

UGRO CAPITAL LIMITED

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). 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 Statutory Auditors.

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 Statutory Auditors based on various parameters;
- ii) Criteria for appointment of Statutory Auditors; and
- iii) Procedure to be followed for appointment of Statutory Auditors.

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. Number of Statutory Auditors and Branch Coverage:

The Company shall appoint minimum one Statutory Auditor and maximum four joint Statutory Auditors till the time the asset size exceeds INR 15,000 crores. Once the asset size exceeds INR 15,000 crores, the Company shall appoint such number of auditors as is prescribed under the RBI Circular.

The Statutory Auditors shall visit and audit at least the top 20 Branches where the Company has 100 or more branches or top 20% of the branches of the Company where the Company has less than 100 branches to be selected in order of the level of outstanding advances in such a manner so as to cover a minimum of 15% of total gross advances of the NBFC. 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 as may be applicable.

5. Minimum Eligibility Criteria of Auditors

In accordance with the RBI circular, 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 Statutory Auditor of the Company:

- a. Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three.
- b. 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.
- c. Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be one.

- d. 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
- e. Minimum number of professional staff should be twelve.
- f. Such other criteria as may be prescribed from time to time.

Along with the criteria as specified by the RBI, the Company shall also consider the criteria as per section 141 of the Companies Act, 2013.

6. Independence of Auditors

- a. The Audit Committee of the Board (ACB) 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 in line with the guidance prescribed in Annexure 1. Any concerns in this regard may be flagged by the ACB to the Board of Directors of the Company and Mumbai Regional Office (MRO) of RBI.
- b. 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 Board/ACB of the Company, under intimation to the concerned RO of RBI.
- c. 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.
- d. 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.
- e. 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. Tenure and Rotation

As per the provisions of the Companies Act, 2013, the Statutory Auditor 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 Statutory Auditors for a continuous period of 3 years, subject to the Statutory Auditor satisfying the eligibility norms each year. If the Company removes Statutory Auditors 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 Statutory Auditor as per the RBI guidelines.

8. 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 Statutory Auditor or as permitted by the Shareholders of the Company.

9. Procedure for Appointment of Statutory Auditors

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

- a) The Company shall shortlist minimum of two audit firms for every vacancy of Statutory Auditor.
- b) The Company shall obtain a certificate from each of the audit firms proposed to be appointed as Statutory Auditors 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.
- c) The ACB shall recommend the appointment of the Statutory Auditor to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the Statutory Auditor and the appointment of Statutory Auditor in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

10. RBI reporting

The Company will inform the Mumbai Regional Office of RBI (Department of Supervision), with respect to the appointment of Statutory Auditors for each year by way of a certificate in Form A (as prescribe by RBI) within one month of such appointment.

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 subject to ratification at the subsequent meeting.

Annexure 1

Guidance for evaluating independence of the Statutory Auditors

The Audit Committee of the Board is expected to monitor and assess the independence of the auditors and conflict of interest position in terms of various relevant regulatory provisions, standards and best practices inter alia of the following aspects:

- Providing non-audit services: The Company shall abide by the statutory restrictions and procedures in availing non audit services from the statutory auditors. The Company should exercise a reasonable restraint from engaging Statutory Auditors for non-audit works;
- Fees: The fees determined to be paid to the Statutory Auditors for their services shall be on the basis of a reasonable estimate of the time and expertise required;
- The ACB shall assess the independence guidelines adopted by the Statutory Auditors firm and its monitoring;
- The Statutory Auditor firm shall preferably have stringent quality review procedures within the firm.
- Retired partners of the Statutory Auditor shall not join the Company within cooling period or such other reasonable period of time;
- Confidentiality obligations and commitment of the Statutory Auditors shall be assessed;
- No personal or other business relationships between the partners of the firm and the Company or its officials;
- Disclosure of other commission/ fees and other relationships;
- Disclosure of previous business relationship with the company in audit report;
- Such other criteria which ACB deems fit is necessary to determine the independence.