



Statutory Audit Policy

2023

This document details the Policy on appointment of Statutory Auditor for NBFCs.
axio is the brand name of CapFloat Financial Services Private Limited, an NBFC
registered with RBI

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1. Background

The Reserve Bank of India (RBI) has issued guidelines dated April 27, 2021, ref: RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22, has issued 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' ("Guidelines").

The guidelines requires the Company to formulate a Board Approved Policy to be hosted on Company's website and formulate necessary procedure thereunder for appointment of Statutory Auditor. In compliance with the said guidelines, the Board of the Company has adopted the following policy and procedures with regard to Appointment of Statutory Auditors.

This Policy on Appointment of Statutory Auditor ("Policy") is formulated in accordance with the provisions of the Guidelines, to the extent applicable to the Company.

2. Objective

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors in compliance with the RBI Directive and Companies Act, 2013.

3. Scope

This policy forms the basis for appointment of Statutory Auditor of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs). The Company will comply with the relevant provisions of the Companies Act, 2013, rules made thereunder and the regulations/ guidelines/ circulars/ notifications as issued by the Reserve Bank of India. In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail. Further, in the event any guidance on the regulatory framework/ RBI regulations / guidelines is required; the same shall be referred to the Finance & Accounts / Compliance Department for its final views on the matter.

4. Procedure for Appointment of Statutory Auditor

- a) The Company shall shortlist minimum 2 audit firms for every vacancy of Statutory Auditor;
- b) The Company shall obtain an eligibility certificate, along with relevant information in the form and manner as stipulated by the RBI in this regard, from the audit firm(s) proposed to be appointed as Statutory Auditor, confirming the eligibility norms prescribed by RBI in the

Guidelines. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of Statutory Auditor under the seal of the said audit firm;

The Company being an NBFC is not required to take prior approval of RBI for appointment of Statutory Auditor.

- c) The Company shall also obtain a written consent letter from the Statutory Auditor to act as the Statutory Auditor of the Company and certificate satisfying the criteria provided in Section 141 of the Companies Act, 2013;
- d) The Company shall recommend the names of the shortlisted audit firms to the Audit Committee of the Board of Directors of the Company;
- e) The Audit Committee, after review, of both the firms shall recommend the appointment of one firm as the Statutory Auditor of the Company, to the Board of Directors of the Company;
- f) The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders.
- g) The Company shall inform the Central Office of RBI (Department of Supervision), Mumbai about the appointment of the Statutory Auditor for each year in the form and manner as stipulated by the RBI in this regard within one month of such appointment.

5. Eligibility Criteria

The RBI guidelines prescribe certain eligibility norms which the audit firms are required to fulfil, based on the asset size of the Company. The Company's asset size, being more than ₹ 1,000 crore and less than ₹ 15,000 crore, the audit firm shall fulfil the following minimum criteria for being eligible to be considered for appointment as auditor of the Company:

- a) Minimum number of Full-time partners(FTPs) associated with the firm for a period of three years should be three;
- b) Out of total Full-time partners, minimum number of fellow Chartered Accountant (FCA) partners associated with the firm for a period of atleast three years should be two;
- c) Minimum number of professional staff should be twelve. There should be at least one-year continuous association of professional staff with the firm as on the date of empanelment for considering them as professional staff;
- d) Atleast one year continuous association of partners to be there with the firm as the partner as on date of shortlisting for considering them as full time partners. Atleast two partners of the firm shall have continuous association with the firm for at least 10 years.

Full time association shall mean exclusive association, which shall mean the following

- 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.
- e) Minimum number of years of relevant audit experience of the firm should be eight. 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.
- f) Minimum one full-time partner / paid Chartered Accountant (CA) with CISA/ ISA qualification to be there with the firm. For considering paid CA with CISA/ ISA, atleast one year continuous association with the firm to be established.
- g) If any partner of CA firm is a director in the Company, the said firm shall not be appointed as Statutory Auditor of any of the group entities the Company.
- h) 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.
- i) The Company shall ensure that appointment of Statutory Auditor 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.
- j) The auditors should 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.
- k) And/or any other eligible criteria applicable on partner/s/firm as defined by the RBI from time to time.
- l) If any partner of CA firm is a director in the Company, the said firm shall not be appointed as Statutory Auditor of any of the group entities the Company.

6. Independence of Auditor

The Audit Committee of the Company 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 the concern Senior Supervisory Manager (“SSM”)/ Regional Office (“RO”) of RBI.

The approval of the Audit Committee shall be sought for any non-audit assignments (other than certifications / any other assignment to be done by statutory auditor under various applicable laws) that shall be undertaken by the audit firm.

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 Auditor shall approach the Board of Directors of the Company, under intimation to the concerned SSM/RO of RBI.

Concurrent auditors, if any, of the Company should not be considered for appointment as Statutory Auditors of the Company.

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 (subject to subsequent FAQ released by RBI).

However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Company 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.

The restrictions mentioned above shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

7. Professional Standards of Statutory Auditors

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

The Audit Committee of the Company shall review the performance of Statutory Auditor on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditor 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 Audit Committee, with the full details of the audit firm.

8. Tenure and Rotation

In order to protect the independence of the auditors/audit firms, the Company shall appoint the Statutory Auditor for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The Company shall inform the concerned Senior Supervisory Manager/ Regional Office at RBI in case of removal of Statutory Auditor before the completion of three years tenure, along with reasons/justification for the same, within a month of such a decision being taken.

The Company cannot reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

RBI being the sectoral regulator and its guidelines being more stringent, the Company shall appoint the Statutory Auditors as per the RBI guidelines.

9. Audit Fees and Expenses

The audit fees for Statutory Auditor of the Company shall be decided in terms of the relevant statutory/regulatory provisions.

The audit fees shall be commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, etc. The Audit Committee shall make recommendation to the board of directors as per the scope and coverage of the audit subject to the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditor.

10. Number of Statutory Auditors

The Company to appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

In addition the Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013.

11. Disclosures and Transparency

This Policy shall be hosted on the official website of the Company.

12. Review & Amendments

This policy shall be reviewed and updated periodically for any changes by the Audit Committee and submitted to the Board of Directors of the Company for their approval.

In case any amendments issued by Reserve Bank of India in form of clarifications, circulars or guidelines or by any other name, which may not be consistent with the current provisions laid down under this Policy, then the policy will be amended and updated subsequently to align with the amendments done by the RBI.