



Standard Chartered Capital Limited

Policy on appointment of Statutory Auditors

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1 BACKGROUND

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 has issued superseding guidelines and FAQ's, 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) **Applicability:** 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) **Intimation to RBI:** NBFCs are required to inform RBI about the appointment of SA for each year by way of certificate in the prescribed format (Form A) within one month of the appointment.
- iii) **Number of SAs:** 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 and maximum 5 audit firms. 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. NBFCs are required to decide on the number of audit firms based on the Board approved policy, considering various factors, such as size and spread of assets, complexity, level of automation, etc.
- iv) **Independence of Auditors:** 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.
- v) **Tenure & Rotation:**
 - 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.
 - RBI 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.
 - 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.

vi) Appointment procedure:

- The Board / Audit Committee shall review the performance of SA on an annual basis. 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 of Standard Chartered Capital Limited, herein after referred to as “SC Capital”.

3 SCOPE OF THE POLICY

SC Capital shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder, and the guidelines/ circulars issued by RBI from time to time. Clarifications on any regulatory issue shall be obtained from the respective Compliance Officers.

The effective date of this policy is 24th January 2022 (i.e. the date of appointment of the Statutory Auditors pursuant to RBI’s Circular dated 27th April 2021). The policy will be adopted on February 11th, 2022 by the Board of Directors (Approving authority)

4 NUMBER OF SAs

SC Capital is required to decide on the number of SAs based on Board approved policy inter alia taking into account 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. Further as guided under the RBI policy, since the asset size of the Company is less than INR 15,000crs, SC Capital shall appoint one SA.

5 TENURE OF SAs

The appointment of SAs shall be for a continuous period of three years, subject to the SAs satisfying the eligibility norms each year. If the Company removes SAs before completion of 3 years, it shall inform the concerned Regional Office / Senior Supervisory Manager of RBI about the same, along with the reasons / justification within a month of such decision being taken. SC Capital will not reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

SC Capital shall inform RBI about the appointment/re-appointment of SAs for each year by way of certificate prescribed under the Guidelines within one month of such appointment.

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 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:

- Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three.
- 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
- Minimum one full-time partner / paid Chartered Accountant (CA) with CISA1 / ISA qualification.
- 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
- 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

7 PROCEDURE FOR APPOINTMENT OF SAs

The following procedure will be adopted for appointment of SAs:

- The Company shall shortlist minimum of two audit firms for every vacancy of SA.
- Company shall obtain a certificate from each of the audit firms proposed to be appointed as SAs that they comply with all the eligibility norms prescribed by RBI and under the Companies Act, 2013. Such certificate shall be duly signed by the managing partner/s of the audit firm proposed for appointment under the seal of the said audit firm. The proposal for appointment of SAs shall be placed before the Audit Committee. The Audit Committee shall recommend the appointment to the Board and thereafter the appointment will be placed before the Board for approval subject to the approval of the shareholders. The approval of the shareholders will be sought in accordance with the provisions of the Companies Act, 2013.

8 AUDIT FEE AND EXPENSES

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 computerisation, identified risk in financial reporting, etc.

The Audit Committee shall approve and recommend the remuneration payable to the SAs, for each financial year, to the Board for its approval.

9 REVIEW OF THE PERFORMANCE OF SAs

The Audit Committee shall review the performance of the SAs on an annual basis. Any serious lapses/negligence while carrying out their audit responsibilities or any conduct issues on the part of the SAs or any other matter considered as relevant shall be reported to the RBI within two months of completion of annual audit after approval from the Audit Committee/ Board.

10 REVIEW OF THE POLICY

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Audit Committee and the Board. Amendments / modifications whenever necessary, shall be carried out in the Policy as per any circular, notification, guidelines, etc. issued by RBI / any other Regulatory /statutory authority from time to time and shall be placed before the Audit Committee and the Board for their approval.