



***POLICY FOR APPOINTMENT OF STATUTORY
AUDITORS***

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Review Period	Annual
Approved by Board of Directors	18.10.2024
Version	Version 3
Formation	03.03.2022

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1. Introduction and Background

Protium Finance Limited (hereinafter referred to as ‘the **Company**’ or ‘Protium’), is a Non-Banking Financial Company Investment and Credit Company categorized as Middle Layer (“**NBFC ICC ML**”).

The Reserve Bank of India has issued Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter III B of RBI Act, 1934 for NBFCs, on 27th April 2021 (“**Guidelines**”). The Guidelines provide necessary instructions for appointment of SCAs/SAs, the number of auditors, their eligibility criteria, tenure and rotation as well as norms for ensuring the independence of auditors.

In compliance with the provisions of the Guidelines, the Company being a Middle Layer NBFC, is required to formulate a Board approved policy laying down necessary procedure to be followed for appointment of SCAs/SAs (“**Policy**”) and host it on its official website/public domain. Accordingly, the following Policy is being formulated and adopted w.e.f. 3rd March 2022.

2. Applicability

The policy will be applicable for the appointment/re-appointment of Statutory Auditors for the Financial Year 2021-22 and onwards.

3. Objective

The objective of the policy is to establish procedure for the appointment of Statutory Auditors and to conform with the extant norms of Reserve Bank of India and applicable provisions of Companies Act, 2013 and the rules made thereunder.

4. Definitions:

- “**ACB**” means the Audit Committee of the Board
- “**Board**” means the Board of Directors of the Company
- “**ICAI**” means the Institute of Chartered Accountants of India
- “**RBI**” means the Reserve Bank of India
- “**NFRA**” means the National Financial Reporting Authority
- “**Large exposure**” as defined in RBI instructions on ‘Large Exposure Framework’
- “**Protium Finance Limited**” means the Company or Protium
- “**SAs**” means the Statutory Auditors of the Company

5. Eligibility Criteria for Appointment of Statutory Auditors

The eligibility norms for appointment of SAs is enclosed as **Annexure I** to this Policy. In addition, the Company shall comply with the relevant provisions of the Companies Act, 2013 and rules prescribed thereunder. The key eligibility criteria for appointment of Statutory Auditors are as under:

- a) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years shall 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 shall be two.
- c) Minimum number of FTPs / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / Information System Audit qualification shall be one.
- d) Minimum number of years of relevant audit experience of the firm shall be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / All India Financial Institutions.
- e) Minimum number of professional staff shall be twelve.
- f) 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 (applicable to an audit firm under the same network of audit firms or any other audit firm having common partners).
- g) Concurrent auditors of the Company shall 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 SA (applicable to an audit firm under the same network of audit firms or any other audit firm having common partners).
- h) The SAs shall be duly qualified for appointment as such in terms of criteria specified under Section 141 of the Companies Act, 2013.
- i) The audit firm shall 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.

6. Manner of Appointment of Statutory Auditors

Given that the Company's asset size is less than INR 15,000 crore at the end of last financial year, the Company shall continue to follow the practice of appointing one audit firm for conducting its statutory audit. Further, if required, more than one SA shall be appointed (within the maximum limit prescribed under the Guidelines) if deemed necessary by the Board. The Board shall determine the same considering 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 joint auditors are required to be appointed by the Board, it shall be ensured that there are no common partners, and they are not under the same network (the term 'same network' as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control) of audit firms. Further, the Company shall finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

The SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Company, 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. In addition, the Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

7. Procedure for Appointment of Statutory Auditors

- a. The Company shall inform the Mumbai Regional Office of Reserve Bank of India (Department of Supervision), under whose jurisdiction the Company's registered office is located about the appointment of SAs for each year by way of a certificate in **Form A- Enclosed as Annexure II** within one month of such appointment.

- b. The Company shall shortlist minimum of two (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.
- c. However, in case of re-appointment, during the 3-year tenure, subject to the firms qualifying the eligibility criteria every year and confirmation obtained at the annual general meeting, the Company may re-appoint same SAs and shall not be required to shortlist two audit firms.
- d. The Company shall obtain a certificate, along with relevant information as per **Form B - Enclosed as Annexure III**, 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.
- e. The proposal for appointment of SAs shall be placed before the Audit Committee. The Audit Committee shall recommend the appointment to the Board and thereafter the appointment will be placed before the Board for approval subject to the approval of the shareholders. The approval of the shareholders will be sought in accordance with the provisions of the Companies Act, 2013.

8. Tenure and Rotation of Statutory Auditors

- f. In order to protect the independence of the auditors/audit firms, the Company will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- g. The audit firm would not be eligible for reappointment in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

9. Criteria for Ensuring Independence of Statutory Auditor

- h. The Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and any conflict of interest in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the ACB of the Company to the Board and the Mumbai Regional Office (RO) of the RBI.
- i. 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 Mumbai RO of RBI.
- j. Carrying out audit of the Company and any other entity with large exposure to the Company for the same reference year should be explicitly factored while assessing independence of auditor. Further, the concurrent auditors of the Company shall not be considered for appointment as SAs. These restrictions shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- k. The Auditors may meet with the ACB as and when required without the presence of the Management.

10. Time Gap between Non-Audit Services by the Statutory Auditors

- l. The time gap between any non-audit services (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 Company which may not normally result in a conflict of interest, and the Company may take decision in this regard, in consultation with the ACB.
- m. The above-mentioned restrictions should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- n. These restrictions shall be also applicable to an audit firm under the same network of audit firms or any other audit firm having common partners.

11. Professional Standards of Statutory Auditors

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

12. Review of Performance of Statutory Auditors

The ACB of Company shall review the performance of SAs appointed under the Guidelines 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 shall be sent with the approval/recommendation of the ACB, with the full details of the audit firm.

In case of any lapses in carrying out audit assignments resulting in misstatement of Company's financial statements, or any violation of applicable rules, regulation and guidelines regarding the role and responsibilities of the SAs, the SAs would be liable to be dealt with under the said relevant statutory/regulatory framework.

13. Removal of Statutory Auditors before the end of tenure

The Company may remove SAs before completion of three years tenure without any prior approval of the RBI. However, the Company shall inform the Mumbai RO at RBI about the removal of the SAs, along with reasons/justification for the same, within a month of decision of removal being taken.

14. Manner of determination of audit fees and expenses

The audit fees for SAs of the Company shall be decided in terms of the relevant statutory/regulatory provisions. The audit fees for SAs 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. The Board/ACB of the Company shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

15. Periodic review / amendments to the Policy

- o. The modification/changes, if any, made by RBI in norms/criteria/procedure, from time to time, shall be construed to be part of this Policy.
- p. This Policy shall be reviewed annually, and an updated version of the policy shall be placed on the website of the Company as per the Guidelines.

ANNEXURE I

ELIGIBILITY CRITERIA FOR APPOINTMENT AS STATUTORY AUDITORS

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	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and up to ₹15,000 Crore (Company currently falls under this category)	3	2	1	8	12
Up to ₹1,000 crore	2	1	1	6	8

Note 01: 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, for appointment as SAs of the Company, 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:

1. The full-time partner should not be a partner in other firm/s.
2. She/He should not be employed full time / part time elsewhere.
3. 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.
4. The ACM 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 02: The Company 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 shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 03: 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 04: 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

1. The audit firm, proposed to be appointed as SA should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
2. 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.
3. The Company shall ensure that appointment of SA 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.
4. If any partner of a Chartered Accountant firm is a director in any of the group companies, the said firm shall not be appointed as SA of Company.
5. The auditors 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.
6. One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs 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.

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.

ANNEXURE II

FORM A

Information to be submitted by the NBFCs regarding appointment of SA

1. 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.
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 SA.
4. 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:

ANNEXURE III

FORM B

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:

1. Copy of Constitution Certificate.
2. 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.
3. 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.
4. Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
5. 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 / directors have been declared as willful 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: