

**POLICY ON APPOINTMENT OF STATUTORY AUDITORS**

**OF**

**DMI FINANCE PRIVATE LIMITED**

## **1. PREAMBLE:**

The Reserve Bank of India ("RBI") vide notification No. RBI/2021-22/25 Ref. No. DoS.CO. ARG/SEC.01/ 08.91.001/2021-22 April 27, 2021 ("**RBI Guidelines**") has issued a Guidelines for the Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs). The RBI Guidelines are applicable for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs of the entities with asset size of ₹1,000 crore and above.

DMI Finance Private Limited (**hereinafter "the Company" or "DMI"**), being a NBFC with asset size of more than INR 1,000 crore, is required to comply with these RBI Guidelines while appointing the SAs of the Company for Financial Year 2021-22 and onwards. Further, the RBI Guidelines requires formulation of suitable policy on the appointment of SAs. The Company is required to ensure that the SAs fulfils the prescribed eligibility norms.

## **2. OBJECTIVE:**

The objective of this policy is to provide sufficient framework for the appointment of Statutory Auditors of the Company by prescribing the parameters and brief procedure to be followed by the Company for the appointment of Statutory Auditors conforming to all relevant applicable statutory/regulatory requirements.

## **3. DEFINITIONS:**

- a) "**Applicable Laws**" means the RBI Guidelines, ICAI Act, Income Tax Act, the Companies Act, 2013 and the regulations issued thereunder, as amended from time to time, dealing with the qualification, eligibility, selection, appointment, tenure, or cessation of the office of SAs and/ or roles & responsibilities of such SAs.
- b) "**Audit Committee of Board**" or "**ACB**" means the Committee duly constituted by the Board of Directors of the Company in accordance with the provisions of all applicable regulatory/statutory requirements.
- c) "**Audit Firm**" means the firm of Chartered Accountant(s) constituted as per the provisions of the ICAI Act and permitted to conduct the audit of entities in India under the provisions of Applicable Laws.
- d) "**Board**" means Board of Directors of the Company.
- e) "**Company**" means DMI FINANCE PRIVATE LIMITED.
- f) "**NBFC**" means a Non-Banking Financial Company registered with RBI under the provisions of RBI Act, 1934.
- g) "**Policy**" means Policy on Appointment of Statutory Auditors.
- h) "**RBI**" means Reserve Bank of India constituted in accordance with the provisions of the Reserve Bank of India Act, 1934.
- i) "**RBI Guidelines**" means Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021 including guidelines, circulars or directions issued by RBI from time to time in connection with appointment of Statutory Auditors shall prevail over and above the provisions of the "Policy on Appointment of Statutory Auditors" of the Company.

- j) **“Statutory Auditors” or “SAs” or “Auditor”** means the auditor appointed or to be appointed by the Shareholders of the Company for conducting the audit of the Company as per the Applicable Law.

#### **4. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE:**

Pursuant to the applicable provisions of the RBI Guidelines, the asset size being less than INR 15,000 crore, the Company shall appoint one (01) audit firm for conducting statutory audit of the Company.

The Company shall comply with RBI Guidelines and appoint such number of SA as may be required pursuant to increase in the asset size or other factors introduced under Applicable Law, from time to time, for the number of SA to be appointed.

The number of SAs to be appointed for a financial year shall be decided, inter alia, 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. Since, the asset size of the Company is less than INR 5,00,000 crore, the maximum number of SAs to be appointed by the Company shall not exceed four (04) as may be decided by Board or Audit Committee in terms of RBI Guidelines.

The branch audit of the Company , if applicable, shall be carried out in accordance with the requirements as specified under the Applicable Law, from time to time.

#### **5. ELIGIBILITY CRITERIA:**

The asset size of the Company is more than INR 1,000 crore and does not exceed INR 15,000 crore. Hence, as per the RBI Guidelines, the Audit Firm considered for appointment as a SAs of the Company, shall fulfil the eligibility criteria as prescribed below at the time of their appointment and on continuous basis:

##### **5.1 Basic Eligibility:**

<b>Asset Size of Company as on 31<sup>st</sup> 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  Note 1</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  Note 2</b>	<b>Minimum No. of years of Audit Experience of the firm  Note 3</b>	<b>Minimum No. of Professional staff  Note 4</b>
Above ₹15,000 crore	5	4	2	15	18
Above ₹1,000 crore and Upto ₹15,000 crore	3	2	1	8	12

Upto ₹1,000 crore	2	1	1	6	8
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**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, 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" shall be based on 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 other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.
- The Board/ACB 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 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 affected 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.

## 5.2 Additional Consideration:

- The Audit firm, proposed to be appointed as SAs for Company shall:
  - be duly qualified for appointment as auditor of the Company in terms of Section 141 of the Companies Act, 2013.
  - 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.
  - be in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
  - not be appointed as SAs of the Company, if any partner of a Chartered Accountant firm is a director in any RBI Regulated Entity in Group<sup>1</sup>. The Company shall, as part

<sup>1</sup> 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,

of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities (which are not regulated by RBI).

2. However, if an Audit Firm is being considered for appointment as SAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said Audit Firm shall make appropriate disclosures to the ACB as well as Board.
3. 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 Entities where the accounting and business data reside in order to achieve audit objectives.

### **5.3 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 norms mentioned in para 5.2 above before commencement of Annual Statutory Audit for Financial Year ending 31<sup>st</sup> 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.

Further, the following additional points shall be considered while shortlisting the Audit Firm(s):

- a) The Audit Firms(s), or any of its partners does not have any relationship or arrangements with the current/ existing SA of the Company.
- b) The partner of the Audit Firm, or any relative of such partner, should not be the director, promoter, KMP, or the member of senior management team of the Company.
- c) The Audit Firm, its partners or any relative of such partner, neither hold any security, nor is indebted to, nor has given a guarantee or provided any security in connection with the indebtedness of any third person, to the company or its holding or associate company.
- d) The Audit Firm has not rendered any non-audit works (services mentioned in Section 144 of Companies Act, 2013, internal assignments, special assignments, etc.) to the Company or any audit/non-audit works to its group entities for a period of one year before appointment or at least one year after completion of the audit assignment as SAs.
- e) The Audit Firm, or any of its partner, has not been debarred from taking up audit assignments by any regulator/ government authority or Court of Law.
- f) The Audit Firm is duly qualified for appointment as auditor in terms of Section 141 of the Companies Act, 2013 read with Rule 10 of Companies (Audit and Auditors) Rules, 2014.
- g) Concurrent auditors of the Company, if any, should not be considered for appointment as SAs of the Company.

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*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.*

## **6. PRIOR INTIMATION TO RBI:**

The Company, being a NBFC, is not required to take prior approval of RBI for appointment of SAs. The Company is required to inform RBI, at concerned Regional Office of RBI (Department of Supervision), about the appointment of SAs for each year by way of a certificate in **Form A (Annexure A)** within one month of such appointment.

## **7. INDEPENDENCE OF AUDITOR:**

- i. The Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditor and conflict of interest position in terms of relevant regulatory provisions, standards and best practices and any conflict/concern in this regard shall be reported to Board of Directors and Senior Supervisory Manager (SSM)/Regional Office of RBI. The Audit Committee shall also review and monitor the effectiveness of audit process.
- ii. In case of any concern with the management such as non-availability of information/non-cooperation by the management, which may hamper the audit process, the SA shall approach the ACB, under intimation to the concerned SSM/Regional Office of RBI.
- iii. The audit of the Company and any entity with large exposure<sup>2</sup> to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- iv. The time gap between any non-audit works (services mentioned at Section 144 of CA, 2013, internal assignments, special assignments, etc.) by the SAs for the Company or any audit/non-audit work for its group entities should be at least one year before appointment or after completion of the audit assignment as SAs. However, during the tenure as SAs, an Audit Firm may provide such services which may not normally result in a conflict of interest<sup>3</sup>, and Company may take its own decision in this regard, in consultation with the Board/ACB.

The restrictions as detailed in point (iii) and (iv) above, should also apply to an Audit Firm under the same network<sup>4</sup> of Audit Firms or any other Audit Firm having common partners.

## **8. PROFESSIONAL STANDARDS OF SAs:**

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

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.

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<sup>2</sup> As defined in RBI instructions on 'Large Exposures Framework'.

<sup>3</sup> 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) reporting on financial information or segments thereof.

<sup>4</sup> As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

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 Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

#### **9. TENURE & ROTATION:**

The Company shall appoint SAs for maximum period of three (3) continuous years upon SAs satisfying the eligibility norms every year. Audit Firm would not be eligible for reappointment in same entity 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.

Considering that the provisions/ norms relating to the tenure of office of SAs as prescribed under RBI Guidelines are more stringent vis-à-vis provisions specified under CA, 2013, the Company shall comply with the provisions of RBI Guidelines on the subject and implement better corporate governance practice.

The Company may remove SAs before completion of three years. The concerned office of RBI/SSM shall be informed about such termination along with reasons for the same, within a month of such a decision being taken.

One Audit Firm can concurrently take up statutory audit of a maximum eight (8) NBFCs during a particular year subject to compliance with required eligibility criteria and other conditions for each Entity. A group of Audit Firm having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SCA/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.

#### **10. AUDIT FEES & EXPENSES:**

The fees for audit shall be decided in terms of the provisions of Applicable Law and shall be reasonable considering 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. Such fee shall be either approved by the shareholders of the Company or under the power delegated by the shareholders of the Company. Such fee shall be exclusive of the expenses, if any, incurred by the SAs in connection with the audit of the Company.

#### **11. SERVICES TO BE RENDERED BY SAs:**

The SAs will issue the various certificates/reports from time to time in compliance with the Applicable Laws of the Company in consultation with the management of the Company.

#### **12. PROCEDURE FOR APPOINTMENT OF SAs:**

The eligibility of Audit Firms as provided in this Policy by seeking requisite documents, declarations and certificates from the Audit Firm, including but not limited to:

- a) A certificate certifying the eligibility criteria as per Rule 4 of The Companies (Audit and Auditors) Rules, 2014.
- b) A certificate along with relevant information in **Form B (Annexure-B)** as specified by RBI to the effect that the Audit Firm complies with all the eligibility norms prescribed by RBI. Such certificate should be signed by the main partner/s of the Audit Firm proposed for appointment of SAs of the Entities, under the seal of the said Audit Firm.
- c) At least two (02) Audit Firms shall be shortlisted in consultation with the Chief Financial Officer of the Company and recommended to ACB for final selection. ACB shall select one of the Audit Firm as SA basis the information presented before ACB. If the Audit Firm selected by ACB either rejects the offer, or is found to be ineligible later on, the Audit Firm preferred at second place can be appointed by the Company.
- d) The ACB, in its meeting shall take into consideration the qualifications, eligibility and experience of proposed Auditor Firm(s) and whether such qualifications and experience are commensurate with the size and requirements of the Company. If satisfied, the Audit Committee shall recommend to the Board, the name of an audit firm(s) which may replace the existing auditor on expiry of the term of such incumbent.
- e) The Board, on recommendation of the Audit Committee, shall recommend Audit Firm for appointment as SAs of the Company to the members in the forthcoming general meeting, subject to the conditions that firm(s) shall satisfy the eligibility norms each year.
- f) The Company shall intimate the concerned RO of RBI regarding the appointment of SAs for each year by way of a certificate in **Form A** within one month of such appointment.
- g) The Company shall also inform the Audit Firm of his or its appointment as SA and ensure requisite intimation/ returns before concerned stock exchange, Registrar of Companies and other authorities.

#### **13. REVIEW OF THE POLICY:**

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed from time to time. Consequent upon any amendments in Applicable Laws or any change in the position of the Company, necessary changes in this Policy shall be incorporated. Such changes shall be brought to the notice of the Board in the meeting convened immediately after such change.

Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.



**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.

For \_\_\_\_\_

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 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

\*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:

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 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.
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 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.

For \_\_\_\_\_

Chartered Accountants

Firm Registration No.

Main Partner

Membership No:

Date: