



Policy on Appointment of Statutory Central Auditors (SCAs)/  
Statutory Auditors (SAs)

## **Policy on Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs)**

### **1. Preamble:**

Repro Micro Finance Limited ("RMFL"/ 'NBFC') is implementing the Reserve Bank of India, circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 26, 2021, pertaining to guidelines for appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These guidelines supersede all previous guidelines issued on the subject.

### **2. Applicability:**

The issued guidelines are applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities) for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs of the Entities.

As RBI guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for UCBs and NBFCs from FY 2021-22, they shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

However the policy document covers the relevant portion of the NBFCs with asset size of Rs. 1000 Crore and above

### **3. Statutory Audit Policy and Appointment Procedure**

#### **Approval of RBI:**

Under the provisions of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 NBFC is not required to take approval of RBI - Department of Supervision for appointment/reappointment of Statutory Auditors (SAs).

NBFCs do not have to take approval of RBI for appointment of SCAs/SAs, all NBFCs need to inform Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located about the appointment of SCAs/SAs for each year by way of a certificate in **Form A** within one month of such appointment.

### **4. Number of SCAs / SAs and Branch Coverage**

In terms of RBI guidelines for NBFCs with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit is required to be conducted under joint audit of a minimum of two audit firms that can be Partnership firms or Limited Liability Partnerships (LLPs).

NBFCs with asset size of less than ₹ 15,000 crore should appoint a minimum of one audit firm that can be Partnership firms or Limited Liability Partnerships (LLPs) for conducting statutory audit.

Before appointment of Auditors it shall be ensured that auditors of the NBFC do not have

any common partners, and that they are not under the same network as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

The NBFC will finalize the work allocation amongst the SCAs / SAs, in consultation with the SCAs/ SAs, before the commencement of the statutory audit for a year.

The extant norms prescribed by the RBI for appointment of maximum number of SCAs/SAs is applicable for the NBFC upto ₹ 5,00,000 crore is 4.

With a view to ensuring that the audits are conducted in a timely and effective manner, the NBFC will decide on the number of SCAs / SAs, taking into consideration, *inter alia*, the following factors:

- 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.

For asset size up to Rs. 500,000 crore, NBFC will consider appointment of minimum 2 or maximum 4 firms as SCAs/SAs, keeping in mind considering the above mentioned factors.

In terms of audit coverage, the SCAs/SAs shall visit and audit at least the Top 20 branches or the Top 20% of the branches of the NBFC in such a manner so as to cover a minimum of 15% of total gross advances of the NBFC.

#### **5. Eligibility Criteria of Auditors**

NBFC will appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the following eligibility norms given in ***Annexure I***.

#### **6. Independence of Auditors**

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 will be flagged by the ACB to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

In case of any concern with the Management of the NBFC such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the ACB (*Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB*) of the NBFC, 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 SCAs/SAs for the NBFC or any audit/non-audit works for its group entities will be at least one year,

before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may be permitted to provide such services to the NBFC which may not normally result in a conflict of interest, and NBFC management will take decision in this regard, in consultation with the Board/ACB.

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

The restrictions as detailed in immediate above para, shall 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.

## **7. Professional Standards of SCAs/SAs**

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

The ACB shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs/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, with the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of the NBFC financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to the NBFC, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **8. Tenure and Rotation**

In order to protect the independence of the auditors/audit firms, NBFC will appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, NBFC intends to remove the audit firms 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 will not be reappointed by the NBFC for a period of six years, after completion of a full term of three years or a part of one term for any reason whatsoever.

## **9. Audit Fees and Expenses**

The audit fees for SCAs/SAs of the NBFC shall be decided in terms of the relevant

statutory/regulatory provisions.

The audit fees for SCAs/SAs of the NBFC 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 ACB of the NBFC shall make recommendation to the Board of Directors as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

**10. Statutory Audit Policy and Appointment Procedure**

The Board Approved Policy will be hosted on the website of the NBFC / public domain, and necessary procedures shall be formulated thereunder to be followed for appointment of SCAs/SAs.

Minimum procedural requirements are given at Annexure II.

## Eligibility Criteria for Appointment as SCA/SA

**I. Basic Eligibility**

Asset Size of Entity 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 Note 1	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 Note 2	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Above ₹15,000 crore	5	4	2	15	18
Above ₹1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 Crore	2	1	1*	6	8

\* Not mandatory for UCBs/NBFCs with asset size of upto Rs. 1,000 Crores

**Note 1:**

For appointment as SCAs/SAs of NBFC with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size above ₹ 1,000 crore, 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 other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.
- For NBFC, 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:**

For UCBs and NBFCs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities 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 panelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs

with CISA/ISA qualification for the purpose.

**Note 3: Audit Experience:**

For NBFCs, 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

**II. Additional Consideration**

- (i) The audit firm, proposed to be appointed as SCAs/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) NBFC will ensure that appointment of SCAs/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.
- (iv) If any partner of a Chartered Accountant firm is a director in any NBFC, the said firm shall not be appointed as SCA/SA of any of the 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*) of that Entity.
- (v) 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 NBFC where the accounting and business data reside in order to achieve audit objectives.

**III. 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 the NBFC 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.

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**Procedure for Appointment of SCAs/SAs**

1. The NBFC shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed.
2. The NBFC shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SCAs/SAs by the NBFC 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 SCAs/SAs of the NBFC, under the seal of the said audit firm.

**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 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> 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.

Signature  
(Name and Designation)  
Date:

**Eligibility Certificate from (Name and Firm Registration Number of the firm)****A. Particulars of the firm:**

Asset Size of Entity as on 31 <sup>st</sup> 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:**

- (i) Copy of Constitution Certificate.
- (ii) 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.
- (iii) 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.
- (iv) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v) 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<sup>15</sup> 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:

Approved by the Board in the meeting held on 04 August, 2021