

Policy for Appointment of Statutory Auditors



navi FINSERV

Version No	1.0
Date of original adoption of policy	March 27, 2025
Date of amendment of policy	-
Policy owner	Chief Financial Officer
Approved by	Board of Directors
Periodicity of Review	Annual

<u>Date of Review / Amendment</u>	<u>Particulars</u>	<u>Next date of review</u>
March 27, 2025	Adoption of Policy in line with the 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	March 26, 2026

TABLE OF CONTENTS

1. INTRODUCTION	1
2. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE	1
3. ELIGIBILITY CRITERIA OF AUDITORS	2
4. INDEPENDENCE OF AUDITORS	5
5. PROCEDURE FOR APPOINTMENT	6
6. PROFESSIONAL STANDARDS	6
7. TENURE AND ROTATION	7
8. AUDIT FEES AND EXPENSES	7
9. DISCLOSURE	7
10. ROLES AND RESPONSIBILITIES	7
11. REVIEW AND AMENDMENT OF THE POLICY	9

1. INTRODUCTION

- 1.1. This Policy on Appointment of Statutory Auditors (the "**Policy**") outlines the procedures and criteria for the appointment of Statutory Auditors for Navi Finserv Limited (the "**Company**"), in compliance with the Reserve Bank of India's ("**RBI**") guidelines dated April 27, 2021 "*Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs, and NBFCs (including HFCs)*" ("**RBI Guidelines**"). This Policy establishes a transparent and effective framework for the appointment of Statutory Auditors of the Company, ensuring auditor independence, and compliance with regulatory requirements.
- 1.2. This Policy applies to the appointment/reappointment of Statutory Auditors for the Company.

2. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE

- 2.1. The number of Audit Firms to be appointed by the Company to conduct the statutory audit shall be determined based on the asset size of the Company as at the end of the previous financial year, as follows:

Asset Size as at the end of the previous financial year	Minimum number of Audit Firms
INR 15,000 Crores and above	Joint audit by at least two audit firms (Partnership firms / Limited Liability Partnerships (LLPs))
Less than INR 15,000 Crores	At least one audit firm (Partnership firms / Limited Liability Partnerships (LLPs))

- 2.2. It shall be ensured that joint auditors of the Company do not have any common partners and they are not under the same network of audit firms. Further, the Company shall finalise the work allocation among Statutory Auditors, before the commencement of the statutory audit, in consultation with its Statutory Auditors.

2.3. The Company shall decide on the number of Statutory Auditors *inter alia*, 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.

2.4. The maximum number of Statutory Auditors of the Company shall be as follows:

Asset Size as at the end of the previous financial year	Maximum Number of Statutory Auditors
Upto INR 5,00,000 Crores	4
Beyond INR 5,00,000 Crores	As provided in the RBI Guidelines, as amended from time to time.

2.5. The Statutory Auditors shall visit and audit at least the top 20% of the branches of the Company to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Company. Further, the Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

3. ELIGIBILITY CRITERIA OF AUDITORS

3.1. The Company shall only appoint such audit firms fulfilling the eligibility requirements set forth herein below:

Asset Size of the Company as on March 31 of the Previous Year	Minimum Number of Full Time Partners (FTPs) associated with the Firm for atleast three years	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
Above ₹15,000 crore	5	4	2	15	18
Above ₹1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

3.2. Full Time Partner

- 3.2.1. 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, for appointment as Statutory Auditors, at least two partners of the firm shall have continuous association with the firm for at least 10 years.
- 3.2.2. The full-time partner's association with the firm would mean exclusive association.

- 3.2.3. 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 Audit Committee of the Board 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.
- 3.3. 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).
- 3.4. 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 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.
- 3.5. 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.
- 3.6. Additional Consideration
- 3.6.1. The audit firm, proposed to be appointed as the Statutory Auditor, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- 3.6.2. 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.
- 3.6.3. The Company shall ensure that appointment of Statutory Auditors 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.
- 3.6.4. Further, if any partner of a Chartered Accountant firm is a director of the Company, the said firm shall not be appointed as a Statutory Auditor of any of the group entities of the Company.

- 3.6.5. The auditors of the Company 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 Company where the accounting and business data reside in order to achieve audit objectives.

3.7. Continued Compliance with basic eligibility criteria

- 3.7.1. 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 the Financial Year ending 31st March and till the completion of annual audit.
- 3.7.2. 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 shall seek the RBI's permission to allow the concerned audit firm to complete the audit, as a special case.

4. INDEPENDENCE OF AUDITORS

- 4.1. The Audit Committee of the Board shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Audit Committee to the jurisdictional Senior Supervisory Manager (SSM) /Regional Office (RO) of RBI of the Company.
- 4.2. In case of 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 Statutory Auditors shall approach the Audit Committee / Board of Directors (Board of Directors shall be approached only where auditors notice a matter of concern involving any member of the Audit Committee), under intimation to the concerned SSM/RO of RBI.
- 4.3. Concurrent auditors of the Company should not be considered for appointment as Statutory Auditors of the Company. 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 auditor.

- 4.4. 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 Company 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 Auditors, an audit firm may provide such services to the Company which may not normally result in a conflict of interest, with the approval of the Audit Committee of the Board.
- 4.5. The restrictions as detailed in Section 4.3 and Section 4.4 above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

5. PROCEDURE FOR APPOINTMENT

- 5.1. The Company shall shortlist a minimum of 2 audit firms for every vacancy of Statutory Auditors so that even if the 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 Statutory Auditors does not get delayed.
- 5.2. The Company shall place the name of shortlisted audit firms, in order of preference, before its Audit Committee for recommendation to the Board and shareholders of the Company.
- 5.3. The Company shall obtain a certificate, along with relevant information as required in the RBI Guidelines from the audit firm(s) proposed to be appointed as Statutory Auditors to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI, and in this Policy. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of Statutory Auditors, under the seal of the said audit firm.

6. PROFESSIONAL STANDARDS

- 6.1. The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 6.2. The Audit Committee of the Board 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, with the full details of the audit firm.
- 6.3. In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the Statutory Auditors in relation to the Company, the Statutory Auditor 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 Company will appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Company may remove the Statutory Auditors before completion of three years tenure, and 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. An audit firm would not be eligible for reappointment in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

8. AUDIT FEES AND EXPENSES

- 8.1. The audit fees for Statutory Auditors 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.
- 8.2. The Audit Committee of the Board shall make recommendations to the Board as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.

9. DISCLOSURE

- 9.1. The Company shall disclose this Policy on its official website/public domain.

10. ROLES AND RESPONSIBILITIES

Board of Directors	<ul style="list-style-type: none">(a) Review and approve modifications to this Policy on an annual basis, or as may be required.(b) Approve the appointment of Statutory Auditors, and audit fees, and recommend the same to the shareholders of the Company.(c) Review any concerns raised by the Statutory Auditors with respect to the conduct of any member of the Audit Committee of the Board.
---------------------------	--

	<p>(d) Approve submission of reports (to the RBI) relating to any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors or any other matter considered as relevant.</p>
Audit Committee	<p>(a) Review and recommend to the Board any modifications to this Policy on an annual basis, or as may be required.</p> <p>(b) Recommend to the Board and shareholders, the appointment of Statutory Auditors, and audit fees.</p> <p>(c) Examine and ensure that the income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners.</p> <p>(d) Monitor and assess the independence of the auditors.</p> <p>(e) Raising any concerns with respect to the independence of the Statutory Auditors to the jurisdictional SSM /RO of the Company.</p> <p>(f) Review any concerns raised by the Statutory Auditors with respect to the conduct of any member of the Audit Committee of the Board.</p> <p>(g) Approve any non-audit services to be provided by Statutory Auditors during their tenure.</p> <p>(h) Review the performance of Statutory Auditors on an annual basis.</p>
Managing Director	<p>Approve any amendments to this Policy on account of changes in any existing law, regulation or Policy, as outlined in <u>Section 11.2</u></p>

11. REVIEW AND AMENDMENT OF THE POLICY

- 11.1. The Policy shall be amended or modified with the approval of the Board. The Policy shall be reviewed by the Board on an annual basis. Any amendments to the Policy shall be recommended to the Board by the Audit Committee of the Board.
- 11.2. Without prejudice to the foregoing, in the event the Policy requires to be amended to take into account any changes (whether on account of repeal of any existing law, or otherwise) in any existing regulation, law or policy (or any clarification with respect to any existing regulation, law or policy), the Managing Director of the Company may approve such changes to the Policy as may be required to comply with such changes, or clarifications. Any such changes approved by the Managing Director shall be placed before the Board, in its immediately succeeding meeting, for ratification by the Board.
- 11.3. Notwithstanding anything contained in this Policy, in case of any contradiction between any provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.