

LENDINGKART FINANCE LIMITED

Policy for appointment of Statutory Auditors

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Summary of the Policy

| Policy Title | Policy Name |
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| Policy Owner | Finance |
| Original Issue Date | 02nd Nov 2021 |
| Revision Date | 09th May 2023 |
| Effective Date of revision | 09th May 2023 |
| Next Review Date | 09th May 2025 |
| Policy Version | 2 |
| Board Approved | Yes |
| Regulatory Guidelines/ Notifications/ Circulars | Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021 |

| Signing Authority | Designation |
|----------------------------|---------------------------------|
| Board Approval | |
| Board of Directors | Members of the Board |
| Management Approval | |
| Mr. Harshvardhan Lunia | CEO & MD |
| Recommended by | |
| Mr. Abhishek Singh | COO |
| Ms. Mamata Rate | Associate Director - Compliance |
| Reviewed by | |
| Mr. Mukund Barsagade | Group CFO |
| Mr. Suraj Khetan | Director - Finance |
| Prepared by | |
| Mr. Nitin Watwani | Associate Director - Finance |

| Date | Version | Description | Reviewed/Approved By |
|------------|-----------------|---------------------------------|--------------------------------------|
| 02.11.2021 | V1 – New policy | New Policy | Audit Committee / Board of Directors |
| 09.05.2023 | V2 – Amendment | Amendment as per RBI Guidelines | Audit Committee / Board of Directors |
| 09.05.2024 | V2- Review | No change required | Audit Committee / Board of Directors |

1. BACKGROUND

Reserve Bank of India, vide circular No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, has issued detailed guidelines for appointment of Statutory Auditors (SA/SAs) of NBFCs.

In compliance with the provisions of the Guidelines, Lendingkart Finance Limited (Company), being an NBFC having an asset size of more than INR 1,000 crores, is required to formulate a Board Approved Policy for appointment of SA and host it on its official website/public domain. Accordingly, the following Policy is formulated and adopted by the Board of Directors ("Board").

2. APPLICABILITY

This Policy will be applicable to the Company for Financial Year 2021-22 and onwards in respect of appointment / reappointment of SA.

3. COMMUNICATION TO RBI ON APPOINTMENT

The Company shall inform RBI about the appointment of SA for each year by way of a certificate in **Form-A**, annexed to this Policy within one month of such appointment. In addition, the Company shall comply with the relevant provisions of the Companies Act, 2013 and rules made thereunder.

4. NUMBER OF SA:

4.1 Number of SA

(a) The number of SA to be appointed over and above the mandatory requirement for a financial year shall be decided, inter alia, taking into account the following factors.

- 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.

Given that the Company's asset size is less than INR 15,000 crore at the end of last financial year, in compliance with the requirements stated under RBI Circular the Company should appoint at least one audit firm as SA.

5. ELIGIBILITY NORMS:

Before appointment of SA, the Company needs to ensure that audit firm(s) are fulfilling the eligibility norms as prescribed in **Annexure I**

6. INDEPENDENCE OF AUDITOR:

Audit Committee of the Board (ACB) will ensure independence of the Auditors.

(a) 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 would be flagged to the Board and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.

(b) In case management of the Company, is of the view that, independence of auditors may be compromised, the same would need to be informed to ACB on an immediate basis for further assessment.

- (c) In case of SA observe 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 SA shall approach the ACB of the Company, under intimation to the concerned SSM / RO of RBI.
- (d) Internal Auditors of the Company will not be considered for appointment as SA of the Company.
- (e) Entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework) to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- (f) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SA for the Company or any audit / non-audit works for its group entities should be at least one year, before or after its appointment as SA. 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 ACB.

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 or by the lenders of the Company.
 - (iv) reporting on financial information or segments thereof
- (g) The restrictions as detailed in point (d), (e) and (f) above, should 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.
 - (h) The SA may meet with the Audit Committee of the Board as and when required without the presence of the Management.

7. PROFESSIONAL STANDARDS OF SA AND REVIEW OF PERFORMANCE:

- (a) The SA shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (b) The ACB shall review the performance of SA on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on part of the SA 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, with the full details of the audit firm.

8. TENURE AND ROTATION:

- (a) In order to protect the independence of the auditors/audit firms, the appointment of SA will be for a continuous period of three years, subject to the SA satisfying the eligibility norms each year.
- (b) Further, if the SA is removed before completion of term, then the Company 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.

- (c) An audit firm would not be eligible for reappointment as SA of the Company for six years (two tenures) after completion of full term of 3 years or part of the term of the audit tenure.

9. REMOVAL OF SAs BEFORE TENURE OF APPOINTMENT

Subject to the provisions of the Companies Act, 2013, the Company may remove SAs before completion of three years tenure without any prior approval of the RBI. However, the Company shall inform the concerned RO at RBI about the removal of the SAs, along with reasons/justification for the same, within a month of decision of removal being taken.

10. AUDIT FEES AND EXPENSES:

- (a) The audit fees for SA shall be decided in terms of the relevant statutory/regulatory provisions.
- (b) The audit fees for SA of the Company 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.
- (c) The ACB shall approve the audit fees of SA or ACB can authorize MD/CEO or/and CFO of the Company to finalize and approve the audit fees as per the relevant statutory/regulatory instructions.

11. STATUTORY AUDITOR'S APPOINTMENT PROCEDURE:

The Company shall inform the Regional Office of Reserve Bank of India (Department of Supervision), under whose jurisdiction the Company's registered office is located about the appointment of SAs for each year by way of a certificate in **Form A- Enclosed as Annexure II** within one month of such appointment.

The proposal for the appointment of SAs shall be placed before the Audit Committee. The Audit Committee shall recommend the appointment to the Board and thereafter the appointment will be placed before the Board for approval subject to the approval of the shareholders. The approval of the shareholders will be sought in accordance with the provisions of the Companies Act, 2013.

Annexure - I

ELIGIBILITY CRITERIA FOR APPOINTMENT AS 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 |
| Up to ₹1,000 Crore | 2 | 1 | 1 | 6 | 8 |

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, at least two partners of the firm shall have a 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:

- 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 Board/ACB shall examine and ensure that 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: 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)/ UCBs/NBFCs/ AIFIs. In the case of a 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 bookkeeping 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 SA of the Company, 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 the appointment of SA 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 the Partner of a Chartered Accountant firm is a director in any group entity which is regulated by RBI/NHB, the said firm shall not be appointed as SA of any of the Company.
- (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.

In addition, the Company shall comply with the relevant provisions of the Companies Act, 2013 and rules made thereunder. The key eligibility criteria for appointment of Statutory Auditors are as under:

- a) The minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years shall be three.
- b) Minimum number of FTPs / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / Information System Audit qualification shall be one.
- c) The minimum number of years of relevant audit experience of the firm shall be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / All India Financial Institutions.
- d) 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 entities should be at least one year,

- before or after its appointment as SAs (applicable to an audit firm under the same network of audit firms or any other audit firm having common partners).
- e) Concurrent auditors of the Company shall not be considered for appointment as SAs. 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 SA (applicable to an audit firm under the same network of audit firms or any other audit firm having common partners).
 - f) The partner of the SA should not be statutory auditor of more than 20 companies as specified under the Companies Act, 2013.
 - g) The SA firm should not be statutory auditor of more than eight NBFCs including the Company.

The audit firm shall 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.

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 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. In such a scenario, the audit firm and the Company will approach the RBI for necessary permission.

Annexure - II

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.

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.

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

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:

Glossary:

| | | |
|----|-----------------------------|---|
| 1 | RBI | Reserve Bank of India |
| 2 | NBFC | Non-Banking Finance Company |
| 3 | SA | Statutory Auditors |
| 3 | Same network of audit firms | Firms operating or functioning under the same brand name, trade name or common control of audit firms |
| 4 | ACB | Audit Committee of Board |
| 5 | SSM | Senior Supervisory Manager |
| 6 | RO | Regional Office |
| 7 | Large Exposure | As defined in RBI instructions on 'Large Exposures Framework': The sum of all exposure values of a bank to a counterparty or a group of connected counterparties are defined as Large Exposure, if it is equal to or above 10% of the bank's eligible capital base (Tier I capital) |
| 8 | CEO | Chief Executive Officer |
| 9 | CFO | Chief Financial Officer |
| 10 | FCA | Fellow Chartered Accountant |
| 11 | FTPs | Full time partners |
| 12 | CISA | Certified Information system Auditor |
| 13 | ISA | Information system Audit |
| 14 | ICAI | Institute of Chartered Accountants of India |
| 15 | CA | Chartered Accountant |
| 16 | RRB | Regional Rural Bank |
| 17 | UCB | Urban Co-operative Bank |
| 18 | CAATT | Computer Assisted Audit Tools |
| 19 | GAS | Generalized Audit Software |
| 20 | NFRA | National Financial Reporting Authority |