

Ummeed Housing Finance Private Limited
Policy for appointment of Statutory Auditors

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INTRODUCTION

The Reserve Bank of India (RBI) vide its circular no. DoS.CO.ARG/ SEC.01/08.91.001/ 2021-22 dated April 27, 2021, has issued guidelines for appointment of Statutory Auditors (SAs) (RBI Guideline). Further, RBI on June 11, 2021, published certain clarifications to its circular dated April 27, 2021, in the form of Frequently Asked Questions (FAQs). Accordingly, Ummeed Housing Finance Private Limited (“Company”) has formulated this Policy for appointment of SAs in line with norms applicable to the Company under the said guideline read with para 54 of Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021.

INTERPRETATION

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, RBI Circular, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, or any other applicable law/regulation/rules.

APPLICABILITY

RBI Guidelines are applicable to Commercial Banks (excluding RRBs), Primary (Urban) Co-operative Banks (UCBs) and Non-Banking Finance Companies (NBFC’s) including HFCs. Since the Company is HFC registered with the NHB, the RBI guidelines are applicable to the Company. The policy shall be applicable from the second half of Financial Year 2021-22 onwards.

PRIOR APPROVAL OF RBI

The Company, being an HFC, is not required to take prior approval of RBI for appointment of SAs, however, the Company is required to inform RBI through supervisor for HFCs i.e. NHB, about the appointment of SAs for each year by way of a certificate in **Form A** as per **Annexure “I”** of this policy within one month of such appointment/ ratification by audit committee or board.

NUMBER OF SAs

The company will appoint one SAs till the Company’s asset size as on March 31 of previous year, is below Rs. 15,000 crores. In case asset size will cross the said threshold, then the minimum Two (Joint Auditors) SAs will be appointed. Thereafter, the number of SAs to be appointed over and above the mandatory requirement for a financial year shall be decided, inter alia, taking into account the following factors:

- 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.

BRANCH COVERAGE

The SAs shall visit and audit at least the Top 20% of the branches of the Entities (till the time the Company has less than 100 branches), and thereafter Top 20 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.

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.

ELIGIBILITY NORMS OF STATUTORY AUDITORS

The eligibility norms for appointment of SAs are enclosed as **Annexure “II”** in this Policy.

INDEPENDENCE OF AUDITORS

- (a) The 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 to the Board of Directors and to the NHB.
- (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 SAs shall approach the Board/Audit Committee of the Company, under intimation to the concerned NHB.
- (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 SA 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 SA. 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 will take a decision in this regard, in consultation with the Board/Audit Committee.

The said restriction will also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

PROFESSIONAL STANDARDS OF SAs

- (a) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (b) 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 NHB within two months from completion of the annual audit. Such reports shall be sent with the approval / recommendation of the Audit Committee, with the full details of the audit firm.
- (c) In the event of lapses in carrying out audit assignments resulting in misstatement of 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

- (a) In order to protect the independence of the auditors/audit firms, Company shall appoint the SAs for a continuous period of three years, subject to the firm satisfying the eligibility norms each year. Further, the Company may remove the SAs before completion of three years tenure and the same shall be informed to NHB, along with reasons/justification for the same, within a month of such a decision being taken.
- (b) 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. (i.e., 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.
- (c) An audit firm proposed to be appointed as SA of the Company, can concurrently take up statutory audit of a maximum of 4 Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], 8 UCBS and 8 NBFCs during a particular year. A group of audit firms having common partners and/or under the same network, will be considered as one entity. 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.

AUDIT FEES AND EXPENSES

- (a) The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- (b) 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.
- (c) The Audit Committee of the Company shall make recommendation to the competent authority (i.e., Board) as per the relevant statutory / regulatory instructions for fixing audit fees of SAs.

STATUTORY AUDITOR - APPOINTMENT PROCEDURE

- (a) 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.
- (b) The Company shall obtain a certificate, along with relevant information as per **Form B** as per **Annexure "III"** to this policy, 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.
- (c) Thereafter, the names of the shortlisted audit firms proposed to be appointed as SAs shall be placed before the Audit Committee and Board. The Board will then recommend to the Shareholders of the Company for their approval for the appointment of SAs of the Company.
- (d) The Company shall inform to NHB about the appointment of SAs for each year by way of certificate in **Form A** within one month of appointment.

Annexure “I”

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 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 SCA/SA/SBA.
4. The company has verified the said firm’s compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of NBFCs.

Signature

(Name and Designation)

Date:

Annexure “II”

ELIGIBILITY NORMS OF STATUTORY AUDITORS

A. The minimum standards and eligibility norms for audit firms to be appointed as SA shall be subject to RBI Guidelines issued and amended from time to time, and as given below:

Asset Size of Company 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)
Above Rs. 15,000 Crore	5	4	2	15	18
Above Rs. 1,000 Crore and up to Rs. 15,000 Crore	3	2	1	8	12
Up to Rs. 1,000 Crore	2	1	1*	6	8

*Not mandatory.

Note 1: FTPs - 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) Audit Committee/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 - Till the Company’s asset size remain up to Rs.1,000 crore, there is no minimum requirement in this regard. However, 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 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:

- (i) 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.
- (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 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.
- (iv) If any partner of a Chartered Accountant firm is a director in the Company, the said firm shall not be appointed as SA of the Company.
- (v) The SAs shall 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 SAs (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.), they are required to promptly approach the Company with full details.

Further, the said SAs will take all necessary steps to become eligible within a reasonable time under intimation to the Company, and in any case, the SAs should be complying with the above norms before commencement of Annual Statutory Audit for FY 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, the Company may approach the NHB, to allow the concerned audit firm to complete the audit, as a special case.

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 Rs. 1,000 Crore.**

#Details may be furnished separately for experience as SCAs/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 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 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: