

Morgan Stanley

# Morgan Stanley India Primary Dealer – Policy for Appointment of Statutory Auditors

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**Policy Owner** India Finance

**Approver**

MSIPD Board of Directors

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**Contact Information**

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# Morgan Stanley

## 1 Objective

The objective of the policy is to lay down a framework of guidance and procedures for appointing Statutory Auditors for Morgan Stanley Primary Dealer Private Limited ('MSIPD' or 'Company') in compliance with the RBI Directive and Companies Act 2013.

## 2 Background

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

This policy on appointment of Statutory Central Auditors is framed based on the Guidelines issued by the Reserve Bank of India vide Ref.No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and Frequently Asked Questions (FAQ's) in respect of appointment/reappointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

## 3 Applicability

This Policy shall be applicable to the Company for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs.

## 4 Prior Approval of RBI:

Prior approval of RBI for appointment of SCAs/SAs is not required, however an intimation needs to be sent to RBI about the appointment of SCAs/SAs for each year by way of a certificate in prescribed format within one month of such appointment. (Please see the template in Annexure I of this policy)

## 5 Number of auditors

The Company shall decide on the number of SAs based on 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.

As per RBI guidelines, NBFC's with asset size 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 two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other NBFC's shall appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Company do not have any common partners and they are not under the same network of audit firms. Further, the Company shall finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

Taking into account relevant factors, the Audit Committee and the Board of the Company shall decide on the number of Auditors to be appointed over and above minimum applicable auditors. However, the actual number of SAs to be appointed shall be subject to the following limits prescribed by RBI:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

## 6 Eligibility Criteria for Appointment as Statutory Auditors

### A. Basic Eligibility

A. Basic Eligibility Asset Size of Entity as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years Note 1	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification Note 2	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹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 shortlisting for considering them as full time partners. Further, for appointment as SCAs/SAs of all with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all NBFC's, asset size above ₹ 1,000 crore, 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 / Board of the Company 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

The audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCB's/NBFC's/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.

### B. The Company shall adhere to the following additional criteria :

- The audit firm, proposed to be appointed as SAs for the Company, should be duly qualified for appointment as an 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 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. The auditors of the Company shall preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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.
- v. Further, if any partner of a Chartered Accountant firm is a director in any Company, the said firm shall not be appointed as SA of any of the group companies of that Company.

Group company shall mean two or more companies related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

## C. Continued Compliance with basic eligibility norms

- 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 shall promptly approach the Company with full details. 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 31st March and till the completion of annual audit.
- ii. 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, the Company shall make an application to RBI alongwith relevant documents forwarded by the Auditor to allow the concerned audit firm to complete the audit, as a special case.

## 7. Procedure for Appointment of SCAs/SAs

- i. The Company 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 SAs does not get delayed. In case of reappointment of SAs till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI.
- ii. The Company shall continue to place the name of shortlisted audit firms, in order of preference, before the Audit Committee of the Board ("ACB") for selection & recommendation to the Company's Board. Upon selection of SAs by the Company in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the Company need to inform RBI (Central Office of RBI (Department of Supervision) in Mumbai) about the appointment of SAs for each year by way of a certificate in Form A attached as Annexure I within one month of such appointment.
- iii. The Company shall obtain the following documents from the shortlisted firms:.
  - a. Complete profile of the firm
  - b. Certificate of Membership and Practice of Individual partners issued by ICAI.

In addition, the following certificate(s) & Declaration(s) from the audit firm(s) proposed to be appointed as SAs shall be obtained:

- a. Written Consent / willingness to act as SAs of the Company pursuant to Section 139 of the Companies Act, 2013.
- b. Certificate pursuant to Section 141 of the Companies Act, 2013.
- c. Form B attached as Annexure II to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. The format prescribed by RBI is enclosed at the end of this policy.

The above certificates should be signed by the main partner/s of the audit firm proposed for appointment of SAs of the Company, under the seal of the said audit firm.

## 8. Independence of Auditors

i. The ACB 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 shall be flagged by the ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.

ii. 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 ACB / Board under intimation to the concerned SSM / RO of RBI

iii. Concurrent auditors of the Company should not be considered for appointment as SAs of the Company. The audit of the Company and also of any entity with large exposure to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.

iv. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013 mentioned hereunder) by the SAs for the Company 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 the Company which may not normally result in a conflict of interest, as may be decided by the Board / ACB.

A conflict of interest would not normally be created in the case of the following special assignments (indicative list):

a) Tax audit, tax representation and advice on taxation matters,

b) Audit of interim financial statements.

c) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.

d) Reporting on financial information or segments thereof.

v. The restrictions as detailed in sub para iii & iv above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

## 9. Professional Standards of SAs

i. The ACB/Board 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 ACB /Board, with the full details of the audit firm.

ii. In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations / lapses vis-à-vis the RBI's directions / 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.

## 10. Tenure and Rotation

i. The SAs shall be appointed for a continuous period of three years, subject to the SAs satisfying the eligibility norms each year but would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure. In case an audit firm has conducted audit of the Company for part tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Company for six years from completion of part-tenure. The Company can remove the SAs before completion of three years tenure with an intimation to concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

ii. 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 entity and within overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other

cooperative societies by the same audit firm. 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 SCA/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.

## 11. Audit Fees and Expenses

- i. The 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.
- ii. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions
- iii. The ACB/Board of the Company shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

## 12. Disclosure / Transparency

This policy shall be hosted on the website of the Company and that the appointment(s) made shall be disclosed to concerned authorities as per relevant regulatory / statutory provisions.

## 13. Reference information

### Regulations, External Standards, Other Firm Policies and Procedures

- Master Direction -Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company and Deposit taking Company (Reserve Bank) Directions 2016
- Reserve Bank of India ("RBI") circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021
- Frequently Asked Questions (FAQ's) in respect of appointment/reappointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).
- Companies Act, 2013

**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 1st/2nd/3rd 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)

## A. Particulars of the firm:

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

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

#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 have been declared as wilful 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:



Version History

VERSION	EFFECTIVE DATE	DESCRIPTION OF CHANGE
1.0	September 2021	Newly established Policy