EXTERNAL AUDITORS' POLICY

* Policy on Engagement of External Auditors

Standard Capital
Markets Limited

Standard Capital Markets Limited

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External Auditors' Policy

DOCUMENT IDENTIFICATION INFORMATION

Document Name	External Auditor's Policy
Index	Corporate Governance/Audit Compliance/Fraud Risk Management/Policy on Engagement of External Auditors
No. of Pages	17
Approving Authority	Board of Directors
Review Frequency	Annually or earlier, if warranted by any regulatory changes, operational requirements, or business needs, to ensure its continued suitability, adequacy, and effectiveness in alignment with applicable laws, guidelines, and the Company's objectives.

This policy is issued by Standard Capital Markets Limited (hereinafter referred to as "Company" or "SCML") and encompasses all affiliated entities, employees, and stakeholders associated with SCML operations.

1. Policy Statement

1.1. This Policy on the Engagement of External Auditors is formulated to establish a standardized, transparent, and efficient process for the appointment, monitoring, and evaluation of external auditors for SCML.

1.2. The Policy ensures that SCML engages auditors of the highest integrity, competency, and professionalism to support accurate financial reporting, fraud prevention, and regulatory compliance.

1.3. This policy is formulated in compliance with *Clause 4.1.1 of the RBI Master Directions on Fraud Risk Management in Non-Banking Financial Companies (including Housing Finance Companies) issued on July 15, 2024*, which mandates applicable NBFCs to define processes covering due diligence, competence, and clear timelines for audit completion and report submission by external auditors.

1.4. The policy underscores the SCML's commitment to robust governance, regulatory alignment, and adherence to fraud risk management standards as prescribed by the RBI.

2. Objective of the Policy

2.1. The objective of this Policy is to establish a comprehensive framework for the selection, engagement, and oversight of external auditors for SCML.

2.2. The policy aims to ensure that auditors engaged by SCML are of proven integrity, competence, and professionalism, aligning with regulatory expectations and enhancing the SCML's internal control environment.

2.3. This policy is designed to:

2.3.1. Define due diligence criteria for evaluating auditor credentials, experience, and track record.

2.3.2. Establish contractual guidelines covering the audit scope, expected standards, timelines, and confidentiality requirements.

2.3.3. Foster transparency and accountability in the audit process to support proactive fraud risk management and adherence to regulatory requirements.

2.3.4. Set standards for timely reporting and prompt Board-level review of audit findings, facilitating continuous improvement in governance practices.

3. Scope & Applicability of the Policy

3.1. The Policy applies to all processes and procedures related to the appointment, engagement, and evaluation of external auditors within SCML. It encompasses:

3.1.1. Criteria and guidelines for conducting due diligence, evaluating competency, and approving external auditors.

3.1.2. Requirements for drafting contractual terms, including audit scope, responsibilities, confidentiality, timelines, and reporting obligations.

3.1.3. Standards and expectations regarding the conduct, completion, and submission of audit reports, ensuring alignment with regulatory requirements.

3.1.4. Protocols for monitoring auditor independence, managing conflicts of interest, and maintaining adherence to the regulatory and governance standards specified by the RBI.

3.2. This policy is applicable to all departments and entities within SCML engaging external auditors for financial, fraud risk management, or regulatory audits. It is designed to support the SCML's compliance and establishes uniform standards for the audit engagement process across the company.

4. Roles and Responsibilities

To ensure effective implementation of this Policy on Engagement of External Auditors, the following roles and responsibilities are defined:

Board of Directors	● Approve the engagement, and contractual agreements with external auditors. ● Review and approve recommendations from the Audit Committee of the Board (ACB) regarding auditor selection, audit findings, and subsequent actions. ● Oversee compliance with the RBI Master Directions for NBFCs, ensuring policy adherence.
Audit Committee of the Board (ACB)	● Conduct initial evaluation and due diligence of potential external auditors, assessing qualifications, experience, and track record. ● Recommend the appointment, reappointment, or removal of external auditors to the Board based on competency, integrity, and performance. ● Review the scope, timelines, and outcomes of audit engagements, ensuring that audit objectives are met and that findings are acted upon in a timely manner.
Risk and Compliance Department	● Coordinate with external auditors on the scope and requirements of audits, ensuring alignment with regulatory guidelines. ● Monitor adherence to audit timelines, confidentiality, and data security protocols during the audit process. ● Report audit findings and non-compliance issues to the ACB, along with recommendations for corrective action.

Internal Audit Team	● Support the Risk and Compliance Department and the Audit Committee by providing data, insights, and internal records required for the audit.

5. Role of External Auditors

5.1. External auditors play a critical role in ensuring that SCML's financial and operational activities comply with regulatory standards, internal policies, and fraud risk management practices.

5.2. The responsibilities of SCML's External Auditors include:

5.2.1. Conduct the audit engagement as per the terms and scope defined in the contractual agreement, ensuring adherence to regulatory standards, including those outlined by the RBI.

5.2.2. Perform the audit with integrity, independence, and objectivity, following all applicable professional standards and guidelines.

5.2.3. Complete the audit and submit a detailed audit report within the specified timeframe, to facilitate timely review and implementation of any corrective measures.

5.2.4. Highlight any findings related to fraud risks, compliance issues, or operational gaps in a clear and actionable manner for prompt resolution by SCML.

5.2.5. Maintain strict confidentiality regarding all sensitive and proprietary information obtained during the audit process. This includes a prohibition against sharing information with third parties unless required by law or expressly authorized by SCML.

5.2.6. Adhere to data protection standards and ensure that all records, documents, and digital assets accessed during the audit are handled in compliance with relevant confidentiality and security policies.

5.2.7. Report any instances of fraud risk, regulatory non-compliance, or significant operational discrepancies identified during the audit immediately to the Audit Committee.

5.2.8. Provide recommendations for corrective action and collaborate with SCML's internal teams to address critical issues, where appropriate.

5.2.9. Disclose any potential conflicts of interest or relationships that may affect the auditor's independence, maintaining transparency with SCML at all times.

5.2.10. Ensure that all personnel involved in the audit engagement possess the necessary qualifications, experience, and ethical standards to uphold the quality and credibility of the audit process.

6. Selection and Appointment of Auditors

The selection and appointment of external auditors for SCML shall be governed by a rigorous evaluation process, ensuring the engagement of competent and reliable professionals who can support SCML's objectives for effective fraud risk management, regulatory compliance, and financial transparency.

6.1. SCML shall undertake a comprehensive due diligence process for all potential external auditors, which includes, but is not limited to, the following assessments:

6.1.1. Verification of the auditor's industry experience and academic or professional qualifications relevant to SCML's operations, fraud risk management, and regulatory compliance.

6.1.2. Assessment of the auditor's standing within the industry, including past conduct, compliance with ethical standards, and absence of disciplinary actions.

6.1.3. Review of professional references, feedback from past clients, and evaluation of the auditor's history of service quality and integrity.

6.1.4. Confirmation that the auditor holds all necessary certifications and accreditations required to perform audits in compliance with regulatory standards.

6.2. SCML shall appoint only those external auditors who have demonstrated a high level of expertise and competence in NBFC auditing, especially with respect to fraud risk management, regulatory adherence, and financial reporting. The following requirements shall apply:

6.2.1. The auditor must possess proven expertise in NBFC audits, with an understanding of the specific regulatory framework governing the sector.

6.2.2. Auditors must hold recognized certifications such as Chartered Accountant (CA) or Certified Internal Auditor (CIA), Certified Information System Auditor and any other certifications as deemed necessary by SCML.

6.2.3. The auditor's record must be free from ethical violations, legal issues, or regulatory breaches, affirming a strong ethical standing in the industry.

6.3. The appointment of external auditors shall be subject to the following approval protocols:

6.3.1. The ACB shall conduct an initial evaluation of the shortlisted auditors, ensuring that due diligence requirements and competency standards are met.

6.3.2. Final approval for the appointment of external auditors shall rest with the Board. The Board shall make its decision based on a comprehensive review of the ACB's recommendations and the auditor's compliance with the due diligence and competency criteria.

6.4. Upon approval, SCML and the external auditor shall enter into a formal engagement contract outlining the terms of the audit, including the scope, responsibilities, confidentiality obligations, timelines, and reporting requirements.

6.5. SCML reserves the right to periodically review the performance of the appointed external auditor to ensure continued compliance with standards of competence and ethical conduct. Reappointment shall be based on satisfactory performance, adherence to contractual obligations, and compliance with regulatory updates.

7. Contractual Agreement with Auditors

7.1. SCML's contractual agreement with the external auditors is intended to establish clear guidelines for audit execution, reporting, confidentiality, and dispute resolution to ensure transparency and regulatory compliance.

7.2. The agreement shall clearly outline the scope of the audit, including specific areas of review and objectives in alignment with SCML's risk management and fraud detection requirements.

7.3. The auditor's responsibilities shall be defined, detailing roles in identifying, reporting, and recommending corrective actions for any irregularities found during the audit.

7.4. The methodologies to be applied in the audit process, including sampling techniques, data analysis, and reporting formats, shall be explicitly mentioned to maintain alignment with RBI guidelines.

7.5. The auditor shall complete all assigned audit tasks and submit findings within a timeline approved by the Board to ensure timely decision-making and implementation of recommendations. This timeline shall include interim progress checkpoints, as applicable, to ensure that any emerging issues are addressed promptly.

7.6. The external auditor shall deliver a comprehensive audit report to SCML within the specified timeline of audit completion, in line with regulatory timelines.

7.7. The audit report shall cover all significant findings, fraud risks, compliance issues, and any corrective measures that need to be undertaken by SCML. The report shall also include an executive summary, detailed observations, recommendations, and any supporting data or evidence as required.

7.8. The agreement shall include strict confidentiality clauses prohibiting the auditor from disclosing any confidential, proprietary, or sensitive information obtained during the audit process to any third party, except as required by law.

7.9. Data protection clauses must ensure compliance with applicable data security laws and internal SCML's policies, with particular emphasis on safeguarding customer information and proprietary business data.

7.10. Any data shared with the auditor for the purpose of the audit shall be returned or destroyed upon the audit's conclusion, as specified in the agreement.

7.11. The contractual agreement shall include a dispute resolution clause, specifying that any disagreements arising between SCML and the auditor shall be addressed through in accordance with the mutually decided Dispute Resolution Process.

7.12. The jurisdiction for any legal disputes shall be specified, and both parties shall agree to resolve disputes in good faith before pursuing any other dispute resolution process.

8. Audit Procedure

The audit procedure outlines a systematic approach for conducting external audits, ensuring thorough assessment, compliance with regulatory standards, and effective reporting.

The external auditor shall follow these prescribed steps to ensure accuracy, transparency, and adherence to SCML and RBI guidelines.

Audit Planning	● The auditor shall establish clear audit objectives in line with the scope defined by SCML and any specific focus areas highlighted by the Board or ACB. ● The auditor shall determine resource needs, including personnel, technology, and access requirements, to carry out the audit efficiently. ● An initial risk assessment shall be conducted to identify potential areas of concern, such as fraud risks, operational inefficiencies, or regulatory non-compliance.
Information Collection and Review	● The auditor shall gain access to relevant documents, financial records, operational data, and any additional information deemed necessary for the audit. ● Interviews may be conducted with key personnel, and observations of certain processes may be performed to verify compliance with internal and regulatory standards.

	● A comprehensive review of financial documents, internal control reports, and compliance records shall be undertaken to identify any anomalies or inconsistencies.
Testing and Verification	● The auditor may apply sampling techniques to evaluate the accuracy and completeness of financial transactions, operational processes, and regulatory compliance measures. ● Reconciliation and verification procedures be conducted to confirm the integrity of financial data, including revenue recognition, expense allocation, and asset valuation. ● Specific tests and controls shall be applied to detect any signs of fraudulent activities, including irregularities in transaction patterns, unusual expenditures, or discrepancies in records.
Analysis and Evaluation	● The auditor shall identify any deviations from established procedures, regulatory requirements, or best practices and evaluate their potential impact on SCML's operations. ● For any significant findings, the auditor shall perform a root cause analysis to understand underlying issues and to facilitate appropriate corrective actions. ● The auditor shall assess the effectiveness of internal controls in place, including financial

	controls, fraud prevention mechanisms, and compliance processes.
Reporting and Recommendations	● Upon completion of testing and analysis, the auditor shall prepare a draft report outlining findings, observations, and recommended actions for SCML's review. ● The auditor shall present the draft findings to SCML's management to discuss observations, validate facts, and incorporate any additional feedback. ● A final audit report shall be submitted within the agreed timeframe, including a summary of findings, specific recommendations, and an implementation timeline for corrective measures.
Follow-Up and Monitoring	● The auditor may work with SCML to develop an action plan for addressing identified issues and implementing recommended changes. ● Follow-up audits or reviews may be conducted as required to ensure that corrective actions have been implemented effectively and to address any residual risks. ● A formal compliance confirmation may be issued once SCML has adequately addressed all critical findings and corrective actions.

This structured audit procedure ensures that the audit process is conducted with precision, adherence to regulatory requirements, and focus on fraud risk management, providing SCML with actionable insights for enhanced operational resilience.

9. Audit Fees and Remuneration

The fees and remuneration for the external audit services shall be established in the contractual agreement between SCML and the external auditor, ensuring fairness, transparency, and alignment with the scope of work.

9.1. The fee structure shall be clearly defined in the contractual agreement, taking into account the complexity, scope, and specific requirements of the audit engagement.

9.2. Fees shall be based on a comprehensive evaluation of the audit's objectives, including factors such as the size of SCML, the number of transactions, the depth of audit procedures, and any specialized skills required.

9.3. The proposed audit fees and remuneration shall be submitted by the ACB to the Board for review and approval prior to the commencement of the audit. The Board shall ensure that the fee structure is reasonable and justifiable, reflecting market standards and the professional expertise of the auditors.

9.4. Payment terms for the audit fees shall be specified in the contractual agreement, including any advance payments, milestone payments, or final payments upon the completion of the audit.

9.5. The agreement shall also outline conditions under which fee adjustments may be made, such as changes in the scope of work or unexpected complexities arising during the audit.

9.6. Any additional costs incurred during the audit, such as travel expenses, specialized consulting fees, or other out-of-pocket expenses, must be pre-approved by SCML and included in the final invoice. A detailed breakdown of any additional costs shall be provided to ensure transparency in billing practices.

9.7. The audit fees and remuneration structure shall comply with applicable regulatory guidelines and industry standards, ensuring ethical practices in fee determination.

9.8. SCML shall periodically review and benchmark audit fees against industry norms to maintain competitiveness and fairness in remuneration practices.

9.9. SCML shall maintain all the relevant documentations related to audit fees and remuneration to ensure a clear audit trail and accountability.

9.10. Any changes or amendments to the agreed-upon fees must be documented and approved mutually by both SCML and the auditor.

10. Auditor Independence & Rotation

SCML is committed to maintaining the highest standards of integrity and objectivity in its auditing processes. To ensure auditor independence and mitigate any potential conflicts of interest, the following standards regarding auditor rotation and independence shall be enforced:

10.1. External auditors shall maintain independence in both appearance and fact, ensuring that their judgments and conclusions are not influenced by any relationships or financial interests with SCML.

10.2. Auditors are required to disclose any financial interests, relationships, or other circumstances that may affect their independence or objectivity. This includes, but is not limited to, direct or indirect financial interests in SCML or any significant business relationships.

10.3. SCML shall implement a mandatory rotation standard for external auditors, in accordance with the guidelines set forth by the RBI and other applicable laws.

10.4. The Company shall ensure that the statutory and other external auditors are rotated after completion of the maximum tenure as prescribed under applicable laws, regulations, or regulatory guidelines, in order to maintain independence, prevent familiarity risks, and promote an objective and unbiased audit process. Upon completion of the prescribed tenure, the same audit firm or individual auditor shall not be reappointed for a minimum cooling-off period as stipulated under the relevant regulatory provisions or as may be determined by the Board of Directors, whichever is longer.

10.5. Following the completion of the auditor's term, SCML shall conduct a comprehensive selection process for new auditors, ensuring a transparent and competitive approach.

10.6. The selection process shall include due diligence, assessment of qualifications, and evaluation of the proposed auditors' independence and experience SCML and relevant regulations.

10.7. SCML shall conduct periodic reviews of the performance of external auditors to assess their effectiveness, independence, and compliance with professional standards.

10.8. Any identified issues regarding independence or performance shall be documented and addressed promptly to ensure adherence to the highest standards of audit quality.

10.9. The ACB shall oversee compliance with the auditor independence and rotation policies, ensuring that all practices align with RBI guidelines and SCML's commitment to ethical auditing.

10.10. The committee shall also be responsible for ensuring that all disclosures of interests by the auditors are reviewed and any conflicts are resolved before the commencement of the audit.

11. Approval, update and Review

11.1. This policy shall be approved by the Board of the SCML and shall be updated periodically and when there are any changes introduced by the guidelines/directions issued by the RBI.