

Srei Equipment Finance Limited

Policy for Appointment of Statutory Auditors

Policy for Appointment of Statutory Auditors			
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1. Preamble

Reserve Bank of India (“**RBI**”) vide its circular dated April 27, 2021, has issued Guidelines for Appointment of Statutory Auditors (“**SAs**”) of NBFCs under provisions of Chapter IIIB of RBI Act, 1934 superseding all previous guidelines issued on the subject (“**RBI Guidelines**”).

These guidelines have been made applicable to the NBFCs for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors (“**SAs**”).

Srei Equipment Finance Limited (“**SEFL**” of the “**Company**”) has resolved to frame a comprehensive policy on appointment of SAs in order to adapt the extant norms of RBI guidelines issued under the provisions of Chapter IIIB of RBI Act, 1934 for NBFCs.

2. Prior Approval of RBI

While SEFL does not have to take prior approval of RBI for appointment of SAs, it needs to inform RBI about the appointment of SAs for each year by way of a certificate in **Form-A** (Annexure-I) within one month of such appointment.

3. Number of Statutory Auditors and Branch Coverage

- 3.1 As per the RBI Guidelines, NBFCs with asset size of ₹15,000 crore and above as at the end of previous year, need to conduct the Statutory audit under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other NBFCs are required to appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.
- 3.2 SEFL shall ensure that joint auditors of the Company do not have any common partners and they are not under the same network of audit firms. Further SEFL shall, if applicable, finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with the SAs.
- 3.3 SEFL would decide on the number of SAs based on the ‘Policy for Appointment of Statutory Auditors’ 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.
- 3.4 The actual number of SAs to be appointed shall be decided by the Audit Committee subject to the limits prescribed by RBI in its Circular as amended from time to time.

3.5 SEFL shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

4. Eligibility Criteria of Auditors

SEFL would ensure that the audit firm(s) appointed as its SA(s) fulfils the eligibility norms as follows:

A. Eligibility Criteria for Appointment as SA as per RBI Guide-lines is as follows:

Asset Sizes 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 <i>Note 1</i>	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 <i>Note 2</i>	Minimum No. of years of Audit Experience of the firm <i>Note 3</i>	Minimum No. of Professional staff <i>Note 4</i>
Upto Rs. 1000 crore	2	1	1	6	8
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
>Rs. 15000 Crore	5	4	2	15	18

* 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 shortlisting for considering them as full time partners.* Further, for appointment as SAs, 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:*

- 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) The Audit Committee 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 RRB)/ 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. Additional Consideration:

- i. The audit firm, proposed to be appointed as SAs, 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. SEFL shall ensure that appointment of SAs is in line with the ICAI's Code of Ethics/any othersuch 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 a group Entity, the said firm shall not be appointed as SA of SEFL or any of its group entity. SEFL shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities*.

*[*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.]*

- v. SAs should preferably have capability and experience in deploying Computer Assisted Au- dit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computer environment of SEFL 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 shall promptly approach SEFL 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 Quarterly/ Half Yearly/ Annual Statutory Audit for Financial Year ending 31st March and till the completion of any such 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, SEFL may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

5. Independence of Auditors

- 5.1 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 practice. Any concerns in this regard may be flagged by the

Audit Committee to the Board of Directors and the Board of Directors shall inform the same to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

*[*A conflict would not normally be created in the case of the following special assignments(indicative list):*

- 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. Statutory Auditor/Internal Auditor in any Group entity;*
- v. Reporting on financial information or segments thereof.]*

- 5.2 In case of any concern with the Management of SEFL such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board*/Audit Committee of SEFL, under intimation to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

*{*Board shall be directly approached only if the auditors notice a matter of concern involving any member of the Audit Committee}*

- 5.3 Concurrent auditors of SEFL, if any, will not be considered for appointment as SAs. The audit of SEFL and any entity with large exposure (as defined in RBI instructions on 'Large Exposures Framework') to SEFL for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 5.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SAs for SEFL or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SA. However, during the tenure as SA, an audit firm may provide such services to SEFL which may not normally result in a conflict of interest” and SEFL will take a decision in this regard, in consultation with the Audit Committee.
- 5.5 The restrictions as detailed in para 6.3 and 6.4 above, will also apply to an audit firm under the same network (as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

6. Professional Standards of Statutory Auditors

- 6.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 6.2 The Audit Committee 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 shall be sent with the approval / recommendation of the Audit Committee, with the full details of the audit firm.
- 6.3 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 SEFL, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework

7. Tenure and Rotation

- 7.1 In order to protect the independence of the auditors/audit firms, SEFL shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- 7.2 In case of removal of SA before completion of three years tenure, SEFL shall inform concerned SSM/RO at RBI about it along with reasons/justifications for the same within a month of such decision being taken
- 7.3 An audit firm would not be eligible for reappointment in SEFL for six years (two tenures) after completion of full or part of one term of the audit tenure*.

*[*In case an audit firm has conducted audit of SEFL for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in SEFL for six years from completion of part-tenure.]*

- 7.4 An audit firm proposed to be appointed as SA of SEFL 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 NBFC and within overall ceiling pre scribed by any other statutes or rules. A group of audit firms having common partners and/or under the same network will be considered as one entity 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.

8. Audit Fees & Expenses

- 8.1 The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- 8.2 The audit fees for SAs 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.
- 8.3 The Audit Committee shall make recommendation to the Board for remuneration of statutory auditors and the same shall be confirmed/fixed in Annual General Meeting or in such manner as may be determined therein.

9. Procedure of Appointment of Statutory Auditor

- 9.1 Applications shall be invited from the Audit firms subject to fulfilling the eligibility criteria as per para 5 above. SEFL 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.
- 9.2 The names of shortlisted Audit firms shall be placed before the Board, in order of preference. Such short listed audit firms may be asked to make a presentation to Board, which shall include all aspects of compliance with RBI guidelines.
- 9.3 SEFL shall obtain a certificate, along with relevant information as per Form B (Annexure II), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of SEFL, under the seal of the said audit firm.

10. Review of the Policy

Audit Committee of SEFL may review the policy as and when required / need-based.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

The Audit Committee approved Policy will be hosted on SEFL's official website

Form – A (Annexure I)

Information to be submitted by SEFL 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.
4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SA of SEFL.

Signature
(Name and Designation)
Date:

Form – B (Annexure II)

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
<p>*Exclusively associated in case of NBFCs with asset size of more than ₹ 1,000 crore #Details may be furnished separately for experience as /SAs</p>					

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 SAs of 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 willful defaulter by any bank / financial institution.

[# For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.]

It is confirmed that the information provided above is true and correct.

Signature of the Partner
(Name of the Partner)
Date: