



MUTHOOT MICROFIN LIMITED

Policy on Appointment of Statutory Auditors

A. Introduction

The Reserve Bank of India (RBI) vide notification No. RBI/2021-22/25 Ref.No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated 27.4.2021 has issued a set of guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

B. Objective

The Policy shall act as a guideline for appointment of the Statutory Auditors of the Company. The Objective of the Policy is to:

- i. Determine the number of SAs based on various parameters;
- ii. Criteria for appointment of SAs; and
- iii. Procedure to be followed for appointment of SAs

C. Applicability

The RBI guideline is applicable for appointment of Statutory Auditors for the financial year 2021-22 and onwards. However, as a NBFC, the Company has the option to adopt the guidelines from second half of FY 2021-22, and the Policy will be applicable from there only.

D. Intimation to RBI

The Company shall inform RBI about the appointment of Statutory Auditors for each year by way of a certificate in Form - A as prescribed by RBI by its Circular dated April 27, 2021, within one month of such appointment.

E. Number of Statutory Auditors

As the asset size of the Company is less than ₹15,000 crore as at last reporting period i.e, March 31, 2021, the Company shall appoint minimum one audit firm (Partnership firm/LLPs) as the Statutory Auditors for conducting audit for particular financial year (s).

The Company shall decide on the number of Statutory Auditors taking into account 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.. Statutory Auditors shall visit and audit minimum number of branches basis RBI guidelines.

The Company 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.

In addition, the Company shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding of audit of accounts of all branches.

F. Eligibility Criteria of Auditors:

The Company shall appoint audit firm/s as its Statutory Auditors fulfilling the eligibility norms as prescribed in Annex I of RBI Circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 or as may be amended.

G. 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.
- 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 Auditors shall approach the Audit Committee of the Board, 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 SAs for the Company or any audit/non-audit works for its group Company should be at least one year, before or after its appointment as SCAs/SAs. This stipulation shall be applicable prospectively, i.e. from FY 2022-23. However, during the tenure as SA, audit firm can provide such services to the Company which may not normally result in a conflict of interest and Company shall take their own decision in this regard, in consultation with the Audit Committee of Board.
- The above restrictions shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

H. Professional Standards of Statutory Auditors

- The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- Audit Committee of Board of the Company shall review the performance of Statutory Auditors on an annual basis.
- Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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 Audit Committee of Board, with the full details of the audit firm

I. Tenure and Rotation

- In order to protect the independence of the auditors/audit firms, the Company shall appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- If Company removes the Statutory Auditors before completion of three years tenure, it shall inform concerned SSM/RO at RBI, along with reasons/justification for the same, within a month of such a 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
- 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

J. Audit Fees and Expenses

- The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- The Company shall ensure that the audit fees 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 computerisation, identified risk in financial reporting etc.
- The Audit Committee of Board of Company shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

K. Procedure for Appointment of Statutory Auditors

The RBI circular prescribe the procedure for appointment of SAs, which includes the following:

- i. The Company shall shortlist minimum of two audit firms for every vacancy of Statutory Auditor 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.
- ii. The Company shall obtain a certificate, along with relevant information as per Form - B as prescribed by RBI from each of the audit firms proposed to be appointed as Statutory Auditor that it complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- iii. The Audit Committee of the Board shall recommend the appointment of the Statutory Auditors to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the Statutory Auditors except the first Statutory Auditors and the

appointment of Statutory Auditors in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

L. Review of the Policy

This Policy shall be reviewed as and when deemed necessary and will be submitted to the Board for its approval on the recommendation of the Audit Committee of the Board.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall stand modified in accordance with regulations.