mPokket

mPokket

POLICY ON APPOINTMENT OF STATUTORY AUDITORS

OF

MPOKKET FINANCIAL SERVICES PRIVATE LIMITED

Summary of Policy

Version	Issue and Effective Date	Review periodicity	Approving Authority	Policy Owner
V1	16-09-2023	As and when required	Board of Directors	Compliance Department
V2	15-12-2023	As and when required	Board of Directors	Compliance Department

Review Date	Next Review Date	Comments/ Remarks/ Changes
15-12-2023	As and when required	Adoption of revised policy in line with Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

CONTENTS

A. PREAMBLE 4

B. OBJECTIVE 4

C. DEFINITION 4

D. MANNER OF APPOINTMENT: 5

E. ELIGIBILITY CRITERIA 5

F. PROCEDURE OF APPOINTMENT 6

G. TENURE AND ROTATION 7

H. CRITERIA FOR ENSURING INDEPENDENCE OF AUDITOR 7

I. PROFESSIONAL STANDARDS OF SAs 8

J. REMOVAL OF SAs BEFORE THE TENURE OF APPOINTMENT 9

K. MANNER OF DETERMINATION OF AUDIT FEES AND EXPENSES 9

L. REVIEW OF POLICY 9

A. PREAMBLE

The Reserve Bank of India has issued Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs, on 27th April 2021 ("**Guidelines**"). The Guidelines provide necessary instructions for appointment of SCAs/SAs, the number of auditors, their eligibility criteria, tenure and rotation as well as norms for ensuring the independence of auditors.

In compliance with the provisions of the Guidelines, mPokket Financial Services Private Limited, ("Company") being an NBFC having an asset size of more than 1000 Crores, is required to formulate a Board approved policy laying down necessary procedure to be followed for appointment of SCAs/SAs ("Policy") and host it on its official website/public domain. The Company is required to ensure that the SAs fulfils the prescribed eligibility norms. In compliance with the said Direction the Board hereby adopts the Board approved policy on Appointment of Statutory Auditors.

B. OBJECTIVE

The objective of this policy is to provide sufficient framework for the appointment of Statutory Auditors of the Company by prescribing the parameters and brief procedure to be followed by the Company for the appointment of Statutory Auditors confirming to all relevant applicable

C. DEFINITION

a. **"Applicable Laws"** means the RBI Directions, the Companies Act, 2013 and the rules/regulations issued thereunder, as amended from time to time,

b. "**Audit Committee of Board or ACB**" means the Committee duly constituted by the Board of Directors of the Company in accordance with the provisions of all applicable regulatory/statutory requirements.

c. "**Audit Firm**" means the firm of Chartered Accountant(s) constituted as per the provisions of the ICAI Act and permitted to conduct the audit of entities in India under the provisions of Applicable Laws.

d. **"Board"** means Board of Directors of the Company.

e. **"Company"** means mPokket Financial Services Private Limited.

f. "**NBFC**" means a Non-Banking Financial Company registered with RBI under the provisions of RBI Act, 1934.

g. "**Policy**" means Policy on Appointment of Statutory Auditors.

h. "**RBI**" means Reserve Bank of India constituted in accordance with the provisions of the Reserve Bank of India Act, 1934.

i. "**Statutory Auditors or SAs or Auditor**" means the auditor appointed or to be appointed by the Shareholders of the Company for conducting the audit of the Company as per the Applicable Law.

D. MANNER OF APPOINTMENT:

Pursuant to the applicable provisions of the RBI Guidelines, the asset size being less than ₹15,000 crore, the Company shall appoint one (01) audit firm for conducting statutory audit of the Company.

Upon achieving the asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit of the Company shall be conducted under joint audit by a minimum of two SAs. Till then, Company shall continue to follow the practice of appointing a minimum of one audit firm for conducting its statutory audit. Further, in case required more than one SA shall be appointed (within the maximum limit prescribed under the Guidelines) if deemed necessary by the Board. The Board shall determine the same considering 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. Company shall comply with RBI Guidelines and appoint such number of SA as may be required pursuant to increase in the asset size or the other factors introduced under Applicable Law, from time to time, for the number of SA to be appointed.

In case of joint auditors, it shall be ensured that there are no common partners and they are not under the same network (the term 'same network' as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control) of audit firms. Further, the Company shall finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

E. ELIGIBILITY CRITERIA

The eligibility norms for appointment of SAs is enclosed as **Annexure I** is Policy.

F. PROCEDURE OF APPOINTMENT

The eligibility of Audit Firms as provided in this Policy by seeking requisite documents, declarations and certificates from the Audit Firm, including but not limited to:

a) A certificate certifying the eligibility criteria as per Rule 4 of The Companies (Audit and Auditors) Rules, 2014.

b) A certificate along with relevant information in Form B (Annexure-III) as specified by RBI to the effect that the Audit Firm 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 of SAs of the Entities, under the seal of the said Audit Firm.

c) The Company shall shortlist minimum of two (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 re-appointment, during the 3-year tenure, subject to the firms qualifying the eligibility criteria every year and confirmation obtained at the annual general meeting, Company may re-appoint same SAs and shall not be required to shortlist two audit firms.

d) The ACB, in its meeting shall take into consideration the qualifications, eligibility and experience of proposed Auditor Firm(s) and whether such qualifications and experience are commensurate with the size and requirements of the Company. If satisfied, the Audit Committee shall recommend to the Board, the name of an audit firm(s) which may replace the existing auditor on expiry of the term of such incumbent.

e) The Board, on recommendation of the Audit Committee, shall recommend Audit Firm for appointment as SAs of the Company to the members in the forthcoming general meeting, subject to the firms satisfying the eligibility norms each year.

f) The Company shall intimate the concerned RO of RBI regarding the appointment of SAs for each year by way of a certificate in Form A Enclosed as **Annexure II** within one month of such appointment.

g) The Company shall also inform the Audit Firm of his or its appointment as SA and ensure requisite intimation/ returns before concerned stock exchange, Registrar of Companies and other authorities.

G. TENURE AND ROTATION

In order to protect the independence of the auditors/audit firms, the Company will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The audit firm would not be eligible for reappointment in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

Considering that the provisions/ norms relating to the tenure of office of SAs as prescribed under RBI Guidelines are more stringent vis-à-vis provisions specified under CA, 2013, the Company shall comply with the provisions of RBI Guidelines on the subject and implement better corporate governance practice.

The Company may remove SAs before completion of three years. The concerned office of RBI shall be informed about such termination along with reasons for the same, within a month of such a decision being taken.

Para 74 of RBI Master Directions[1], provides that the Company shall rotate the partner/s of the Audit Firm conducting the audit, every three years so that same partner shall not conduct audit of the Company continuously for more than a period of three years. However, pursuant to RBI Guidelines, the rotation of partner may not be required if the tenure of SA is fixed for 3 years on

One Audit Firm can concurrently take up statutory audit of a maximum eight (8) NBFCs during a particular year. A group of Audit Firm having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SCA/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

H. CRITERIA FOR ENSURING INDEPENDENCE OF AUDITOR

I. The Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditor and conflict of interest position in terms of relevant regulatory provisions, standards and best practices and any conflict/concern in this regard shall be reported to Board of Directors and Regional Office of RBI. The Audit Committee shall also review and monitor the effectiveness of audit process.

[1] RBI Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (as amended from time to time).

II. In case of any concern with the management such as non-availability of information/non cooperation by the management, which may hamper the audit process, the SA shall approach the ACB, under intimation to the concerned Regional Office of RBI.

III. The audit of the Company and any entity with large exposure[2] 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 CA, 2013, internal assignments, special assignments, etc.) by the SAs for the Company or any audit/non-audit work for its group entities should be at least one year before appointment or after completion of the audit assignment as SAs. However, during the tenure as SAs, an Audit Firm may provide such services which may not normally result in a conflict of interest[3] , decision on the same shall be taken in consultation with the Board/ACB on case-to-case to basis.

The restrictions as detailed in point (iii) and (iv) above, should also apply to an Audit Firm under the same network[4] of Audit Firms or any other Audit Firm having common partners.

I. PROFESSIONAL STANDARDS OF SAs

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

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 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.

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.

[2] As defined in RBI instructions on 'Large Exposures Framework

[3] A conflict would not normally be created in the case of the following special assignments (indicative list): (i) Tax audit, tax representation and advice on taxation maters, (ii) Audit of interim financial statements.(iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements. (iv) reporting on financial information or segments thereof

[4] Network as defined under "Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

J. 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 concerned RO at RBI about the removal of the SAs, along with reasons/justification for the same, within a month of decision of removal being taken

K. MANNER OF DETERMINATION OF AUDIT FEES AND EXPENSES

The audit fees for SAs of the Company shall be decided in terms of the relevant statutory/regulatory provisions. 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. The Board/ACB of the Company shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs. Such fee shall be exclusive of the expenses, if any, incurred by the SAs in connection with the audit of the Company.

L. REVIEW OF POLICY

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed from time to time. Consequent upon any amendments in Applicable Laws or any change in the position of the Company, necessary changes in this Policy shall be incorporated. Such changes shall be brought to the notice of the Board in the meeting convened immediately after such change.

Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.

ANNEXURE 1

Eligibility Criteria for SAs

The Company asset size, is above ₹ 1,000 crore and upto ₹15,000 crore. Hence, as per the RBI guidelines, the Audit Firm considered for appointment as a SAs of the Company, shall fulfil the following eligibility criteria at the time of their appointment and on continuous basis.

Asset Size of Entity as on 31st March of Previous Year	**Minimum No. of FullTime partners (FTPs)**	**Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA)**	**Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification**	**Minimum No. of years of Audit Experience of the firm**	**Minimum No. of Professional staff**
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

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. The full-time partner's association with the firm would mean exclusive association[5]. Further, for appointment SAs, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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.

[5] 'Exclusive association' will be based on the following criteria:
(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) For other Entities, 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.

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 affected 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.

Additional Consideration:

1. The Audit firm, proposed to be appointed as SAs for Company shall:
    a) be duly qualified for appointment as auditor of the Company in terms of Section 141 of the Companies Act,2013.
    b) 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.
    c) 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. d) not be appointed as SAs of the Company, if any partner of a Chartered Accountant firm is a director in any RBI Regulated Entity in Group.
    d) 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 (which are not regulated by RBI).
2. However, if an Audit Firm is being considered for appointment as SAs, 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.
3. 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.

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.

Further, the following additional points shall be considered while shortlisting the Audit Firm(s):

a) The Audit Firms(s), or any of its partners does not have any relationship or arrangements with the current/ existing SA of the Company.

b) The partner of the Audit Firm, or any relative of such partner, should not be the director, promoter, KMP, or the member of senior management team of the Company.

c) The Audit Firm, its partners or any relative of such partner, neither hold any security, nor is indebted to, nor has given a guarantee or provided any security in connection with the indebtedness of any third person, to the company or its holding or associate company.

d) The Audit Firm has not rendered any non-audit works (services mentioned in Section 144 of Companies Act, 2013, internal assignments, special assignments, etc.) to the Company or any audit/non-audit works to its group entities for a period of one year before appointment or at least one year after completion of the audit assignment as SAs.

e) The Audit Firm, or any of its partner, has not been debarred from taking up audit assignments by any regulator/ government authority or Court of Law.

f) The Audit Firm is duly qualified for appointment as auditor in terms of Section 141 of the Companies Act, 2013 read with Rule 10 of Companies (Audit and Auditors) Rules,2014.

g) Concurrent auditors of the Company, if any, should not be considered for appointment as SAs of the Company.

Annexure II

FORM A

Information to be submitted by the NBFCs regarding appointment of SA

1. The company has appointed M/s _____, Chartered Accountants (Firm Registration Number

_____) as 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 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 SA.

4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of NBFCs.

Signature :

(Name and Designation) :

Date:

Annexure III

Form B (EILL BE INSERTED)