

STATUTORY AUDIT POLICY (VERSION 1)

Version Number	Prepared by	Version Control Department	Approval Date	Version Details
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ARTHAN FINANCE PRIVATE LIMITED
STATUTORY AUDIT POLICY (VERSION 1)

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STATUTORY AUDIT POLICY (VERSION 1)

1. INTRODUCTION AND REGULATORY REQUIREMENT

This Statutory Audit policy is outlined based on the Guidelines issued by the Reserve Bank of India (RBI) vide Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, with regard to the appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) and the corresponding FAQs dated June 11, 2021, circulated by RBI.

2. PURPOSE

This policy is framed to allow necessary transparency and objectivity for most key aspects with regard to the appointment/re-appointment of Statutory Auditors. The policy provides the process, roles and responsibilities and governance standards to be applied while appointing and evaluating the statutory auditor as per RBI norms and Companies Act, 2013.

3. DEFINITIONS

- (i) "Company" means Arthan Finance Private Limited having its registered office at 3rd Floor, Building No 2 Office No 302, Star Hub, Sahar Rd, Andheri East, Mumbai, Maharashtra 400059.
- (ii) "Board" means Board of Directors of the Company including Committees of the Board.
- (iii) "Directly or indirectly" shall include rendering of services by the auditor;
 - in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;
 - in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.
- (iv) "Same network of audit firms" shall be as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

4. PRIOR APPROVAL AND INTIMATION TO RBI

- (i) As NBFCs, the Company do not require to take prior approval of RBI for appointment of Statutory Auditor (SA).
- (ii) The Company shall inform to RBI Regional office (Department of Supervision) i.e Mumbai about the appointment of Statutory Auditor (SA) for each year by way of a submitting certificate in **Form A (Annexure-I)** within one month of such appointment.

5. NUMBER OF STATUTORY AUDITORS.

- (i) The Board appointed for this purpose shall decide the number of auditor based on the asset size of the Company as prescribed by the RBI.

Considering the current asset size and extent of operations the Company, the Company shall appoint one audit firm. This will be reviewed in future based on the requirements or changes in the applicable regulation.

- (ii) The Board shall decide number of the auditor bases on the above guideline after considering the various 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.
- (iii) The Board shall finalize the scope before the commencement of the statutory audit. The Board may delegate this power to any Director with respect to finalization of scope of the audit.

6. PROCEDURE FOR APPOINTMENT OF SA.

- (i) The Company shall shortlist minimum of 2 audit firms for every vacancy of SA 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 SA does not get delayed.
- (ii) The Company shall obtain the following documents from the audit firm(s) proposed to be appointed as SAs by the Company:
- Complete profile of the firm.
 - Certificate of Membership and Practice of Individual Partners issued by ICAI.
 - Written Consent/willingness to act as SAs of the Company pursuant to Section 139 of the Companies Act, 2013.
 - Declaration/confirmation pursuant to Section 141 of the Companies Act, 2013.
 - Certificate under Rule 4 of Companies (Audit and Auditors) Rules, 2014 as amended from time to time.
 - Form **B** to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. The format prescribed by RBI is enclosed at the end of this policy as **Annexure II**.

The above certificates/declaration 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.

7. AUDIT SCOPE/COVERAGE

As prescribed under the provision of Section 143 (8) of the Companies Act, 2013 and RBI guidelines.

8. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS

The Company shall adhere to the following minimum criteria while evaluating audit firms to be appointed as SA of

the Company along with eligibility criteria as prescribed under Section 141 of the Companies Act, 2013

A. Basic Eligibility

S. No.	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
1.	Above ₹15,000 crore	5	4	2	15	18
2.	Above ₹ 1,000 crore and up to ₹15,000 crore	3	2	1	8	12
3.	Upto ₹1,000 crore	2	1	1*	6*	8*

* Not mandatory for when asset size is upto ₹ 1,000 crore.

➤ **Note 1: Full Time partners:**

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.

➤ **Note 2: CISA/ISA Qualification:**

As the Company's asset size is less than upto ₹ 1,000 crore, there is no minimum requirement that firm to be appointed shall have full time partners or paid CAs having CISA/ISA qualification. However, the Board while considering appointment shall give priority to such firms having such 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 this 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 criteria:

- (i) The shortlisting audit firms 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 Company shall ensure that the 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.
- (iv) If any partner of a firm is a director in any Regulated Entity in a group, the said firm shall not be eligible to be appointed as SAs of any of the group entities of the Company.
- (v) As the Company size is less than Rs. 1,000 crore, the Company while shortlisting the firm may endeavor to shortlist such firms having 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:

- (i) After appointment in case audit firm does not comply with any of the eligibility norms mention in the policy or as specified under the RBI guidelines and Companies Act, 2013, it shall promptly approach the Company with full details and shall take all such necessary steps to become eligible within a reasonable time and in any case, the audit firm shall comply with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.
- (ii) 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.

9. INDEPENDENCE OF AUDITORS

- (i) The Board 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 to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- (ii) 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 auditor shall approach the Board or Committee, if any, under intimation to the concerned SSM/RO of RBI.
- (iii) Concurrent auditors of the Company should not be considered for appointment as SAs of the same Company. 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 the independence of the auditor.
- (iv) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013 explained hereunder) by the statutory auditors of the Company or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SA.
- (v) Pursuant to the Section 144 of the Companies Act, 2013 the following are the non-audit works which cannot be taken up directly or indirectly by the auditors of the Company for a period of at least one year before or after its tenure as SA and also during the entire period of appointment:
 - Accounting and book-keeping services
 - Internal audit
 - Design and implementation of any financial information system
 - Actuarial services
 - Investment advisory services
 - Investment banking services
 - Rendering of outsourced financial services
 - Management services
 - Any other services as may be prescribed by regulators / statutory authorities

However, during the tenure as SAs, an audit firm may provide the following services to the Company which may not normally result in a conflict of interest, in consultation with the Board of the Company.

Conflict would not normally be created in the case of the following special assignments (indicative list):

- Tax audit, tax representation and advice on taxation matters
- Audit of interim financial statements
- Certificates required to be issued by the statutory auditor in compliance with statutory and other specific requirements
- Reporting on financial information or segments thereof

- (vi) The restrictions as detailed in para (iii) and (iv) above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- (vii) The Company shall not appoint an audit firm whose partner is holding Directorship in NBFCs which are into the similar business of the Company.

10. PROFESSIONAL STANDARDS OF AUDITORS AND ANNUAL REVIEW BY BOARD

- (i) The auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (ii) The Board 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 approval of the Board, with the full details of the audit firm.
- (iii) In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations / lapses vis-à-vis the RBI's directions / guidelines regarding the role and responsibilities of the SAs, the SAs would be liable to be dealt with suitably under the relevant statutory / regulatory framework.

11. TENURE AND ROTATION

- (i) In order to protect the independence of the audit firms, the Company will have to appoint the SAs for a continuous period of three years, subject to the audit firm satisfying the eligibility norms each year as provided in this policy.
- (ii) An 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. In case an audit firm has conducted audit of the Company for part tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Company for six years from completion of part-tenure.
- (iii) One audit firm can concurrently take up statutory audit of a maximum of 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. 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 statutory auditors 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.

Removal Of Auditors: The auditors can be removed before completion of three years tenure and the Company 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.

12. AUDIT FEES AND EXPENSES

- (i) The audit fees shall be decided by the Board or may delegate the power to any Director of the Company.
- (ii) The audit fees 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.
- (iii) The Board of the Company shall make a recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

13. REVIEW OF THE POLICY

This policy will be reviewed as and when required or any changes in application regulations issued by the Government and Regulators in this regard.

Annexure-I FORM A

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

1. 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. **(Which format is of 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 SAs of NBFCs.

Signature:

(Name and Designation) Date:

Annexure-II - 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 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 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 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:

Annexure III - Eligibility Criteria as prescribed under Section 141 of the Companies Act, 2013

- (i) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant:

Provided that a firm whereof majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be an auditor of a company.

- (ii) Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

- (iii) The following persons shall not be eligible for appointment as an auditor of a company, namely: —

(a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008

(b) an officer or employee of the company;

(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

(d) a person who, or his relative or partner—

- i. is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company;

Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;

- ii. is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or

- iii. has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;

- iv. a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;

- (e) a person whose **relative** is a **director** or is in the employment of the **company** as a **director** or **key managerial personnel**;
- (f) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
- (g) a person who has been convicted by a **court** of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- (h) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company.