



JM FINANCIAL CAPITAL LIMITED

**POLICY ON SELECTION AND
APPOINTMENT/RE-APPOINTMENT OF
STATUTORY AUDITORS**

OCTOBER 2022

1. Overview:

Reserve Bank of India (RBI) vide notification no. RBI/2021-22/25 Ref. No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 (RBI Directives) has issued a set of guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (Statutory Auditors) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) which sets out the eligibility, procedures etc. for selection and appointment of Statutory Auditors. The RBI Directive inter- alia requires Regulated Entities (RE) to put in place a Board approved policy for selection and appointment/re-appointment of Statutory auditors for the financial Year 2021/22 and onwards. Accordingly, the following policy and procedures are prepared in compliance of the same.

2. Objective of the Policy:

The objective of the Policy is to lay down a framework of guidance and procedures for appointing Statutory Auditors in compliance with the RBI Directives and Companies Act, 2013.

3. Applicability of the Policy:

This Policy is applicable for appointment of Statutory Auditors for the financial year 2021-22 and onwards.

4. Notification requirement to RBI:

Appointment of statutory auditors to be informed to RBI in the prescribed form A (Annexure 1)

5. Number of Statutory Auditors:

Based on the requirements of the provisions of the RBI Directives, the Company is required to appoint one audit firm (Partnership firm/LLPs) for conducting the Statutory Audit.

6. Eligibility Criteria of Auditors:

The Company shall appoint only such audit firms which fulfils the eligibility norms prescribed under the RBI Directives and the Articles of Association of the Company.

7. Independence of Auditors:

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

In case of any concern with the Management of the Entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditor may approach the Board of the Company, under intimation to the concerned SSM/RO of RBI.

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 Auditor for the Company or any audit/non-audit works for group entities should be at least one year, before or after its appointment as SCAs/Statutory Auditors. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest. Such activities may include but not limited to activities such as Tax audit, tax representation and advice on taxation matters, Audit of interim financial statements; Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements; and Reporting on financial information or segments thereof etc.

The Company shall take appropriate decision in this regard in consultation with the Audit Committee of the Board.

8. Professional Standards required of Statutory Auditor

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

The Audit Committee of the Board shall review the performance of Statutory Auditors on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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.

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 Statutory Auditors in relation to the Company, the Statutory Auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Tenure and Rotation

The Company shall have to appoint the Statutory Auditor for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

For removing the Statutory Auditors 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.

An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure

One audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Company and within overall ceiling prescribed 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 and they will be considered for allotment of Statutory Audit 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.

10. Audit Fees and Expenses

The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.

The audit fees for Statutory Auditors 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.

The Audit Committee shall make recommendation to the competent authority Board of Directors of the Company and the Members of the Company shall approve the same as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.

11. Procedure to be followed for Appointment of SCAs/Statutory Auditors

- **Procedure applicable for existing SA (Reappointment):**

Preference will be given to existing Statutory Auditors for re-appointment subject to being compliant with all applicable regulatory and internal policy provisions. The Company shall obtain the willingness from the existing Statutory Auditors for re-appointment.

In case such consent is not received from any of the existing Statutory Auditors, Company shall follow the process for appointment of new Statutory Auditors to fill that vacancy as detailed under the procedure applicable for Appointment of Statutory Auditors.

- **Procedure for appointment of new firm as Statutory Auditors:**

The CFO in consultation with the Managing Director and Group CFO will shortlist a audit firm for every vacancy identified. The shortlisted names will be presented to the Audit Committee/Board along with the list of their major corporate clients to avoid conflict of interest.

The Company 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 Statutory Auditors, 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 Statutory Auditors of the Company, under the seal of the said audit firm.

Thereafter, the Company shall submit the information to RBI in the prescribed format within 30 days as prescribed in the RBI Directives.

Review of the policy: The Audit Committee of the Board and Board of the Company 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.

FORM A**Information to be submitted by the NBFCs regarding appointment of Statutory Auditors.**

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.

The Company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as Statutory Auditors of the company for FY ____ along with relevant information in the format as prescribed by RBI.

The firm has no past association/association for _____ years with the company as Statutory Auditors.

The Company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of Statutory Auditors 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:

Asset Size of Entity as on 31st March of Previous Year	Number of Fulltime Partners (FTPs) associated* with the firm for a period of three (3) years	Out of total FTPs, Number of 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
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*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 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: