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POLICY ON APPOINTMENT OF STATUTORY AUDITORS (SAs)

Introduction:

The Reserve Bank of India vide its Circular DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 (“RBI Circular”), has issued guidelines on appointment of Statutory Auditors (“SAs”) by NBFCs, which is applicable to Fusion Finance Limited (“the Company”). The circular mandates the Company to formulate ‘Statutory Audit Policy and Appointment Procedure of Statutory Auditors’ to be hosted on official website of the Company and to formulate necessary procedure thereunder to be followed for appointment of SAs.

Approval:

The Company does not have to take prior approval of RBI for appointment of Statutory Auditors (SAs). However, necessary intimation shall be given to RBI regarding appointment of SAs in the required format within one month of such appointment.

Number of SAs and Branch Coverage:

If the Company’s Asset Size as on March 31 of the previous financial year is less than Rs.15,000 Crores, the Company shall appoint one SA. If the Asset Size is Rs.15,000 Crores or more as on March 31 of the previous financial year, the Company shall appoint a minimum of two SAs for conducting joint statutory audit. The Company needs to ensure that the joint auditors of the Company do not have any common partners and they are not under the same network of audit firms. Further, the Company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

The Company can decide on the number of SAs based on a Board Approved Policy, 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.

Considering the above factors and the requirements of the Company, the actual number of SAs to be appointed shall be decided by the respective Boards, subject to the following limits:

S. No.	Asset Size of the Company	Maximum number of SAs
1	Upto ₹5,00,000 crore	4
2	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4	Above ₹ 20,00,000 crore	12

Eligibility Criteria of Auditors:

The basic eligibility criteria for audit firms to be appointed by the Company as SAs shall be as under –

Asset Size on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff

	least three (3) years	associated with the firm for a period of at least three (3) years			
Up to ₹15,000 crore	3	2	1	8	12
Above ₹15,000 crore	5	4	2	15	18

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:

1. The full-time partner should not be a partner in other firm/s.
2. She/He should not be employed full time / part time elsewhere.
3. 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.
4. The Audit Committee 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.

Additional Consideration:

1. The audit firm, proposed to be appointed as SAs for Company, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
2. 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.
3. 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.
4. If any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SA of any of the group entities of that entity.
5. The auditors should preferably 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 Entities where the accounting and business data reside in order to achieve audit objectives.

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.

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.

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.

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 may 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

Procedure for Appointment of SAs:

The Company shall shortlist 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.

The Company shall obtain a certificate, along with relevant information in such format, as may be prescribed, 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.

Independence of Auditors:

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 ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
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 SAs shall approach the ACB of the Company, under intimation to the concerned SSM/RO of RBI.
3. 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 independence of the auditor.
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 SAs for the Company or any audit/non-audit works for its group companies, if any, should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to the concerned Company which may not normally result in a conflict of interest, and Company may take their own decision in this regard, in consultation with the ACB.
5. The restrictions as detailed in point 3 and 4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

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 Board/ACB 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/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 an Company's 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:

In order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The Company removing the SAs before completion of three years tenure 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 in the same Company for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities/group companies, if any.

The 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, subject to compliance with required eligibility criteria and other conditions for each Company and within overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. A group of audit firms having common partners and/or under the same network, will be considered as one Company and they will be considered for allotment of SA 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.

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 Audit Committee of the Company shall make recommendation to the Board of Directors as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.
