

## **IIFL Home Finance Ltd.**

# **Appointment of Statutory Auditors**

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<b>Document Name</b>	Appointment of Statutory Auditors
<b>Applicable for</b>	IIFL HFL
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## Appointment of Statutory Auditors

<b>RBI Circular on Appointment of Statutory Auditors</b>
RBI via circular 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/ Re-appointment of <b>Statutory Central Auditors (SCAs)/Statutory Auditors (SAs)</b> for all Banks and FIs including HFCs.
<b>Applicability</b>
These guidelines in respect of appointment/reappointment of SCAs/SAs of IIFL HFL are applicable from H2 (second half) of Financial Year 2021-22 and onwards.
<b>Prior approval of RBI</b>
While IIFL HFL is not required to take prior approval of RBI for appointment of SCAs/SAs, it needs to inform RBI (to Department of Supervision (Central office)/ concerned Regional Office, under whose jurisdiction the Head Office of the NBFC-HFC is located) about the appointment of SCAs/SAs for each year by way of a certificate in Form A (refer annexure 1 for Form A) within one month of such appointment.
<b>Number of SCAs / SAs</b>
<p>1 For Entities with asset size of ₹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)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.</p> <p>It shall be ensured that joint auditors of the Company do not have any common partners and they are not under the same network of audit firms. Further, the Company shall finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.</p> <p>2 The Company should decide on the number of SCAs/SAs based on this Board Approved Policy, inter alia, taking into account 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.</p> <p>Considering the above factors and the requirements of the Company, the actual number of SCAs/SAs to be appointed shall be decided by the respective Board/Local Management Committee (LMC), subject to the following limits:</p>

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

#### Branch Coverage

The SCAs/SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of IIFL HFL (in case of less than 100 branches). The branches 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 IIFL HFL.

In addition, IIFL HFL shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

#### Eligibility Criteria of Auditors

IIFL HFL is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed in Annexure I.

#### Independence of Auditors

1. The Audit Committee of the Board (ACB)/ Local Management Committee (LMC) 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/LMC to the Board of Directors of the IIFL HFL and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

2. In case of any concern with the Management, such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the Board /ACB/LMC of IIFL HFL, under intimation to the concerned SSM/RO of RBI. Note: Board shall be directly approached only when ACB is non-existent or the auditors notice a matter of concern involving any member of the ACB.

3. Concurrent auditors of IIFL HFL should not be considered for appointment as SCAs/SAs. The audit of IIFL HFL and any entity with large exposure to IIFL HFL for the same reference year should also be explicitly factored in while assessing independence of the auditor.

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 SCAs/SAs for the IIFL HFL or any audit/non-audit works for its group Companies should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to IIFL HFL which may not normally result in a

conflict of interest, and IIFL HFL may take its own decision in this regard, in consultation with the Board/ACB/LMC.

5. The restrictions as detailed in point 3 and 4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

#### **Professional Standards of SCAs/SAs**

1. The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

2. The Board/ACB/LMC of IIFL HFL shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs/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 Board/ACB/LMC, with the full details of the audit firm.

3 In the event of lapses in carrying out audit assignments resulting in mis-statement of IIFL HFL's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to IIFL HFL, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

#### **Tenure and Rotation**

1. In order to protect the independence of the auditors/audit firms, IIFL HFL will have to appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, IIFL HFL while removing the SCAs/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.

2. An audit firm would not be eligible for reappointment with IIFL HFL for six years (two tenures) after completion of full or part of one term of the audit tenure.

3. One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and 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. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, 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 SCA/SA 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.

### Audit Fees and Expenses

1. The audit fees for SCAs/SAs should be decided in terms of the relevant statutory/regulatory provisions.
2. The audit fees for SCAs/SAs should 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.
3. The Board/ACB/LMC should make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

### Procedure for Appointment of SCAs/SAs

Guidelines on minimum procedural requirements are specified below:

1. IIFL HFL should shortlist minimum of 2 audit firms for every vacancy of SCAs/SAs 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 SCAs/SAs does not get delayed.
2. IIFL HFL should obtain a certificate, along with relevant information as per **Form B (refer Annexure 3)**, from the audit firm(s) proposed to be appointed as SCAs/SAs by IIFL HFL to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of SCAs/SAs of IIFL HFL, under the seal of the said audit firm.

## Annexure 1: (Form A)

### Information to be submitted by the IIFL HFL to RBI 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:

## Annexure 2:

### Eligibility Criteria for Appointment as SCA/SA

#### A. Basic Eligibility

Asset Size of Entity 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 FullTime 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

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of shortlisting of SAs/ SCAs for considering them as full time partners. Further, for appointment as SCAs/SAs of IIFL HFL, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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:

- 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.
- The Board/ACB/LMC 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 effected 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 Consideration**

(i) The audit firm, proposed to be appointed as SCAs/SAs for IIFL HFL, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013. 9

(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) IIFL HFL should ensure that appointment of SCAs/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) If any partner of a Chartered Accountant firm is a director in IIFL, the said firm shall not be appointed as SCA/SA of any of the group entities of IIFL.

(v) The auditors 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 may promptly approach IIFL HFL 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.

### Annexure 3:

#### Form B

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

##### A. Particulars of the firm:

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

*\*Exclusively associated*

*#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/ HFCs. 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 wilful

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: