

L&T FINANCE HOLDINGS LIMITED

Policy on appointment of Statutory Auditors of the Company

JUNE 2021

Version Control:

Version	Date of Adoption	Description	Owner	Approving Authority
0	24 June 2021	Framing of the policy for appointment of Statutory Auditors as per RBI notification dated April 27, 2021	Finance & Accounts	Board of Directors

1 BACKGROUND

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 has issued guidelines for Appointment of Statutory Auditors (SAs) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines require lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of SAs.

Key highlights of the circular are:

- i) The guidelines are applicable to NBFCs (including HFCs) from FY 2022 onwards, with a flexibility to adopt these guidelines from H2 to avoid any disruption.
- ii) NBFCs are required to inform RBI about the appointment of SA for each year by way of certificate in the prescribed format within one month of the appointment.
- iii) For NBFCs with asset size of up to ₹ 15,000 Crore as at the end of previous year, the statutory audit should be conducted by minimum one audit firm. The guidelines also prescribe the maximum number of SAs required, based on the asset size of the NBFC. It shall be ensured that joint SAs of the entity do not have any common partners and they are not under the same network of audit firms.
- iv) NBFCs are required to decide on the number of audit firms based on the Board approved policy, taking into account various factors, such as size and spread of assets, complexity, level of automation, etc.
- v) The Audit Committee of the Board shall monitor and assess the independence of the SA, and conflict of interest, if any. If there are any concerns, the same shall be highlighted to the Board of Directors of the Company, and to the SSM / RO of RBI.
- vi) There must be a time gap of one year, between any non-audit work by the audit firm for the entity, and any audit / non-audit works for its group entities before and after the firm's appointment as SA. RBI has clarified that this stipulation shall be applicable prospectively, i.e. from FY 2022-23. It has further clarified that the Group entities for this purpose shall mean RBI regulated entities. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit / non audit work in other RBI regulated entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SA of the entity for FY 2021-22, the said audit firm would be eligible for appointment as SA of the entity for FY 2021-22.
- vii) If an audit firm engaged with audit/non-audit works for the group entities (which are not regulated by RBI) is being considered by any of the RBI regulated entities in the Group for appointment as SAs, there shall be no conflict of interest and independence of auditors must be ensured; and this shall be suitably recorded in the minutes of the meetings of Board of Directors /Audit Committee of the Board.
- viii) The Board / Audit Committee shall review the performance of SA on an annual basis.
- ix) In order to protect the independence of the auditors/audit firms, lending institutions will have to appoint the auditors for a continuous period of 3 years, subject to firms satisfying the eligibility norms each year. NBFCs which remove SA before completion of 3 years of

tenure, shall inform concerned Regional Officer at RBI about the same along with the reasons.

2 OBJECTIVE

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors.

The Objective of the Policy is :

- i) Deciding the number of SAs based on various parameters,
- ii) Criteria for appointment of SAs; and
- iii) The procedure to be followed for appointment of SAs.

3 SCOPE

This policy shall form the basis for the purpose of appointment of SAs. The Company shall 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 / Regulatory Compliance Department for its final views on the matter.

4 NUMBER OF SAs

The Company is required to decide on the number of SAs based on the guidance provided under this policy. Based on the guidelines, since the asset size of the Company is more than ₹ 1,000 crore and less than ₹ 500,000 crore as at last reporting period, (i.e, March 31, 2021) the Company can appoint minimum one SA and maximum four joint SAs.

The Company shall restrict the appointment to only one SA due to the following reasons:

- i) Centralised accounting unit - The Company's accounting unit is based out of its head office in Mumbai, and all necessary accounting records are available centrally;
- ii) Level of automation – Access to the accounting system (SAP), all loan management and peripheral systems, is available online for audit purposes. Further, the Company has digitised the operations to a great extent, eliminating maintenance of physical records for the purpose of audit. The Company has a robust retrieval system, whereby documents, records can be made available for audit purposes within reasonable time.

However, if the Company desires to have more than one SA, it shall make a representation to the Board, giving reasons for increasing the number of SAs.

5 TENURE AND ROTATION OF SAs

As per the provisions of the Companies Act, 2013 SA can be appointed for two terms consisting of five years each.

However, as per the RBI guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SA for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. If the Company removes SAs before completion of 3 years of tenure, it shall inform the concerned Regional Officer at RBI about the same, along with the reasons / justification within a month of such 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 SA as per the RBI guideline.

6 CRITERIA FOR APPOINTMENT OF SAs

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:

- i) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three.
- ii) Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be two
- iii) Minimum one full-time partner / paid Chartered Accountant (CA) with CISA¹ / ISA qualification.
- iv) Minimum number of years of relevant audit experience of the firm should be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI, and
- v) Minimum number of professional staff should be twelve.

Along with the criteria as specified by the RBI, the Company shall appoint the SA's fulfilling/meeting the criteria as per the Companies Act, 2013

¹ CISA = Certified Information Systems Auditor

7 PROCEDURE FOR APPOINTMENT OF SAs

The RBI guidelines prescribe the procedure for appointment of SAs, which includes the following:

- i) The Company shall shortlist minimum of two audit firms for every vacancy of SA
- ii) Company shall obtain a certificate 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.
- iii) The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

8 AUDIT FEE AND EXPENSES

The Company shall ensure that the audit fees of the Company 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 computerisation, identified risk in financial reporting, etc.

9 REVIEW

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Board. Any amendments to the policy required as a result of amendment / modifications to the Companies Act, 2013 / RBI guidelines shall be presented to the Board of Directors for its approval.