

**KOGTA FINANCIAL (INDIA) LIMITED**

**STATUTORY AUDIT POLICY AND APPOINTMENT PROCEDURE OF  
STATUTORY AUDITORS**

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## 1) Introduction

Kogta Financial (India) Limited ('the Company') is a Non-Banking Financial Company ('NBFC') having valid Certificate of Registration with Reserve Bank of India ('RBI') vide registration no. B.10.00086 dated May 27, 2016 under current RBI classification as NBFC - Investment and Credit Company (NBFC-ICC) – Non Deposit taking Systemically Important ('ICC-ND-SI') with more than 20 years of experience in asset finance business.

It is focused on offering financing of all kind of commercial vehicles (HCV, LCV, MUV, SCV), Cars, Tractors, Two-wheelers and MSME & Loan against property segment.

## 2) About the policy

Reserve Bank of India (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 Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) for Financial Year 2021-22 and onwards. RBI has provided flexibility to NBFCs to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption regarding appointment of SAs. As per the RBI guidelines it is required to formulate '**Statutory Audit Policy and Appointment Procedure of Statutory Auditors**' and the same is also required to be hosted on official website of the Company.

## 3) Applicability

This policy will be applicable for appointment of SAs for FY 2021-22 onwards. However, the Company has the flexibility to adopt the guidelines from second half of FY 201-22, i.e. from October 1, 2021 onwards.

## 4) Number of SAs

The Company shall appoint minimum one audit firm (Partnership firm/LLP) for conducting statutory audit. After crossing asset size of ₹15,000 crore and above as at the end of any year, the company is required to appoint joint auditor of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs)).

The company shall decide on the number of SAs after 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.

The company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms. Further, the company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with SAs.

## 5) Eligibility Criteria for SAs

The company is required to appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed by RBI in its guidelines as under:

### 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 Full Time 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

\* Not mandatory for UCBs/NBFCs with asset size of upto Rs. 1,000 crores.

#### Note 1: Minimum Number of Full-Time Partners (FTPs)

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 of the Company 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 Audit Committee of the Board (ACB) 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/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 Criteria / Considerations**

- (i).The audit firm, proposed to be appointed as SAs in the Company, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- (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).The appointment of SAs shall be 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 of the Company or its Subsidiaries, the said firm shall not be appointed as SAs of the Company or any of the group entities of the Company.
- (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 Company where the accounting and business data reside in order to achieve audit objectives.
- (vi).The office location and mobility of audit team shall be considered while finalizing SAs.

**C. Continued Compliance with basic eligibility criteria**

In case the audit firm, after appointment as SAs of the Company, 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 shall promptly approach the Company with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time (i.e. 6 months) and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31<sup>st</sup> 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, the Company will approach RBI to consider allowing the concerned audit firm to complete the audit, as a special case.

## 6) Procedure for Appointment of SAs

The Company shall shortlist minimum of two audit firms for every vacancy of 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 SAs does not get delayed.

However, in case of reappointment, during the three-year tenure, subject to the firm qualifying the eligibility criteria every year and confirmation obtained at the annual general meeting, the Company may reappoint same SAs and shall not be required to shortlist two audit firms.

SAs eligible for appointment shall provide a certificate, along with relevant information in **Form B** as prescribed under RBI Circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 from the audit firm(s) proposed to be appointed as SAs by the Company 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 SAs of the Company, under the seal of the said audit firm.

## 7) Independence of Auditors

- (i). The Audit Committee of the Board shall monitor and assess the independence of the SAs and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard shall be flagged by the Audit Committee to the Board of Directors of the Company and Regional Office of RBI. The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board of Directors to Regional Office 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 SAs shall approach the Audit Committee under intimation to Regional Office of RBI.
- (iii). Concurrent auditors of the Company, if any, should not be considered for appointment as SAs of the Company or its Subsidiaries. The audit of the Company and any other Companies with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the SAs.
- (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 SAs for the Company or any audit/non-audit works for its group Companies should be at least one year, before or after its appointment as SAs. However, during the tenure as SAs, an audit firm may provide such services to the Companies or its group Companies which may not normally result in a conflict of interest and the Company shall take prior approval of the Audit Committee.
- (v). The restrictions as detailed in para iii and iv above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## 8) Professional Standards of SAs

- (i). SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (ii). The Audit Committee 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 of the Board of Directors of the Company, with the full details of the audit firm.

- (iii). In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's 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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **9) Tenure and Rotation**

- (i). In order to protect the independence of the auditors'/audit firms, the Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year, followed by a cooling period of six years after completion of full or part of one term of the audit tenure.
- (ii). The SAs of the Company shall not take up statutory audit of a more than eight NBFCs including the Company during a particular year. 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 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.

## **10) Audit Fees and Expenses**

The audit fee for the statutory audit and limited review audit shall be finalized by the Board of Directors on recommendation of Audit Committee, as per applicable statutory provisions, which 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. Further fees for other certification work can be finalized by the Management on case to case basis.

During the tenure as SA, an audit firm may provide services which may not result in conflict of interest, and the Company may take its own decision in this regard, in consultation with the Board/ACB.

## **11) Review of performance of SAs**

The Audit Committee of Company shall review the performance of SAs appointed under the Guidelines 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 a month from completion of the annual audit. Such reports shall be sent with the approval/recommendation of the ACB, with the full details of the audit firm.

In case of any lapses in carrying out audit assignments resulting in misstatement of Company's financial statements, or any violation of applicable rules, regulation and guidelines regarding the role and responsibilities of the SAs, the SAs would be liable to be dealt with under the said relevant statutory/regulatory framework.



## **12) Removal of SAs before the tenure of appointment**

The Company may remove SAs before completion of three years tenure without any prior approval to RBI. However, the Company shall inform the Regional office of RBI about the removal of the SAs, along with reasons/justification for the same, within a month of decision of removal being taken.

## **13) Intimation to RBI**

The Company need to inform Regional Office of RBI about the appointment of SAs for each year by way of a certificate in Form A as prescribed under RBI Circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 in within one month of such appointment.

## **14) Review**

The Company's CEO, CFO and COO have been entrusted with the responsibility of enforcement of this policy. They are hereby given absolute power to jointly or severally, make necessary changes, amendments or additions or removals for the operational aspects of the policy within the overall spirit and guidance from time to time for reasons like technology or process upgradation, regulatory changes, maintaining competitive edge or responding to changes in market or risk environment, etc. This is required to ensure full operational freedom to the senior management and make the management team more adaptive to rapid changing external environment. All changes so made shall be noted to the policy approving authority during the next policy review.

The CEO, CFO and COO can decide on delegation of authority and can design / redesign MIS systems and reporting as they see fit to improve the responsibility and accountability within the team hierarchy.