures ("**NCDs**") of the Company are listed on the BSE Limited.

2. RBI GUIDELINES FOR APPOINTMENT OF STATUTORY AUDITORS

- 2.1 RBI has, by its Circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27 April 2021, issued Guidelines for appointment of Statutory Auditors of Banks, UCB and Non-Banking Finance Companies ("**RBI Guidelines**").
- 2.2 The RBI Guidelines also lay down the detailed conditions on the eligibility, procedures etc for selection and appointment of Statutory Auditors ("**SAs**").
- 2.3. The RBI Guidelines require NBFCs or Entities to put in place a Board approved policy for selection and appointment of Statutory Auditors ("**Policy for SAs**") for the financial year 2021-22 and onwards. In line with RBI Guidelines, our Company has formulated this Policy for SAs, which is to be documented and approved by the Board of Directors.

3. OBJECTIVE OF THE POLICY

- 3.1 The objective of the Policy for SA is to ensure that appointment of SAs for our Company is in conformity with the RBI Guidelines and the Companies Act 2013.

4. APPLICABILITY

- 4.1 The RBI Guidelines are applicable to our Company with effect from H2 (second half) of the financial year 2021-22 and onwards.
- 4.2 Since our Company's SA, M/s P K Nagarajan & Co., have completed three consecutive years, a different SA must be appointed for financial year 2021-22. Considering factors such as the size and location of assets, accounting and administrative branches, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc., SFL SA must be one audit firm (partnership firm/LLP) for conducting Statutory Audit.

5. ELIGIBILITY CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS

- 5.1 Our company is required to appoint an audit firm as its SA which fulfills the norms as prescribed in **Annexure -1**.

6. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

6.1 The procedure for appointment of SAs is set out in **Annexure - 2**.

7. INTIMATION OF APPOINTMENT OF STATUTORY AUDITORS TO RBI

7.1 Our Company is not required to take prior approval of RBI for appointment of SAs. However, our Company has to inform RBI about the appointment of SAs for each year by way of a certificate in the prescribed **Form A (Refer Annexure -3)** within one month from the date of appointment.

8. INDEPENDENCE OF AUDITORS

8.1 The Audit Committee of the Board ("**ACB**") of our 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.

8.2 Any concerns in this regard may be flagged by the ACB to the Board of Directors of our Company and Senior Supervisory Manager ("**SSM**") / Regional Office ("**RO**") of RBI concerned.

8.3 In case SAs have any concern with the Management of our Company, such as non-availability of information / non-co-operation by the Management, which may hamper the audit process, the SAs shall approach the ACB /Board of our Company, under intimation to the SSM/RO of RBI concerned.

8.4 The time gap between any non-audit works (services mentioned in Section 144 of Companies Act 2013, Internal assignments, special assignments, etc.) by the SAs of our 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, the audit firm may provide such services to the Entities concerned which may not normally result in a conflict of interest and our Company may take their own decision in this regard, in consultation with the ACB / Board.

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

9. PROFESSIONAL STANDARDS OF SAs

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

9.2 The ACB/Board of our Company shall review the performance of SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on the 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/Board, with the full details of the audit firm.

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

10. TENURE AND ROTATION

- 10.1 In order to protect the independence of the auditors/audit firm, our Company shall have to appoint the SAs for a continuous period of three years, subject to the firm(s) satisfying the eligibility norms each year.
- 10.2 For removing the SAs before completion of three years tenure, our Company shall inform SSM/RO concerned at RBI about it, along with reasons/justification for it, within a month of such a decision being taken.
- 10.3 An audit firm would not be eligible for re-appointment in the same Company for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities.
- 10.4 An 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 the overall ceiling prescribed by any other statutes or rules.
- 10.5 For the purpose of the Policy, 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 SA accordingly. 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.

11. AUDIT FEES AND EXPENSES

- 11.1 The audit fees for SAs of our Company shall be decided in terms of the relevant statutory/regulatory provisions.
- 11.2 The audit fees for SAs of our Company shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative branches, complexity of transactions, level of computerization, identified risks in financial reporting, etc.
- 11.3 The ACB / Board of the Company shall make recommendation to the General Body as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

12. REMOVAL

- 12.1 An audit firm appointed as SA may be removed during its tenure with the prior approval of RBI.

13. REVIEW AND AMENDMENT

- 13.1 This Policy for appointment of SAs shall be reviewed or amended by the Board of Directors as and when deemed necessary in order to be conformity with the current regulatory requirements.

Date : 14 August 2021

Place : Coimbatore – 18

(Approved by the Board of Directors at their meeting held on 14 August 2021)

Eligibility Criteria for Appointment as Statutory Auditors

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	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
	Note 1		Note 2	Note 3	Note 4
Above ₹ 1,000 crore and Up to ₹ 15,000 crore	3	2	1	8	12

Note 1: There should be at least one year continuous association of partners with the firm as on the date of empanelment / shortlisting for considering them as full-time partners. Further, for appointment as SAs of NBFCs with an 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 NBFCs with an asset size above ₹ 1,000 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.
- For other NBFCs, the Board/ACB 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

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience

Audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after two (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 shortlisting for considering them as professional staff for the purpose.

B. Additional Conditions

- (i) The audit firm proposed to be appointed as SAs for our company should be duly qualified for appointment as audit or 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) Our Company shall ensure that appointment of 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 NBFC, the said firm shall not be appointed as SA of any of the group Companies of that NBFC.
- (v) The Statutory Auditors 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 NBFCs where the accounting and business data reside in order to achieve audit objectives.

C. Continued compliance with basic eligibility criteria

- i. 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 shall 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.
- ii. 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 audit firm concerned to complete the audit, as a special case.

PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

1. The Company shall shortlist minimum of two (2) audit firms for every vacancy of SAs so that even if the 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 SAs does not get delayed.
2. The Audit Committee of Board has to recommend a SA to the Board of Directors.
3. The Board of Directors, based on the recommendation of Audit Committee, will further recommend the name of SA to the members of the Company.
4. After approval by the members, our Company shall obtain a certificate/declaration, along with relevant information as per **Form B (copy enclosed – Refer Annexure 3)**, from the audit firm proposed to be appointed as SAs by the Company to the effect that the audit firm 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 of SAs of the NBFCs, under the seal of the said audit firm.
5. The Company will issue an appointment letter to the SA.

FORM A

Information to be submitted by the Company regarding appointment of SA

1. The company has appointed M/s _____ Chartered Accountants (Firm Registration Number _____) as Statutory Auditors ("**SA**") for the financial year _____ for their first term.
2. 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.
3. The firm has no past association /association for ____ years with the Company as SA ____.
4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of the NBFC.

Signature

(Name and Designation)

Date:

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 an asset size of more than ₹ 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: