



POLICY ON APPOINTMENT OF STATUTORY AUDITORS

Document History

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Akara Capital Advisors Private Limited
Policy on Appointment of Statutory Auditors
Version 1.0

INDEX

S.No.	Particulars	Page No.
1	Introduction	03
	1.1. Background	
	1.2. Purpose	
	1.3. Scope	
2	Intimation to the RBI	03
3	Number of Statutory Auditors	04
4	Eligibility Criteria of Statutory Auditors	04
5	Independence of Statutory Auditors	04
6	Professional Standards for Statutory Auditors	05
7	Procedure for the appointment of Statutory Auditors	05
8	Tenure and Rotation	06
9	Audit Fees and Expenses	06
10	Review, Amendment and Approval of the Policy	06
11	Annexure I – Eligibility Criteria for Appointment of as SA	07
12	Form A – Information to be submitted by the NBFCs regarding appointment of SA	09
13	Form B – Eligibility Criteria	10



1. INTRODUCTION:

1.1. Background:

The Reserve Bank of India ('RBI') vide its Circular No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 viz. Guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) ('RBI Guidelines'), as may be amended or modified, replaced, substituted or clarified from time to time, read with the FAQs issued by the RBI in this regard.

As per the Guidelines, Akara Capital Advisors Private Limited (herein after referred as 'Akara Capital' 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:

The Board of Directors (the 'Board') of the Company have adopted the following policy and procedures with regard to Appointment of SAs, in line with the requirements of extant norms of RBI and as per Section 141 and other applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014.

This Policy shall act as a guideline for establishing proper procedures for determining, inter-alia, qualifications, eligibility and procedure for appointment of the SAs that conform with the extant norms of applicable laws and regulations.

1.3. Scope:

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

2. INTIMATION TO THE RBI:

- The Company is required to inform the Central Office of the RBI (Department of Supervision) about the appointment of SAs for each year by way of a certificate in **Form A** (as prescribed by RBI in the Guidelines) within one month of such appointment.

While, the Company do not have to take prior approval of the RBI for the appointment of SAs as per the Guidelines.

- the Company removing the audit firms before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with the reasons/justification for the same, within one month of such decision being taken.
- The Audit Committee of the Board (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.



3. NUMBER OF STATUTORY AUDITORS:

- The Company's current asset size is less than Rs. 15,000 crores, accordingly as per the RBI Guidelines the Company shall appoint a minimum of one audit firm for conducting statutory audit [Partnership firms/Limited Liability Partnerships (LLPs)].
- Further, 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. and the requirements of the Company, the actual number of SAs to be appointed shall be decided by the Board, subject to the following limits:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/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

4. ELIGIBILITY CRITERIA OF STATUTORY AUDITORS:

The Company is required to appoint audit firm(s) as its SAs shall ensure that the minimum standards and eligibility norms for audit firms shall be fulfilled by SAs as prescribed under **Annexure-I** of this Policy.

5. INDEPENDENCE OF STATUTORY AUDITORS:

- 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.
- 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.
- 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.
- 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 Auditors 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



Akara Capital Advisors Private Limited Policy on Appointment of Statutory Auditors Version 1.0

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.

6. PROFESSIONAL STANDARDS FOR STATUTORY AUDITORS:

- 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 of the Board (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.
- c. In the event of lapses in carrying out audit assignments resulting in misstatement of an 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 SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

7. PROCEDURE FOR THE APPOINTMENT OF STATUTORY AUDITORS:

The following procedures shall be followed for the appointment of SAs:

- The Company shall shortlist minimum of 2 (two) audit firms, with an order of preference, 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 SCAs/SAs does not get delayed.
- While shortlisting the audit firms, the Company shall also consider their past experience as statutory auditor of others Banks / NBFCs, geographical proximity to the Company's place of operations, their ability to audit technology and such other parameters that it may consider necessary.
- 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 audit firm(s) complies with all the eligibility norms prescribed by RBI. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment, under the seal of the said audit firm.
- Company shall obtain an undertaking on quarterly from the Statutory Auditors intervals with respect to the penalty, if any imposed by NFRA.
- The ACB shall recommend the appointment to the Board who 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.



8. TENURE AND ROTATION:

- In order to protect the independence of the 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. Further, the Company removing the audit firms before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with the reasons/justification for the same, within one month of such decision being taken.
- An audit firm would not be eligible for reappointment 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 group entities, as per RBI guidelines prescribed from time to time.

***Explanation 1:** In case an audit firm has conducted audit of any Company for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same the Company for six years from completion of part-tenure.*

- One audit firm can concurrently take up statutory audit of a maximum of 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 Company 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.

9. AUDIT FEES AND EXPENSES:

- a) The audit fees for SAs of the Company shall be decided in terms of the relevant statutory/regulatory provisions.
- b) The audit fees for SAs of the Company 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.
- c) The fees for the audit firms would be approved by the Board on recommendation from the ACB.
- d) The appointment of SAs and their remuneration is approved / confirmed at the Annual General Meeting of Shareholders.

10. REVIEW, AMENDMENT AND APPROVAL OF THE POLICY:

This Policy shall be reviewed by the Audit Committee of the Board at least on annual interval or as and when any changes are to be incorporated in the Policy due to change in applicable law or regulation. Subsequently, any changes/amendments to the Policy must be approved by the Board of the Company.

To the extent any change/ amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law, however, notwithstanding such non-modification or pending such modification, the applicable law and regulations (as changed) shall prevail over the Policy, and the Policy shall be read accordingly.



Akara Capital Advisors Private Limited
Policy on Appointment of Statutory Auditors
Version 1.0

ANNEX I

Eligibility Criteria for Appointment as SCA/SA

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 ₹ 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 SCAs of Entities with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

Note 2: CISA/ISA Qualification:

For UCBs and NBFCs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority to firms with full time partners or full time CAs having 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

For NBFCs with asset size above ₹ 1,000 crore, 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.



Akara Capital Advisors Private Limited Policy on Appointment of Statutory Auditors Version 1.0

- (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.

Note 3: Audit Experience:

For NBFCs, 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 other Entities) for considering them as professional staff for the purpose.

B. Additional Consideration

- (i) The audit firm, proposed to be appointed as SCAs/SAs for Entities, 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 Entities shall ensure that appointment of SCAs/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 Entity, the said firm shall not be appointed as SCA/SA of any of the group entities of that Entity.

***Explanation 2:** For the purpose of this circular, 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.*

- (v) The auditors for Entities with asset size above ₹1,000 crore should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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 (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 Entity 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.



Akara Capital Advisors Private Limited
Policy on Appointment of Statutory Auditors
Version 1.0

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 _____ years with the company as 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:



Akara Capital Advisors Private Limited
Policy on Appointment of Statutory Auditors
Version 1.0

FORM B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

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	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	Minimum No. of years of Audit Experience#	Minimum No. of Professional staff

*Exclusively associated in case of 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 SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB 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 SCAs/SAs of NBFCs (as applicable). 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: