

**RELIANCE CAPITAL LIMITED
POLICY ON APPOINTMENT OF STATUTORY AUDITORS**

1. Introduction:

Reliance Capital Limited (henceforth referred as “the Company or RCL”) is a Core Investment Company holding Certificate of Registration issued by Reserve Bank of India (RBI). The equity shares of the Company are listed on NSE and BSE. Thus, the provisions of Companies Act, 2013, SEBI Regulations and guidelines issued by RBI as Regulatory Authority for Non-Banking Financial Companies (including CICs) are applicable.

The Reserve Bank of India vide its circular Ref. No. DoS. CO. ARG / SEC.01/08.91.001/ 2021-22 dated April 27, 2021 issued guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) (hereinafter referred to as the ‘RBI Guidelines’). Paragraph 10 of the Guidelines mandate RCL to formulate a Board approved policy for appointment of Statutory Auditors and procedure thereof.

Keeping this in view the following policy on appointment of Statutory Auditors and procedure thereof has been adopted by the Board of Directors of the Company.

In case of any subsequent amendment in the Guidelines which makes any of the provisions in this Policy inconsistent with the amended guidelines, the provisions amended guidelines would prevail over the Policy and the provisions in this Policy would be modified in due course to make it consistent with such changes.

In case of any divergence in any aspects / parameters amongst guidelines issued by / under Companies Act, SEBI or RBI in matters relating to Statutory Audit/ Auditors, then the Company shall ensure compliance with the strictest one.

2. Applicability:

The Policy shall be applicable from Financial Year 2021-22 and onwards and have flexibility to adopt Second half of FY 2021-22 in order to ensure that there is no disruption.

3. Number of SAs and Branch Coverage:

- a. For Entities with asset size of Rs.15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms.

The Company’s asset size of being less than Rs.15,000 crore as at the end of previous year, the statutory audit should be conducted under audit of one audit firm.

- b. Going forward the Company to ensure the Limit on Maximum SAs appointment as under:

Sr. No.	Asset Size of the Entity	Maximum number of SAs
1.	Upto Rs. 5,00,000 crore	4
2.	Above Rs. 5,00,000 crore and Upto Rs. 10,00,000 crore	6
3.	Above Rs. 10,00,000 crore and Upto Rs. 20,00,000 crore	8
4.	Above Rs. 20,00,000 crore	12

- c. The Company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.
- d. The Company should ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.
- e. For the Entities (excluding Payment Banks and Core Investment Companies), SAs shall visit and audit at least the Top 20 branches / Top 20% of the branches of the Entities (in case of Entities having less than 100 branches), to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Entities.

4. Tenure and Rotation:

- a. Appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each financial year;
- b. An audit firm would not be eligible for reappointment in the same Entity 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 Entities;
- c. Appointed audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year;
- d. The Company shall inform concerned SSM/RO at RBI about removal of SAs before completion of three years tenure, along with reasons/justification for the same, within a month of such a decision being taken;

5. Eligibility criteria to be considered for appointment of auditors:

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 Rs. 15,000 crore	5	4	2	15	18
Above Rs. 1,000 crore and Up to Rs. 15,000 crore	3	2	1	8	12
Upto Rs. 1,000 crore	2	1	1	8	8

* Not mandatory for UCBs/NBFCs with asset size of upto Rs. 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. The full-time partner's association with the firm would mean exclusive association. Further, for appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities with asset size above Rs. 1,000 crore, 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 another 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; and
- d. the Board / Audit Committee 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 2: CISA/ISA Qualification:

For UCBs and NBFCs with asset size upto Rs. 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.

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. For UCBs and 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 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.

B. Additional Consideration

- i. The audit firm, proposed to be appointed as SAs for the Company, 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 any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities of that Entity.
(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 Rs. 1,000 Crore 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.
- vi. For audit of UCBs, the SA of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the state in which the UCB/branch of the UCB is located.

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 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.

6. Procedure to be followed for Appointment of SAs:

- i. The Company shall shortlist minimum of 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.
- ii. The banking companies shall continue to follow the existing procedure followed by them for selection of SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB for selection as SAs
- iii. The Company shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SAs by the Company to the effect 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 partner/s of the audit firm proposed for appointment of SAs of the Entities, under the seal of the said audit firm.
- iv. the Company shall intimate RBI about the appointment of SCAs/SAs for each year by way of a certificate in **Form A** within one month of such appointment. While intimating RBI for appointment of SAs shall indicate its total asset size as on March 31st of the previous year (audited figures) and forward a copy of Board/ACB Resolution (resolution not needed for foreign banks operating under branch mode) approving names of audit firms and also furnish information as per Form B.

7. Criteria for ensuring independence of auditor:

- a. 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.
Any concerns in this regard may be flagged by the ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- b. In case of any concern with the Management of the Entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board/ACB of the Company, under intimation to the concerned SSM/RO of RBI.

- c. Concurrent auditors of the Company should not be considered for appointment as a SAs of the Company. The audit of the Company and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 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 Entities or any audit / non-audit works for its group 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/ACB.
- e. The restrictions as detailed in para c and d above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

8. Review of Performance of SAs:3

- a. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence;
- b. The Board / ACB of the Company 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 Board/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 Entity'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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Audit Fees and Expenses:

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.

The ACB shall recommend the Board for payment of Audit fees to SAs and the Board shall approve.

Encl.
Form A
Form B

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 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:

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

A. Particulars of the firm:

Asset Size of Entity as on 31 st 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 of the firm #	Minimum No. of Professional staff
<p>*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore #Details may be furnished separately for experience as SCAs/SAs and SBAs</p>					

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 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) 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: