

Kotak Mahindra Investment Ltd. Statutory Auditor Appointment Policy

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CONTENTS

- 1. Objective 4
- 2. Effective Date 4
- 3. Review 4
- 4. Definitions 4
- 5. Prior Approval of RBI 4
- 6. Number of SAs and Branch Coverage 4
- 7. Eligibility Criteria of Auditors 5
- 8. Independence of Auditors 7
- 9. Professional Standards of SAs 8
- 10. Tenure and Rotation..... 8
- 11. Audit Fees and Expenses 8
- 12. Statutory Auditor - Appointment Procedure 8

[Annexure I](#)

[Annexure II](#)

1. Objective

This policy is issued with the objective to comply with requirement of circular number DoS.CO.ARG/SEC.01/08.91.001/2021-22 on Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors(SAs) of Commercial Banks excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021, applicable provisions of Banking Regulation Act, 1949 and Companies Act, 2013 and defines procedure to be followed for appointment of SCAs/SAs.

2. Effective Date

This policy will be applicable for Financial Year 2021-22 onwards.

3. Review

This policy will be reviewed at least once in two years or such other shorter period as may be required from time to time.

4. Definitions

“Audit Committee” means the Audit Committee of the Board.

“Board” means Board of Directors of the company.

“Statutory Auditors (SAs)” mean auditors appointed as per the policy to conduct statutory audit of the company.

“RBI circular” means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22. dated April 27, 2021

Group entities refer to the RBI Regulated Entities in the Group and shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above. [Note: “AS” means Accounting Standard notified under Companies Act, 2013]

5. Prior Approval of RBI

While NBFCs do not have to take prior approval of RBI for appointment of SCAs/SAs, all NBFCs need to inform RBI about the appointment of SCAs/SAs for each year by way of a certificate in Form A within one month of such appointment.

6. Number of SAs

Minimum number of SAs to be appointed by the company shall be two if the company's asset size as on March 31 of previous year, is Rs.15,000 crore or more; else, minimum of one SA shall be appointed. The company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms. The company shall finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

The number of SAs to be appointed for a financial year shall be decided, inter alia, 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. The actual number of SAs to be appointed shall be decided by Board subject to the following limits:

Asset Size of the Company	Maximum No. of Auditors
Upto Rs 5,00,000 crore	4
Above Rs 5,00,000 crore and upto Rs10,00,000 crore	6
Above Rs 10,00,000 crore and upto Rs 20,00,000 crore	8
Above Rs 20,00,000 crore	12

7. Eligibility Criteria of Auditors

The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

Basic Eligibility

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
Above Rs. 15,000 cr	5	4	2	15	18
Above Rs. 1,000 cr but up to Rs. 15,000 cr	3	2	1	8	12

Up to Rs. 1,000 cr	2	1	1*	6	8
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Note 1:

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) ACB 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)/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.

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 an RBI Regulated group Entity, the said firm shall not be appointed as SA of the company. Company shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
- (v) SAs should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) and Generalized Audit Software (GAS), commensurate with the degree/complexity of computer environment of the Bank in order to achieve audit objectives.

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 shall 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, the company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

8. Independence of Auditors

The Audit Committee of the Board (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 and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

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. This stipulation will be applicable from FY 2022-23. 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 ACB.

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

- (i.) Tax audit, tax representation and advice on taxation matters,
- (ii.) Audit of interim financial statements.

- (iii.) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- (iv.) Reporting on financial information or segments thereof.

The restrictions as detailed in paragraphs above, 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.

9. 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 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 shall be sent with the approval / recommendation of the ACB, with the full details of the audit firm.

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.

10. Tenure and Rotation

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 firms satisfying the eligibility norms each year. If the company removes the SCAs/SAs before completion of three years 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. (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.

An audit firm proposed to be appointed as SA of the company, 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, 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.

11. Audit Fees and Expenses

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

The Board/ACB shall make recommendation to the competent authority (By Shareholders in AGM) as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

12. Statutory Auditor - Appointment Procedure

Process for appointment of New firm as SAs

Requests will be sent out to Audit firms, subject to fulfilling the eligibility criteria, to present their credentials to the company. Recommendations of short listed audit firms will be made to the ACB. ACB will select the audit firm(s) in order of preference indicating their names against the vacancy. ACB shall select 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..

General process to be followed:

The company shall obtain a certificate, along with relevant information as per Form B (Annexure I), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of the company, under the seal of the said audit firm.

The company shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names to ACB/Board.

(Annexure I) 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:

- (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:

For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.

(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.
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: