



Muthoottu Mini Financiers Limited

STATUTORY AUDITOR POLICY

Approved in the Board Meeting dated 18/12/2021

Background

Reserve Bank of India vide Notification no RBI / 2021-22 / 25 Ref.No. DoS. CO. ARG / SEC. 01/08.91.001/2021-22 dated April 27, 2021 has issued a set of guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

These guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs of the Entities. However, non-deposit taking NBFCs with asset size below Rs.1000 cr have the option to continue with their extant procedure. Accordingly, the Company is required to take steps to comply with the directive.

The notification stipulates detailed conditions on the eligibility, procedures etc for selection and appointment of Statutory Auditors. The Directive inter alia require Regulated Entities (RE) to put in place a Board approved policy for selection and appointment of Statutory auditors for the financial Year 2021/22 and onwards. Accordingly, the following policy and procedures are proposed.

Objective of the policy

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

Definitions of the terms used:

“RBI” means Reserve Bank of India

“RE” means Regulated Entity.

“ACB” means Audit Committee of the Board

“SA” means Statutory Auditor.

“Company” and “MMFL” means Muthoottu Mini Financiers Limited

Applicability of the Policy

The policy is applicable for appointment of Statutory Auditors for the financial year 2021/22 and onwards.

Notification requirement to RBI

Appointment of /auditors to be informed to RBI in the prescribed Form A (Annexure 1)

Number of Statutory Auditors

As per RBI stipulation if asset size of the Company is less than ₹15,000 crores at the end of previous year, the statutory audit shall be conducted by an Audit Firm (Partnership/LLP).

The Company shall decide on the number of SAs after considering 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, subject to the minimum prescribed by RBI.

Eligibility Criteria of Auditors

A. Basic Eligibility

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

Asset Size of Entity as on 31st March of Previous Year	(i). Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years	(ii). 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#	(iii). Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification	(iv). Minimum No. of years of Audit Experience of the firm	(v).Minimum No. of Professional staff
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

For NBFC's with asset size above ₹ 1,000 crores 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:

- The full-time partner should not be a partner in other firm/s.
- She/He should not be employed full time / part time elsewhere.
- 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.
- 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.

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)/ 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 SAs, 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 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.

(iv) If any partner of a Chartered Accountant firm is a director in an RBI Regulated group Entity, the said firm shall not be appointed as SA of the Company. The Company shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.

(v) The SAs 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 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.

Independence of Auditors

i. 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.

ii. 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 Auditor shall approach the Board of the Company, under intimation to the concerned SSM/RO of RBI.

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

iv. 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 group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the concerned Entities 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. 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 SA of the company for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Company for FY 2021-22.

v. The restrictions as detailed in para iii and iv 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.

Professional Standards required of Statutory Auditor

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

ii. The ACB 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 shall be sent with the approval / recommendation of the ACB, with the full details of the audit firm.

- iii. 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 SAs in relation to the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

Tenure and Rotation

- i. To protect the independence of the auditors/audit firms, Company Should have to appoint the Statutory Auditor 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 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.
- ii. 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 tenure³. (3 In case an audit firm has conducted audit of the Company 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 Company for six years from completion of part-tenure.)
- iii. 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.

Audit Fees and Expenses

- i. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- ii. 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.
- iii. ACB shall make recommendation of fees payable to the Board of Directors who shall fix the fees in consultation with the Auditors..

Procedure to be followed for Appointment of SCAs/SAs

- I. Procedure applicable for existing SA (Reappointment):

Preference will be given to existing SAs for re-appointment subject to being compliant with all applicable regulatory and internal policy provisions. The Company shall obtain the willingness from the existing SAs for re-appointment. In case such consent is not received from any of the existing SAs, Company shall follow the process for appointment of New SA to fill that vacancy as detailed under the procedure applicable for Appointment of SA.

II. Procedure for appointment of new firm as SAs:

i. The company shall invite applications from eligible Audit firms including the Company's past auditors of the Company, other firms having associations with the Bank for one off assignments, firms with headquarters branches in Kochi and other firms subject to fulfilling the eligibility criteria as per this policy and applicable RBI stipulations for expression of interest (EOI) for appointment of Statutory Auditors. Expression of interest/applications received will be considered if they are found to be meeting all eligibility conditions. .

ii. Interests/Applications received will be evaluated by the CFO in consultation with the MD&CEO based on the template for evaluation devised for the purpose. Based on the evaluation result CFO in consultation with the MD&CEO will shortlist 2 firms for every vacancy identified. The shortlisted names will be presented to the ACB/Board. ACB/Board will select firms from the list as required. In case ACB/Board require shortlisted firms may be requested to give a presentation on their capability in brief.

iii. ACB shall ideally select 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. However, in case of reappointment of SAs by the Company till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting. Thereafter, the Company will approach the audit firms to obtain their irrevocable consent in writing.

v. The Company shall obtain a certificate, along with relevant information as per Form B (Annexure II), from the audit firm(s) proposed to be appointed/ reappointed 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/ reappointment of SAs of the Company, under the seal of the said audit firm. Post their appointment at the general Meeting, updated/revalidated Form B shall be provided.

Review of the policy:

The Audit Committee of the Board and Board of the Company may review the policy as and when required / need based.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

.The Board approved Policy will be hosted on the Company's official website.
