

# **TOURISM FINANCE CORPORATION OF INDIA LIMITED**

## **Policy for Appointment of Statutory Auditors**

**From**

**FY 2021-22 and onwards**

## **1. Background**

Reserve Bank of India (RBI) vide notification No.RBI/2021-22/25 Ref.No. DoS.CO. ARG/SEC.01/08.91.001/2021-22 dated 27.4.2021 has issued for the first time guidelines for appointment of Statutory Auditors (SAs) of NBFC. These guidelines will be applicable to the NBFCs having asset size of Rs.1000 crore and above for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs of the NBFCs. Since the asset size of TFCI is above Rs.1000 crore, it is required to adopt a policy for selection and appointment of Statutory Auditors for the FY 2021-22 and onwards. Accordingly, the following policy and procedures, based on the RBI guidelines are proposed.

## **2. Objective of the Policy**

The objective of the policy is to lay down a framework of guidance and procedures for appointing/re-appointing of Statutory Auditors in compliance with the RBI Directive and Companies Act 2013.

## **3. Applicability of the Policy**

The policy is applicable for appointment of Statutory Auditors for the FY 2021-22 and onwards.

## **4. Notification requirement to RBI**

Appointment of Statutory Auditors to be informed to RBI in the prescribed Form-A, enclosed as Annexure-I

## **5. Number of Statutory Auditors**

If asset size of the company is less than Rs.15,000 crore as at the end of previous year, it shall appoint minimum of one audit firm (Partnership firms/LLPs) for conducting statutory audit.

## **6. Eligibility Criteria of Auditors**

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

## A. 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 ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

**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.

**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)/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 Conditions**

- (i) The audit firm, proposed to be appointed as Statutory Auditors, 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 Statutory Auditors 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 Statutory Auditor of the Company or any of its RBI regulated group companies. The Company shall, as part of the process for selection of firms for appointment as Statutory Auditors, obtain appropriate disclosures in this regard.
- (v) The Statutory Auditors 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.

## **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 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.

## **7. Independence of Auditors**

7.1 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 Audit Committee to the Board of

Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

7.2 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 Statutory Auditor shall approach the Board of the company, under intimation to the concerned SSM/RO of RBI.

7.3 Concurrent auditors of the company should not be considered for appointment as its Statutory Auditors.

7.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc.) by the Statutory Auditor for the company or any audit/non-audit works for its RBI regulated group company should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the concerned company which may not normally result in a conflict of interest. Such activities may include but not limited to activities such as 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 or regulatory requirements and reporting on financial information or segments thereof etc. The company shall take appropriate decision in this regard in consultation with the Audit Committee of the Board.

However, if an audit firm is involved in any non-audit work with the Company and/or any audit/non-audit work in other RBI Regulated Group Entities and completes or relinquishes the said assignment prior to the date of appointment as Statutory Auditors of the company for FY 2021-22, the said audit firm would be eligible for appointment as Statutory Auditors of the Company for FY 2021-22.

7.5 The restrictions as detailed in para 7.3 and 7.4 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.

## **8. Professional Standards required of Statutory Auditor**

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

8.2 The Audit Committee of the Board shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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 Audit Committee of the Board, with the full details of the audit firm.

8.3 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 Statutory Auditors in relation to the Company, it would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **9. Tenure and Rotation**

9.1 To protect the independence of the auditors/audit firms, company should have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. For removing the Statutory Auditor before completion of three years tenure 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.

9.2 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.

9.3 One audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each company 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 Audit 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.

## **10. Audit Fees and Expenses**

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

10.2 The audit fees for Statutory Auditors 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.

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

## **11. Procedure to be followed for Appointment of Statutory Auditors**

11.1 The company shall invite applications/EOI from audit firms fulfilling the eligibility criteria, as per this policy and extant RBI guidelines. The Expression of interest/applications shall be submitted by audit firms along with detailed profile, supporting papers of aforesaid eligibility criteria, past experience and the following:

- (i) The fee quoted for the Statutory Audit including quarterly audit and IFC report.
- (ii) The minimum number of man-hour per quarter to be deployed in carrying out the detailed audit.
- (iii) The level/number of persons (partners/chartered accountants/article clerk, etc.) for the proposed audit.
- (iv) The audit firm shall also furnish information as per RBI Form B, enclosed as Annexure-II.

11.2 The EOI/applications received will be considered if they are found to be meeting all eligibility conditions. However, the submission of EOI/application does not create any contractual obligation on the part of company and it reserves the right to reject any or all EOI/applications without assigning any reason.

11.3 The eligible applications along with quoted fee shall be submitted to Audit Committee for consideration and recommendation of 2 audit firm in the order of preference to the Board of Directors for approval. The recommendation of minimum of 2 audit firms for the vacancy of Statutory Auditors is stipulated by RBI so that even if audit firm at first preference refuses appointment, the firm at second preference can be appointed and the process of appointment of Statutory Auditors does not get delayed.

11.4 On receipt of acceptance from the audit firm for appointment as Statutory Auditors, the approval of the Board shall be placed for confirmation by the members/shareholders in the forthcoming Annual General Meeting of the company.

12. The policy will be hosted on the company's website.

**FORM A**

**Information to be submitted by the NBFCs regarding appointment of Statutory Auditors**

The company has appointed M/s -----, Chartered Accountants (Firm Registration Number-----) as Statutory Auditors for the financial year ----- for their 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> Term.

2. The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as Statutory Auditors of the company for FY ----- alongwith relevant information in the format as prescribed by RBI.

3. The firm has no past association/association for ----- years with the company as Statutory Auditors.

4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of Statutory Auditors.

Signature  
(Name and Designation)  
Date:



**FORM B****Eligibility Certificate from (Name and Firm Registration Number of the firm)****A. Particulars of the firm**

Asset Size of Entity as on 31 <sup>st</sup> 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
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**\*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: