

# **TOYOTA FINANCIAL SERVICES INDIA LIMITED**

**Policy on appointment of Statutory  
Auditors of the Company**

*Version 1.0*



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<b>Department</b>	FTA
<b>Owner</b>	Sudhakara Nairy
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**Approved and sign off of Board of Directors:** This document has been approved by the Board of Directors and signed off by the Managing Director & CEO as token of approval.

Narayanaswamy Raja, MD & CEO	
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**TFSIN distribution and signoff list:** This document has been issued to the following people for sign-off, review, information & recommendation.

Name	Designation	Action Required	Signature
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**1. PURPOSE:**

As per RBI Circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and subsequent FAQ released, the Company is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditor (SA).

**2. OBJECTIVE:**

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and procedure for appointment of the Statutory Auditors in conformation with the extant norms of Reserve Bank of India (RBI) and Companies Act 2013.

**3. SCOPE:**

This policy shall form the basis for the purpose of appointment of SAs. The Company 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. Further, in the event any guidance on the regulatory framework / RBI regulations / guidelines is required, the same shall be referred to the Finance & Accounts / Regulatory Compliance Department for its final views on the matter.

**4. NUMBER OF SAs :**

Minimum number of SAs to be appointed by the Company shall be one for conducting statutory audit if the Company's asset size as on March 31 of previous year does not exceed ₹15,000 Crore. For asset size of ₹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 two audit firms. The Company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms.

The number of SAs to be appointed for a financial year shall be decided, inter alia, 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. The actual number of SAs to be appointed shall be decided by Board subject to the following limits:

<b>Asset Size of the Company</b>	<b>Maximum No. of Auditors</b>
Upto ₹5,00,000 crore	4
Above ₹5,00,000 crore and upto ₹10,00,000 crore	6
Above ₹10,00,000 crore and upto ₹20,00,000 crore	8
Above ₹20,00,000 crore	12

## 5. TENURE AND ROTATION OF SAs:

In order to protect the independence of the auditors/audit firms, the Company will have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. For removing the Statutory Auditor before completion of three years tenure, the Company shall inform concerned Regional Office 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 the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

## 6. CRITERIA FOR APPOINTMENT OF SAs:

The RBI guidelines prescribe certain eligibility norms which the audit firms are required to fulfil, based on the asset size of the Company. The Company's asset size, being more than ₹ 1,000 crore and less than ₹ 15,000 crore, the audit firm shall fulfil the following minimum criteria for being eligible to be considered for appointment as auditor 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 three.
- 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 two
- iii) Minimum one full-time partner / paid Chartered Accountant (CA) with CISA1 / ISA qualification.
- iv) 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 / branch auditors of Banks / NBFCs / AIFI, and
- v) Minimum number of professional staff should be twelve.

SA firm shall also adhere to the additional eligibility criteria and continued compliance with basic eligibility criteria as mentioned in the RBI Circular in accordance with the asset size of the Company. 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.

## 7. PROCEDURE FOR APPOINTMENT OF SAs:

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

- i) The Company shall shortlist minimum of two audit firms for every vacancy of SA
- ii) The Company shall obtain a confirmation from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI.
- 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.

## 8. 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 this regard may be flagged by the Audit Committee to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

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 Statutory Auditor shall approach the Board of Directors of the Company, under intimation to the concerned SSM/ RO of RBI.

Concurrent auditors of the Company should not be considered for appointment as SAs of the Company.

The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditor for the Company or any audit/non-audit works for group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Company which may not normally result in a conflict of interest. Such activities may include but not limited to activities such as Tax audit, tax representation and advice on taxation matters, Audit of interim financial statements. Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements. Reporting on financial information or segments thereof etc. The Company shall take appropriate decision in this regard in consultation with the Audit Committee.

The restrictions mentioned above shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## **9. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS:**

The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence

The Board/ACB of the Company 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 RBI within two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board/ACB, with the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of 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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **10. AUDIT FEE AND EXPENSES:**

The Company shall ensure that the audit fees of the 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 computerisation, identified risk in financial reporting, etc.

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions. The Board/ACB shall make recommendation to the competent authority (Shareholders in AGM) as per the relevant statutory/regulatory instructions for fixing audit fees of SAs

## **11. 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 / modifications to the Companies Act, 2013 / RBI guidelines shall be presented to the Board of Directors for its approval. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.