



# Policy for Appointment of Statutory Auditors CITICORP FINANCE (INDIA) LIMITED

**OWNER:**  
CHIEF FINANCIAL OFFICER

**CONTACT(S):**  
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## **1 OVERVIEW**

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The Circular dated April 27, 2021 on 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) and related FAQs (together referred to as "guideline" or "circular"), has been issued by RBI with the basic objectives of putting in place ownership-neutral regulations, ensuring independence of auditors, avoiding conflict of interest in auditor's appointments and to improve the quality and standards of audit for RBI Regulated Entities. These guidelines will further help in streamlining the procedure for appointment of Statutory Auditors for Citicorp Finance (India) Limited (CFIL) and ensure that appointments are made in a timely, transparent and effective manner.

### **1.1 OBJECTIVE**

The objective of the policy is to define the process of Statutory Auditors appointment and provide clarity on the roles, governance, responsibilities, and structure for the statutory auditors appointed by CFIL as per guidelines from the Reserve Bank of India.

### **1.2 SCOPE**

This policy applies to Citicorp Finance (India) Limited (CFIL).

### **1.3 TARGET AUDIENCE**

There are several participants who undertake various components of the statutory audit and will be subject to this policy and responsible for complying with the policy requirements. The following are the key individuals/groups.

- Board of Directors
- Audit Committee
- Chief Financial Officer (CFO)
- Chief Risk Officer
- Head of Compliance

### **1.4 OWNER**

This policy is owned by the Chief Financial Officer.

### **1.5 EFFECTIVE DATE / TRANSITION PERIOD:**

The policy will be effective once approved by CFIL Board. The frequency for review and approval of statutory audit policy would be on an annual basis.

### **1.6 EXCEPTION PROCESS**

Exceptions to this Policy must be approved by the CFIL Board.

## 2 POLICY

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The primary purpose of the Statutory Audit Policy is to outline the roles and responsibilities, governance, principles and key standards to be applied when appointing statutory auditor as per the latest guidelines from RBI.

### **Confidentiality**

It is a public document that will be published on the CFIL website for everyone to download and access.

### **Structure and Methodology of appointing statutory auditors**

The structure and methodology of the appointment of auditors would be in line with RBI's extant guidelines.

### **Executive Summary**

The section summarizes the statutory audit requirement and the contents of the audit policy document.

### **Background**

The section summarizes the following aspects:

- Objective and scope of the statutory audit in terms of the list of areas that the auditor will cover
- Overview of CFIL's audit policy including the following:
  - Description of the RBI guidelines for audit in the NBFC.
  - Description of the key roles and responsibilities for the appointment of auditors.

## Process of Annual Statutory Audit:

### 1. Applicability:

These guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities) for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs<sup>1</sup> of the Entities. However, non-deposit taking NBFCs with asset size below ₹1,000 crore have the option to continue with their extant procedure.

**2. Policy for appointment of Auditors:** This policy is to be approved by Board of Directors.

### 3. Number Of SAs(Statutory Auditors) to be Appointed

- a) As per the guidelines/based on the asset size as at the end of previous year, CFIL should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting Statutory Audit. While reaching the asset size of ₹15000 crore, CFIL will have to appoint a minimum of two audit firms for conducting Statutory Audit.
- b) Board shall decide on the number of SAs after considering 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. subject to the minimum number prescribed by RBI.
- c) Accordingly, it is proposed to have one audit firm [Partnership firms/Limited Liability Partnerships (LLPs)] as Statutory Auditor. If there is growth more than the above mentioned asset size, the auditors will be appointed according to the conditions mentioned below:-

Sl. No	Asset Size of the Entity	Maximum number of SAs
1	Upto ₹5,00,000 crore	4
2	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4	Above ₹ 20,00,000 crore	12

d) CFIL shall ensure that, on requirement of appointing Joint Auditors, they do not have any common partners and they are not under the same network of audit firms. Further, Company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with the Auditors.

#### 4. Eligibility Criteria for SAs

After considering the minimum number of Auditors to be appointed for conducting the audit, CFIL shall identify the eligible audit firms based on the criteria mentioned below:-

##### A. Basic Eligibility

Asset Size of Company as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) as 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 Upto ₹15,000 crore	3	2	1	8	12

Notes:-

- 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.
- 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.
- 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.
- 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

- i. 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.
- 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 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.
- iv. 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.
- v. However, if an audit firm is being considered for appointment as SA, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board.
- vi. 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.

## **5. Continued Compliance with basic eligibility criteria**

In case any audit firm (after appointment) 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 may promptly approach the company with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

## **6. Procedure For Appointment of SAs**

The company shall invite applications from eligible Audit firms including the past auditors of the Company, other firms subject to fulfilling the eligibility criteria as per this policy and applicable RBI stipulations for expression of interest (EOI) for appointment of Statutory Auditors. Expression of interest/applications received will be considered if they are found to be meeting all eligibility conditions.

Interests/Applications received will be evaluated by the management of the entity. The shortlisted names will be presented to the ACB/Board. ACB/Board will select firms from the list as required. In case ACB/Board require, shortlisted firms may be requested to give a presentation on their capability in brief.

Company shall shortlist minimum of 2 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 of SAs by the Company till completion of tenure of continuous term of 3 years, in normal scenario there would not be any requirement of shortlisting.

Company shall obtain a certificate, along with relevant information as per Form B, from the audit firm(s) proposed to be appointed as SAs 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 Entities, under the seal of the said audit firm.





An intimation (Form A) will be submitted by CFIL to RBI regarding the appointment of the statutory auditor within one month of such appointment.

## **7. Independence of Auditors**

The Audit Committee of the Board (ACB) 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 ACB to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

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 ACB, under intimation to the concerned SSM/RO of RBI.

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.

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.

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, it would be the responsibility of the ACB to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of ACB.

The above restrictions, would also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## **8. Other points**

### **A. Tenure and Rotation**

In order to protect the independence of the auditors/audit firms, Company will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

The Company shall report to RBI, on the exit of SAs by way of resignation or removal before completion of their tenure, within two working days of such an occurrence along with information prescribed in Appendix C. Further, to ensure non-disruptive and seamless succession plan during such exits, a list of audit firms shall be maintained to be considered for appointment, subject to the audit firms meeting eligibility and other criteria as required by the RBI Guidelines for appointment as statutory auditors.

An audit firm would not be eligible for reappointment in the same Company for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Company.

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**

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.

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.

#### C. Professional Standards of Auditors

The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence. The ACB 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 ACB, with the full details of the audit firm.

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

### **9. Review of the policy**

The Audit Committee of the Board and Board of Directors may review the policy as and when required / need-based. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

## **APPENDIX A: [CONTACTS]**

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- Ruchit Jain - Chief Financial Officer
- Mayur Sharma – Local Regulatory Reporting

## APPENDIX B: [STANDARDS]

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RBI 27 04 21  
AUDITORS NOTIFIC/

## **APPENDIX C:**

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### **Information to be included in the reporting to the Reserve Bank**

- a) Name and contact details
- b) Manner of exit (resignation/removal) and effective date of exit
- c) Reasons cited for resignation or those recorded by the NBFC for initiating the process of exit
- d) Portfolio handled by the Auditor prior to exit
- e) Time period of association / Tenure held by the Auditor