

# **MAS FINANCIAL SERVICES LIMITED**

## **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS**



*The Power of Distribution*

**APPROVED AT THE BOARD MEETING HELD ON MAY 19, 2021.**

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### **1. BACKGROUND:**

The Reserve Bank of India vide its circular having reference no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 issued guidelines for appointment of Statutory Auditors (SA's) for Commercial Banks, Urban Co-operative Banks & NBFCs (including HFCs). The guidelines will be applicable from FY 2021-22 onwards.

### **2. OBJECTIVE:**

The objective of this Policy is to lay down the criteria to be considered for selection of statutory auditors ('SA') for ~~MASS~~ Financial Services Limited ('Company'). The Policy is framed pursuant to RBI's Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) issued vide circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 ("the RBI Guidelines"), as may be amended or modified, replaced, substituted or clarified from time to time, read with the FAQs issued by RBI in this regard.

The Board of Directors ('BOD') of the Company has adopted the following policy and procedures with regard to Appointment of SAs, in line with the requirements of extant norms of RBI and other applicable regulation till the extant possible.

This Policy shall act as a guideline for establishing proper procedures for determining, inter-alia, qualifications, eligibility and procedure for appointment of the SAs that conform with the extant norms of applicable laws and regulations.

### **3. NOTIFICATION REQUIREMENT TO RBI**

Appointment of auditors to be informed to RBI s for each year by way of a certificate in Form A (Annexure I)

### **4. NUMBER OF SA'S:**

As per RBI stipulation, if the asset size of the company is ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs)). Regulated entities are free to go for higher number subject to a maximum of 4 SAs upto an Asset Size of Rs. 500,000 Crore.

The Company shall decide on the number of SAs after 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. subject to the minimum prescribed by RBI.

The Company shall finalize the work allocation among the statutory auditors, before the commencement of the statutory audit, in consultation with them.

#### **5. TENURE & ROTATION:**

- (i) As per the RBI guidelines, the Company in order to protect the independence of the auditors/audit firms, shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. In case the Company removes the SA's before completion of three years tenure, it shall inform concerned Regional Office at RBI about the same, along with reasons/justification within a month of such a decision being taken.
- (ii) An audit firm would not be eligible for reappointment as SA in the Company 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.
- (iii) 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.

#### **6. ELIGIBILITY CRITERIA OF THE STATUTORY AUDITORS:**

The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

### A. Basic Eligibility :

Asset Size of Company 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 NBFCs with asset size of upto ₹ 1,000 crore.*

**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.

For 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:

- i) The full-time partner should not be a partner in other firm/s.
- ii) She/ He should not be employed full time / part time elsewhere.

- iii) 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.
- iv) The Board/Audit Committee 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.

#### **B. Additional Conditions:**

(i) The audit firm, proposed to be appointed as SAs, should be duly qualified for appointment as auditor of a company in terms of applicable laws and regulations.

(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 Regulators.

(iii) The Company shall ensure that 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 SAs 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.

### **C. 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 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, the Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

### **7. INDEPENDENCE OF AUDITORS**

- (i) 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 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.
- (ii) 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 shall approach the Board of the Company, under intimation to the concerned SSM/RO of RBI.
- (iii) Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity.
- (iv) 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/SAs. 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, 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.

- (v) The restrictions as detailed in para (ii) and (iii) above, will 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.

#### **8. PROCEDURE FOR APPOINTMENT OF SA'S:**

- (i) The Company shall shortlist minimum of two audit firms, with an order of preference, for every vacancy of SA 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 SAs does not get delayed.
- (ii) While shortlisting the audit firms, the Company shall also consider their past experience as statutory auditor of others banks / NBFCs, geographical proximity to the Company's place of operations, their ability to audit technology and such other parameters that it may consider necessary.
- (iii) The Company shall obtain a certificate as per prescribed format (Annexure II Form B) from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI. 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.
- (iv) The Audit Committee of the Company shall recommend the appointment to the Board of Directors who shall recommend the same for the approval of the shareholders. The Company shall inform RBI about the appointment of SA as required under the RBI Guidelines.

#### **9. AUDIT FEE AND EXPENSES:**

- (i) The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- (ii) The audit fees for SAs 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.

- (iii) The Board/Audit Committee shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

#### **10. PROFESSIONAL STANDARDS REQUIRED OF STATUTORY AUDITOR:**

- (i) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (ii) The Board/ 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.
- (iii) 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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework

#### **11. REVIEW:**

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

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**Annexure I**  
**FORM A**

**Information to be submitted by the NBFCs regarding appointment of SCA/SA**

- (i) 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.
  
- (ii) 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.
  
- (iii) The firm has no past association/association for \_\_\_\_ years with the company as SCA/SA/SBA.
  
- (iv) 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:

**Annexure II  
FORM B**

**Eligibility Certificate from (Name and Firm Registration Number of the firm)**

**A. Particulars of the firm:**

<b>Asset Size of Entity as on 31st March of Previous Year</b>	<b>Number of Full Time Partners (FTPs) associated* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years</b>	<b>Number of Full Time Partners/ Paid CAs. With CISA/ISA Qualification</b>	<b>Number of Years of Audit Experience# Number of Professional staff</b>

\*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 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:

( For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.)