



## ECLF –Policy on appointment of Statutory Auditors

### ECL Finance Limited

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## 1. INTRODUCTION

### 1.1 BACKGROUND

Reserve Bank of India (RBI) vide their circular No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27 April 2021, issued Guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) (“RBI Guidelines”).

As per the guidelines, ECL Finance Limited (“ECLF” or “the Company”) has formulated a Policy for the appointment of Statutory Auditors (“the Policy”). This Policy has been approved by the Board and hosted on the official website of the Company.

### 1.2 PURPOSE

This Policy incorporates the criteria for selection of the Statutory Auditors (“SAs”) of the Company. In pursuance of the guidelines issued by RBI and other applicable provisions, the Statutory Auditors of the Company will be appointed basis the parameters as mentioned herein below.

### 1.3 SCOPE

The scope of this Policy covers appointment/re-appointment of SAs of the Company.

## 2. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE

As per the RBI guidelines, if the asset size of the company is ₹ 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}). However, it shall be ensured that the joint auditors do not have any common partners and they are not under the same network of audit firms. Company may go for higher number of SAs subject to the asset size and maximum number of SAs prescribed in the RBI guidelines.

The Company shall decide on the number of Statutory Auditors considering 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. subject to minimum number prescribed by RBI.

The Company may finalize the work allocation among Statutory Auditors, before the commencement of the statutory audit, in consultation with their Statutory Auditors.

The Statutory Auditors shall visit and audit at least the top 20 Branches/top 20% of the branches of the Company where the Company has less than 100 branches to be selected in order of the level of outstanding advances in such a manner so as to cover a minimum of 15% of total gross advances of the Company. In addition, the Company shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding of audit of accounts of all branches as may be applicable.

### 3. ELIGIBILITY CRITERIA OF STATUTORY AUDITORS

The minimum standards and eligibility norms for audit firms to be appointed as Statutory Auditors have been prescribed under **Annexure-I** of this Policy.

### 4. INDEPENDENCE OF AUDITORS

- i. The Audit Committee of the Board 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 of the Company and concerned Senior Supervisory Manager (SSM)/ Regional Office (RO) of RBI.
- ii. 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 Statutory Auditor shall approach the Audit Committee of the Board of the Company, under intimation to the concerned SSM/RO of RBI.
- iii. Concurrent auditors of the Company should not be considered for appointment as SAs of the same Company. Entity with large exposure (as defined in RBI instructions on “Large Exposures Framework”) to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- iv. 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 group entities should be at least one year, before or after its appointment as 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 may take appropriate decision in this regard in consultation with the Audit Committee of the Board.
- v. The restrictions as detailed in para (iii) and (iv) above, will also 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.

### 5. TENURE & ROTATION

- As per the provisions of Companies Act, 2013, the Statutory Auditor can be appointed for two terms consisting of five years each. However, as per the RBI Circular, to protect the independence of the auditors/audit firms, the Company shall appoint the Statutory Auditors for a continuous period of 3 years, subject to the Statutory Auditor satisfying the eligibility norms each year. If the Company removes Statutory Auditors before completion of 3 years of tenure, it shall inform Mumbai Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company will not reappoint an

audit firm for six years after the completion of full or part of one term of the audit tenure.

- One audit firm can concurrently take up statutory audit of a maximum of four commercial banks, eight UCBs and 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.

## 6. AUDIT FEES & EXPENSES

- The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions and 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.
- The Audit Committee shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

## 7. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

- The Company shall shortlist minimum of two audit firms for every vacancy of Statutory Auditor 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 SAs does not get delayed.
- While shortlisting the audit firms, the Company shall also consider their past experience as statutory auditor of others NBFCs, geographical proximity to the Company's place of operations, their ability to audit technology and such other parameters that it may consider necessary.
- The Company shall obtain a certificate as per **Form B** (as prescribed under the RBI guidelines) from each of the audit firms proposed to be appointed as Statutory Auditors 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.
- The Audit Committee of the Board shall recommend the appointment of the Statutory Auditor to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the Statutory Auditor and the appointment of Statutory Auditor in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.
- In addition to the requirements of provisions mentioned in the Companies Act, 2013, regarding indebtedness, any Audit firm selected for appointment would have to certify that none of the spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them, of any of the partners/proprietors of the firm or the firm/company in which their partners/directors are indebted to the Company.

## 8. REPORTING TO RBI

- The Company need to inform RBI about the appointment of SAs for each year by way of a certificate in **Form A** within one month of such appointment.
- In case of removal, if any, of the Statutory Auditors before the expiry of their term and after obtaining requisite approval from Audit Committee of the Board/Board, the Company shall inform concerned Senior Supervisory Manager (SSM)/Regional Office (RO) at RBI along with reasons/justification for the same, within a month of such a decision being taken.
- The Audit Committee of the Board/Board of the Company 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 Audit Committee of the Board/Board, with the full details of the audit firm.

## 9. REVIEW AND AMENDMENT

This policy shall be reviewed yearly or pursuant to any regulatory changes, whichever is earlier. In case there are any regulatory changes requiring modifications to the policy, the policy shall be modified subject to ratification at the subsequent meeting.

## 10. ANNEXURES

### 10.1 ANNEXURE-I

Eligibility criteria for appointment as Statutory Auditors (SAs)

#### A. Basic Eligibility

Asset Size of Entity as on 31 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 Full Time Partners/ CAs 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
Up to ₹1,000 crore	2	1	1*	6	8

\*Not mandatory for NBFCs with asset size of up to ₹ 1,000 crore.

#### #Note 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, for appointment as SAs, 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 (as defined in the RBI guidelines).

**#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**

- 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 with no adverse remarks/disciplinary proceedings pending/initiated against the firm/any of its partners/proprietor on the records of ICAI would be considered as eligible for appointment as auditors.
- 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.
- 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.
- SAs shall ensure to abide by the code of conduct for regulating, monitoring, and reporting of trading by insiders and code of practices and procedures for fair disclosure of unpublished price sensitive information of the Company.
- If any partner of a Chartered Accountant firm is a director in any Edelweiss Entity, the said firm shall not be appointed as SA of any of the Edelweiss Group entities.

(Note-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).



- 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 it may promptly approach the Company with full details.

## 10.2 ANNEXURE-II

### Form A:

#### Information to be submitted by the NBFCs 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 \_\_\_\_ 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:

### 10.3 ANNEXURE-III

#### 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 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 in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore

#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 SA by any other NBFC 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 SAs of NBFCs. 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: