

Mahindra & Mahindra Financial Services Ltd

Policy for Appointment of Statutory Auditors

September 2021

Description	Owner	Date of Adoption	Approving Authority	Version	Next Review
Policy for appointment of Statutory Auditors as per RBI notification dated April 27, 2021	Accounts		Board of Directors	0	As and when deemed necessary

Mahindra & Mahindra Financial Services Ltd

Policy for Appointment of Statutory Auditors

Background

The Reserve Bank of India vide its circular dated April 27th,2021 issued guidelines for appointment of Statutory Auditors (SA's) for Commercial Banks, Urban Co-operative Banks & NBFCs (including HFCs). The guidelines will be applicable from FY 2021-22 except for non-deposit taking NBFCs with Asset size below Rs 1000 cr.

The salient requirements under the guidelines are

- The guidelines will be applicable from FY 2021-22 with a flexibility to adopt from H2 for FY 2021-22
- Appointment of SA's will be for a continuous period of 3 years for one term
- Auditors will not be eligible for reappointment in the same entity for six years post completion of full or part of one term
- NBFCs are exempt from taking prior approval of RBI for appointment but are required to inform RBI within one month of appointment each year
- Joint audit is mandated for entities with asset size of Rs 15000 cr or more in previous year with minimum of 2 audit firms
- Entities shall shortlist minimum of 2 audit firms for every vacancy
- Joint Auditors cannot have common partners nor should they be under common network
- Auditors having audit/non audit assignment with group entities that are regulated by RBI are ineligible
- Eligibility criteria defined for qualifying - minimum no of qualified partners, minimum no of years of experience in bank & NBFC audit and minimum no of professional staff prescribed based on the asset size of the entity

Objective

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors in compliance with the RBI Directions and Companies Act 2013.

Number of SA's

The Company is required to decide on the number of SAs based on the guidance provided under this policy. Based on the RBI guidelines, since the asset size of the Company is more than ₹ 15,000 crore and less than ₹ 500,000 crore as at last reporting period, (i.e. March 31, 2021), the Company can appoint minimum two joint SAs and maximum four joint SAs.

The Company shall restrict the appointment to only two firms as joint SAs due to the following reasons

- The company maintains its accounting/financial records centrally at its Head Office in Mumbai.
- The company has a robust IT system in place connecting all its branches to its central server at Mumbai Head Office.
- The company has largely digitized its operational processes with easy access/retrieval of records for audit.
- The company has a very strong internal audit process covering all material processes and branches across India.

Tenure & Rotation

The Company as required under the RBI guidelines, in order to protect the independence of the auditors/audit firms, shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. In case the Company removes the SA's before completion of three years tenure, it shall inform concerned Regional Office at RBI about the same, along with reasons/justification within a month of such a decision being taken.

An audit firm would not be eligible for reappointment as SA in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

Eligibility Criteria for Appointment as SA

Based on the requirement of RBI guidelines for entity with asset size over Rs 15000 cr, the SA's shall fulfill the following basic criteria to be eligible for the appointment of SA of the Company

- Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be five;
- Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be four;
- Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be two;
- Minimum number of years of relevant audit experience of the firm should be fifteen. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs/ AIFI, and
- Minimum number of professional staff should be eighteen.

The Company additionally will fulfill all requirements for the appointment of SA's required under the Companies Act 2013.

PROCEDURE FOR APPOINTMENT OF SAs

- The Company shall shortlist minimum of two audit firms for every vacancy of SA.

- ii. The Company shall obtain a certificate from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.

- iii. The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders.

AUDIT FEE AND EXPENSES

The Company shall ensure that the audit fees charged by the SAs are 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 risk in financial reporting, etc.

REVIEW

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Audit Committee and to the Board. Any amendments to the Policy required as a result of amendment/modifications to the Companies Act, 2013/ RBI guidelines shall be presented to the Audit Committee and to the Board of Directors for their approval.