

CLIX Group

Policy on Appointment of Statutory Auditors

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1. Purpose

This policy on appointment of Statutory Auditors is framed based on the Guidelines issued by the Reserve Bank of India vide Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 in respect of appointment of Statutory Auditors (SAs) of NBFCs (including HFCs).

The purpose of this policy is to lay down a framework of guidance and procedures to appoint Statutory Auditors in compliance with the RBI Directive and Companies Act 2013.

In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail. Further, in the event any guidance on the regulatory framework/ RBI regulations / guidelines is required; the same shall be referred to the Finance & Accounts / Compliance function for its final views on the matter.

2. Applicability

This policy applies to Clix Capital Services Private Limited and its subsidiaries including Clix Housing Finance Limited.

3. Requirement of SAs and Branch Coverage

As per the RBI guideline, 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)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. Further, the Entity may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

For Clix group entities since Asset Size at the end of previous year is less than Rs. 15000 crore, and considering the number of branches, centralization of accounting books (based out of its head office in Gurugram), volume of transaction etc., hence minimum requirement of appointment of one Statutory Auditor for each entity will meet the requirement of the above RBI Circular.

This will be subject to review in future based on the experience and factual changes.

Branch coverage will be as per requirements of RBI and other Companies Act provisions.

4. Eligibility Criteria of Auditors

The Company will appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed in **Annex I of RBI Circular as below:**

Annex I

Eligibility Criteria for Appointment as SCA/SA

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 ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 crore.

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment for considering them as full time partners.

Further, for appointment as SAs with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all NBFCs with asset size above ₹ 1,000 crore, 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:

- (a) The full-time partner should not be a partner in other firm/s.
- (b) She/He should not be employed full time / part time elsewhere.
- (c) 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.
- (d) the ACB 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.

Note 2: CISA/ISA Qualification:

For NBFCs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority to firms with full time partners or full time CAs having 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:

For NBFCs, 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 Consideration

(i) The audit firm, proposed to be appointed as SAs for Entities, 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 Entities 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.

Further, 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.

v) The auditors for Entities with asset size above ₹1,000 crore 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 Entities 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 may promptly approach the Entity 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.

5. Independence of Auditors:

5.1 For NBFCs, 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 NBFC and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

5.2 In case of any concern with the Management of the Clix entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the ACB of the Entity, under intimation to the concerned SSM/RO of RBI.

Explanation: Board shall be directly approached only when ACB is non-existent in the Entity or the auditors notice a matter of concern involving any member of the ACB.

5.3 Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity.

The audit of the Entity and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

Explanation as per FAQ no. 5 as published by RBI: The Circular does not prohibit an audit firm from doing audit of any Company/Entity with Large Exposure to the Entity from being appointed as SA of the Entity. It only stipulates that this aspect should also be explicitly factored while assessing independence of the auditor. In this regard, the Board/ACB shall see that there is no conflict of interest and the independence of auditors is ensured.

5.4 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 Entities or any audit/non-audit works for its group entities 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 Entities which may not normally result in a conflict of interest, and Entities may take their own decision in this regard, in consultation with the Board/ACB.

Explanation: A conflict would not normally be created in the case of the following special assignments (indicative list):

- (i) Tax audit, tax representation and advice on taxation matters,
- (ii) Audit of interim financial statements.
- (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- (iv) reporting on financial information or segments thereof

Explanation as per FAQ no.2 as published by RBI: Before appointment of an audit firm as SA of the RBI Regulated Entity, there should be a time gap of minimum one year between this appointment and completion of the assignment of any non-audit works given to the same audit firm in that RBI Regulated Entity or completion of any audit/non-audit works in other RBI Regulated Entities in the Group. This stipulation shall be applicable prospectively, i.e. from FY 2022-23. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit/non-audit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SCA/SA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SCA/SA of the Entity for FY 2021-22.

It is reiterated that the time gap between any non-audit works by the SAs for the Entities or any audit/non-audit works for its Group Entities should be at least one year after completion of the audit assignment as SA.

5.5 The restrictions as detailed in para 4.3 and 4.4 above, should also apply to an audit firm under the same network

of audit firms or any other audit firm having common partners.

6. Professional Standards of SAs

6.1 The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

6.2 The ACB of Clix entities 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 reported¹⁰ to RBI within two months from completion of the annual audit.
- Such reports should be sent with the approval/recommendation of ACB, with the full details of the audit firm.

Explanation: Board shall review the performance of SCAs/SAs in case ACB is non-existent in the Entity.

6.3 In the event of lapses in carrying out audit assignments resulting in misstatement of an Entity'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 Clix entities, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

7. Tenure and Rotation

7.1 In order to protect the independence of the auditors/audit firms, the Group entities will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

- NBFCs 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.

7.2 ¹ - An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure. In case an audit firm has conducted audit for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same Entity for six years from completion of part-tenure.

Explanation: In case an audit firm has conducted audit of any Entity for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same Entity for six years from completion of part-tenure.

Explanation as per FAQ no. 6 as published by RBI: These limits are applicable in respect of audit of all RBI Regulated Entities, irrespective of the asset size.

8. Audit Fees and Expenses

8.1 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.

8.2 The ACB of respective Clix entities shall make recommendation to the Board and the Board shall recommend the same to Shareholders as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

9. Statutory Audit Policy and Appointment Procedure

9.1 The Company shall publish this policy on its official website.

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.

9.2 Guidelines on minimum procedural requirements are given as below:

9.2.1 Clix entities shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed.

9.2.2 Clix entities shall obtain a certificate, along with relevant information as per Form B (prescribed by RBI – attached as Annexure B), from each of the audit firm(s) proposed to be appointed as SAs by the Entity 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 respective Clix Entity, under the seal of the said audit firm.

9.3 The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

10. Appointment Intimation to RBI

Clix being a NBFC do not have to take prior approval of RBI for appointment of SAs, however, the company need to inform the concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located about the appointment of SAs for each year by way of a certificate in Form A (Annexure A) within one month of such appointment.

11. Review of Policy

This Policy shall be reviewed as and when deemed necessary and submitted for approval 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 Board of Directors for its approval.

12. Definitions

Assets: asset size means total assets.

Group entities: As per footnote 13 of the RBI Circular: Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

Further as per FAQ no.1 published by RBI: The Group Entities refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. However, if an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SAs, it would be the responsibility of the Board/ACB of the concerned RBI Regulated Entity to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board/ACB.

Large Exposure: As defined in [RBI Circular Ref. DBR.No.BP.BC.43/21.01.003/2018-19 dated June 03, 2019](#) on 'Large Exposures Framework'

Network: As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014

SA: Statutory Auditors

SCA (Statutory Central Auditors): SCAs in case of the Entities which appoint separate Statutory Branch Auditors (SBAs) and SAs in case of all other Entities

Annexure A

Form A

Information to be submitted by the NBFCs regarding appointment of SCA/SA

The company has appointed M/s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Central Auditor (SCA)/Statutory Auditor (SA) for the financial year ____ for their 1st/2nd/3rd term.

2. The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SCA/SA of the company for FY ____ along with relevant information in the format as prescribed by RBI.

3. The firm has no past association/association for _____ years with the company as SCA/SA/SBA.

4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of NBFCs.

Signature

(Name and Designation)

Date:

Annexure B

Form B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

Asset Size of Entity as on 31st 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
*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 / directors¹⁵ 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:

Explanation [not to be part of form B]: For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.