



VARTHANA FINANCE PRIVATE LIMITED

**POLICY FOR APPOINTMENT OF STATUTORY AUDITORS
BR25
Varthana Finance Private Limited**

Registered Office:

Varasiddhi, 3rd Floor, 5 BC-110 Service Road, 3rd Block, HRBR Layout, Bangalore - 560 043

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CIN: U65923KA1984PTC096528





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Preface

The Policy on appointment of Statutory Auditors of the Company (Varthana Finance Private Limited, “Varthana”) is in line with the Guidelines of the Reserve Bank of India bearing Ref. No. DoS. CO. ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021. The Policy was approved by the Board at its meeting held on August 11, 2021 and shall come into effect on the date/for the relevant period specified under the extant RBI Guidelines.

Key highlights of the RBI guidelines and FAQs are:

1. The guidelines are applicable to NBFCs from FY 2022 onwards, with a flexibility to adopt these guidelines from H2 to avoid any disruption. Till the appointment of Statutory Auditors (SAs) for FY 2021-22, as per the requirements of the Circular and applicable statutory provisions, the SAs for FY 2020-21 can continue for the Limited Review for Q1, Q2, etc.
2. NBFCs are required to inform RBI about the appointment of SA for each year by way of certificate in the prescribed format within one month of the appointment.
3. For NBFCs with asset size of up to ₹ 15,000 Crore as at the end of previous year, statutory audit should be conducted by a minimum of one audit firm, i.e. appointment of joint auditors is not mandatory. The guidelines also prescribe the maximum number of SAs required, based on the asset size of the NBFC.
4. NBFCs are required to decide on the number of audit firms based on the Board approved policy, taking into account various factors, such as 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.
5. SAs should fulfil the eligibility norms as prescribed
6. The Audit Committee of the Board shall monitor and assess the independence of the SA, and conflict of interest, if any. If there are any concerns, the same shall be highlighted to the Board of Directors of the Company, and to the SSM / RO of RBI.
7. There must be a time gap of one year, between any non-audit work by the audit firm for the entity, and any audit / non-audit work for its group entities before and after the firm’s appointment as SA. 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, as may be decided by the Audit Committee/Board of the entity.
8. The Board / Audit Committee 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

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annual audit. Such reports should be sent with the approval/recommendation of the Board / Audit Committee, with the full details of the audit firm.

9. In order to protect the independence of the auditors/audit firms, entities will have to appoint the auditors for a continuous period of 3 years, subject to the audit firms satisfying the eligibility norms each year. NBFCs which remove SA before completion of 3 years of tenure, shall inform concerned Regional Officer at RBI about the same along with the reasons, within a month of such decision.

Purpose

The purpose of this document is to present a policy statement of Varthana regarding appointment of Statutory Auditors which shall be subject to changes from time to time to be in compliance with the amendments to the guidelines to be issued by the Reserve Bank of India.

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors.

The Objective of the Policy is:

1. Deciding the number of SAs based on various parameters,
2. Criteria for appointment of SAs;
3. The procedure to be followed for appointment of SAs.

Scope

This policy shall form the basis for the purpose of appointment of SAs. Varthana shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder and the regulations/ guidelines/ circulars/ notifications as issued by the Reserve Bank of India.

In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail. However, for any guidance on the regulatory framework / RBI regulations / guidelines is required, the same shall be referred to the Department of Non – Banking Supervision, Reserve Bank of India, Bangalore for its final views on the matter.

Appointment of Statutory Auditors (SAs)

The Company is required to decide on the number of SAs based on the guidance provided under this policy. Based on the guidelines, since the asset size of the Company is more than ₹ 1,000 crore and less than ₹ 500,000 crore as at last reporting period, the Company can appoint minimum one SA and

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maximum four joint SAs. Additionally, as the asset size of the company is less than ₹ 15,000 crore, the Company is not required to appoint joint auditors

The Company shall appoint only one SA, as it will be commensurate to the size, transactions and other following reasons:

- Centralised accounting - The Company's accounting unit is based out of its Registered office in Bangalore, and all necessary accounting records are available centrally;
- Computerisation – Access to the accounting system (Tally), all loan management systems (Indus) are available digitally for audit purposes.

Tenure and Rotation of Statutory Auditors (SAs)

As per the provisions of the Companies Act, 2013, SA can be appointed for two terms consisting of five years each.

However, as per the RBI guidelines, in order to protect the independence of the auditors/audit firms, Varthana shall appoint the SA for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. If Varthana removes SAs before completion of 3 years of tenure, it shall inform the concerned Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. Varthana cannot reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure.

RBI being the sectoral regulator and its guidelines being more stringent, Varthana shall appoint the SA as per the RBI guidelines.

Criteria & Procedure for Appointment of Statutory Auditors

Eligibility Criteria

SAs fulfilling the required eligibility criteria as per the RBI Guidelines and other applicable laws shall be appointed through a well-structured selection process conducted by the Management / Audit Committee member(s) of Varthana.

As the asset size of the Company is more than ₹ 1,000 crore and less than ₹ 15,000 crore as at last reporting period, the eligibility norms as per RBI Guidelines to be fulfilled by the audit firms include;

- a) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three. At least two partners of the firm shall have continuous association with the firm for at least 10 years.

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- b) Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be two
- c) Minimum one full-time partner / paid Chartered Accountant (CA) with CISA / ISA qualification.
- d) Minimum number of years of relevant audit experience of the firm should be eight. The relevant audit experience would be experience of the firm as statutory / central/ branch auditors of Banks / NBFCs / AIFI, and
- e) Minimum number of professional staff should be twelve.

Along with the criteria as specified by the RBI, the Company shall appoint the SA's fulfilling/meeting the criteria as per the Companies Act, 2013

Procedure

The RBI guidelines prescribe the procedure for appointment of SAs, which includes the following:

- a) Varthana shall shortlist minimum of two audit firms for every vacancy of SA;
- b) Varthana shall obtain a certificate, in the prescribed format, from the audit firm proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- c) Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

Wherever, required prior approval of the RBI shall be sought for the appointment of the Statutory Auditors. Appointment of the Statutory Auditor shall however be reported to the concerned office of the RBI in the manner prescribed by the RBI.

Audit Fees & Expenses

The Company shall, in consultation with and as recommended by Audit Committee / Board of Directors, ensure that Audit fees for SAs are reasonable, commensurate with the scope and coverage of audit and in line with the requirements of RBI Guidelines and relevant provisions of Companies Act, 2013 including amendments thereby from time to time.

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Publication

A copy of this policy as amended from time to time shall be hosted on the website of Varthana as per the requirements of RBI Guidelines.

Review

This Policy shall be reviewed as and when deemed necessary and submitted for approval to the Board. Any amendments to the policy required as a result of amendment to the Companies Act, 2013 / RBI guidelines shall be presented to the Board of Directors for its approval.

Policy for Appointment of Statutory Auditors Version Control:

Version	Particulars of Creation / Revisions	Audit Committee Approval Date	Board Adoption date
Version 1.0	Policy for Appointment of Statutory Auditors – Original	August 10, 2021	August 11, 2021
Version 1.0	Annual Review – No Changes	May 17, 2022	May 18, 2022
BR23	Annual Review - formatting changes only	May 16, 2023	May 17, 2023
BR24	Annual Review – No changes	May 14, 2024	May 15, 2024
BR25	Annual Review – No changes	May 13, 2025	May 14, 2025

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