



***Policy on appointment of Statutory Auditors
of the Company***

POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

1. Background

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 (“RBI Circular”) has issued guidelines for Appointment of Statutory Auditors (SAs) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs) with limit of INR 1,000 crores and above. The guidelines require lending institutions to formulate a policy approved by the Board of Directors (“the Board”) to be hosted on its official website and formulate necessary procedures thereunder to be followed for the appointment of SAs. Vastu Housing Finance Corporation Ltd. is required to take steps to comply with the directive since its asset size is more than INR 1,000 crores.

2. 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.

3. Applicability

This Policy will be applicable for appointment of Statutory Auditors by the Company by second half of the financial year 2021-22 and onwards including any amendments, if any made from time to time by the Regulators.

4. RBI reporting/Registrar of Companies Reporting

The Company will inform the Mumbai Regional Office of RBI (Department of Supervision), with respect to the appointment of SAs for each year by way of a certificate in Form A (as prescribe by RBI) within one month of such appointment. The company shall file the notice of appointment of auditors with Registrar of companies, Ministry of Corporate Affairs within 15 days of appointment in e Form ADF-1.

5. Number of SAs and Branch Coverage:

For Entities with asset size of ₹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. The actual number of SCAs/SAs to be appointed shall be decided by the respective Boards/LMC, subject to the following limits:

| Sl. No. | Asset Size of the Entity | Maximum number of SCAs/SAs |
|---------|--|----------------------------|
| 1. | Upto ₹5,00,000 crore | 4 |
| 2. | Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore | 6 |
| 3. | Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore | 8 |
| 4. | Above ₹ 20,00,000 crore | 12 |

Since the asset size of the Company is above ₹1,000 crore and less than ₹15,000 crore as at the end of previous year, the Company can appoint minimum one SA and maximum four joint SAs.

The Statutory Auditors shall visit and audit at least the Top 20 Branches/Top 20% of the branches of the Company (in case of Company 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 NBFC/HFC. 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.

6. Minimum Eligibility Criteria of Auditors

In accordance with the RBI circular, following is the eligibility criteria for appointment of Statutory Auditor.

| 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 ₹15,000 crore | 5 | 4 | 2 | 15 | 18 |
| Above ₹ 1,000 crore and Up to ₹15,000 crore | 3 | 2 | 1 | 8 | 12 |
| Upto ₹1,000 crore | 2 | 1 | 1* | 6 | 8 |

since the Company's asset size is more than ₹ 1,000 crore and less than ₹15,000 crore, the audit firms shall fulfil the following minimum criteria for being eligible to be considered for appointment as SA of the Company:

- i) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three.
- ii) Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be two.
- iii) Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be one.
- iv) Minimum number of years of relevant audit experience of the firm should be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI, and
- v) Minimum number of professional staff should be twelve.

Along with the criteria as specified by the RBI, the Company shall appoint the SA's meeting the criteria as per section 141 of the Companies Act, 2013. The audit firm should not be under debarment by any Govt. agency, National Financial reporting Authority (NFRA), The ICAI, RBI and other financial regulators.

7. Independence of Auditors

- 7.1. 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)/Mumbai Regional Office (MRO) of RBI.

- 7.2. 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 SAs shall approach the Board/ACB of the Company, under intimation to the concerned SSM/RO of RBI.
- 7.3. Concurrent auditors of the Company, if any will not be considered for appointment as Statutory Auditors. The audit of the Company and any entity with large exposures to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 7.4. The time gap between any non-audit work i.e. services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc. by the Statutory Auditors of the Company or any audit/non-audit work for the Company's group entities should be at least one year, before or after its appointment as Statutory Auditors. 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, and Company may take their own decision in this regard, in consultation with the Board/ACB.
- 7.5. The restrictions as detailed in para 7.3 and 7.4 above, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- 7.6. The statutory auditor should comply with the required standards on auditing as prescribed by ICAI.

8. Tenure and Rotation

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

However, as per the RBI Circular, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. If the Company removes SAs before completion of 3 years of tenure, it shall inform Mumbai Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company will not reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

RBI being the sectoral regulator, the Company shall appoint the SA as per the RBI guideline.

9. Audit Fees and Expenses

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 fees shall be approved by the ACB of the Board in consultation with the SA or as permitted by the Shareholders of the Company.

10. 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 SA.
- ii) The Company shall obtain a certificate from the audit firms to be appointed as SAs 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 ACB shall recommend the appointment of the SA to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.
- iv) Company shall make the necessary filings and intimation to ROC, RBI and NHB or such other statutory authority within the prescribed timelines as applicable.

11. 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 ACB.

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

Enclosure

1. Annex-I
2. Annexe-II
3. Form A
4. Form B

Eligibility Criteria for Appointment as SCA/SA

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 ₹15,000 crore | 5 | 4 | 2 | 15 | 18 |
| Above ₹ 1,000 crore and Up to ₹15,000 crore | 3 | 2 | 1 | 8 | 12 |
| Upto ₹1,000 crore | 2 | 1 | 1* | 6 | 8 |

* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 crore.

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as full time partners. Further, for appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size above ₹ 1,000 crore, the full-time partner's association with the firm would mean exclusive association. 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) 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.

(d) In case of PSBs, the income of the partner from the firm/LLP should not be below the threshold limits prescribed by the Office of C&AG for the purpose of consideration as full-time partners for appointment as auditors of Public Sector Undertakings. For other Entities, the Board/ACB/LMC 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 ₹ 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:

For Commercial Banks (excluding RRBs), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ 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 effected 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

B. Additional Consideration

(i) The audit firm, proposed to be appointed as SCAs/SAs for Entities, 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 Entities shall ensure that appointment of SCAs/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 Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, 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 entities¹³ of that Entity.

(v) The auditors for Entities with asset size above ₹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 Entity 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.

Procedure for Appointment of SCAs/SAs

1. The Entities shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed. However, in case of reappointment of SCAs/SAs by banks/UCBs till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.

2. The banking companies shall continue to follow the existing procedure followed by them for selection of SCAs/SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB/LMC for selection as SCAs/SAs. Upon selection of SCAs/SAs by the bank in consultation with their ACB/LMC and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.

3. For PSBs, empanelment of audit firms eligible for appointment as SCAs will continue to be done by the Office of C&AG, based on the norms prescribed by RBI, as on January 1 of the relevant year.

The list of firms as furnished by C&AG to RBI will be subjected to scrutiny by RBI for identifying the eligible firms and excluding audit firms who have been denied audit by C&AG/RBI. RBI will forward a single list¹⁴ of all audit firms eligible for appointment as SCAs to all PSBs on an annual basis. PSBs shall shortlist audit firms from the said list of eligible audit firms as received from RBI, based on certain objective criteria (like number of full time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, etc.) as laid down in the bank's policy for appointment of statutory auditors. Further, the PSBs shall place the list of shortlisted firms, in order of preference, before the ACB for selection of SCAs in a transparent manner. Upon selection of SCAs by the PSBs in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the PSBs shall seek RBI's prior approval for appointment of SCAs.

4. The UCBs shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SCA/SA. Upon selection of SCAs/SAs by the UCBs in consultation with

their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SCAs/SAs.

5. The Entities shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SCAs/SAs by the Entity 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 SCAs/SAs of the Entities, under the seal of the said audit firm.

6. The Commercial Banks (excluding RRBs)/UCBs shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per **Form C**, stating that the audit firm(s) proposed to be appointed as SCA/SA by them comply with all eligibility norms prescribed by RBI for the purpose.

7. While approaching the RBI for its prior approval for appointment of SCAs/SAs, Commercial Banks (excluding RRBs)/UCBs shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution (resolution not needed for foreign banks operating under branch mode) recommending names of audit firms for appointment as SCAs/SAs in the order of preference and also furnish information as per **Form B** and **Form C** as mentioned above, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.

Information to be submitted by the NBFCs regarding appointment of SCA/SA

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 31st March of Previous Year | Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years | Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years | Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification | Number of Years of Audit Experience# | Number of Professional staff |
|--|--|---|---|---|-------------------------------------|
| | | | | | |

***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

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 / directors¹⁵ 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:
