

## Policy on Appointment of Statutory auditors

- 1. Introduction:** Reliance Retail Finance Limited (Company or RRFL) has been attaching the greatest importance to the independence and quality standards of the Statutory Audit (SA) function. Apart from being an essential balancing dimension in a corporate organisation, it constitutes a statutory and regulatory requirement besides providing the final and omnibus assurance of corporate integrity to all internal and external stakeholders. The Company is committed to fostering and upholding the highest standards of integrity and quality in Governance and corporate reporting.
- 2. Objective:** To formulate and adopt a Board approved policy for Reliance Retail Finance Limited (Company or RRFL), for the appointment of Statutory Auditors (SAs) which would ensure transparency, objectivity, independence of the audit function and compliance with all statutory and regulatory stipulations.
- 3. Background & Statutory requirement:** The statutory requirements relating to audit, appointment of auditors and the audit function are stipulated in Chapter X of the Companies Act, 2013 and the rules framed there under. Apart from the requirement of conforming to all relevant statutory prescriptions, the Reserve Bank in its circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/ 08.91.001/2021-22 dated April 27, 2021 (RBI Guidelines) read with Clarifications afforded by RBI vide FAQ dated June 11, 2021, has notified guidelines in terms of Chapter IIIB of the Reserve Bank of India Act, 1934 which are particularly applicable to all the regulated Non-Banking Finance Companies (NBFCs) and the eligibility criteria for an audit firm is dependent upon total assets of an NBFC as at the end of last financial year. Being a regulated non-deposit taking NBFC, the regulatory prescriptions are applicable to RRFL. Accordingly, in keeping with its corporate values, global best practices, statutory and regulatory prescriptions, the company has articulated the following policy for the appointment of statutory auditor.
- 4.** The salient aspects and requirements under the RBI guidelines read with provisions of section 141 of the Companies Act and as adopted by RRFL for appointment of statutory auditors are as under:
  - i. Applicability**

Policy and procedure so mentioned hereunder, after approval by the Board, shall be applicable from FY 2021-22.
  - ii. Governance**
    - (a) The responsibility for oversight and ensuring that the appointment of statutory auditors meets the requisite statutory and regulatory standards as well as the stipulations under this policy vests with the Board, Audit Committee of the Board and the Chief Executive Officer.

- (b) The Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and ensure that there is no conflict of interest position in terms of relevant regulatory provisions, standards and best practices. The Board/ Audit Committee of the Board at their discretion may hold separate and exclusive meetings with the Statutory Auditors to ensure that they are able to function and carry out their obligations freely and without hindrance and also obtain feedback on their interim or final findings.

### **iii. Eligibility criteria for Statutory Auditors**

- a) SAs should fulfil all eligibility criteria as prescribed by RBI from time to time through various circulars and guidelines.
- b) To be eligible for appointment as Statutory Auditors, the audit firm will need to fulfill requirements as explicitly specified in Annexure 1 to the RBI Guidelines in regard to the number of full time partners, number of full-time partners with FCA accreditation, minimum audit experience of the firm, number of professional staff, number of CISA/ISA qualified partners/paid CAs, etc. as scaled to the asset size of the RRFL as on March 31 of the previous year.
- c) The partners, paid chartered accountants and professional staff should meet the minimum requirements of continuous association with the audit firm as specified.
- d) The audit firm to be appointed as SA for RRFL, shall be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- e) 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.
- f) The appointment of SCAs/SAs will 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.
- g) A Chartered Account Firm where one of the Partners is a Director of any of the RBI regulated entities in RIL Group, the said firm shall not be eligible for appointment as SA of the Company.
- h) The Audit firm should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree and complexity of computer environment of RRFL in order to achieve audit objectives.
- i) Concurrent Auditors or those providing any non-audit services to any of the RBI Regulated entities in the RIL Group shall not be considered for appointment as SAs of the Company.
- j) The audit firm should comply with the eligibility criteria at the time of commencement of the statutory audit and will strive to adhere to the eligibility

criteria on a continuous basis. The audit firm will be obliged to inform RRFL of their continued compliance.

**iv. Independence criteria for Statutory Auditors and issues of conflict of interest**

- a) Audit committee will assess, at the time of appointment and every year thereafter, the eligibility and independence of the auditors and any conflict of interest in terms of relevant regulatory provisions, standards and prevalent best practices. Any concerns to be flagged by the Audit Committee to the Board of Directors of RRFL and Senior Supervisory Manager (SSM)/ Regional office of RBI.
- b) Audit Committee to consider assignments being done by the SA for Related Party entities, both before and after the appointment of SA, where exposure and value of Related Party transactions is significant.
- c) No non-audit assignment as mentioned in section 144 of the Companies Act 2013, which may create conflict of interest, should be awarded to SAs during the course of their tenure as SAs.
- d) 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( RBI regulated entities) should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and Entities may take their own decision in this regard, in consultation with the Board & Audit committee. This restriction shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

**v. Adherence to professional standards by Auditors**

- a) The SAs shall be strictly guided by the relevant professional standards in discharge of their responsibilities with highest diligence. Any negligence to be reported by Audit Committee to RBI after yearly assessment.
- b) 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 SCAs/SAs shall approach the Board/ACB/LMC of the Entity, under intimation to the concerned SSM/RO of RBI.

**vi. Number of Auditors to be appointed**

- a) RRFL to appoint such number of SAs as prescribed by RBI from time to time, through its various circulars and guidelines, subject to approval and recommendation from Board and Audit committee.
- b) RRFL shall ensure that both minimum and maximum numbers of SAs appointed are within the limits set by RBI from time to time. Accordingly,

based on current circular, on achieving Asset size of over Rs. 15,000 crs, RRFL shall appoint minimum of two SAs firm for conducting its joint statutory audit.

**vii. Tenure and rotation policy**

- a) An Audit firm can continue to be appointed as SA for three years subject to the firm satisfying the eligibility criteria for each year. The same audit firm cannot be reappointed by the Company for the next two terms of 3 years each.
- b) In the event of the Company needing to remove the SAs before completion of three years tenure, RRFL shall inform concerned SSM/Central Office of RBI, Department of Supervision (NBFCs) about it, along with reasons/justification for the same, within a month of such a decision being taken.
- c) 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.

**viii. Remuneration and expenses**

- a) Section 142 of the Companies Act prescribed that the remuneration of the auditor of a Company shall be fixed in its general meeting or in such manner as may be determined therein.
- b) Remuneration of Auditor include the expenses, if any , incurred by the auditor in connection with the audit of the company and any facility extended to him
- c) Remuneration of Auditor does not include any remuneration paid to him for any other services (mentioned in section 144 of the Companies Act) rendered by him at the request of the company.
- d) The audit fees for the Statutory Auditor shall be reasonable and commensurate with the scope and coverage of audit.
- e) The company shall disclose by way of notes, additional information regarding aggregate expenditure of the following items:-  
Payments to the auditor as
  - Auditor
  - For Taxation matter
  - For Company law matters
  - For other services
  - For Reimbursement of expenses

**ix. Procedure for appointment and reappointment**

- a) The Audit Committee shall take into account the relevant factors such as 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. for shortlisting the eligible audit firms.
- b) RRFL shall place the name of shortlisted audit firms, in order of preference, before its Audit Committee and Audit Committee shall shortlist and recommend to the Board a minimum of 2 audit firms for every vacancy for selection of SAs so that even if the 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.
- c) RRFL shall obtain an eligibility criteria certificate, duly signed and authenticated by the main partner/s of audit firm who are proposed to be appointed as SA, to the effect that each audit firm complies with all the eligibility norms prescribed by RBI as prescribed in the Form B of the guidelines (Annexure 3) and also a confirmation that the audit firm adheres to the prescribed limit of conducting statutory audit of only a maximum number (as prescribed by RBI) of NBFCs during a particular year, including RRFL's audit.
- d) While the overall onus of the audit firm fulfilling eligibility criteria as prescribed by RBI in Annex I or as may be amended from time to time, for audit of the Company as per RBI guidelines rests with the audit firm, the Company shall also verify, through reasonable means, their compliance with the eligibility norms, prescribed by RBI.
- e) Upon appointment of SAs, RRFL shall inform RBI every year, in prescribed FORM A (Annexure 2), of appointment / confirming eligibility of SAs within such timeframe as may be prescribed.
- f) In the event 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, RRFL will promptly seek the approval of the RBI to allow the concerned audit firm to complete the audit, as a special case. In such an event, RRFL, subject to the approval of its Board, may also consider the substitution of the Audit firm with another Audit firm that fulfills all eligibility criteria and report the same to the Reserve Bank with justification.

**x. Review of performance of Statutory Auditors by the Audit committee**

- a) The Board / Audit committee of RRFL shall review the performance of SA on an annual basis. The Statutory Auditors continuing to fulfill the eligibility criteria and have not been assessed as negligent will be eligible for

continuance subject to policy regarding tenure and rotation. Any serious lapses / negligence in Audit responsibilities or conduct of issues on part of the SAs or any other matter considered as relevant shall be reported to RBI within two months from completion of annual audit.

- b) In concurrence of above, every year during month of April or May the Board/ Audit Committee should meet and review the performance of the SAs and give requisite approval, if required, for reporting any serious lapses by SAs to RBI, within required timeframe which is two months from completion of audit

**xi. Regulatory Reporting**

- a) RRFL will inform RBI about the appointment of SAs, by way of a certificate in Form A (Annexure 2) as prescribed by RBI, within one month of such appointment and the Board/Audit committee to assess the eligibility of the SA on a yearly basis and to submit a certificate in FORM A to this effect to the RBI within 30 days of the Annual General Meeting of RRFL..

**xii. Compliance under Companies Act**

- a) RRFL shall ensure that it complies with requisite provisions as mentioned under Companies Act 2013, and in case of any conflict among guidelines issued by RBI or any other regulatory authority and provisions of Companies Act 2013, it will take conservative approach and follow the stricter regulation/provisions.
- b) Eligibility, qualifications and disqualification of SAs shall also follow provisions of Companies Act 2013, which allows a firm to be appointed as SAs.
- c) The written consent, and a certificate from the auditor or auditors to such appointment, shall be in accordance with the conditions as prescribed by applicable regulations from time to time.
- d) The company shall inform the auditor / firm concerned of his or its appointment, and also file a notice of such appointment with the Registrar in such manner as may be prescribed under the Companies Act, 2013

**xiii. Validity of this policy:**

This policy is valid from FY 2021-22 and will be reviewed annually.

## Annexes

### Annexure -1

#### Eligibility Criteria for SAs

##### A. Organisation, size and capacity considerations:

Asset size as on 31 <sup>st</sup> March of previous year	Number of Full time Partners associated with the firm for a period of 3 years	Out of FTP number of FCA partners associated with the firm for a period of 3 years	Number of Full time Partners/ Paid CAs with CISA/ ISA Qualification	Number of years of Audit experience	Number of Professional staff
Upto Rs 1000 crore	2	1	1	6	8
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Above ₹15,000 crore	5	4	2	15	18

- There should be at least one-year continuous and exclusive 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. The definition of 'exclusive association' will be based on the following criteria:
  - (a) The full-time partner should not be a partner in other firm/s;
  - (b) The partner 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 income of the partner from the firm/ LLP should be adequate, as per the Board/ ACB's assessment, 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 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 Auditor/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 empanelment/ shortlisting.



*Annexure -2 (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 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 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:

Annexure -3 (Form B)

**Eligibility Certificate form for SAs**

**A. Particulars of the Firm:-**

Asset size as on 31 <sup>st</sup> March of previous year	Number of Full time Partners associated with the firm for a period of 3 years	Out of FTP number of FCA partners associated with the firm for a period of 3 years	Number of Full time Partners/ Paid CAs with CISA/ ISA Qualification	Number of years of Audit experience	Number of Professional staff
Upto Rs 1000 crore					
Above ₹ 1,000 crore and Up to ₹15,000 crore					
Above ₹15,000 crore (Joint Audit)					

**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 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 Commercial Banks (excluding RRBs)/UCBs/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 of 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: