

ELECTRONICA FINANCE LIMITED

Policy on Appointment of Statutory Auditors

Policy Control

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1. PREFACE:

Electronica Finance Limited [the “**Company**”], is a Non- Banking Financial Company. In terms of the RBI Master Direction – Non Banking Financial Company–Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (“Directions”), every Non-Banking Financial Company (NBFCs-ND- SI) (“NBFCs-ND-SI”) [“**RBI**”] under section 45-IA of the Reserve Bank of India Act, 1934 [“**RBI Act**”].

In compliance with RBI circular no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, the Company has adopted this Policy on Appointment of Statutory Auditors (SA).

2. DEFINITIONS:

- a. “Act” means the Companies Act, 2013.
- b. “Company” means Electronica Finance Limited
- c. “Audit Committee” means the Audit Committee of the Board of the Company.
- d. “Board” means Board of Directors of the Company.
- e. “Statutory Auditors” (SAs) mean auditors as required to be appointed under the provisions of Companies Act, 2013 and eligible as per RBI Circular, to conduct statutory audit of the Company, from time to time.
- f. “RBI Circular” means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22. dated April 27, 2021, on the ‘guidelines for appointment of Statutory Central Auditors/Statutory Auditors of Commercial Banks, UCBs and NBFCs (including HFCs)’.
- g. “Group entities”: For the purpose, Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

3. APPLICABILITY

RBI Circular on appointment of Statutory Auditors is applicable to the Company with effect from October 1, 2021.

4. APPOINTMENT OF SA:

- a. No prior approval of RBI is required for appointment of SAs by the Company. Company shall intimate RBI regarding the appointment of SAs within the prescribed time limits.
- b. The Company shall appoint one SA based on its current Asset Size. If the Asset size is Rs. 15,000 Crore or more as on March 31 of the previous financial year, the Company shall appoint a minimum of two SAs for conducting joint statutory audit.
- c. In case of joint audit, the Company shall ensure that joint SAs of the Company do not have any common partners and they are not under the same network of audit firms as defined under the Act or Rules made thereunder. The Company may finalise the work allocation among the joint SAs, before the commencement of the statutory audit, in consultation with them.
- d. The Company can appoint more than 2 joint SAs depending upon relevant factors such as 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., or such other terms and conditions as may be specified by RBI from time to time.
- e. The Company shall ensure compliance with the provisions of Section 143(8) of Companies Act, 2013, regarding audit of accounts of all branches.

5. **ELIGIBILITY CRITERIA FOR STATUTORY AUDITOR:**

A. Basic Eligibility

Asset Size of Co. as on 31-Mar Previous Year	Min.No. of Full-Time Partners (FTPs) associated with the firm for a period of at least (3) years (Note 1)	Out of total FTPs, Min.No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least (3) years	Min.No. of Full Time Partners/ Paid CAs with CISA/ ISA Qualification (Note 2)	Min.No. of years of Audit Experience of the firm (Note 3)	Min. 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

Notes:

1. There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.
 - a. The full-time partner should not be a partner in other-firm/s.
 - b. She/he should not be employed full time / part time elsewhere.
 - c. 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.
 - d. 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.
2. 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.
3. 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.
4. 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:

1. The audit firm, proposed to be appointed as SAs for company, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
2. 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.
3. The company shall ensure that appointment of 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.
4. If any partner of a Chartered Accountant firm is a director in any Regulated Entity in group, the said firm shall not be appointed as SA of the Company. The Company shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
5. 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

Where after appointment as SA, the SA fails any of the eligibility norms due to any reason including account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc., the Company on being informed about such ineligibility shall obtain a confirmation from the SA on fulfilling the criteria for appointment before the commencement of audit for that financial year. The Audit Committee and Board of the Company shall initiate suitable action based on the same.

6. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS:

Based on RBI norms as amended from time to time, the Company shall for adopt the following procedure for appointment of SA:

- a. A shortlist of minimum two audit firms for every vacancy of SA
- b. A certificate in Form B (RBI format) from the shortlisted firms to be obtained to ensure compliance with the eligibility norms prescribed by RBI
- c. 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 in general body meeting of the Company. Any casual vacancy in the office of auditor shall be filled following the provisions of the Companies Act, 2013
- d. Once the SA is appointed, the Company shall inform the relevant RBI office in the prescribed Form A within the permissible time.

7. STATUTORY AUDITORS – INDEPENDENCE AND PROFESSIONAL STANDARDSIndependence of Auditors

- a. The Audit Committee 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 and concerned office of RBI.
- b. Where the SA has concerns with the management of the Company relating to aspects such as non-availability of information, non-co-operation that is hampering the audit process, the SA can approach the Audit Committee of the Company under intimation to the relevant office of RBI.

- c. Concurrent auditors of the Company shall be ineligible for appointment as SA of the Company. The audit of the Company and any entity with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor. Large exposure shall be as defined in the RBI circular on large exposure framework.
- d. 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 should 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.
- e. If an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by the Company for appointment as SA, the Audit Committee shall ensure that there is no conflict of interest and the independence of auditors is maintained. This aspect should be suitably recorded in the minutes of the relevant meeting of the Audit Committee.
- f. The restrictions as detailed in clause 'c' and 'd' above shall apply to an audit firm under the same network [as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014] of audit firms or any other audit firm having common partners.

Professional Standards of SAs

- a. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b. The Audit Committee 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 the RBI within two months from completion of the annual audit. Such reports shall be sent with the approval / recommendation of the Audit Committee, with the full details of the audit firm.
- c. In the event of lapses in carrying out audit assignments resulting in misstatement of 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.

8. OTHER POINTS

A. Tenure and Rotation

- a. Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The Company shall inform concerned RO at the RBI along with reasons/justification, within a month, if the SAs are removed before completion of three years tenure.
- b. An audit firm would not be eligible for reappointment in the same Company for six years (two tenures) after completion the audit tenure (either full or part completion of term).
- c. One audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Company and within overall ceiling prescribed by any other statutes or rules. 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 Statutory Audit 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.

B. Audit Fees and Expenses

- i. 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.
- ii. The Board/ ACB shall make recommendation to the competent authority (By Shareholders in AGM) as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

9. REVIEW OF POLICY AND DISSEMINATION OF THE POLICY:

The Audit Committee and/or the Board may review the policy as maybe required due to regulatory changes or for any other reasons. Revised policy shall be approved by the Board. Any regulatory changes pending incorporation into the policy or Board approval thereof shall prevail over the existing policy. The policy shall be made published on the website or disseminated in such manner as required under the regulations.

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