



**MIDLAND MICROFIN
LIMITED**

**POLICY AND PROCEDURE FOR APPOINTMENT
OF STATUTORY AUDITORS OF THE COMPANY**

**Date of Implementation: August 19, 2021
Last Review Date: January 29, 2026**



Introduction:

RBI had announced in the ‘Statement on Developmental and Regulatory Policies’ issued as part of the Monetary Policy Statement dated December 4, 2020 that with a view to improve the quality of financial reporting of Supervised Entities (SEs), harmonized guidelines on appointment of Statutory Auditors of Commercial Banks (excluding RRBs), Primary (Urban) Co-operative Banks (UCBs) and Non-Banking Finance Companies (NBFCs) will be issued.

Accordingly, Reserve Bank of India on April 27, 2021 issued circular on Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs, on 27th April 2021 (“Guidelines”). These Guidelines together with the FAQ issued on 11th June, 2021, provide necessary instructions for appointment of SCAs/SAs, the number of auditors, their eligibility criteria, tenure and rotation, etc. while ensuring the independence of auditors.

In compliance with the provisions of the above Guidelines, the Company is required to formulate a Board approved policy laying down necessary procedure to be followed for appointment of SCAs/SAs (“Policy”) and upload it on the official website of the Company. Accordingly, the following Policy is being formulated and adopted by the Board of Directors (BoD) in its meeting dated August 19, 2021.

Part – A: Statutory Audit Policy

I. Eligibility Criteria of SAs:

A. Minimum Number of Full-Time Partners (FTPs):

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 of the Company at least two partners of the firm shall have continuous association with the firm for at least 10 years.

The ‘full-time partner’s association with the firm’ means 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 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.

B. CISA/ISA Qualification:

The Company shall give priority to firms with full time partners or full time Chartered Accountants (“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.

C. Audit Experience:

Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks/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.

D. 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.

E. Additional Criteria / Considerations:

(i). The audit firm, proposed to be appointed as SCAs/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 appointment of SAs shall be 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 of the Company or its Subsidiaries, the said firm shall not be appointed as SAs of the Company or any of the group entities of that Entity.

(v). The auditors 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.

II. Continued Compliance with basic eligibility criteria:

In case the audit firm, after appointment as SAs of the Company, 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 (i.e. 6 months) 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 will approach RBI to consider allowing the concerned audit firm to complete the audit, as a special case.

III. Number of SAs:



The Company shall appoint a minimum of one audit firm (Partnership firm/LLP) for conducting statutory audit.

IV. Compliance of RBI Circular:

The Company shall inform the appointment of SAs in each year by way of a certificate in Form-A (As per Annexure-I) as prescribed under RBI Circular No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, as amended to RBI Regional Office, Chandigarh, within one month of such appointment.

V. Independence of Auditors:

i. The Audit Committee of the Board shall monitor and assess the independence of the SAs and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard shall be flagged by the Audit Committee to the Board of Directors of the Company and RBI Regional Office, Chandigarh. The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board of Directors to RBI Regional Office, Chandigarh.

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 SA (s) shall approach the Audit Committee under intimation to RBI Regional Office, Chandigarh.

iii. Concurrent auditors of the Company, if any, should not be considered for appointment as SAs of the Company or its Subsidiaries. The audit of the Company and any other Companies with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the SAs.

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 SAs for the Company or any audit/non-audit works for its group Companies should be at least one year, before or after its appointment as SAs. However, during the tenure as SAs, an audit firm may provide such services to the Companies or its group Companies which may not normally result in a conflict of interest and the Company shall take prior approval of the Audit Committee.

v. The restrictions as detailed in para iii and iv above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

VI. Professional Standards of SAs:

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

ii. The Audit Committee of the Company 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 should be sent with the approval of the Board of Directors of the Company, with the full details of the audit firm.



iii. In the event of lapses in carrying out audit assignments resulting in mis-statement 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 SAs in relation to the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

VII. Tenure and Rotation:

a. In order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. If the Company removes the SAs before completion of three years tenure shall inform RBI Regional Office, Chandigarh, about it, along with reasons/justification for the same, within a month of such a decision being taken.

b. 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. However, audit firms can continue to undertake statutory audit of other group Companies.

c. The SAs of the Company shall take up statutory audit of maximum of eight NBFCs including the Company during a particular year. 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 SA 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.

VIII. Audit Fees and Expenses:

The audit fees for SAs of the Company shall be decided in terms of the relevant statutory/regulatory provisions. The audit fees 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. The Audit Committee of the Company shall make recommendation to the Board of Directors as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

Part - B: Procedure for Appointment of SAs:

The Company shall shortlist 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.

The Company shall obtain a certificate, along with relevant information as per Form B (Annexure- II) as prescribed under RBI Circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 as amended, from the audit firm(s) proposed to be appointed as SAs by the Company 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 Company, under the seal of the said audit firm.

Part – C: Review and Regulatory Supremacy

This Policy shall be reviewed at least once in every year or earlier, as may be required, to incorporate changes arising from applicable laws, regulatory guidelines, supervisory instructions, or evolving business and operational requirements.



In the event of any inconsistency between the provisions of this Policy and any applicable law, regulation, circular, guideline, or direction issued by a statutory or regulatory authority (including the Reserve Bank of India), such law or regulatory requirement shall prevail to the extent of such inconsistency, and this Policy shall be deemed to be amended accordingly.

FORM-A

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

- 1) 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 the RBI.
- 3) The firm has no past association/association for _____ years with the company SCA/SA/SBA.
- 4) The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for the appointment of SCAs/SAs of NBFCs.

Signature
(Name & Designation)

Date:

Form-B

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

A. Particulars 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 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 Rs.1000 crore*

#Details may be furnished separately for experience as SCAs/SAs and SBAs

B. Additional Information:

- 1) Copy of Constitution Certificate.
- 2) 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.
- 3) 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.
- 4) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- 5) 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 / directors 15 have been declared as willful 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: