

Guidelines for appointment of Statutory Auditors

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1. Purpose

The Policy shall act as a guideline for appointment of the Statutory Auditors of the Company.

The purpose/objective of the Policy is to:

- i) Determine the number of SAs based on various parameters;
- ii) Criteria for appointment of SAs; and
- iii) Procedure to be followed for appointment of SAs.

2. Applicability

This guideline has been developed in pursuant to Circular No. Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 on Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) issued by Reserve Bank of India on April 27, 2021 (the "RBI Guidelines") in order to formulate necessary procedure to be followed for appointment of Statutory Auditors. The guidelines are applicable to VWFPL from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

3. Definitions

In this Policy:

- (a) "Entity" or "Company" shall mean Volkswagen Finance Private Limited;
- (b) "SA" shall mean Statutory Auditor

Words and terms used in this Policy and not defined herein, but defined in the RBI Regulations, Master Directions, Circulars or the Companies Act, 2013 including any amendments thereto, shall have the meanings respectively assigned to them in such legislation.

4. Number of Statutory Auditor

Taking into account the relevant factors such as the 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. VWFPL to appoint one firm as Statutory Auditor.

5. Eligibility Criteria of Auditors

In accordance with the RBI circular, since VWFPL's asset size is more than ₹ 1,000 crore and less than ₹15,000 crore, the audit firms shall fulfil the following minimum criteria for being eligible to be considered for appointment as SA of the Company:

- i) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be 3. There should be at least one-year continuous association of partners with the firm as on the date of shortlisting them as full time partners. At least two partners of the firm shall have continuous association with the firm for at least 10 years.
- ii) 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 2.
- iii) Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be 1.
- iv) Minimum number of years of relevant audit experience of the firm should be 8. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI, and
- v) Minimum number of professional staff should be 12.

- vi) Along with the criteria as specified by the RBI, the Company shall appoint the SA's meeting the criteria as per section 141 of the Companies Act, 2013

➤ **Additional Consideration**

- i. 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.
- ii. VWFPL shall ensure that appointment of Statutory Auditor 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.
- iii. If any partner of a Chartered Accountant firm is a director in any entity of VWFPL group, the said firm shall not be appointed as Statutory Auditor of any of the group entities of VWFPL.
- iv. VWFPL to 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.

➤ **Continued Compliance with basic eligibility criteria**

- i. 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 Entity with full details.
- ii. 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 31st March and till the completion of annual audit.
- iii. 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. Procedure for Appointment of SAs

- i. VWFPL 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 SCAs/SAs does not get delayed.
- ii. VWFPL shall continue to follow the existing procedure followed by them for selection of SAs and shall place the name of shortlisted audit firms, in order of preference, before their Audit Committee for selection as SAs.
- iii. The 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 except the first 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.
- iv. VWFPL shall obtain a certificate, along with relevant information in the format prescribed under RBI guidelines, from the audit firm proposed to be appointed as SAs to the effect that the audit

firm 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 VWFPL, under the seal of the said audit firm.

- v. VWFPL to inform RBI about the appointment of SAs for each year by way of a certificate in form prescribed under the RBI guidelines within one month of such appointment. VWFPL to inform to Central Office of RBI (Department of Supervision) in case otherwise VWFPL shall approach the Mumbai Regional Office of RBI (Department of Supervision)

7. Independence of 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 their interest may be flagged by the Audit Committee to the Board of Directors of the Company and to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- In case of any concern with the Management of the VWFPL such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board or Audit Committee of VWFPL, under intimation to the concerned SSM/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.) by the SAs for the Entity or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to VWFPL which may not normally result in a conflict of interest, and VWFPL may take their own decision in this regard, in consultation with the Board or Audit Committee.

8. Professional Standards of Auditors

- The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- The Board or Audit Committee of VWFPL 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/recommendation of the Board or Audit Committee, with the full details of the audit firm.
- In the event of lapses in carrying out audit assignments resulting in misstatement of an VWFPL'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 VWFPL, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Tenure and Rotation

- In order to protect the independence of the auditors / audit firms, VWFPL shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- In the event of removal of the SAs before completion of three years tenure, VWFPL shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

- An audit firm would not be eligible for reappointment in VWFPL 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 Entities.
- An 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 Entity and within overall ceiling prescribed by any other statutes or rules.
- 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.

10. Audit Fees and Expenses

The Audit Committee shall make recommendation to the Board for fixing audit fees of SAs. The Board or Audit Committee shall ensure that audit fees for SAs 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.

11. Publication of Policy

This Policy, upon its adoption by the Board of Directors of the Company, shall be uploaded on the Company's website and any updates hereto shall be promptly reflected on the Company's website.

12. Review of Policy

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/modifications to the Companies Act, 2013/ RBI guidelines shall be presented to the Board of Directors for its approval.