



Policy on Appointment of Auditors of the Company



POLICY ON APPOINTMENT OF AUDITORS OF THE COMPANY (Version: V3)



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A. PURPOSE

- In line with provisions of the Companies Act, 2013, the directions and guidelines issued by Reserve Bank of India (“RBI”) from time to time, and good corporate governance practices to ensure the independence of auditors, this policy on appointment of auditors (“Policy”) outlines the broad parameters including qualifications, eligibility, and tenor to be considered for the appointment and continuation of the statutory auditors, internal auditors, and secretarial auditors of IndoStar Capital Finance Limited (“Company”).
- This Policy shall be made available on the official website of the Company, as amended from time to time.

B. STATUTORY AUDITOR

- This part B of the Policy shall be read with the RBI Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) *vide* circular bearing Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, as amended or replaced from time to time (“Appointment Guidelines”).

Number of Statutory Auditor(s) and Branch Coverage

- Considering the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, statutory audit of the Company shall be conducted by one statutory auditor till its asset size reaches INR 15,000 crores. Thereafter, when the asset size of the Company reaches INR 15,000 crores and above, as at the end of the previous year, the statutory audit of the Company shall be conducted under a joint audit of a minimum of two audit firms and a maximum of 3 audit firms in compliance with the Appointment Guidelines. It shall be ensured that joint/multiple auditors appointed by the Company do not have any common partners and they are not under the same network of audit firms.
- The statutory auditor(s) 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), of the Company, to be selected in order of the level of outstanding advances, in such a manner so as to cover a minimum of 15% of the total gross advances of the Company. The provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches shall be adhered to.

Process, Eligibility Criteria and Independence of Auditors

Process and Eligibility:

- The Company shall shortlist a minimum of 2 audit firms for every vacancy of statutory auditor so that even if a firm of first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of statutory auditor does not get delayed.
- Statutory auditors shall comply with the eligibility criteria prescribed under applicable provisions of (i) the Companies Act, 2013, (ii) the Appointment Guidelines, as amended from time to time; and (iii) applicable regulations, circulars, notifications, guidelines, and directions issued by the Securities and Exchange Board of India (“SEBI”).



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- The Company shall obtain a certificate, along with the relevant information as prescribed by RBI from the audit firm(s) proposed to be appointed as statutory auditors 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 as statutory auditors, under the seal of the said audit firm.

Independence:

- The audit committee of the board of directors of the Company ("**Audit Committee**") shall monitor and assess the independence of the statutory auditors and conflict of interest position in terms of relevant regulatory provisions, standards, and best practices. Any concerns in this regard shall 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.
- Concurrent auditors of the Company should not be considered for appointment as statutory auditors of the Company.
- The audit of the Company and any company with large exposure, as defined in RBI's framework on large exposures, to the Company for the same reference year should also be explicitly factored in while assessing the independence of the statutory 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 statutory auditor for the Company or any audit/non-audit works for group entities should be at least one year, before or after its appointment as statutory auditor of the Company.

However, during the tenure as statutory auditor, the firm may provide such services to the Company which may not normally result in a conflict of interest, which are also approved by the audit committee. 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 matters,
 - (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.
- An incoming audit firm shall not be eligible for appointment if such audit firm is associated with the outgoing auditor.
 - The restrictions as detailed in the above paragraphs should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners. Audit firms under the 'same network' includes firms operating or functioning hitherto or in future under the same brand name, trade name or common control.



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Professional Standards and reporting of lapse

- Statutory auditors shall be strictly guided by the relevant professional standards in discharge of the audit responsibilities with highest diligence.
- The Audit Committee 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, with the full details of the audit firm.
- In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the statutory auditors, the statutory auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

Tenure and Rotation

- In order to protect the independence of the audit firm, the Company shall appoint statutory auditors for a continuous period of three years, subject to the auditor satisfying the eligibility norms each year. In case the Company removes its statutory auditors before completion of three years tenure, it shall inform concerned SSM/RO of 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 as statutory auditor in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

Audit Fees and Expenses

- The audit fees for statutory auditors shall be decided by the Audit Committee or persons authorised by the Audit Committee under update to Audit Committee, in terms of the relevant statutory/regulatory provisions.
- The audit fees for statutory auditors 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.

Reporting

The Company shall inform RBI about the appointment of statutory auditors for each year by way of a certificate in form and manner prescribed by RBI and in accordance with the Appointment Guidelines.

C. INTERNAL AUDITOR

- This part of the policy shall be read with the Risk-based Internal Audit Policy adopted by the Company and the 'Guidelines on Risk-Based Internal Audit' issued by RBI vide circular no. DoS.CO.PPG./SEC.05/11.01.005/2020-21 dated February 03, 2021 ("RBIA Guidelines").



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Appointment

- The Board of Directors of the Company, upon recommendation of the Audit Committee, shall appoint a head of internal audit (“HIA”) who shall be a senior executive with the ability to exercise independent judgement.
- In addition to being headed by the HIA, the internal audit function of the Company shall include internal auditors who shall either be chartered accountants or cost accountants, or such other professionals as may be decided by the Audit Committee and Board of Directors of the Company. The Company may also appoint individual auditors on a contractual basis.
- In addition to the requirements set out under Chapter X of the Companies Act, 2013, the person(s) proposed to be appointed as internal auditor(s) shall fulfil eligibility criteria as may be prescribed under the provisions of the RBIA Guidelines.
- The internal audit function shall have sufficient authority, stature, independence and resources thereby enabling internal auditors to carry out their assignments properly. The HIA and the internal audit functionaries shall have the authority to communicate with any staff member and get access to all records that are necessary to carry out the entrusted responsibilities.
- Requisite professional competence, knowledge and experience of each internal auditor is essential for the effectiveness of internal audit function. The areas of knowledge and experience may include banking/financial entity’s operations, accounting, information technology, data analytics, forensic investigation, among others. The collective skill levels should be adequate to audit all areas of the Company.
- The HIA shall directly report to the CEO and the ‘Reviewing authority’ shall be the Audit Committee and the ‘Accepting authority’ shall be the Board of Directors of the Company in matters of his performance appraisal.
- The Audit Committee shall meet the HIA at least once in a quarter, without the presence of the senior management or CEO. The HIA shall not have any reporting relationship with the business verticals of the Company and shall not be given any business targets.

Independence:

- The Audit Committee shall review performance of Internal Auditors on annual basis. Audit Committee shall 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 shall be flagged by the Audit Committee to the Board of Directors of the Company.
- Effective from 01 April 2022, the internal audit function shall not be outsourced. However, where required, expert including former employees can be hired on a contractual basis subject to the Audit Committee being assured that such expertise does not exist within the audit function of the Company. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.



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Tenure and Rotation

- In case the Company appoints an expert individual auditor in addition to the internal audit function, in order to protect the independence of the expert individual auditor, the Company shall appoint such expert individual auditors for a single term of five years. Such individual internal auditors would not be eligible for re-appointment in the Company for two years after completion of full or part of one term of the audit tenure.
- The HIA shall be appointed for a reasonably long period, preferably for a minimum of three years.

Audit Fees and Expenses

- The independence and objectivity of the internal audit function could be undermined if the remuneration of internal audit staff is linked to the financial performance of the business lines for which they exercise audit responsibilities. Thus, the remuneration policies should be structured in a way to avoid creating conflict of interest and compromising auditors' independence and objectivity. The audit fees for internal auditors shall be decided accordingly by the audit committee or persons authorized by the audit committee.
- The audit fees for Internal Auditor expert shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity.

D. SECRETARIAL AUDITOR

Appointment and Tenure

- On the basis of recommendation of board of directors, the Company shall appoint or re-appoint:

- (i) an individual as Secretarial Auditor for not more than one term of five consecutive years; or
- (ii) a Secretarial Audit firm as Secretarial Auditor for not more than two terms of five consecutive years,

with the approval of its shareholders in its Annual General Meeting.

Provided that-

- (i) an individual Secretarial Auditor who has completed his or her term under sub-clause (i) of this clause shall not be eligible for re-appointment as Secretarial Auditor in the same entity for five years from the completion of his or her term;
- (ii) a Secretarial Audit firm which has completed its term under sub-clause (ii) of this clause, shall not be eligible for re-appointment as Secretarial Auditor in the same entity for five years from the completion of such term:

Provided further that as on the date of appointment no Secretarial Audit firm having a common partner or partners to the other Secretarial Audit firm, whose tenure has expired in the listed entity immediately preceding the financial year, shall be appointed as Secretarial Auditor of the same listed entity for a period of five years:

Provided further that, nothing contained in these regulations shall prejudice the right of the entity to remove Secretarial Auditor with the approval of its shareholders in its Annual General Meeting or the right of the Secretarial Auditor to resign from such office of the listed entity.



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- The casual vacancy arising out of resignation, death or disqualification of a Secretarial Auditor shall be filled by the board of directors of the listed entity within a period of three months and the secretarial auditor so appointed shall hold office till the conclusion of the next annual general meeting.”

Scope

- The Company shall give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the Company.
- The secretarial auditor shall submit his report on compliance with all laws applicable to the Company. Such report shall be annexed to the board’s report under Section 134 of the Companies Act, 2013 and, further, the board of directors of the Company shall provide explanations or comments on every qualification, reservation or adverse remark or disclaimer made by the company secretary in practice in his secretarial audit report.
- The secretarial auditor shall additionally submit a separate compliance report confirming compliance with circulars, regulations, directions, and guidelines issued by the SEBI.
- The secretarial audit report shall also be annexed to the annual report of the Company in relation to and as per the circulars, regulations, directions, and guidelines issued by SEBI from time to time.
- A Secretarial Auditor shall provide to the Company only such other services as are approved by the board of directors, but which shall not include any services as specified by Securities and Exchange Board of India in this behalf.

Eligibility, Qualifications and Disqualifications of Secretarial Auditor:

- (i) A person shall be eligible for appointment as a Secretarial Auditor of the listed entity only if such person is a Peer Reviewed Company Secretary and has not incurred any of the disqualifications as specified by the Board:
Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be Secretarial Auditor of the listed entity.
- (ii) Where a firm including a limited liability partnership is appointed as Secretarial Auditor of the listed entity, only the partners who are Peer Reviewed Company Secretaries shall be authorised to act and sign on behalf of the firm.
- (iii) Where a person appointed as Secretarial Auditor of the listed entity incurs any of the disqualifications as specified by the Board, after appointment, such person shall vacate the office as Secretarial Auditor and such vacation shall be deemed to be a casual vacancy in the office of the Secretarial Auditor

Audit Fees and Expenses

- The audit fees for Secretarial Auditors shall be decided by the Board of Directors or persons authorised by the Board of Directors.



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- The audit fees for secretarial auditor of the Company shall be reasonable and commensurate with the scope and coverage of audit, etc.

E. REVIEW OF POLICY

- The Policy shall be reviewed by the Board as and when any changes are required to be incorporated in the Policy due to change in applicable law or regulation, or at least once in every year and updated accordingly.
- In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail. To the extent any change or amendment is required in terms of any applicable law or change in regulations, while such applicable law or regulations will prevail over this Policy, such change or amendment in applicable law or regulations shall be deemed to be incorporated herein until this Policy is amended, replaced, and/or restated in due course to make it consistent with law.