

**XANDER FINANCE PRIVATE LIMITED ('THE COMPANY')**

**POLICY ON APPOINTMENT OF STATUTORY AUDITORS**

**DATE OF REVIEW: REVIEWED AND APPROVED BY THE BOARD OF DIRECTORS ON FEBRUARY 10, 2022**

**1. INTRODUCTION:**

Xander Finance Private Limited ('XFPL' or 'Company') is registered with the Reserve Bank of India ('RBI') as a Systemically Important Non-Deposit Accepting Non-Banking Financial Company (NBFC-ND-SI). The Company provides end to end credit solutions including advisory services, deal structuring, financing, and workouts to investors, developers, asset owners, private equity owners and large corporations across a range of industries.

In order to strengthen and improve the quality of financial reporting of regulated entities, the Reserve Bank of India ('RBI') as a part of the Monetary Policy Statement dated December 4, 2020, had announced that it will issue guidelines on appointment of Statutory Auditors of Commercial Banks (excluding RRBs), Primary (Urban) Co-operative Banks ('UCBs') and Non-Banking Financial Companies ('NBFCs'). On April 27, 2021, RBI vide its circular no: DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 has introduced "Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)" (hereinafter referred to as 'the Guidelines'). With a view to clarify certain aspects of the Guidelines, RBI has issued a separate set of FAQs relating to the procedure for appointment of Statutory Auditors across all the regulated entities.

The Guidelines together with the FAQs provide necessary instructions for appointment of Statutory Auditors, the number of auditors, their eligibility criteria, tenure and rotation, etc. while ensuring the independence of auditors. In compliance with the provisions of the above Guidelines, the Company is required to formulate a Board approved policy laying down necessary procedure to be followed for appointment of Statutory Auditors. In accordance with the Guidelines, the Company has adopted the Policy on appointment of Statutory Auditors (hereinafter referred to as 'the Policy').

**2. OBJECTIVE OF THE POLICY:**

The Policy is formed to draw a framework for appointment of Statutory Auditors; prescribing necessary eligibility criteria; tenure and rotation; audit fees and expenses of Statutory Auditors.

**3. APPLICABILITY OF THE GUIDELINES:**

- a) The Guidelines are applicable to Commercial Banks (excluding RRBs), UCBs and NBFCs including Housing Finance Companies (HFCs) (hereinafter referred to as the 'regulated entities') for FY 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors of the respective regulated entities.
- b) Non-deposit taking NBFCs with asset size below ₹1,000 crore shall have the option to continue with their extant procedure. For this purpose, asset size means total assets.

- c) Since the Guidelines are effective from FY 2021-22, the regulated entities shall have the flexibility to adopt these guidelines from second half of FY 2021-22 to ensure that there is a smooth transition between the previous and proposed or newly appointed Statutory Auditors.
- d) Since the asset size of the Company is less than below ₹1,000 crore for FY 2020-21, the Company has the option to continue with its current Statutory Auditor for the remaining tenure. However, as per the FAQs issued by RBI, an audit firm can undertake audits of a maximum of 8 NBFCs, irrespective of the asset size of the NBFC. Furthermore, the Company cannot appoint statutory auditor for more than 3 (three) years. Considering this, the Company is required to appoint new statutory audit firm after completion of 3 (three) years of audit.

#### **4. PRIOR APPROVAL FROM RBI:**

- a) As per the Guidelines, the Company shall not be required to take any prior approval from RBI on appointment / reappointment of Statutory Auditors. An intimation as per the format prescribed in Form A of the Guidelines is required to be submitted by the Company within one month from the appointment of Statutory Auditors.
- b) The Compliance Officer of the Company shall ensure that an intimation regarding appointment / reappointment of Statutory Auditor shall be submitted to RBI within one month from the appointment date as per the format prescribed in Form A of the Guidelines.

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

- a) Since the asset size of the Company is less than ₹15,000 crore, the Company is required to appoint a minimum of one audit firm (Partnership firm or Limited Liability Partnership) and a maximum of four audit firms for conducting statutory audit. It shall be the discretion of the Company to appoint any number of audit firms as Statutory Auditor subject to above maximum limits as prescribed by RBI.
- b) In case of Joint Auditors, the Company shall ensure that there are no common partners and the said partners do not fall under the same network of audit firms. Further, the Company shall finalise the work allocation amongst the Joint auditors before the commencement of statutory audit.
- c) The Audit Committee of the Company shall decide on the number of Statutory Auditors to be appointed for the Company. The Audit Committee shall take into consideration the following factors while deciding on the number of Statutory Auditors to be appointed:
  - Asset size of the Company;
  - Accounting and administrative units of the Company;
  - Nature of business transactions;
  - Level of computerization;
  - Availability of independent audit inputs;
  - Risks in financial reporting;
  - Customer base of the Company;
  - Debt structure of the Company;
  - Any other aspect; financial parameters as the Audit Committee deems fit.
- d) The Statutory Auditors shall 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) as may be applicable. The branches are 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 to this, the Company shall ensure adherence to the provisions of

Section 143(8) of the Companies Act, 2013 (as may be amended from time to time) regarding of audit of accounts of all branches.

## 6. ELIGIBILITY CRITERIA OF STATUTORY AUDITORS:

Since the asset size of the Company is less than ₹1,000 crore, the audit firm(s) shall fulfil the following minimum criteria for being eligible to be considered for appointment as Statutory Auditor of Company:

- a) There shall be minimum 2 full-time partners (FTPs) associated with the audit firm for a period of at least three years. While shortlisting the audit firm, the Company should consider the tenure of association of the said partner(s) with the audit firm. Out of the total FTPs, there should be atleast one Fellow Chartered Accountant associated with the audit firm for a period of atleast three years.
- b) While shortlisting the audit firms, the Company may give priority to firms with FTP's or full-time chartered accountants having CISA/ISA qualification. There should be atleast one-year continuous association of such chartered accountants with the audit firm.
- c) The audit firm should have a minimum experience of 6 years 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.
- d) The audit firm shall depute atleast 8 professional staff which includes audit and article clerks with knowledge of book-keeping and accountancy and must be engaged in on-site audits. The professional staff shall exclude typists / stenographers / computer operators / secretaries/ subordinate staff etc. There should be at least one-year continuous association of professional staff with the firm.
- e) The audit firm which is proposed to be appointed or reappointed, must be duly qualified for appointment as Statutory Auditor of the Company in terms of Section 141 of the Companies Act, 2013.
- f) The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority ('NFRA'), RBI, The Institute of Chartered Accountants of India ('ICAI') or other financial regulators.
- g) The Company should ensure that appointment / reappointment of Statutory Auditor is in line with ICAI's Code of Ethics / any other such standards adopted and should not give rise to any conflict of interest.
- h) The Company should not appoint / reappoint an audit firm where the partner of the said audit firm holds a directorship position in an entity. The said audit firm will not be eligible to be appointed / reappointed as Statutory Auditor of any of the group entities of the Company.

*Explanation: For the purpose of this Policy, 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.*

- i) In case, the audit firm does not comply with the eligibility norms post its appointment / reappointment as Statutory Auditor, owing to resignation, death of partners / employees of audit firm or occurrence of any contingent event or action taken by Government Agencies, NFRA, RBI, ICAI, other financial regulators etc, it shall be the duty of the audit firm to intimate the same to the Company. The audit firm shall take all necessary measures to become eligible within 30 business days from the date of occurrence of any above-mentioned

event. In case if the audit firm is unable to meet the eligible criteria within the timeframe of 30 business days, it may request the Audit Committee of the Company for extension of timelines for compliance with eligibility norms. It shall be the sole discretion of the Audit Committee to grant or reject the extension request.

- j) In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the audit 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 of the Company, as a special case. In such cases, the audit firm shall make a request to RBI in writing mentioning the details of its ineligibility to conduct the statutory audit of the Company. The audit firm shall make such request to RBI immediately not later than 7 business days from the date of occurrence of any event which shall make the audit firm ineligible to conduct the audit.

## **7. INDEPENDENCE OF STATUTORY AUDITORS:**

- a) It shall be the duty of the Audit Committee to monitor and assess the independence of the Statutory Auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. In case of any situation resulting into conflict of interest or any concerns which may impact the independence of the auditors, the Audit Committee shall immediately intimate the same to the Board of Directors of the Company.
- b) The Audit Committee or Company Secretary of the Company shall also inform the same to the concerned Senior Supervisory Manager / Regional Office of RBI within 7 business days from the date of intimation to the Board of Directors of the Company.
- c) The Company shall take all reasonable measures to ensure that the independence of Statutory Auditors and audit firm is restored. In case if the same is not possible, the audit firm shall tender its resignation as Statutory Auditors of the Company and the same should be intimated to RBI and other regulatory authorities.
- d) In case of any concern with the management team or the Finance function of the Company such as non-availability of information / non-cooperation by the Management, which may hamper the audit process, the audit firm may approach the Board of Directors or Audit Committee of the Company under intimation to the concerned Senior Supervisory Manager / Regional Office of RBI within 7 business days from the date of occurrence of any such situation.
- e) Concurrent auditors of the Company will not be considered for appointment as Statutory Auditors. The audit of the Company and any entity with large exposures to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- f) 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 Statutory Auditors of the Company or any audit/non-audit work for the Company's group entities (if any) should be at least one year, before or after its appointment as 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, and Company may take their own decision in this regard, in consultation with the Audit Committee of the Company.
- g) The restrictions as detailed in para 7 e) and 7 f) above, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

**8. PROFESSIONAL STANDARDS TO BE FOLLOWED BY STATUTORY AUDITORS:**

- a) The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b) The Board of Directors or the Audit Committee of the Company 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 should be sent with the approval and recommendation of the Board of Directors and Audit committee, with full details of the audit firm.
- c) In the event of lapses in carrying out audit assignments resulting in misstatement of Company’s 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 shall be liable to be dealt with suitably under the relevant statutory/regulatory framework.

**9. TENURE AND ROTATION OF STATUTORY AUDITORS AND AUDIT FIRM:**

- a) As per the provisions of the Companies Act, 2013, a Statutory Auditor can be appointed for two terms consisting of 5 years each. However, as per the RBI Guidelines, the Company shall appoint the Statutory Auditor for a continuous period of 3 years subject to the Statutory Auditor satisfying the eligibility norms each year and shall be eligible for reappointment after a cooling period of 6 (six) years. The Company shall not reappoint an audit firm after the completion of full term of 3 (three) years or part of one term of the audit tenure for a period of 6 (six) years. The Company being a NBFC and RBI being the sectoral regulator, it shall appoint the Statutory Auditor as per the RBI Guidelines.
- b) If the Company removes the Statutory Audit before completion of 3 (three) years of tenure, it shall inform Mumbai Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken.
- c) Following are the maximum limits of the audit that can be undertaken by the Statutory Auditors for a particular financial year:

Particulars	Maximum no. of audits
Commercial Banks	4
Urban co-operative Banks	8
NBFCs (irrespective of asset size)	8

- d) The Statutory Auditors are requested to refer Para 8.3 of the RBI Guidelines relating to further clarification on tenure and rotation of the audit firm.

**10. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS:**

- a) The Company shall shortlist minimum of two audit firms for every vacancy of Statutory Auditor. Discussions relating to audit scope; fees; audit timelines etc should be undertaken with the audit firm. The management of the Company shall shortlist one audit firm after considering the above aspects and recommend the same to the Audit Committee and Board of Directors for approval.

- b) The Company shall obtain an eligibility certificate as stated in Form B of the RBI Guidelines and shall also obtain eligibility letter under the provisions of the Companies Act, 2013. 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.
- c) The Company shall conduct background checks on the proposed audit firm or partners of the audit firm. The findings of the background checks should be placed before the Audit committee and the Board members for their consideration.
- d) The Audit committee of the Company shall evaluate the proposed appointment of the Statutory Auditor and in case if the same is found to be satisfactory, it shall approve and recommend the appointment of Statutory Auditor to the Board of Directors of the Company. In case if the Audit Committee rejects the appointment of Statutory Auditor, no recommendation should be made to the Board of Directors and the reasons for such rejection should be provided to the audit firm.
- e) Post recommendation received from the Audit committee, the Board of Directors should decide and approve the appointment of Statutory Auditors and recommend the same to the shareholders of the Company for approval. In case if the Board of Directors do not approve the appointment of the Statutory Auditor, no recommendation should be made to the shareholders of the Company and the reasons for such rejection should be provided to the audit firm.
- f) Post approval from the shareholders of the Company for appointment of Statutory Auditors, the Compliance officer of the Company shall intimate the same to RBI by way of a certificate as provided in Form A of the RBI Guidelines within one month from the date of appointment of Statutory Auditors. Such intimation shall be made every year to RBI within one month from the date of approval of shareholders for reappointment of the audit firm.

#### **11. AUDIT FEES AND EXPENSES:**

- a) The audit fees of Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.
- b) The audit fees of 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.
- c) The Audit committee of the Company shall make recommendation to the Board of Directors for fixing audit fees of Statutory Auditors.

#### **12. REVIEW:**

This Policy should be reviewed by the Audit Committee or Board of Directors as and when it is necessary.

<b>Particulars</b>	<b>Date of adoption/ review/ revision</b>
Adoption	September 24, 2021
Review	February 10, 2022