



ENABLING HOLISTIC DIGNIFIED LIVING

Policy on Statutory Audit and Appointment Procedure

VERSION 1.0

Version History			
Version	Amendments	Date	Meeting in which adopted
1.0	First release		Board Meeting

VISION AND MISSION

LIGHT is committed to build a sustainable business with strong social relevance and a commitment to inclusive growth and contribute to the society by supporting causes on various concerns.

APPLICABILITY

- The document is made as per RBI Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) [RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22] dated April 27, 2021.
- The notification is applicable to
 - (i) All Commercial Banks (Excluding RRBs)
 - (ii) All Primary (Urban) Co-operative Banks (UCBs)
 - (iii) All All-India Financial Institutions
 - (iv) All Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies)

Further, in this policy Light Microfinance Private Limited will be referred as “LIGHT” or “the Company”

Purpose

- The purpose of the “Audit Policy” is for selection of Auditor based on eligibility as per the guideline defined by RBI from time to time and to set out the framework within which Audit provides objectives and independent assurance to Audit Committee and to Board of Directors, over the processes and systems to internal controls and risk management operating in the group.
- Audit policy is framed to comply with RBI guidelines and to support independent and objective consulting activity designed to add value and improve the Company’s operation.
- It helps for systematic and disciplined approach to evaluate and improve the effectiveness of the Company’s risk management, control, and governance process.

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Eligibility

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 (refer 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 (refer note 2)	Minimum No. of years of Audit Experience of the firm (refer note 3)	Minimum No. of Professional staff (refer note 4)
Upto ₹1,000 crore	<u>2</u>	<u>1</u>	<u>1*</u>	<u>6</u>	<u>8</u>
Above ₹ 1,000 crore and Up to ₹15,000 crore	<u>3</u>	<u>2</u>	<u>1</u>	<u>8</u>	<u>12</u>

* 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 shortlisting for considering them as full-time partners. Further, for appointment as statutory auditor of the company 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.

The Company 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.

Note 2: CISA/ISA Qualification:

For the Company with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, priority may be given to 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:

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.

Selection Process

- The Board and the Audit Committee of the Company shall be responsible to appoint Statutory Auditors who demonstrate professional ability and independence.
- The selection and appointment of the auditor should comply with the guidelines issued by RBI from time to time.
- Declaration shall be obtained from the Auditors affirming their eligibility for being appointed as the Statutory Auditors of the Company, as per the guideline issued by RBI from time to time.
- Preference would be given to those reputed firms having adequate seniority, audit experiences in NBFC and MFIs, number of partners, number of professional employees.
- Only audit firms duly qualified under provision of Section 141 of Companies Act 2013 and with no adverse remark/ disciplinary proceeding pending / initiated against the firm/ any partner/proprietor on record of ICAI would be considered as eligible for appointment as auditors.
- The shortlisted firms would be asked to give their willingness and eligibility in writing to accept the assignment of audit. The shortlisted firm list would be placed before Audit Committee and Board and they will approve the same.

- The appointment would be formalized on informing the appointment of statutory auditor within due time to RBI by the Company.

Tenure and Rotation

- The Auditor can be appointed for the period of three years and for two tenure i.e. total of six years or lesser as per any change in the guideline issue by RBI from time to time.
- The Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Scope of Auditor

- Audit should consider review of fair presentation of financial statements, compliance with law and regulations, risk management, internal financial controls (IFC) and detection & investigation of any fraudulent activities.
- The audit should focus on the risk through an appropriate framework which identifies, addresses, reviews, and reports on each risk appetite.
- To ascertain compliance with statutory and regulatory requirement.
- Monitoring and evaluating the effectiveness of the Company's operational risk management process.
- Investigation and reporting on violation of policies and procedures, errors, fraud or misuse of Company's assets.
- Performing forensic audits as and when required for any red flags which required investigation.
- The auditor may perform sample verification, where 100% verification is not required or possible and also assess the risk associated with it.
- Documents and information given to Auditor during the review will be handled consistent with the Company policy and in the same manner as the employees are responsible for them.
- Frequency of the Audit activity should be determined based on the risk perception.

Independence and objectivity

- Audit should be an independent activity to ensure unbiased outcomes and observations.
- To ensure this independence, Auditor should directly report to the Audit Committee formed by the Board of Directors of the Company, after discussion with the head of department or concerned person.
- The Board shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically.

Confidentiality

- Audit will ensure all safeguard related to confidentiality of the information which have been obtained during audit.
- Auditor should not use confidential information for any personal gain or in any manner that knowingly would be detrimental to the interest of the Company.

Review of the Audit Policy

- This policy will be reviewed by the management of the company annually or as and when necessary, because of any change in law and the same will be approved by Audit committee or Board.

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