

GIC HOUSING FINANCE LIMITED

POLICY FOR APPOINTMENT OF STATUTORY AUDITORS (Version 1.1)

Approved by Board of Directors w.e.f.	30 September, 2021
Last Reviewed on	7 August, 2023
Last Amended on	--

➤ **INTRODUCTION:**

The Reserve Bank of India (RBI) vide its circular dated April 27, 2021 has issued guidelines for appointment of Statutory Auditors (SAs). Further, RBI on June 11, 2021 published certain clarifications to its circular dated April 27, 2021 in the form of Frequently Asked Questions (FAQs). Accordingly, GIC Housing Finance Limited (“Company”) has formulated the Policy for appointment of Statutory Auditors (SAs) in line with norms applicable to the Company.

➤ **APPLICABILITY:**

RBI Guidelines are applicable to Commercial Banks (excluding RRBs), Primary (Urban) Co-operative Banks (UCBs) and Non-Banking Finance Companies (NBFC’s) including HFCs. Since the Company is HFC registered with the NHB, the RBI guidelines are applicable to the Company. The policy shall be applicable from the second half of Financial Year 2021-22 onwards.

➤ **OBJECTIVE:**

The Policy shall act as a guideline for determining, inter-alia, qualifications, eligibility, and Procedure for appointment of the Statutory Auditors.

The Objective of the Policy is:

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

➤ **PRIOR APPROVAL OF RBI:**

The Company, being a HFC, is not required to take prior approval of RBI for appointment of SAs, the Company is required to inform RBI, at concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located, about the appointment of SAs for each year by way of a certificate in Form A within one month of such appointment.

➤ **NUMBER OF SAs AND BRANCH COVERAGE**

The minimum number of SAs shall be two if the Company’s asset size as on March 31 of previous year, is Rs. 15,000 crore or more; else, minimum of one SA shall be appointed.

Asset Size of Company as on 31st March of Previous Year (in crore)	Minimum Number of SA
Below Rs. 15,000	One
Above Rs. 15,000	Two (Joint Auditors)

The Company shall ensure that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. The Company shall finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

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 and Audit Committee subject to the following limits:

Asset Size of the Company	Maximum No. of SAs
Upto Rs. 5,00,000 crore	4
Above Rs. 5,00,000 crore and upto Rs. 10,00,000 crore	6
Above Rs. 10,00,000 crore and upto Rs. 20,00,000 crore	8
Above Rs. 20,00,000 crore	12

Based on the guidelines, since the asset size of the Company is less than ₹ 15,000 crore and less than ₹ 500,000 crore as at last reporting period, (i.e, March 31, 2021), the Company is required to appoint one SA.

➤ **TENURE AND ROTATION OF SAs :**

As per the provisions of the Companies Act, 2013, SA can be appointed for two terms consisting of five years each. However, as per the RBI guidelines, in order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year.

If the Company removes SAs before completion of 3 years of tenure, it shall inform the concerned Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company cannot reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure. RBI being the sectoral regulator and its guidelines being more stringent, the Company shall appoint the SA as per the RBI guideline.

➤ **ELIGIBILITY CRITERIA OF STATUTORY AUDITORS:**

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 date of shortlisting for considering them as full time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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.
- Audit Committee/Board 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: Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ 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 bookkeeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/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.

➤ **Additional Consideration:**

- (i) The audit firm, proposed to be appointed as SAs, should be duly qualified for appointment as 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 Company shall ensure that 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) If any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SA of any of the group entities of that Entity.
- (v) The SAs for Entities with asset size above ₹1,000 crore should 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:**

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. 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 may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

➤ **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 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 SAs shall approach the Board/Audit Committee of the Company, 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 SA 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 SA. 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, and the Company will take a decision in this regard, in consultation with the Board/Audit Committee. The said restriction will also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

➤ **PROCEDURE FOR APPOINTMENT OF SAs:**

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

- i) Applications for appointment of SAs will be invited by Head of Accounts Department from the Audit Firms /LLPs having their Head Office or Branch in Mumbai.
- ii) The Company shall shortlist minimum of two audit firms for every vacancy of SA.
- iii) Company shall obtain a certificate from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- iv) 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.

➤ **AUDIT FEE AND EXPENSES:**

The Company shall ensure that the audit fees of the Company 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.

➤ **REVIEW :**

This Policy shall be reviewed by the Audit Committee and Board once in every year. Any amendments to the policy required as a result of amendment/modifications to the Companies Act, 2013/ RBI guidelines shall mutatis mutandis apply to this policy.
