

QRG Investments and Holdings Limited
Policy on Appointment of Statutory Auditors

Version 3.0

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Document Control

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1. Introduction

QRG Investments and Holdings Limited (Company or QRGHL) attaches the greatest importance to the independence and quality standards of the Statutory Audit (SA) function. Apart from being an essential balancing dimension in a corporate's organisational structure, it constitutes a statutory and regulatory requirement for providing the final and omnibus assurance of corporate integrity to all internal and external stakeholders. The Company is committed to fostering and upholding the highest standards of integrity and quality in Governance and corporate reporting.

2. Objective

To formulate and adopt a Board approved policy for QRG Investments and Holdings Limited (Company or QRGHL) governing the appointment of Statutory Auditors (SAs) which would ensure transparency, objectivity, independence of the audit function and compliance with all statutory and regulatory stipulations.

3. Background and Statutory Requirements

The statutory requirements relating to audit, appointment of auditors and the audit function are stipulated in Chapter X of the Companies Act, 2013 and the rules framed there under. Apart from the requirement of conforming to all relevant and applicable statutory prescriptions, the Reserve Bank of India (RBI) vide its circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/ 08.91.001/2021-22 dated April 27, 2021 (RBI Guidelines), and subsequent clarifications provided in their FAQs, has notified guidelines in terms of Chapter IIIB of the Reserve Bank of India Act, 1934 regulating the appointment of Statutory Auditors in Non-Banking Finance Companies (NBFCs). These guidelines stipulate the eligibility criteria and professional standards for audit firms, the manner and tenure of their appointment etc.

Being a regulated non-deposit taking NBFC with asset size above the regulatory threshold of Rs. 1000 crores, these guidelines shall be applicable to QRGHL. Accordingly, in keeping with its corporate values, global best practices, statutory and regulatory prescriptions, the company has articulated the following policy for the appointment of statutory auditor.

The salient aspects and requirements under the RBI guidelines read with provisions of section 141 of the Companies Act and as adopted by QRGHL for appointment of statutory auditors are as under:

3.1. Governance

- a. The responsibility for oversight and ensuring that the appointment of statutory auditors meets the requisite statutory and regulatory standards as well as the stipulations under this policy vests with the Board and Audit Committee of the Board.
- b. The Audit Committee of the Board (ACB) shall monitor and assess the independence of

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the auditors and ensure that there is no conflict of interest position in terms of relevant regulatory provisions, standards and best practices. The Board/ Audit Committee of the Board at their discretion may hold separate and exclusive meetings with the Statutory Auditors to ensure that they are able to function and carry out their obligations freely and without hindrance and also obtain feedback on their interim or final findings.

3.2. Eligibility criteria for Statutory Auditors (SA)

- a. SAs should fulfil all eligibility criteria as prescribed by RBI from time to time through various circulars and guidelines.
- b. To be eligible for appointment as Statutory Auditors, the audit firm will need to fulfill requirements as explicitly specified in the RBI Guidelines in regard to the number of full time partners, number of full-time partners with FCA accreditation, minimum audit experience of the firm, number of professional staff, number of CISA/ISA qualified partners/paid CAs, etc. as scaled to the asset size as on March 31 of the previous year.
- c. The partners, paid chartered accountants and professional staff should meet the minimum requirements of continuous association with the audit firm as specified.
- d. The audit firm to be appointed as SA for QRGHL, shall be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- e. 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.
- f. The appointment of SCAs/SAs will 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.
- g. The Audit firm should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree and complexity of computer environment of QRGHL in order to achieve audit objectives.
- h. The audit firm should comply with the eligibility criteria at the time of commencement of the statutory audit and will strive to adhere to the eligibility criteria on a continuous basis. The audit firm will be obliged to inform QRGHL of their continued compliance.

3.3. Independence criteria for Statutory Auditors and issues of conflict of interest

- a. Audit committee will assess, at the time of appointment and every year thereafter, the eligibility and independence of the auditors and any conflict of interest in terms of relevant regulatory provisions, standards and prevalent best practices. Any concerns to be flagged by the Audit Committee to the Board of Directors of QRGHL and Senior Supervisory Manager (SSM)/ Regional office of RBI.

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- b. Audit Committee to consider assignments being done by the SA for Related Party entities, both before and after the appointment of SA, where exposure and value of Related Party transactions is significant.
- c. No non-audit assignment as mentioned in section 144 of the Companies Act 2013, which may create conflict of interest, should be awarded to SAs during the course of their tenure as SAs.
- d. The Auditors will render its services as mentioned in Section 144 of Companies Act, 2013 and RBI Regulations.

3.4. Adherence to professional standards by Auditors

- a. The SAs shall be strictly guided by the relevant professional standards in discharge of their responsibilities with highest diligence. Any negligence shall be reported by Audit Committee to RBI after yearly assessment.
- b. In case of any concern with the Management such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the Board/ACB/LMC of the Entity, under intimation to the concerned SSM/RO of RBI.

3.5. Tenure and rotation policy

- a. An Audit firm can continue to be appointed as SA for three years subject to the firm satisfying the eligibility criteria for each year. The same audit firm cannot be reappointed by the Company for the next 6 years.
- b. In the event of the Company needing to remove the SAs before completion of three years tenure, QRG IHL shall inform concerned SSM/Central Office of RBI, Department of Supervision (NBFCs) about it, along with reasons/justification for the same, within a month of such a decision being taken.
- c. 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.
- d. 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 eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each.

3.6. Remuneration

- a. Section 142 of the Companies Act prescribed that the remuneration of the auditor of a Company shall be fixed by the Audit Committee or in such manner as may be determined therein.
- b. Remuneration of Auditor include the expenses, if any , incurred by the auditor in connection with the audit of the company and any facility extended to him
- c. Remuneration of Auditor does not include any remuneration paid to him for any other services (mentioned in section 144 of the Companies Act) rendered by him at the request of the company.
- d. The audit fees for the Statutory Auditor shall be reasonable and commensurate with the scope and coverage of audit.
- e. The company shall disclose by way of notes, additional information regarding aggregate expenditure of the following items:-

Payments to the auditor as

- Auditor
- For Taxation matter
- For Company law matters
- For other services
- For Reimbursement of expenses

3.7. Procedure for appointment and reappointment

- a. The Audit Committee shall take into account the relevant 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 shortlisting the eligible audit firms.
- b. QRG IHL shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed.
- c. QRG IHL shall obtain an eligibility criteria certificate, duly signed and authenticated by the main partner/s of audit firm who are proposed to be appointed as SA, to the effect that each audit firm complies with all the eligibility norms and also a confirmation that the audit firm adheres to the prescribed limit of conducting statutory audit of only a maximum number (as prescribed by RBI) of NBFCs during a particular year, including QRG IHL's audit.
- d. While the overall onus of the audit firm fulfilling eligibility criteria as prescribed by RBI

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or as may be amended from time to time, for audit of the Company as per RBI guidelines rests with the audit firm, the Company shall verify, through reasonable means, their compliance with the eligibility norms prescribed by RBI.

- e. Upon appointment of SAs, QRG IHL shall inform RBI every year, of appointment / confirming eligibility of SAs within such timeframe as may be prescribed.
- f. In the event 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, QRG IHL will promptly seek the approval of the RBI to allow the concerned audit firm to complete the audit, as a special case. In such an event, QRG IHL, subject to the approval of its Board, may also consider the substitution of the Audit firm with another Audit firm that fulfills all eligibility criteria and report the same to the Reserve Bank with justification.

3.8. Review of performance of Statutory Auditors by the Audit committee

- a. The Board / Audit committee of QRG IHL shall review the performance of SA on an annual basis. The Statutory Auditors continuing to fulfil the eligibility criteria and have not been assessed as negligent will be eligible for continuance subject to policy regarding tenure and rotation. Any serious lapses / negligence in Audit responsibilities or conduct of issues on part of the SAs or any other matter considered as relevant shall be reported to RBI within two months from completion of annual audit.
- b. In concurrence of above, every year the Board/ Audit Committee shall meet and review the performance of the SAs and give requisite approval, if required, for reporting any serious lapses by SAs to RBI, within required timeframe which is two months from completion of audit

3.9. Regulatory Reporting

QRG IHL will inform RBI about the appointment of SAs, by way of a certificate as prescribed by RBI, within one month of such appointment and the Board/Audit committee to assess the eligibility of the SA on a yearly basis and to submit a certificate in FORM A to this effect to the RBI within 30 days of the Annual General Meeting of QRG IHL.

3.10. Compliance under Companies Act

- a. QRG IHL shall ensure that it complies with requisite provisions as mentioned under Companies Act 2013, and in case of any conflict among guidelines issued by RBI or any other regulatory authority and provisions of Companies Act 2013, it will take conservative approach and follow the stricter regulation/provisions.
- b. Eligibility, qualifications and disqualification of SAs shall also follow provisions of Companies Act 2013, which allows a firm to be appointed as SAs.

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- c. The written consent, and a certificate from the auditor or auditors to such appointment, shall be in accordance with the conditions as prescribed by applicable regulations from time to time.
- d. The company shall inform the auditor / firm concerned of his or its appointment, and also file a notice of such appointment with the Registrar in such manner as may be prescribed under the Companies Act, 2013

4. Document Management

- Any amendment to this procedure or issue of any guidance or circular etc. under this procedure has to be incorporated in the policy on an ongoing basis by Shri Ramesh Kumar Sharma.
- This policy will be reviewed every two years.
- This procedure replaces any other procedure issued earlier by the Company to the extent specifically covered here. This policy should be followed both in letter and spirit.
- The Company is committed to continuously reviewing and updating policies and procedures- based on the Company's risk assessment and incorporating any regulatory requirement as maybe required.
- Any amendment to this procedure or issue of any guidance or circular etc. under this procedure has to be approved in writing by the approving authority.
