

# **Policy on appointment of Statutory Auditors**

Version 1.0

Reviewed by the Board of Directors on July 22, 2022



**India Infradebt Limited**

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## **Policy on appointment of Statutory Auditors – India Infradebt Limited**

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### **1. Background**

India Infradebt Limited (Infradebt) is required to follow the requirements of the Companies Act, 2013 read with relevant rules made thereunder and various Directions issued by Reserve Bank of India (RBI) for appointment of Statutory Auditors.

In compliance with Reserve Bank of India (RBI) guidelines issued on Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021 (herein after referred as “RBI guideline on Appointment of SAs”), Policy on appointment of SAs (the Policy) has been prepared. The contents of the policy shall always be read in tandem/auto-corrected with the changes/modifications which shall be advised by RBI from time to time.

Since, currently there are no branches of Infradebt, the SAs will audit the books of accounts kept at the registered office of Infradebt.

### **2. Objectives of the Policy**

The key purpose of this Policy is to:

1. to put in place systems and procedures to be followed for appointment of SAs;
2. to define eligibility criteria of SA;
3. to define responsibilities of the Audit Committee;
4. to define responsibilities of the Board of Directors; and
5. to act as guiding principle for awarding non audit assignments to the SAs.

### **3. Definitions:**

- (a) **Asset size:** For the purpose of this Policy, asset size means total assets.
- (b) **Conflict of interest:** 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
- (c) **Group entities:** 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.
- (d) **Same network:** As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014: “Same network” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

### **4. Number of Statutory Auditors**

Infradebt shall decide on the number of SAs after considering the relevant factors specified in RBI guideline on Appointment of SAs, 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.

On reaching 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)), subject to the limit of maximum number of audit firms specified by RBI based on the asset size of the entity.

Infradebt should ensure that joint auditors do not have any common partners and they are not under the same network of audit firms. Further, Infradebt may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with the SAs.

### **5. Minimum Eligibility Criteria of Statutory Auditors**

The SAs to fulfill the eligibility criteria as specified in RBI guideline on Appointment of SAs and the Companies Act, 2013, including but not limited to the eligibility criteria mentioned at Annexure 1.

### **6. Independence of Statutory Auditors**

- (a) Audit Committee 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 Audit Committee of Infradebt to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

In case of any concern with the Management of Infradebt such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board of Directors/Audit Committee of the Entity, under intimation to the concerned SSM/RO of RBI.

Note: Board shall be directly approached only when the auditors notice a matter of concern involving any member of the Audit Committee.

- (b) The audit of Infradebt and any entity with large exposure to Infradebt for the same reference year should also be explicitly factored in while assessing independence of the auditor. In this regard, the Board/Audit Committee shall see that there is no conflict of interest, and the independence of auditors is ensured.
- (c) 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 of Infradebt or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SAs. During the tenure as SA, an

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audit firm may provide such services to Infradebt which may not normally result in a conflict of interest, in consultation with the Board/ Audit Committee.

If an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by Infradebt for appointment as SAs, it would be the responsibility of the Board/ Audit Committee to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board/ Audit Committee.

- (d) The restrictions as detailed in para 5(b) above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

### **7. Professional Standards of Statutory Auditor**

The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

The Audit Committee 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 Audit Committee, with the full details of the audit firm.

### **8. Tenure and Rotation**

Infradebt will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, in case of removal of the SAs before completion of three years tenure, Infradebt shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

An audit firm would not be eligible for re-appointment for six years (i.e. two tenures) after completion of full or part of one term of the audit tenure.

### **9. Audit Fees and Expenses**

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions. 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 Audit Committee shall make recommendation to the Board for fixing audit fees of SAs. The Board shall recommend the auditors remuneration in consultation with Audit Committee to the Shareholders for approval. In case the Shareholders have delegated such approval to the Board, it shall approve the remuneration of the SAs.

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The remuneration in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of Infradebt and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of Infradebt.

### **10. Procedure for Appointment of Statutory Auditor**

- (a) Infradebt shall shortlist minimum of two 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.
- (b) Infradebt shall obtain a certificate, along with relevant information as per Form B of the RBI guideline on Appointment of SAs, as may be amended from time to time, from the audit firm(s) proposed to be appointed as SAs, 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.
- (c) Infradebt shall also obtain a written consent and declaration in the certificate from SA that it satisfies with the provisions of Rule 4 of the Companies (Audit and Auditors) Rules, 2014 including the criteria provided in Section 141 of the Companies Act, 2013.
- (d) The Audit Committee shall verify the compliance of the shortlisted audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the name(s) for the approval of Board and Shareholders. The Audit Committee shall take into consideration the qualifications and experience of the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of Infradebt. Provided that while considering the appointment, the Audit Committee shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any competent authority or any Court.
- (e) Based on the recommendation of the Audit Committee, the Board shall consider and recommend the appointment of the audit firm as SA to the Shareholders for approval in accordance with the provisions of the applicable laws/regulations including the Companies Act, 2013.
- (f) The appointment of SA shall be approved by the Shareholders.
- (g) Any casual vacancy in the office of an auditor shall be filled by the Board of Directors within thirty days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by Infradebt at a general meeting convened within three months of the recommendation of the Board and the auditor shall hold the office till the conclusion of the next annual general meeting.

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- (h) Upon appointment of the SA by the Shareholders, Infradebt shall inform the auditor concerned of its appointment and file required returns/forms with the Regulatory Authorities including Form A of the RBI guideline on Appointment of SAs, as may be amended from time to time.

### **11. Awarding of other (non-audit) services to the Statutory Auditors of Infradebt**

In case of the other services (that are not prohibited by the Companies Act, 2013) awarded to the SAs by Infradebt, prior approval of the Audit Committee shall be obtained, where the maximum fee for such other service exceeds ₹ 0.25 million (or equivalent thereof) excluding taxes as applicable and out of pocket expenses. The assignment awarded by Infradebt with a maximum fee of up to ₹ 0.25 million (or equivalent thereof) plus taxes as applicable and out of pocket expenses (at maximum of 5% of the fee) shall be approved by the Managing Director & CEO. The Audit Committee shall be apprised of all such assignments given by Infradebt at its ensuing meeting. The approval of the single non-audit assignment to Statutory Auditor exceeding the aforesaid threshold limit of ₹ 0.25 million be obtained from the Audit Committee (either at meeting or through circular resolution).

An auditor shall not render, directly or indirectly, following services to Infradebt:

- a. accounting and bookkeeping services;
- b. internal audit;
- c. design and implementation of any financial information system;
- d. actuarial services;
- e. investment advisory services;
- f. investment banking services;
- g. rendering of outsourced financial services;
- h. management services; and
- i. any other kind of services as may be prescribed under any of the applicable laws.

### **12. Responsibilities of the Audit Committee**

- The Audit Committee shall recommend the appointment/re-appointment of the SAs to the Board.
- The Audit Committee shall monitor and assess independence of the SAs and conflict of interest position. Any concern in this reference to be informed by Audit Committee to Board and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- The Audit Committee shall annually review the performance of the SAs and may report for any negligence/lapse in performance of duties/responsibilities or conduct issues or any other relevant matter of the statutory auditors to RBI within two months of such of completion of the annual audit.
- The Audit Committee shall recommend the fees payable to the SAs to the Board, who in turn will approve if empowered by the shareholders or recommend the same to the shareholders.
- The Audit Committee shall discuss with auditors before the commencement of audit about the nature and scope of audit as well as post audit discussion to ascertain any areas of concern.

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- The Audit Committee to approve the other (non-audit) services to be obtained from SAs, where the maximum fee for such other service exceeds ₹ 0.25 million (or equivalent thereof) excluding taxes as applicable and out of pocket expenses.

### **13. Responsibilities of the Board**

- The Board shall recommend the appointment/re-appointment of the SAs to the Shareholders.
- The Board shall recommend the auditors remuneration in consultation with Audit Committee to the Shareholders for approval. In case the Shareholders have delegated such approval to the Board, it shall approve the remuneration of the SAs.



**Eligibility criteria for appointment as Statutory Auditor**

<b>RBI guideline on Appointment of SAs</b>		<b>Companies Act, 2013</b>
<p><b>For entities having Asset size above ₹ 1,000 crore and upto ₹15,000 crore (as on 31st March of previous year):</b></p> <p>At least three full-time partners (FTPs) should be associated with the appointed firm for a period of at least three years. At least two partners of the firm shall have continuous association with the firm for at least 10 years.</p>	<p><b>For entities having Asset size above ₹15,000 crore (as on 31st March of previous year):</b></p> <p>At least five FTPs should be associated with the appointed firm for a period of at least three years. At least two partners of the firm shall have continuous association with the firm for at least 10 years.</p>	<p>Only Chartered Accountant shall be eligible for appointment as an auditor of the Company.</p>
<p><b>For entities having Asset size above ₹ 1,000 crore and upto ₹15,000 crore (as on 31st March of previous year):</b></p> <p>Out of total FTPs, minimum two Fellow Chartered Accountant (FCA) partners should be associated with the firm for a period of at least three years.</p>	<p><b>For entities having Asset size above ₹15,000 crore (as on 31st March of previous year):</b></p> <p>Out of total FTPs, minimum four FCA partners should be associated with the firm for a period of at least three years.</p>	<p>A firm wherein majority of partners practicing in India are Chartered Accountants shall be eligible for appointment by its firm name as an auditor of the Company.</p>
<p><b>For entities having Asset size above ₹ 1,000 crore and upto ₹15,000 crore (as on 31st March of previous year):</b></p> <p>Minimum one FTPs/paid CAs shall have CISA/ISA qualification and paid CAs should have at least one-year continuous association with the firm as on the date of shortlisting of the firm.</p>	<p><b>For entities having Asset size above ₹15,000 crore (as on 31st March of previous year):</b></p> <p>Minimum two FTPs/paid CAs shall have CISA/ISA qualification and paid CAs should have at least one-year continuous association with the firm as on the date of shortlisting of the firm.</p>	<p>Where a firm including limited liability partnership (LLP) is appointed as an auditor of the Company, partners who are chartered accountants shall be eligible to act and sign on behalf of the firm.</p>
<p><b>For entities having Asset size above ₹ 1,000 crore and upto ₹15,000 crore (as on 31st March of previous year):</b></p> <p>The firm appointed as SAs should have minimum experience of eight years as statutory/branch auditor.</p>	<p><b>For entities having Asset size above ₹15,000 crore (as on 31st March of previous year):</b></p> <p>The firm appointed as SAs should have minimum experience of 15 years as statutory/branch auditor.</p>	<p>Persons/ firms as prescribed under sub-section 3 of section 141 of the Companies Act, 2013, are not eligible for appointment as an auditor of the Company.</p>

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<p>For entities having Asset size above ₹ 1,000 crore and upto ₹15,000 crore (as on 31st March of previous year):</p> <p>Minimum 12 professional staff should be employed with firm who shall have at least one-year continuous association with the firm as on the date of shortlisting of the firm. Professional staff includes audit and article clerk.</p>	<p>For entities having Asset size above ₹15,000 crore (as on 31st March of previous year):</p> <p>Minimum 18 professional staff should be employed with firm who shall have at least one-year continuous association with the firm as on the date of shortlisting of the firm. Professional staff includes audit and article clerk.</p>	-
<p>The audit firm appointed should not be under debarment by any Government agency, NFRA, ICAI or other financial regulators.</p>		-
<p>If any partner of a CA firm is a director in Infradebt, the said firm shall not be appointed as SAs of any of the group entities of Infradebt.<sup>1</sup></p>		-
<p>In order to achieve audit objectives auditors 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 Infradebt where the accounting and business data reside in order to achieve audit objectives.</p>		-

<sup>1</sup> RBI vide its FAQs dated June 11, 2021 has clarified that, The Group Entities here refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. Therefore, if any partner of a Chartered Accountant firm is a director in an RBI Regulated Entity in the Group, the said firm shall not be appointed as SA of any of the RBI Regulated Entities in the Group. However, if an audit firm is being considered by any of the RBI Regulated Entities in the Group for appointment as SAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the Audit Committee as well as Board /LMC.