

TOYOTA FINANCIAL SERVICES INDIA LIMITED

Policy on Appointment of Statutory Auditors

Version 4.0

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I. 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 Auditors.

II. 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.

III. SCOPE:

This policy shall form the basis for the purpose of the appointment of Statutory Auditors. 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.

IV. NUMBER OF STATUTORY AUDITORS:

Minimum number of Statutory Auditors 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 Statutory Auditors 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 Statutory Auditors to be appointed shall be decided by the Board subject to the following limits:

Asset Size of the Company	Maximum No. of Auditors
Up to ₹5,00,000 crore	4
Above ₹5,00,000 crore and up to ₹10,00,000 crore	6
Above ₹10,00,000 crore and up to ₹20,00,000 crore	8
Above ₹20,00,000 crore	12

V. TENURE AND ROTATION OF STATUTORY AUDITORS:

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.

VI. CRITERIA FOR THE APPOINTMENT OF STATUTORY AUDITORS:

The RBI guidelines prescribe certain eligibility norms which the audit firms are required to fulfil, based on the asset size of the Company as below:

* Not mandatory for UCBs/NBFCs with asset size of up to ₹ 1,000 crore.

Statutory Auditors firm should adhere to the eligibility criteria and ensure continued compliance as specified in the above table Further the Company should also appoint the Statutory Auditors fulfilling/ meeting the criteria as per the Companies Act, 2013 and 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.

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
Up to ₹1,000 crore	2	1	1*	6	8

VII. PROCEDURE FOR THE APPOINTMENT OF STATUTORY AUDITORS:

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

- 1) The Company shall shortlist a minimum of three audit firms for every vacancy of Statutory Auditors
- 2) The Company shall obtain confirmation from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI.
- 3) 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 Statutory Auditors except the first Statutory Auditor and the appointment of Statutory Auditors in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

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VIII. INDEPENDENCE 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 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 appointments as

Statutory Auditors 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 work for group entities should be at least one year before or after its appointment as Statutory Central Auditors/Statutory Auditors. 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 are not limited to activities such as Tax audit, tax representation and advice on taxation matters, Audit of interim financial statements. Certificates are 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.

IX. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS:

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

The Board/Audit Committee of Board of the Company shall review the performance of Statutory Auditors on an annual basis Assessment of performance of statutory auditors, RBI/2004/ 117/Ref DBS. ARS. No. BC. 08 /08:91:001/ 2003-04, dated March 26, 2004. 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/Audit Committee of Board, 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 Statutory Auditors in relation to the Company, the Statutory Auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

X. 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 computerization, identified risk in financial reporting, etc.

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions. The Board/Audit Committee of Board shall make recommendation to the competent authority (Shareholders in Annual General Meeting) as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.

XI. 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.