



MOTILAL OSWAL HOME FINANCE LIMITED

POLICY ON APPOINTMENT OF STATUTORY AUDITORS

Version 1.0

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VERSION DETAILS

Sr. No.	Details of Changes	Date of Creation/Change	Department	Version Number	Approved By
1	Original Document	August 13, 2021	Secretarial/ Accounts & Finance	Ver. 1.0	Board of Directors

INTRODUCTION

Motilal Oswal Home Finance Limited (“MOHFL” or “Company”) is registered as housing finance company with the Reserve Bank of India (“RBI”) under Section 29A of the National Housing Bank Act, 1987.

The RBI vide circular Ref.no.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 has issued ‘Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)’.

The guidelines require lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of SAs.

OBJECTIVE

The objective of the Policy is to lay down the guidelines/procedure for appointment of SAs in compliance with the extant statutory and regulatory norms applicable to the Company.

APPLICABILITY

The Policy will be applicable for appointment of SAs by the Company for the Financial Year 2021-22 and onwards including any amendments, if any made from time to time by the Regulator.

INTIMATION OF APPOINTMENT of SAs

The Company shall inform the Central Office of RBI (Department of Supervision) about the appointment of SAs for each year by way of a certificate in **Form A** within one month of such appointment.

NUMBER OF SAs AND BRANCH COVERAGE

The Board of Directors, basis recommendation of the Audit Committee of the Board (“ACB”), shall decide the number of SAs taking into account the relevant factors 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.

In case of asset size of ₹ 15,000 crore and above but less than ₹ 5,00,000 crore as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms and maximum of four audit firms. The Company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms.

Since the asset size of the Company is less than ₹ 15,000 crore as at last reporting period (i.e. March 31, 2021), the Company can appoint one audit firm (Partnership firm/LLPs) for conducting statutory audit.

SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Company (in case of 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 Company. Further, the Company may allocate additional branches from different geographies and of different sizes.

ELIGIBILITY CRITERIA OF AUDITORS

The minimum standards and eligibility criteria to be fulfilled by audit firms for appointment as SAs of the Company shall comprise of Basic eligibility and Additional Consideration.

A. Basic Eligibility

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 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

Note 1: Full time partners associated with the firm:

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. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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) the ACB or the Board 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:

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting 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. 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 shortlisting for considering them as professional staff for the purpose.

B. Additional Consideration

The audit firm, proposed to be appointed as SAs, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.

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.

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.

If any partner of a Chartered Accountant firm is a director in any of the 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 any 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 ACB as well as Board.

The SAs of the Company 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 Company, where the accounting and business data reside, in order to achieve audit objectives.

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.

INDEPENDENCE OF AUDITORS

The 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.

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 ACB/Board of the Company, under intimation to the concerned SSM/RO of RBI. The Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB.

Concurrent auditors of the Company should not be considered for appointment as SAs. The audit of the Company and any entity with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the 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 SAs for the Company 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 Company which may not normally result in a conflict of interest, and Company may take decision in this regard, in consultation with the ACB/Board.

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.

PROFESSIONAL STANDARDS OF SAs

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

The 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 recommendation of the ACB and approval of the Board, with the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of an Company'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 Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

TENURE AND ROTATION

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

However, as per the RBI guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. If the Company removes SAs before completion of three years of tenure, it 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 reappointment 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.

One audit firm can concurrently take up statutory audit of a maximum of eight NBFCs (including HFCs) during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules.

A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SA accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

PROCEDURE FOR APPOINTMENT OF SAs

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.

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 Company, under the seal of the said audit firm.

The ACB shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. The appointment of SA in case of casual vacancy due to resignation shall also be approved by the shareholders within three months as per the provisions of the Companies Act, 2013.

AUDIT FEES AND EXPENSES

The audit fees for SAs shall be decided in terms of the relevant statutory/ regulatory provisions. 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.

REVIEW/REVISION

If at any point a conflict of interpretation / information between the Policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities ("Regulatory Provisions") arises, then interpretation of the Regulatory Provisions shall prevail.

In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, the Policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions. The Board and/or its Committee reserve(s) the right to alter, modify, add, delete or amend any of the provisions of the Policy.

FORM A

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 Auditor (SA) for the financial year ____ for their 1st/2nd/3rd term.

The Company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SA of the company for FY ____ along with relevant information in the format as prescribed by RBI.

The firm has no past association/association for _____ years with the Company as SCA/SA/SBA.

The Company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of NBFCs.

Signature

(Name and Designation)

Date:

FORM B

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	Number of Full-Time partners (FTP)s 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

#Details may be furnished separately for experience as SCAs/SAs and SBAs

B. Additional Information:

- (a) Copy of Constitution Certificate
- (b) 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
- (c) 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.
- (d) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (e) 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 SAs of NBFCs. 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: