SK Finance Limited

Appointment of Statutory Auditors Policy

2022-23

SUMMARY OF POLICY

Policy Name	Appointment of Statutory Auditors Policy
Regulations	Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs ("Guidelines") vide circular number circular no. Ref.No.DoS.CO.ARG /SEC.01/ 08.91.001/ 2021-22 dated April 27, 2021
Review Cycle	Annually or in the event of any change in regulatory guidelines
Approver	Board of Directors of SK Finance Limited (Formerly known as Ess Kay Fincorp Limited)
Latest Approval/Review Date	April 2022
Version	1.0

CONTENTS

1. INTRODUCTION

1.1 Reserve Bank of India vide circular no. Ref.No.DoS.CO.ARG/SEC.01/08.91.001/ 2021-22 dated April 27, 2021 issued Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs ("Guidelines"). These Guidelines together with the FAQ issued on 11th June, 2021, provide necessary instructions for appointment of SCAs/SAs, the number of auditors, their eligibility criteria, tenure and rotation, etc. while ensuring the independence of auditors.

1.2 In compliance with the provisions of the above Guidelines, the Company is required to formulate a Board approved policy laying down necessary procedure to be followed for appointment of SCAs/SAs ("Policy"). Accordingly, the following Policy is being formulated and adopted by the Board of Directors (BoD) by circular resolution on 13 July 2021.

2. Applicability

2.1 This Policy will be applicable to the Company for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors.

3. Intimation of appointment to RBI

3.1 The Company shall inform the RBI (Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located) about the appointment of SAs for each year by way of a certificate in Form A (format as provided in Annexure III of this Policy) within one month of such appointment.

4. Eligibility for appointment of SAs

4.1 The eligibility norms for appointment of SAs is enclosed as Annexure I to this Policy.

5. Number of Statutory Auditors

5.1 Until, the Company achieve the asset size of 15,000 crore and above as at the end of any previous year, Company shall continue to follow the practice of appointing a minimum of one audit firm for conducting its statutory audit. Once the asset size of 15,000 crore and above as at the end of any previous year is achieved the statutory audit of the Company from the immediately next year shall be conducted under joint audit by a minimum of two SAs firm. Further, whenever it shall be deemed necessary by the Board of Directors ("BoD") that more than one SA is required, they shall be appointed (within the maximum limit prescribed under the Guidelines). The BoD shall determine the same considering 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.

5.2 In case of joint auditors, it shall be ensured that there are no common partners and they are not under the same network ('same network' as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms. Further, the Company shall finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

6. Branch Audit

6.1 As per the guidelines, SAs shall be required to visit and audit at least the 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. In addition, the Company shall ensure adherence to the provisions of section 143(8) of the Companies Act, 2013 regarding audit of accounts of all branches.

7. Tenure and Rotation

7.1 SAs shall be appointed for continuous period of three years subject to the firms satisfying the eligibility norms each year. The Company can remove the SAs before completion of three years tenure without any prior approval to RBI. However, the Company shall inform the concerned RO of RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

7.2 After completion of full or part of one term of the audit tenure, the respective firms would not be eligible for reappointment in the Company for six years.

8. Procedure for Appointment of Statutory Auditors

8.1 The Company shall shortlist minimum two SAs for every vacancy. However, in case of reappointment, during the 3 year tenure, subject to the firms qualifying the eligibility criteria every year and confirmation obtained at the annual general meeting, there would not be any requirement of shortlisting and the Company may reappoint same SAs. SAs eligible for appointment shall provide a certificate, along with relevant information in prescribed Form B (format as provided in Annexure II of this Policy).

8.2 Further, the Company shall inform the RBI (Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located) about the appointment of SAs for each year by way of a certificate in Form A (format as provided in Annexure III of this Policy) within one month of such appointment.

9. Audit Fee payable to SAs

9.1 Audit fee for the statutory audit and limited review audit shall be finalized by the BoD on recommendation of Audit Committee of the Board (ACB), as per applicable statutory provisions, which 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. Fees for other certification work can be finalized by the Management on case to case basis.

10. Independence of Auditors

10.1 Audit Committee of the Board (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 may be flagged by the ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

10.2 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 Statutory Auditors shall approach the Board/ACB of the Company, under intimation to the concerned SSM/RO of RBI.

10.3 Concurrent auditors of the Company should not be considered for appointment as Statutory Auditors. The audit of the Company and any entity with large exposures to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.

10.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditors for the Company should be at least one year, before or after its appointment as Statutory Auditors (Applicable from FY 2022-23 as stated in RBI FAQ released on the subject). 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, and the Company may take their own decision in this regard, in consultation with the ACB.

10.5 The restrictions as detailed in para 10.3 and 10.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

11. Professional Standards of Statutory Auditors

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

11.2 The ACB of Company shall review the performance of SAs appointed under the Guidelines 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 shall be sent with the approval/recommendation of the ACB, with the full details of the audit firm.

11.3 In case of any lapses in carrying out audit assignments resulting in misstatement of Company's financial statements, or any violation of applicable rules, regulation and guidelines regarding the role and responsibilities of the SAs, the SAs would be liable to be dealt with under the said relevant statutory/regulatory framework.

12. Policy Severable

This policy read with RBI Master Direction constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any applicable law, statute or regulation, the same shall be severable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy.

13. Amendment

Any change in the policy shall be approved by the Board of Directors of the Company. Any amendment in the regulatory guidelines shall prevail and necessary amendment shall be carried out at a subsequent date in the policy. The Board of Directors of the Company shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.

ANNEXURE - I

Eligibility for Auditors

Asset Size of Entity as on 31st March of previous year	Minimum No. of Full-Time Partners (FTPs)	Out of total FTPs, Minimum No. of Fellow Chartered Accountants (FCA)	Minimum No. of Full time Partners/ Paid CAs with CISA/ISA Qualifications	Minimum No. of year of Experience of the Firm	Minimum No. of Professional Staff
Above 15,000 Crores	5	4	2	15	18
Above 1,000 Crores and upto 15,000 Crores	3	2	1	8	12
Upto 1,000 Crores	2	1	1*	6	8

NOTE: There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full time partners. The full-time partner's association with the firm would mean exclusive association[1]. Further, for appointment SAs, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

- SAs proposed to be appointed, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- 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.

- The Company shall ensure that appointment of SA 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.

- The 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 Company where the accounting and business data reside in order to achieve audit objectives.

- In case any SAs (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, SAs shall take all necessary steps to become eligible within a reasonable time and in any case, the audit

[1] 'exclusive association' will be based on the following criteria:

(a) The full-time partner should not be a partner in other firm/s.
(b) She/He should not be employed full time / part time elsewhere.
(c) 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.
(d) 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.

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.

- 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. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.

- Before appointment of an audit firm as SA of the Company, there should be a time gap of minimum one year between this appointment and completion of the assignment of any non-audit works given to the same audit firm in Company or completion of any audit/non-audit works in other RBI Regulated Entities in the Group. This stipulation shall be applicable prospectively, i.e. from FY 2022-23.

- The existing SAs of the Company can continue (including as Joint Auditors) only if they fulfill the eligibility criteria and have not completed the stipulated tenure of 3 (three) years as SAs of the Company. Till the appointment of SAs for FY 2021-22 in the Annual General Meeting, as per the requirements of the Circular and applicable statutory provisions, the SAs for FY 2020-21 can continue for the Limited Review for Q1, Q2, etc.

- The Company shall give priority to firms with full time partners or full time CAs having CISA/ISA qualification.

- For NBFCs, audit experience shall mean experience of the audit firm as Statutory Central/ Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/ NBFCs/ AIFIs.

- 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.

ANNEXURE II

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	No. of Full-Time Partners (FTPs) associated* with the firm for a period of three years	Out of total FTPs, No. of FCA Partners associated* with the firm for a period of three years	No. of Full time Partners/ Paid CAs with CISA/ISA Qualifications	No. of year of Experience of the Firm#	No. 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 / directors 15 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:

ANNEXURE III

FORM A

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

1. 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: