

ARNOLD HOLDINGS LIMITED

CIN No: L65993MH1981PLC282783

**POLICY FOR APPOINTMENT OF
STATUTORY AUDITORS**

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1. PURPOSE

As per RBI circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, the NBFC is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditor (SA). Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

2. APPLICABILITY

This Policy will be applicable to the NBFC for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors. However, non-deposit taking NBFCs with asset size below ₹1,000 crore have the option to continue with their extant procedure.

3. PRIOR APPROVAL OF RBI

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

4. NUMBER OF STATUTORY AUDITORS

- 4.1 The NBFC shall decide on the number of SAs after 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.
- 4.2 For Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. The NBFC shall ensure that joint auditors of the NBFC do not have any common partners and they are not under the same network of audit firms. Further, the NBFC shall finalise the work allocation among Statutory Auditors, before the commencement of the statutory audit, in consultation with them.
- 4.3 Considering the above factors and the other requirements of the NBFC, the actual number of Joint Statutory Auditors to be appointed, shall be subject to the following limits:

Sl. No.	Asset Size	Maximum number of Statutory Auditors
1	Up to ₹ 5,00,000 crore	4
2	Above ₹5,00,000 crore and Up to ₹10,00,000 crore	6
3	Above ₹10,00,000 crore and Up to ₹20,00,000 crore	8
4	Above ₹20,00,000 crore	12

5. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS

The NBFC shall adhere to the minimum eligibility criteria as mentioned in the RBI circular for appointment of the Statutory Auditors considering the asset size of the NBFC.

6. INDEPENDENCE OF AUDITORS

- 6.1 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 NBFC and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- 6.2 In case of any concern with the Management of the Entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditors shall approach the Board/ACB of the NBFC, under intimation to the concerned SSM/RO of RBI.
- 6.3 Concurrent auditors of the NBFC should not be considered for appointment as Statutory Auditors. The audit of the NBFC and any entity with large exposures to the NBFC for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 6.4 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 Auditors for the NBFC or any audit/non-audit works for its group entities 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 NBFC, which may not normally result in a conflict of interest, and NBFC may take their own decision in this regard, in consultation with the Board/ACB.
- 6.5 The restrictions as detailed in para 7.3 and 7.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

7. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS.

The Board/ACB of NBFC 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 should be sent with the approval/recommendation of the Board/ACB, with the full details of the audit firm.

8. TENURE AND ROTATION

- 8.1 In order to protect the independence of the auditors/audit firms, NBFC will have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, NBFC can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment.
- 8.2 An audit firm would not be eligible for reappointment in the NBFC for six years (two tenures) after completion of full or part of one term of the audit tenure.

9. AUDIT FEES AND EXPENSES

- 9.1 The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.
- 9.2 The audit fees for Statutory Auditors for the NBFC 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.

- 9.3 The ACB shall make recommendation to the RBI for fixing audit fees of Statutory Auditors.

10. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

The NBFC shall have in place detailed procedural guidelines, in conformity with the instructions under this policy and all relevant statutory/regulatory requirements for appointment of Statutory Auditors.

11. REVIEW OF THE POLICY

The policy shall be updated at least once in a year by the Internal Audit Department. Going forward, the same shall be placed to Audit Committee of Executives for review and post review by Audit Committee of Executives, the policy shall be placed to Audit Committee of the Board for recommendation and Board for approval.

(This policy is approved by the Board of Directors 23/08/2021 and also effective from 23/08/2021)