
POLICY FOR APPOINTMENT OF STATUTORY AUDITORS
GLOSEC FINANCE PRIVATE LIMITED

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Objective

Appointment of Statutory Auditors is governed under Section 139 along with eligibility criteria of Statutory Auditors provided under Section 141 of Companies Act, 2013 read with Rules thereunder.

Reserve Bank of India (RBI) vide its notification No. RBI/ 2021-22/ 25 dated April 27, 2021, has issued guidelines for appointment of Statutory Auditors for Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) (“Guidelines”). These Guidelines include clarification issued by RBI vide its FAQs dated June 11, 2021 In line with the said RBI Guidelines , RBI has issued Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, for Non- Banking Finance Companies (NBFCs).

As per the Guidelines, the Company is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment/re-appointment of Statutory Auditor (SA).

1. APPOINTMENT OF STATUTORY AUDITORS:

The Company will take into account all 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 key risks in businesses and financial reporting, etc. while deciding the appointment of Statutory Auditors. Also, the requirement of the number of auditors/ audit process as specified by RBI regulations and guidelines, issued from time to time, will be adhered to, while making the appointment of Statutory Auditors.

In addition, the Company shall ensure adherence to the provisions of Section 143(8) of the Companies Act, 2013 regarding audit of accounts of all branches/divisions, as applicable.

2. ELIGIBILITY NORMS, EMPANELMENT AND SELECTION OF STATUTORY AUDITORS

- A. The Company being having asset size less than Rs 1000 Crs., it shall adhere to the following norms before proceeding to appoint Statutory Auditors, and/ or as amended by RBI from time to time.

Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least one (1) year (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 (Note 2) CISA / ISA (Not mandatory)	Minimum No. of years of Audit Experience of the firm with (Note 3)	Minimum No. of Professional staff (Note 4)
2	1	1	6	8

NOTE: 1 FULL TIME PARTNERS:

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:

- a) The full-time partner should not be a partner in other firm/s
- b) She/He should not be employed full time / part time elsewhere.
- c) 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 of Directors of the Company 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

The CISA/ISA qualification for this purpose is not **mandatory** for a base layer NBFC but **recommended**.

NOTE 3: AUDIT EXPERIENCE

The audit experience shall mean experience of the audit firm as Statutory Central/ Branch Auditor of Commercial Banks (excluding RRBs)/ UCB's/NBFC's/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.

- i. **The Company shall adhere to the following additional criteria:**

- 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. The appointment of 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. The auditors of the Company shall 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 Company where the accounting and business data reside in order to achieve audit objectives.
- v. Further, if any partner of a Chartered Accountant firm is a director in any group company, the said firm shall not be appointed as SA of any of the group company.

B. 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 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.

3. INDEPENDENCE OF AUDITORS

- i. Board of Directors 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 shall be flagged by the Board of Directors of the Company and the concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.
- ii. 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 Statutory Auditors shall approach the Board of Directors of the Company, under intimation to the concerned SSM/RO of RBI.
- iii. 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 Auditors for the Company or any audit/ non- audit works for its group entities should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditors, an audit firm may provide such services to the Company which may not normally result in a conflict of interest, and the Company may take its own decision in this regard, in consultation with the Board.

A conflict of interest would not normally be created in the case of the following special assignments (indicative list):

- a) Tax audit, tax representation and advice on taxation matters.
 - b) Audit of interim financial statements.
 - c) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
 - d) Reporting on financial information or segments thereof.
- iv. The restrictions as detailed in sub para iii above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

4. PROFESSIONAL STANDARDS OF SAS

- i. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- ii. The BOD 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/recommendation of the Board, with the full details of the audit firm.
- iii. In the event of lapses in carrying out audit assignments resulting in misstatement of the 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 would be liable to be dealt with suitably under the relevant statutory / regulatory framework.

5. TENURE AND ROTATION

- i. The SAs shall be appointed for a continuous period of three years, subject to the Statutory Auditors satisfying the eligibility norms each year.
- ii. Any removal of the Statutory Auditors before completion of three years tenure shall require intimation to the concerned SSM/RO at RBI about it,

along with reasons/justification for the same, within a month of such a decision being taken.

- iii. An audit firm but would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure. However, that audit firm can continue to undertake statutory audit of other entities.
- iv. One audit firm can concurrently take up statutory audit of a maximum of eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each entity and within overall ceiling prescribed by any other statutes or rules.
- v. 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 Auditors accordingly.
- vi. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.
- vii. 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.

6. AUDIT FEES AND EXPENSES

- i. The audit fees for the Statutory Auditors shall be decided mutually in discussion with the firm and in terms of the relevant statutory/regulatory provisions.
- ii. 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.

7. PROCEDURE FOR APPOINTMENT OF SCAS/SAS

- i. The Company shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditors 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 Statutory Auditors does not get delayed.
- ii. The Company shall obtain the following documents from the shortlisted firms:
 - a. Complete profile of the firm
 - b. Certificate of Membership and Practice of Individual partners issued by ICAI.

In addition, the following certificate(s) & Declaration(s) from the audit firm(s) proposed to be appointed as Statutory Auditors shall be obtained:

- a. Written Consent / willingness to act as Statutory Auditors of the Company pursuant to Section 139 of the Companies Act, 2013.

- b. Certificate pursuant to Section 141 of the Companies Act, 2013.
- c. Form B attached as Annexure II to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. The format prescribed by RBI is enclosed at the end of this policy.

The above certificates should be signed by the main partner/s of the audit firm proposed for appointment of Statutory Auditors of the Company, under the seal of the said audit firm.

The proposals to appoint Statutory Auditors will be reviewed by the Board and Board will then recommend the same to the shareholders for approval.

- iii. The Company need to inform RBI about the appointment of Statutory Auditors for each year by way of a certificate in Form A (Annexure I) within one month of such appointment.

8. DISCLOSURE / TRANSPARENCY

This policy shall be hosted on the website of the Company and that the appointment(s) made shall be disclosed to concerned authorities as per relevant regulatory / statutory provisions.

9. VALIDITY:

This policy shall be valid till the Company continues to fall under the eligibility criteria defined in the Guidelines, as amended from time to time.

However, in the event of any conflict between this Policy and the laws as may be applicable in this regard from time to time, the provisions of applicable laws shall prevail.

Any amendment to this policy shall be made with the approval of the Board of Directors of the Company from time to time.

Annexure I

FORM A

Information to be submitted by the Company 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.

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 the Company as on 31st March of Previous Year	No. of Full-Time partners (FTPs) associated* with the firm for a period of at least three (1) years	Out of total FTPs, No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years	No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification (Not Mandatory for Base layer NBFC)	No. of years of Audit Experience	No. 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 NBFCs. 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 willful 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: