



## **SONATA FINANCE PRIVATE LIMITED**

### **POLICY ON APPOINTMENT OF STATUTORY AUDITORS OF THE COMPANY**

<b>Version</b>	<b>Date of Adoption</b>	<b>Description</b>	<b>Owner</b>	<b>Approving Authority</b>
0.1	28.09.2021	Policy for appointment of Statutory Auditors as per RBI notification dated April 27, 2021	Finance & Accounts	Board of Directors
0.2	27.05.2022	No change		
0.3	30.05.2023			

# SONATA FINANCE PRIVATE LIMITED

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### 1. Background

Reserve Bank of India (RBI) vide notification RBI/2021-22/25 bearing Ref. No. DoS.CO. ARG/SEC.01/ 08.91.001/2021-22 dated 27<sup>th</sup> April 2021 issued guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines require lending institutions to formulate a Board approved policy and necessary procedures thereunder to be followed for the appointment of SAs for the financial Year 2021-22 and onwards.

These guidelines are applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs of the Entities.

Accordingly, Sonata Finance Private Limited (herein referred to as "the Company") is required to take steps to comply with the direction of the regulator.

### 2. Objectives

The objective of the policy is to lay down a guidelines and procedures for appointing/re-appointing Statutory Auditors in compliance with the RBI Directive and Companies Act, 2013. The Policy shall act as a parameter for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors.

The Objective of the Policy is:

- i) Criteria for appointment of SAs; and
- ii) The procedure to be followed for appointment of SAs.

### 3. Definitions of the terms used

"RBI" means Reserve Bank of India

"RE" means Regulated Entity.

"SCA" means Statutory Central Auditor "SAs" means Statutory Auditors.

"SFPL/Company " means Sonata Finance Private Limited

### 4. Scope:

This policy shall form the basis for appointment of SAs. The Company shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder and the regulations/ guidelines/ circulars/ notifications as issued by the Reserve Bank of India.

In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail.

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### **5. Number of Statutory Auditors**

Since the asset size of the Company is less than Rs. 15,000 crores as at the end of previous financial year, the company is obligated to appoint a single audit firm.

### **6. Tenure And Rotation of SA's**

As per the provisions of the Companies Act, 2013 SAs can be appointed for two terms consisting of five years each.

However, as per the RBI guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SA's for a continuous period of 3 years, subject to the SAs satisfying the eligibility norms each year.

If the Company removes SA before completion of 3 years of tenure, it shall inform the concerned Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken.

The Company cannot reappoint the same audit firm for six years after the completion of full or part of one term of the audit tenure. RBI being the sectoral regulator and its guidelines being more stringent, the Company shall appoint the SAs as per the RBI guideline.

### **7. Eligibility Criteria of Auditors**

The company, while appointing the Statutory Audit Firm, shall ensure that the incumbent firm is satisfying the eligibility criteria as laid down by the Reserve Bank of India. As per the specified criteria a single audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with the specified eligibility criteria and other conditions 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, shall be deemed to be single entity while considering for allotment of Statutory Audit. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms shall not be permitted. The incoming audit firm if being associated with the outgoing auditor or audit firm under the same network of audit firms, shall not be eligible for appointment as Statutory Auditors.

The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

- A. There shall be minimum 3 (three) full time partners (FTPs) associated with the firm for a period of at least three (3) years;
- B. Out of the total FTPs the audit firm must consist of at least 2 (two) Fellow Chartered Accountant (FCA) partners associated with the firm for a period of at least three (3) years
- C. There shall be minimum 2 (two) Full Time Partner/ Paid CA with CISA/ISA Qualification
- D. There shall be at least 15 years of audit experience of the firm and minimum 10 years of experience in the NBFCs sector.

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- E. There shall be minimum 15 (fifteen) professional staff comprising of audit and article clerks with knowledge of book keeping and accountancy and who are engaged in onsite audits but excludes computer operator etc.
- F. There shall be at least 1 year of continuous association of partners/paid CAs/professional staff with the firm as on the date of shortlisting for considering them as full-time partners/paid CAs/professional staff.
- G. At least two partners of the firm shall have continuous association with the firm for at least 10 years.

These eligibility norms meet and are further more stringent than the eligibility criteria prescribed by RBI. In addition to this, the Company shall appoint the SA's fulfilling/meeting the criteria as per the provisions of the Companies Act, 2013.

**8. Additional conditions:**

- (i) The audit firm, proposed to be appointed as SAs, 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 an RBI Regulated group Entity, 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) The SAs 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.

**9. Continued compliance with basic eligibility criteria**

It shall be the responsibility of the Audit Firm to ensure that it complies with the eligibility criteria on continuous basis. 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 shall 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, the Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

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### **10. Independence of Auditors**

1. The Audit Committee 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 at Kanpur.
2. 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 be obligated to approach the Board of the Company, under intimation to the concerned SSM/RO of RBI.
3. Internal auditors / tax auditors of the company shall not be considered for appointment as SAs.
4. 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, if any 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 representation and advice on taxation matters. The Company shall take appropriate decision in this regard in consultation with the Audit Committee of the Board .

### **11. Professional Standards required of Statutory Auditor**

1. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
2. 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.
3. 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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

### **12. Audit Fees and Expenses**

1. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions
2. 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.

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### **13. Procedure to be followed for Appointment of SAs**

#### **a. Procedure applicable for existing SAs (Re appointment):**

Preference will be given to existing SAs for re-appointment subject to being compliant with all applicable regulatory and internal policy provisions. The Company shall obtain the willingness from the existing SAs for re-appointment. In case such consent is not received from any of the existing SAs, the Company shall follow the process for appointment of New SAs to fill that vacancy as detailed under the procedure applicable for Appointment of SAs.

#### **b. Procedure for appointment of new firm as SAs:**

- a. The company shall invite applications from eligible Audit firms including the Company's past Audit Firms, based on the fulfillment of the eligibility criteria as per this policy and applicable RBI stipulations. The eligible audit firms shall be asked for expression of interest (EOI) for appointment of Statutory Auditors. Expression of interest/applications received will be examined and considered based on the eligibility criteria.
- b. Interests/Applications received will be evaluated by the CFO in consultation with the MD. Based on the evaluation the CFO in consultation with the MD shall place the proposal for the appointment of the firm as the Statutory Auditor before the audit committee for considering and recommending to the Board for their approval.
- c. The Company shall obtain a certificate, along with relevant information as per the prescribed format (Form B prescribed under RBI Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021), enclosed as ( Annexure II), from the proposed audit firm(s) to be appointed/ reappointed as SAs. Information furnished in the form B ensures 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/engagement partner/s of the audit firm proposed for appointment/ reappointment as SAs of the Company, under the seal of the said audit firm.
- d. The SAs are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the SAs is auditors of a corporate client who is assisted by the Company or whose services are received by the company, then files of such corporate client shall be audited by the other SA.
- e. Thereafter, the Company shall inform the RBI about the appointment of SAs for each year by way of certificate in the prescribed format (Form A prescribed under RBI Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021) enclosed as Annexure-I within one month of the appointment.

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**14. Review of the policy:**

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Board. Any amendments to the policy required as a result of amendment/modifications to the Companies Act, 2013/ RBI guidelines shall be presented to the Board of Directors for its approval.

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**Annexure I**

**FORM A**

**Information to be submitted by the NBFCs regarding appointment of SAs.**

1. The company has appointed M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor (SAs) for the financial year\_ for their 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> term.
2. The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SAs 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 SAs/Internal auditors.
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:**

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**Annexure II**

**FORM B**

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

**A. Particulars of the firm:**

<b>Asset Size of Entity as on 31st March of Previous Year</b>	<b>Number of Full Time Partners (FTPs) associated* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years</b>	<b>Number of Full Time Partners/ Paid CAs. With CISA/ISA Qualification</b>	<b>Number of Years of Audit Experience</b>	<b>Number of Professional staff</b>

**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 SAs 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 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 willful defaulter by any bank / financial institution. Note: For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.

It is confirmed that the information provided above is true and correct.

**Signature of the Partner**

**(Name of the Partner)**

**Date:**