



## **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS**

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## **POLICY FOR APPOINTMENT STATUTORY AUDITORS (SAs)**

### **1. Objective:**

The objective of this policy is to lay down the criteria to be considered by the Company before appointment of Statutory Auditors (SAs). This policy is framed in accordance with the Reserve Bank of India's (RBI) circular ref. RBI/2021-22/25, Ref.No.DoS.CO.ARG/ SEC.01/08.91.001/2021-22 dated April 27, 2021, and other applicable provisions. The guidelines issued by RBI is under the provisions of Chapter IIIB of RBI Act, 1934.

### **2. Definitions:**

- (a) "Company" means Muthoot FinCorp Limited
- (b) "ACB" means Audit Committee of the Board.
- (c) "Board" means Board of Directors of the Company.
- (d) "Statutory Auditors (SAs)" means auditors appointed as per this policy to conduct statutory audit of the Company.

### **3. Applicability:**

This Policy is effective from the FY 2021-22 and onwards in respect of appointment/reappointment of SAs of the Company as also for the audit/review for the FY 2021-22 and will be effective from the date of approval of the same by the Board. .

### **4. Reporting of appointment to RBI:**

Although the Company is not required to take prior approval of RBI for the appointment of SAs, it shall inform RBI about the appointment of SAs by way of a certificate in "**Form A**" within one month of their appointment.

### **5. Number of SAs and Branch Coverage:**

- a. Whenever the Company's assets size is ₹15,000 crore and above as at the end of the previous financial year, the statutory audit shall be conducted under joint audit of a minimum of two audit firms which may be either Partnership firms or Limited Liability Partnerships (LLPs). 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, in consultation with its SAs, finalise the work allocation among SAs before the commencement of the statutory audit.
- b. The number of SAs to be appointed for a financial year shall be decided after considering 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 the Board subject to the maximum number as prescribed by RBI from time to time.
- c. The SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Company, 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 advance 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.

## **6. Eligibility Criteria of Auditors:**

The SA(s) should fulfil the eligibility norms as prescribed in **“Annexure-I”**

## **7. Procedure for Appointment/Reappointment of SAs:**

- a. The Company shall obtain a certificate along with relevant information as per Form B from the audit firm(s) proposed to be appointed as SAs by the Company to the effect that the audit firm(s) 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 Company, under the seal of the said audit firm.
- b. After satisfying with their eligibility for appointment, the Company shall shortlist minimum of 2 audit firms for every vacancy of SAs so that even if 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.
- c. The Company shall place the names of shortlisted audit firms before ACB for selection as SAs, which shall consider the same and make recommendation to the Board.
- d. The Board, after satisfying itself with the recommendations of the ACB and also with the compliance of all prescribed statutory and regulatory procedures, shall appoint the proposed firm as the SA. .
- e. The Company shall inform RBI about the appointment of SAs by way of a certificate in **“Form A”** within one month of such appointment.

## **8. Independence of Auditors:**

- a) The 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.
- b) In case of any concern with the Management of the Company, 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.
- c) Concurrent Auditors (Internal Auditors ) are not eligible to be considered for appointment as SAs of the Company. However, as clarified by RBI through the respective FAQ, Internal auditors of the Company for the year 2020-21 are eligible to be considered for appointment as its SAs. The audit of the Company and any entity with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- d) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc. excluding the internal audit work for the FY 2020-21) 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 and its group entities which may not normally result in a conflict of interest.
- e) These restrictions should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## **9. Professional Standards and performance review of SAs:**

- a. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b. The Board/ACB of the Company 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 Board/ACB, with the full details of the audit firm.
- c. 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 SAs in relation to Companies, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **10. Tenure and Rotation:**

- a. The Company will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- b. In case the Company removes 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.
- c. An audit firm would not be eligible for reappointment 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.
- d. The Company shall ensure that the SAs appointed by it does not undertake the statutory audit of maximum four Commercial Banks ( including not more than one PSB, or one All India Financial Institution viz., 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 within the overall ceiling prescribed any statutes of rules. For the purpose this 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:**

- a. The audit fees for SAs of the Company shall be decided in terms of the relevant statutory/regulatory provisions and 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.
- b. The Board/ACB of the Company shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

**12. Review of Policy:**

This policy shall be reviewed by the Board in the event of any changes in the applicable RBI guidelines or Statutory/Regulatory requirements or at least once in a year.

**13. Disclosure of Policy:**

The Board approved Policy will be hosted in Company's website.

## **Annexure-I**

### **Eligibility Criteria for Appointment as SA**

#### **A. Basic Eligibility**

<b>Asset Size of Entity as on 31st March of Previous Year</b>	<b>Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years</b>	<b>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</b>	<b>Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification</b>	<b>Minimum No. of years of Audit Experience of the firm</b>	<b>Minimum No. of Professional staff</b>
	<b>Note 1</b>		<b>Note 2</b>	<b>Note 3</b>	<b>Note 4</b>
Above ₹15,000 crore	5	4	2	15	18

#### **Note 1: Minimum Number of Partners:**

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. Further, for appointment as SAs of the Company, at least two partners of the firm shall have continuous association with the firm for at least 10 years. 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 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.
- The Board/ Audit Committee of the Board of Directors (ACB) of the Company 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:**

The Company 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 shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.

**Note 3: Audit Experience:**

The 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 shortlisting for considering them as professional staff for the purpose.

**B. Basic Eligibility:**

1. The audit firm, proposed to be appointed as SAs for the Company, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
2. 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.
3. The 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.
4. If any partner of a Chartered Accountant firm is a director in the Company, the said firm shall not be appointed as SA of any of the group entities of the Company.
5. The auditors for the Company 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.

**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 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.



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.

**FORM A**

**Information to be submitted by the NBFCs regarding appointment of SA**

1. The company has appointed M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as 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 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/SBA.
4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of NBFCs.

**Signature**

**(Name and Designation)**

**Date:**

## **FORM B**

### **Eligibility Certificate from (Name and Firm Registration Number of the firm)**

#### **A. Particulars of the firm:**

<b>Asset Size of Entity as on 31<sup>st</sup> March of Previous Year</b>	<b>Number of Full-Time partners (FTPs) associate d* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associate d with the firm for a period of three (3) Years</b>	<b>Number of Full Time Partners/ Paid CAs with CISA/ISA Qualificatio n</b>	<b>Number of Years of Audit Experience</b>	<b>Number of Professional staff</b>

#### **B. Additional Information:**

1. Copy of Constitution Certificate.
2. 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.
3. Whether the firm has been appointed as 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.
4. Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
5. 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 SAs of the Company (NBFC). 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 willful 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:**