

***POLICY FOR APPOINTMENT OF
STATUTORY AUDITORS***

Approved by the Board of Directors at its meeting held on April 30, 2024

1. Introduction

The Reserve Bank of India (RBI), has issued guidelines for the appointment of statutory auditors of Non-Banking Financial Companies vide their notification (Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22) dated April 27, 2021.

Five-Star Business Finance Limited, (“Company”) being a Systematically important Non-Deposit taking Non-Banking Financial Company with an asset size of more than ₹ 1,000 crores, is required to comply with these RBI guidelines while appointing statutory auditors of the Company from the Financial Year 2021-22 onwards. Further, the RBI guidelines requires formulation of suitable policy for appointment of statutory auditors.

This policy for appointment of Statutory Auditors is outlined in conformity with the said guidelines and the corresponding FAQs dated June 11, 2021, issued by RBI.

2. Objective

The Objective of this policy is to provide the framework for appointment of Statutory Auditors of the Company by prescribing the eligibility criteria and procedure to be followed for appointment of Statutory Auditors (“SAs”) of the Company in accordance with the extant norms of RBI, SEBI, Companies Act, 2013 (“the Act”) and other applicable / relevant statutory requirements.

3. Governance

- a) The Policy shall be applicable from the FY 2021-22 and onwards including any amendments, if any made from time to time.
- b) The responsibility for oversight and ensuring that the appointment of SAs meets the requisite statutory and regulatory requirements as well as the stipulations under this policy vests with the Board of Directors and Audit Committee.
- c) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- d) The Audit committee 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 by the Audit Committee of the Company 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, with the full details of the audit firm.

4. Eligibility criteria for Statutory Auditors

An audit firm proposed to be appointed as SA should meet the eligibility criteria and possess the qualifications as prescribed under Section 141 of the Companies Act, 2013, (‘Act’) as may be amended from time to time and shall not have any of the disqualifications specified therein.

The audit firm shall be subjected to the peer review process of Institute of Chartered Accountants of India and shall hold a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

In addition to the aforementioned, the audit firm proposed to be appointed as SA shall also meet the eligibility criteria, prescribed under RBI guidelines, as given below:

- a. Three full time partners of which at least two of them should be Fellow Chartered Accountants. Only those partners associated with the firm for a period of at least three years shall be considered for this purpose.
- b. Two partners of the firm shall have continuous association with the firm for at least 10 years.
- c. One full time partner or one full time Chartered Accountants (CAs) in the firm should possess CISA / ISA qualification. There should be at least one-year continuous association of paid Cas with CISA / ISA qualification with the firm.
- d. Eight years of audit experience as statutory auditor of NBFCs or Statutory Central Auditor /Branch Auditor of commercial banks (excluding RRBs).
- e. Twelve professional staff with at least one year of continuous association with the firm. Professional staff means persons with knowledge of book-keeping and accountancy including audit and article clerks engaged in on-site audits.

5. Independence of Auditors

- a) The Audit Committee shall, at the time of appointment and every year thereafter, monitor and assess the independence of the SAs 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.
- b) Concurrent auditors of the Company shall not be considered for appointment as SAs of the Company. The audit of the Company and any entity with large exposure to the Company for the same reference year shall also be explicitly factored in while assessing independence of the auditor.
- c) The Audit Committee shall ensure that 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 shall be at least one year, before or after its appointment as SAs. During the tenure as SCA/SA, an audit firm may be permitted to provide such services to the Company which may not normally result in a conflict of interest.
- d) The restrictions as detailed in para (b) and (c) above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

6. Procedure for appointment and intimation to RBI

- a) 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 may be appointed and the process of appointment of SAs does not get delayed.
- b) The Company shall obtain a certificate, along with relevant information as per the format specified by RBI guidelines, from the audit firm(s) proposed to be appointed 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 of SAs of the Company, under the seal of the said audit firm.

- c) The Company shall intimate such appointment of SA for each year in the format as specified by RBI guidelines within one month of such appointment to the concerned Regional office of RBI (Department of Supervision) under whose jurisdiction the Registered office of the Company is located.

7. Scope and coverage of Audit:

The Company shall appoint a minimum of one audit firm for conducting the Statutory Audit of the Company until such time the asset size of the Company exceeds ₹ 15,000 Crores.

From a branch audit perspective, the Company shall seek the SAs to visit and audit the Top 20 branches which would be selected in order of the level of outstanding advances. In addition, the Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

8. Tenure and Rotation:

The Company shall appoint the SAs for a *continuous period of three years*, subject to the satisfaction of eligibility norms each year. Removal of statutory auditor before completion of their term will require special resolution passed at the general meeting and the Company shall comply with the procedure prescribed under section 140 of the Act and other requirements as applicable under the Act. In case the appointed SA is removed by the Company before completion of three years tenure, the same shall be informed to the concerned SSM/RO at RBI 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 entity for six years (two tenures) after completion of full or part of one term of the audit tenure.

The Company shall ensure that the SA is compliant with the limit prescribed under the RBI guidelines for statutory audit of Commercial Banks, All India Financial Institutions, Urban Cooperative Banks and NBFCs. The SA has to ensure continued compliance with all the eligibility and qualification criteria prescribed under applicable statutes.

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.

9. Fees and Expenses:

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions, and 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, based on the recommendation of the Audit Committee, shall make recommendation to the competent authority (Shareholders) as per the relevant statutory/regulatory provisions for fixing audit fees of SAs.

10. Review and Disclosure:

The Policy will be reviewed in reasonable intervals as it may deem fit by the Board of Directors of the Company in their sole and absolute discretion and shall be hosted on the website of the Company.