

# **SF3-IN Policy for Appointment of Statutory Auditors**

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## 1 Introduction

BMW India Financial Services Private Limited (Company) is a company registered as a Middle Layer Non-Banking Financial Company (NBFC) with the Reserve Bank of India (RBI) under the category of NBFC - Investment and Credit Company (NBFC-ICC).

The RBI, vide circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, issued guidelines named 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' (hereinafter referred to as 'Guidelines') for appointment of statutory auditors.

As per the Guidelines, the Company is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditors. Such policy shall also be hosted on the website of the Company.

## 2 Applicability and Effective Date of the Policy

The Policy for Appointment of Statutory Auditors (hereinafter referred to as 'Policy') is applicable and effective from 1<sup>st</sup> October 2021 or as may be amended and approved by the Board of Directors from time to time.

## 3 Approval of RBI

The Company, being NBFC, shall not require prior approval of the RBI for appointment of Statutory Auditors (SAs).

However, the Company shall inform RBI (Department of Supervision) about the appointment of SAs for each year by way of a certificate in Form A (appended as Annexure I hereto) within one month of such appointment.

## 4 Number of SAs and Branch Coverage

- 4.1 As per the Guidelines, if the asset size (total assets) of a NBFC is INR 15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of 2 audit firms (Partnership firms/Limited Liability Partnerships (LLPs)).  
Since the asset size of the Company is more than 1000 crore and less than 15000 Crore, minimum 1 audit firm (Partnership firm/ LLPs) must be appointed for conducting statutory audit.
- 4.2 The joint auditors should not have any common partners and they must not be under the same network (As defined in Rule 6(3) of the Companies (Audit and Auditors) Rule, 2014) of audit firms. Further, the work allocation among SAs may be finalized, before the commencement of the statutory audit, in consultation with such SAs.
- 4.3 The Company shall take into account the 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. for making decision on the number of SAs.

Considering the above factors and the requirements, the actual number of SAs to be appointed shall be decided by the Board of Directors subject to the limits prescribed in the Guidelines. Considering

the asset size of the Company as on the date of this policy, the maximum actual number of SAs required to be appointed shall not exceed 4.

4.4 The Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches, if any.

## 5 Eligibility criteria for Auditors

The Company shall adhere to the eligibility criteria prescribed hereunder for appointment of the Statutory Auditors.

### 5.1 Basic Eligibility

<b>Asset Size of Company as on 31<sup>st</sup> March of Previous Year</b>	<b>Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least 3 years</b>	<b>Out of total FTPs, minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least 3 years</b>	<b>Minimum No. of Full Time Partners/ Paid CAs with CISA/ ISA Qualification</b>	<b>Minimum No. of years of Audit Experience of the firm</b>	<b>Minimum No. of Professional staff</b>
	<b>Note 1</b>		<b>Note 2</b>	<b>Note 3</b>	<b>Note 4</b>
Above INR 15,000 crore	5	4	2	15	18
Above INR 1,000 crore and Up to INR 15,000 crore	3	2	1	8	12

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

For this purpose, 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 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.

**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:** For this purpose, 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/ stenographers/ 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.

## 5.2 Additional Consideration

- (i). The audit firm, proposed to be appointed as SAs, 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 appointment of SAs 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 any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SA of any of the group entities of that Entity.
- (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.

## 5.3 Continued Compliance with basic eligibility criteria

- 5.3.1 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 may promptly approach the Company with full details.
- 5.3.2 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 31<sup>st</sup> March and till the completion of annual audit.
- 5.3.3 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.

## 6 **Independence of Auditors**

- 6.1 The Audit Committee 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 may be flagged by the Audit Committee to the Board of Directors and the Regional Office, Delhi of RBI.

- 6.2 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 SAs shall approach the Audit Committee, under intimation to the RO, Delhi of the RBI. However, in case if the auditors notice a matter of concern involving any member of the Audit Committee, such concern(s) shall be raised to the Board of Directors.
- 6.3 Concurrent auditors shall not be considered for appointment as SAs. The audit of the Company and any 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.
- 6.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SAs for the Company or any audit/non-audit works for the group entities should be at least one year, before or after their appointment as SAs. However, during their tenure as SA, the audit firm may provide such services which may not normally result in a conflict of interest (A conflict would not normally be created in the case of the said special assignments (indicative list) –(1) Tax Audit, tax representation and advice on taxation matters, (2) Audit of Interim financial statements, (3) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirement, (4) reporting on financial information or segments thereof) . The decision in this regard shall be made in consultation with the Audit Committee.
- 6.5 The restrictions as detailed in para 6.3 and 6.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## **7 Professional Standards of SAs**

- 7.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 7.2 The 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 2 months from completion of the annual audit. Such reports should be sent with the approval/ recommendation of the Audit Committee, with full details of the audit firm.
- 7.3 In the event of lapses in carrying out audit assignments resulting in misstatement of the company financial statements, and any violations/lapses vis-à-vis the RBI's directions/ other guidelines regarding the role and responsibilities of the SAs, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **8 Tenure and Rotation**

- 8.1 The Company shall appoint the SAs for a continuous period of 3 years, subject to such audit firm satisfying their eligibility norms each year.

In case of removal of SAs before completion of their tenure, the Company shall inform RO, Delhi at RBI, along with reasons/ justification for the same, within 1 month of such a decision being taken.

- 8.2 No audit firm would be eligible for reappointment for six years (i.e., two tenures) after completion of full or part of one term of the audit tenure. Where the audit firm has conducted audit for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment for 6 years from completion of such part-tenure.
- 8.3 One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and 8 NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules.

For the purpose of this policy, 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.

## **9 Audit Fees and Expenses**

- 9.1 The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.
- 9.2 The audit fees must 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.
- 9.3 The Board of Directors, on the recommendation of the Audit Committee, shall make recommendation to the competent authority (by Shareholders in the AGM) as per the relevant statutory/ regulatory instructions for fixing audit fees of SAs.

## **10 Appointment Procedure**

### **10.1 Process for reappointment of existing Auditors:**

First preference will be given to existing SAs for their re-appointment subject to compliance of eligibility norms. The Company shall obtain the willingness from the existing SAs for re-appointment. In case such consent is not received from any of the existing SAs, the Company shall follow the process for appointment of New SA to fill that vacancy as detailed below.

### **10.2 Process for appointment of New firm as SAs:**

- 10.2.1 The Company shall invite applications from eligible Audit firms including the past auditors of the Company, other firms having associations with the Company for one off assignments and other firms subject to fulfilling the eligibility criteria as per this policy and applicable RBI stipulations for appointment of Statutory Auditors.
- 10.2.2 Applications received will be evaluated by the CFO in consultation with the MD & CEO and based on the evaluation result, the CFO in consultation with the MD & CEO shall shortlist firms for every vacancy identified.



The shortlisted names will be presented to the Audit committee for its recommendation to the Board.

- 10.2.3 The Audit Committee shall select 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. However, in case of reappointment of SAs by the Company till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting.
- 10.2.4 Thereafter, the Company will approach the audit firms to obtain their irrevocable consent in writing strictly in order of preference. If the approached audit firm does not give consent, the Company will approach the next audit firm in order of preference for obtaining consent.
- 10.2.5 The Company shall obtain a certificate, along with relevant information as per **Form B** (appended as Annexure II hereto), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of the Company, under the seal of the said audit firm.
- 10.2.6 The SAs are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the SAs is auditors of a corporate client who is assisted by the Company, then files of such corporate client shall be audited by the other SA.

## **11 General Rule and Review**

The Board of Directors, on the recommendation of the Audit Committee, may review the policy as and when required / on need basis. In case, there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time this Policy is suitably amended.

Any other conditions / procedure which may not be covered under this Policy shall be read as per the Guidelines and in case of any conflict/ deviation, such guidelines shall prevail.

**Annexure I****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 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> 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 RBI.
3. The firm has no past association/ association for \_\_\_\_\_ years with the Company as SCA/SA/SBA.
4. 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:

**Annexure II****FORM B****Eligibility Certificate from (Name and Firm Registration Number of the firm)****Particulars of the firm:**

<b>Asset Size of Entity as on 31<sup>st</sup> March of Previous Year</b>	<b>Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years</b>	<b>Number of Full Time Partners/ Paid CAs with CISA/ ISA Qualification</b>	<b>Number of Years of Audit Experience<sup>#</sup></b>	<b>Number of Professional staff</b>

**\*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore**

**<sup>#</sup>Details may be furnished separately for experience as SCAs/SAs and SBAs**

**B. Additional Information:**

- (i). Copy of Constitution Certificate.
- (ii). 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.
- (iii). 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.
- (iv). Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v). 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<sup>1</sup> 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:

<sup>1</sup>For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.