

## **Caterpillar Financial Services India Private Limited**

### **POLICY ON APPOINTMENT OF STATUTORY AUDITORS**

#### **1) Background and Objective**

Section 139 of Companies Act 2013 (the Act) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the SEBI Listing Regulations) contain requirements relating to appointment of statutory auditors. The Reserve Bank of India (RBI), in exercise of its power under provisions of chapter III B of RBI Act, 1934 has inter-alia issued guidelines to NBFCs for appointment of statutory auditors (RBI guidelines) vide Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

The objective of this policy is to provide a framework for appointment of statutory auditors in compliance with the above legislations and guidelines. The policy shall be effective from FY 2021-22.

#### **2) Statutory Auditor – Eligibility and Qualification**

The term ‘statutory auditor’ means the auditor referred to in Section 139 of the Act. The person(s) proposed to be appointed as statutory auditor should meet the eligibility criteria and possess the qualification prescribed under Sec 141 of the Act and also not be covered by the disqualifications specified therein. The audit firm shall also be subjected to the peer review process of Institute of Chartered Accountants of India and hold a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India, as per regulation 33 of the SEBI Listing Regulations.

In addition to the above, the Company shall ensure that the person(s) proposed to be appointed as statutory auditor meets the eligibility criteria prescribed under the RBI guidelines. The number of auditors shall be determined by the Company to ensure adequacy of auditors commensurate with the asset size and extent of operations of the Company with a view to ensure that audits are conducted in a timely and effective manner. It shall appoint firms as statutory auditor who as of 31<sup>st</sup> March of previous year have at least –

- a) Three full time partners of which two of them should be FCAs. Only those partners associated with the firm for a period of at least three years shall be considered for this purpose.
- b) Two partners of the firm shall have continuous association with the firm for at least 10 years.
- c) One full time partner or one full time CAs in the firm should possess CISA / ISA qualification. There should be at least one year continuous association of paid CAs with CISA / ISA qualification with the firm.
- d) 8 years of audit experience as statutory auditor of NBFCs or Statutory Central Auditor / Branch Auditor of commercial banks (excluding RRBs).
- e) 12 professional staff with at least one year of continuous association with the firm. Professional staff means persons with knowledge of book-keeping and accountancy including audit and article clerks engaged in on-site audits.

Other criteria to be considered in the appointment of statutory auditor are as follows:

- a) 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.

b) The appointment should 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.

c) The audit firm is not eligible for appointment if any of its partners is a director in any of the group entities of Caterpillar.

d) Concurrent auditors (including their network firms or any other firm having common partners) of the Company are not to be considered for appointment as statutory auditor.

e) Audit firms (including their network firms or any other firm having common partners) which are statutory auditor of an entity with large exposure (as defined in RBI instructions on Large Exposure Framework) to the Company are not to be considered for appointment as statutory auditor.

f) 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/ complexity of computer environment of the company where the accounting and business data reside in order to achieve audit objectives.

g) The audit firm is to be compliant with the limit prescribed under the RBI guidelines for statutory audit of Commercial Banks, All India Financial Institutions, Urban Cooperative Banks and NBFCs.

h) The audit firm is to ensure continued compliance with all the eligibility and qualification criteria prescribed under applicable statutes.

The audit firm should not have been engaged in any audit / non-audit work for the Company and its group entities, if any regulated by RBI at least for one year before the appointment. The look back period of one year is applicable prospectively from FY 2022-23. The audit firm is eligible for appointment in FY 2021-22 if it completes or relinquishes its current assignment prior to their date of appointment as statutory auditor.

### **3) Procedure for appointment of statutory auditor**

Minimum of 2 audit firms for every vacancy of statutory auditor is to be shortlisted so that even if the firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment does not get delayed. If an audit firm which is engaged in audit/non-audit works for the group entities (which are not regulated by RBI) is being considered for appointment, the audit committee and the Board shall ensure that there is no conflict of interest and independence of auditors is not impacted. The decision of the Committee / Board shall suitably be recorded in the minutes of the meetings.

The Company shall obtain a certificate, along with relevant information as per RBI the guidelines, from the audit firm(s) proposed to be appointed as Statutory auditor 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, under the seal of the said audit firm.

The Company shall inform about the appointment of statutory auditor(s) each year by way of a certificate in the prescribed form (Form A) within one month of such appointment to the RBI.

#### **4) Tenure and Rotation**

The statutory auditor(s) is to be appointed for a continuous period of three years subject to the firm(s) satisfying the eligibility norms each year. The statutory auditor on completion of their term or part of their tenor can be considered for appointment again only after a cooling off period of six years (two terms).

Removal of statutory auditor before completion of their term will require special resolution passed at the general meeting and the Company shall comply with the procedure prescribed under section 140 of the Act and other requirements as applicable under the Act and SEBI Listing Regulations. Removal of statutory auditor shall be intimated to the RBI along with reasons/justification for the same, within one month of such decision being taken.

In case of resignation of the auditor, detailed reasons for resignation shall be disclosed by the listed entities to the stock exchanges as soon as possible but not later than twenty-four hours of receipt of such reasons from the auditor. The Company comply with regulatory filings in this regard in such manner and within such time as prescribed under the Act, the SEBI Listing Regulations and the RBI guidelines.

#### **5) Independence and Performance of Statutory auditors**

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 concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) for the Company by the proposed statutory auditors or same network of audit firms or any other audit firm having common partners, or any audit/non-audit works for its group entities should be at least one year before appointment. On completion of their term as statutory auditor, there should be a time gap of one year before accepting any non-audit works of the Company or any audit / non audit works of the group entities. However, during the tenure as statutory auditor an audit firm may provide such services which may not normally result in a conflict of interest. (Refer Annex 1 for guidelines on engagement of Statutory Auditors for non-audit services) The Audit Committee shall review the performance of statutory auditors on an annual basis.

Any serious lapses/negligence in audit responsibilities or conduct issues on part of the statutory auditors or any other matter considered as relevant shall be reported to the RBI within two months from completion of the annual audit. Such reports should be sent with the approval of the Board, with the full details of the audit firm.

#### **6) Audit fees and expenses**

The audit fees and reimbursement of out of pocket expenses for statutory auditors 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 shall make recommendation to the Board for fixing audit fees and reimbursement of out of pocket expenses of statutory auditors.

## **Annex 1**

### **Guidelines on engagement of Statutory Auditor for Non-Audit Services**

#### **1. Background & Objective**

The provisions of section 144 of the Companies Act, 2013 allows statutory auditors to provide non audit services subject to the approval of the Audit Committee or the Board and other conditions prescribed. The Audit Committee of the Board is vested with the responsibility of reviewing and monitoring the independence of the statutory auditor. As part of this responsibility, the Audit Committee shall approve engagement of statutory auditors for Non-audit services. This Policy sets forth the procedures and the conditions to be followed while engaging auditors for Non-audit services.

The objectives of this guidelines are

- to provide a framework for engagement of auditors for Non-audit services.

and

- to mitigate any risks threatening, or appearing to threaten, auditor's independence and objectivity arising through the provision of Non-audit services.

#### **2. Definitions**

a) **"Audit Services"** means the audit of annual financial statements and other procedures required to be performed by the statutory auditor to be able to form an opinion on the Company's financial statements and issue a report as required under section 143 of the Companies Act, 2013.

b) **"Non-Audit Services"** means all services other than "Audit Services".

c) **"Statutory Auditor"** in the context of **"Audit Services"** means the auditor appointed under the provisions of section 139 of the Companies Act, 2013 and the rules made thereunder.

d) **"Statutory Auditor"** in the context of **"Non-Audit Services"** means the statutory auditor defined in "c" above and –

(i) in case of auditor being an individual includes his relative or any other person connected or associated with such individual or through any other entity in which such individual has significant influence or control, or whose name or trademark or brand is used by such individual;

(ii) in case of auditor being a firm includes its partners or its parent, subsidiary or associate entity or any other entity in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

#### **3. Permitted Non-Audit Services**

Non-audit services broadly fall under three categories – to be performed only by statutory auditor; to be performed by specified professionals which includes statutory auditor and other services that can be performed by any competent person.

a) **Non-audit services that are required to be performed only by the statutory auditor –** Services which are required to be performed only by the statutory auditor pursuant to requirements under various legislations / regulations and commercial contracts are not considered to impair independence of the statutory auditors. A sample list of such services is given below:

(i) Limited review report under SEBI LODR

- (ii) Half yearly review report under SEBI LODR
- (iii) Other reports, certifications or examinations required from the Auditor by regulators or any statutory authorities
- (iv) Extended audit work performed on financial information and/or financial controls where this work is integrated with the audit
- (v) any certification or audit to be done only by the auditor in respect of any contract entered into by the Company.

Engagement of statutory auditor for rendering the above non-audit services requires prior approval of the Audit Committee.

**b) Non-audit services that are required to be performed by specified professionals which includes statutory auditor** - Since these services are allowed to be rendered by professionals other than statutory auditor, the Company may engage the statutory auditor for reasons of convenience, effectiveness and efficiency. Provision of these services does not generally impair independence of auditors. A sample list of such services is given below:

- i. Audit and related certification under Income Tax Act
- ii. Goods and Service Tax (GST) audit and related certification

Engagement of statutory auditor for rendering the above non-audit services requires prior approval of the Audit Committee.

**c) Non-audit services that can be performed by any competent person-** Companies engage professionals for certain services in relation to conduct of its business operations. Primarily, these services are non-statutory in nature and can be performed by any competent person. A sample list of such services is given below:

- i. Information technology and related services
- ii. Forensic accounting investigations
- iii. Due diligence procedures
- iv. Risk management related services
- v. Litigation support services
- vi. Advisory services
- vii. Other services not covered above.

Engagement of statutory auditor for the above services is generally not permitted under this policy. However, under exceptional cases, considering factors viz., non-availability of skill set to perform the service etc, statutory auditor can be engaged for any of the above services. Before engaging them, the Company shall satisfy itself that the statutory auditor is the most appropriate service provider for rendering such service and there is no conflict by providing this service or no reason for the auditor's independence to be impaired by providing this service.

Engagement of statutory auditor for rendering any of the above services will require specific prior approval of the Audit Committee detailing out the alternates considered, the reason for the recommendation of the statutory auditor for the assignment, confirmation on there being no conflict of interest or independence of the auditor being compromised.

#### **4. Prohibited Non-Audit Services**

4.1 The Company shall not engage the statutory auditor for any of the following Non-audit services as per section 144 of the Companies Act, 2013:

- i. accounting and book-keeping services
- ii. internal audit
- iii. design and implementation of any financial information system
- iv. actuarial services
- v. investment advisory services
- vi. investment banking services
- vii. rendering of outsourced financial services
- viii. management services

Further to the list provided above, the statutory auditor shall not be engaged for services prohibited under other statutes or by any statutory authority from time to time.

4.2 The statutory auditor shall not be engaged to provide any services on an individual or aggregate basis to the company and its subsidiaries for a contingent fee or a commission.

4.3 The statutory auditor shall not provide any services on an individual or aggregate basis to the company and its subsidiaries on fee free basis in anticipation of successfully gaining future non audit work.

4.4 The statutory auditor shall not be engaged for any of the non-audit services for at least one year from the closure of their engagement as statutory auditors.

#### **5. Approval and monitoring process**

The Audit Committee shall consider the following criteria before granting approval for engagement of statutory auditor for rendering Non-audit services:

- i) Nature and contract period of the service
- ii) Skills and expertise of the statutory auditor to render the service
- iii) Threats if any to auditors' independence from the provision of the service
- iv) Auditors consent to render the service pursuant to adherence to code of ethics
- v) Fees incurred, or to be incurred, for the service both for individual service and in aggregate, relative to the audit fee.

#### **6. Limitation on Fee**

The aggregate fees in one financial year for engagement of statutory auditor for Non-audit services mentioned in 3(b) and (c) shall not exceed 100% of the fee for Audit Services as mentioned in 2 (a) above. Under ICAI Network rules, total fees including that paid to registered network firms of the auditor, cannot exceed 300% of audit fee.

The fees for non-audit services will be decided by the Audit Committee within the overall limits specified above.

#### **7. Disclosure Requirements**

In compliance with requirements under SEBI (Listing Obligations and Disclosure Requirements) 2015, the aggregate fees for all services paid by the Company and its subsidiaries, on a consolidated basis, to the auditor and all entities in the network firm/network entity shall be disclosed in the corporate governance report forming part of the annual report.