

SVATANTRA MICRO HOUSING FINANCE CORPORATION LIMITED

POLICY ON APPOINTMENT OF STATUTORY AUDITORS (w.e.f. April 1, 2022)

1. INTRODUCTION:

Reserve Bank of India (RBI) vide its notification No. RBI /2021-22/25 Ref. No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated 27th April 2021 issued Guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) ("RBI Guidelines").

In terms of the RBI Guidelines, this Policy on Appointment of Statutory Auditors ("the Policy") has been recommended by the Audit Committee of the Directors of the Company and approved by the Board of Directors at their respective meetings held on April 29, 2022. In case the applicability of the RBI Guidelines is extended by the RBI, this Policy or part thereof, as the case may be, shall be applicable from such extended date.

In case of any inconsistency between the RBI Guidelines and this Policy, the guidelines issued by RBI from time to time shall prevail and that the Company shall ensure compliance with all the provisions of RBI Guidelines as prescribed in this regard from time to time. This Policy would automatically be deemed to be aligned with the amendments if any in terms of clarification/circular that may be issued by RBI from time to time.

2. OBJECTIVE:

The objective of the policy is to lay down a framework of guidance and procedures for appointing SA who fulfil the eligibility criteria and other conditions prescribed under RBI Guidelines and Other applicable laws.

3. APPLICABILITY:

The Policy will be applicable for appointment of SAs by the Company from financial year 2022-23 and onwards including any amendments, if any made from time to time by the Regulators.

4. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE:

Considering that the asset size of the Company is between ₹ 1,000 crore to ₹ 15,000 crore as at last reporting period i.e., March 31, 2022, the Board / Audit Committee 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 risk in financial reporting etc. shall appoint minimum one SA and maximum 4 joint SAs.

As on date the Company does not have any Branch network. However, if the Company does have any branches in the future, the SAs shall then visit and audit at least the Top 20 Branches/Top 20% of the branches of the Company (in case of Company having less than 100 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 Sec 143(8) of the Companies Act, 2013 regarding of audit of accounts of all branches.

5. ELIGIBILITY CRITERIA OF STATUTORY AUDITORS:

- 5.1 In accordance with the RBI Guidelines, the audit firm(s) shall fulfil the following minimum criteria for being eligible to be considered for appointment as SAs of the Company:

- (i) There should be Minimum 3 (three) full-time partners (FTP) associated with the firm for a period of at least three years.
- (ii) Out of total FTPs, there should be Minimum 2 (two) fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years.
- (iii) There should be Minimum 1 (one) full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification.
- (iv) The relevant audit experience of the firm as Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFI should be minimum 8 (eight) years.
- (v) There should be minimum 12 (twelve) professional staff associated with the firm.

Explanation – FTPs in point no. (i), paid CA(s) in point no. (iii), and professional staff in point no. (v) – should have at least one-year continuous association with the firm as on date of empanelment to be considered as FTPS / paid CA(s) / professional staff in the firm.

(Refer – Annex I of RBI Guidelines for detailed Eligibility criteria)

- 5.2 The audit firm(s) proposed to be appointed as the SA of the Company shall also comply with the other eligibility criteria as mentioned under Section 141 of the Companies Act, 2013 and rules made thereunder.
- 5.3 The audit firm(s) shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 5.4 No audit firm(s) shall be considered for appointment as SA of the Company, if it exceeds the maximum number of statutory audit of entities during a particular year i.e. four commercial banks, Eight UCBs, Eight NBFCs and within the overall ceiling prescribed by any other statutes or rules.

6. INDEPENDENCE OF STATUTORY AUDITORS:

- 6.1. The Audit Committee of the Board (ACB) shall monitor and assess the independence of the SAs 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 National Housing Bank (NHB).
- 6.2. 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 SAs shall approach the Board/ACB of the Company, under intimation to the NHB.
- 6.3. The audit of the Company and any entity with large exposures to the Company for the same reference year shall be explicitly factored in while assessing independence of the auditor.
- 6.4. The time gap between any non-audit work i.e., services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc. by the SAs of the Company or any audit/non-audit work for the Company's 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 the concerned entities, which may not normally result in a conflict of interest, and Company may take their own decision in this regard, in consultation with the Board/ACB.
- 6.5. The restrictions as detailed in para 6.3 and 6.4 above, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

7. TENURE AND ROTATION:

- 7.1 As per the provisions of the Companies Act, 2013 SA can be appointed for two terms consisting of five years each. However, as per the RBI Guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year.
- 7.2 If the Company removes SAs before completion of 3 years of tenure, the same shall be in accordance with the relevant provisions of the Companies Act, 2013 and rules made thereunder and it shall inform the NHB about the same, along with the reasons / justification within a month of such decision being taken.
- 7.3 The Company will not reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure with the Company.
- 7.4 RBI being the sectoral regulator, the Company shall appoint the SA in accordance with the RBI Guidelines.

8. AUDIT FEES AND EXPENSES:

- 8.1 The Audit Committee shall decide and recommend the audit fees to the Board in accordance with the relevant statutory/regulatory provisions.
- 8.2 While recommending the audit fees, the Audit Committee shall ensure that the same 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, on an annual basis, ratify other fees paid to the SA, as permitted under the Companies Act, 2013.

9. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS:

The Company shall comply with procedure prescribed in RBI Guidelines for appointment of SAs, which includes the following:

1. The Company shall shortlist minimum of two audit firms for every vacancy of SAs.
2. The Company shall obtain a certificate in the Format as prescribed in the RBI Guidelines, from the audit firm(s) proposed to be appointed as SAs to the effect 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.
3. The Audit Committee shall recommend the appointment of the SAs to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the SAs except the first SAs and the appointment of SAs in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

10. PERFORMANCE EVALUATION PROCEDURE:

- 10.1 The Audit Committee shall develop such assessment criteria as it shall deem fit for the purposes of reviewing and monitoring the auditor's independence, conflict of interest position, if any and performance and effectiveness of audit process.

10.2 The Audit Committee shall undertake an annual performance evaluation of the SA of the Company based on the relevant assessment criteria developed by the said Committee.

10.3 The consolidated report prepared on the basis of responses received shall be submitted to the Chairman of the Audit Committee. Thereafter, the Chairman upon his review will place the consolidated report at the meeting of the Audit Committee for its consideration and review.

11. REPORTING REQUIREMENTS:

11.1 The Company will inform NHB about the appointment of the SA as prescribed in the RBI Guidelines read with Para 54 of the Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 issued by the RBI, within one month of such appointment.

11.2 An intimation will also be made to the Ministry of Corporate Affairs as required under the provisions of the Companies Act, 2013 and rules made thereunder.

11.3 Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SA or any other matters considered as relevant shall be placed before the Audit Committee or Board and along with its recommendations, the same shall be reported to the NHB within two months from completion of the annual audit.

11.4 Any concerns in the matters related to independence of auditors and conflict of interest positions may be highlighted by the Audit Committee to the Board and NHB.

12. POLICY REVIEW:

This Policy may be amended, modified, or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to RBI Guideline or the Companies Act, 2013 or as may be otherwise prescribed by the Audit Committee/Board from time to time. The Policy shall be hosted on the website of the Company.