

Policy on Appointment of Statutory Auditors

1. Introduction

1.1. Reserve Bank of India vide its circular DoS.CO. ARG/SEC.01/ 08.91.001/2021-22 dated April 27, 2021 has issued guidelines for appointment of Statutory Auditors (SAs) by NBFCs, which is applicable to NABFINS Limited.

2. Definitions

2.1. "Company": here means NABFINS Limited

2.2. "Asset Size": For the purpose, asset size means total assets

3. Applicability:

3.1. The RBI guidelines for appointment of Statutory Auditors is applicable to the company effective from October 1, 2021.

4. Procedure for appointing Statutory Auditors:

4.1. NABFINS Limited being subsidiary of NABARD, the Statutory Auditor of the Company is appointed by Comptroller and Auditor General of India (C&AG). On receipt of appointment letter from C&AG, the same shall be intimated to RBI in the prescribed form A (Annexure 1) within the stipulated time limit.

5. Number of SAs to be appointed:

5.1. As per the guidelines, based on the asset size as at the end of previous year, Company shall appoint minimum of one audit firm (Partnership firm/LLPs) for conducting Statutory Audit. While reaching the asset size at ₹15000 crore, Company has to appoint a minimum of two audit firms for conducting Statutory Audit. The Company shall make necessary arrangements to comply the above guidelines.

6. Continued Compliance with basic eligibility criteria:

6.1. 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 shall 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.

6.2. 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 Board will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

7. Independence of Auditors

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

7.2. 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 SAs shall approach the ACB, under intimation to the concerned SSM/RO of RBI.

7.3. The audit of the Company and any entity with large exposure to the Company for the same reference year shall also be explicitly factored in while assessing independence of the auditor.

7.4. 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 other RBI regulated entities in the group shall 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.

8. Tenure and Rotation

8.1. In order to protect the independence of the auditors/audit firms, Entities will have to appoint the SAs for a continuous period of one year, subject to the firms satisfying the eligibility norms each year. NBFCs removing the SAs 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.

8.2. As per the RBI guidelines, where the appointment of SAs is done by C&AG, Office of C&AG will continue to appoint Statutory Auditors of the Government Companies and Government Controlled Other Companies under Section 139 (5) and 139 (7) of the Companies Act, 2013. Such Companies are also subject to supplementary/test audit by the Office of C&AG under Section 143 (6) and (7) of the said Act. Such Entities will be guided by the C&AG Guidelines regarding tenure and rotation policy.

9. Audit Fees and Expenses

9.1. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions. 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.

10. Professional Standards of Auditors

10.1. The 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 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 should be sent with the approval/recommendation of the ACB, with the full details of the audit firm.

10.2. In the event of lapses in carrying out audit assignments resulting in misstatement of a Company's 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 Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

11. Review of the Policy

11.1. The Audit Committee of the Board /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.