



HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

POLICY ON APPOINTMENT OF STATUTORY AUDITORS

MAY 2021

Housing Development Finance Corporation Limited

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1. Background:

The Reserve Bank of India (RBI) on April 27, 2021 had issued guidelines to Commercial Banks (excluding Regional Rural Banks), Primary (Urban) Co-operative Banks (UCBs) and Non-banking Financial Companies (NBFCs) (including Housing Finance Companies (HFCs)) (“RBI Guidelines”) for appointment/re-appointment of Statutory Central Auditors/ Statutory Auditors (“SCA/SA”) which are presently applicable with immediate effect. However, NBFCs (including HFCs) have been given the flexibility to follow the guidelines from the second half of financial year 2021-22.

In terms of the RBI guidelines, this Policy on Appointment of Statutory Auditors (“the Policy”) has been recommended by the Audit and Governance Committee of the Directors of the Corporation and approved by the Board of Directors of the Corporation at their respective meetings held on May 7, 2021. In case the applicability of the RBI Guidelines is extended by the RBI, this Policy or part thereof, as the case may be, shall be applicable from such extended date.

In case of any inconsistency between the RBI Guidelines and this Policy, the guidelines issued by RBI from time to time shall prevail and that the Corporation shall ensure compliance with all the provisions of RBI Guidelines as prescribed in this regard from time to time. This Policy would automatically be deemed to be aligned with the amendments if any in terms of clarification/circular that may be issued by RBI from time to time.

2. Policy Objective:

The primary objective of this Policy is to provide a framework and set standards for the appointment of SA who fulfill the eligibility criteria and other conditions prescribed under RBI Guidelines and applicable laws.

3. Criteria for Appointment of SA:

- The audit firm(s) proposed to be appointed as the SA of the Corporation shall comply with the eligibility criteria and independence as mentioned in the RBI Guidelines as well as those mentioned under Section 141 of the Companies Act, 2013 and rules made thereunder.
- The audit firm(s) shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- No audit firm(s) shall be considered for appointment as SA of the Corporation, if it exceeds the maximum number of entities (commercial banks, UCBs, NBFCs) permitted for its appointment as SA as prescribed under the RBI Guidelines or other applicable laws during a particular year.
- If an audit firm(s) has undertaken any non-audit work for the Corporation or for the group entities of the Corporation, such audit firm(s) can be appointed as SA of the Corporation only after a gap of 1 year from the completion of such audit/non-audit work or such other period as specified by the RBI.

4. Methodology of the appointment of SA:

- The Audit and Governance Committee shall take into account the relevant RBI guidelines whilst deciding on the manner of appointment. In accordance with the RBI Guidelines and based on the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, identified risks in financial reporting, etc. and also with a view to ensure that the audits are completed in a timely and efficient manner, it has been hereby decided that the Corporation will appoint 2 (two) auditors to conduct a joint audit as mandated under the RBI Guidelines.
- The joint auditors so appointed by the Corporation will also be responsible for audit of the branches of the Corporation whether located in India or abroad, if any and accordingly, the Corporation would not be appointing separate SCA/SA.
- The Corporation shall obtain a certificate, along with relevant information as mentioned in the RBI Guidelines, from the audit firm(s) proposed to be appointed as the SA to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the said purpose. The Corporation shall also obtain a certificate under Section 141 of the Companies Act, 2013 and rules made thereunder.
- The Audit and Governance Committee shall recommend to the Board the appointment of the auditors for a continuous term of up to three years, subject to the firms satisfying the eligibility norms each year. The said appointment will also be subject to approval of the Members of the Corporation.
- The audit firm(s) would be eligible for re-appointment after a cooling off period of six years after completion of full or part of one term of the audit tenure.
- The Audit and Governance Committee shall also ensure that the proposed audit firm shall not be eligible for appointment if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

5. Audit Fees and Other expenses:

- The Audit and Governance Committee shall decide and recommend the audit fees to the Board in accordance with the relevant statutory/regulatory provisions. The same shall also be subject to the approval of the Members of the Corporation.
- While recommending the audit fees, the Audit and Governance Committee shall ensure that the same 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.
- The Audit and Governance Committee shall, on an annual basis, ratify other fees paid to the SA, as permitted under the Companies Act, 2013.

6. Performance Evaluation Procedure:

- The Audit and Governance Committee shall develop such assessment criteria as it shall deem fit for the purposes of reviewing and monitoring the auditor's independence, conflict of interest position, if any and performance and effectiveness

of audit process.

- The Senior Management of the Corporation and all the Members of the Audit and Governance Committee shall undertake an annual performance evaluation of the Statutory Auditors of the Corporation based on the relevant assessment criteria developed by the said Committee.
- The consolidated report prepared on the basis of responses received shall be submitted to the Chairman of the Audit and Governance Committee. Thereafter, the Chairman upon his review will place the consolidated report at the meeting of the Audit and Governance Committee for its consideration and review.

7. Reporting Requirements:

- The Corporation will inform RBI about the appointment of the SA as prescribed in the RBI Guidelines within one month of such appointment. The said intimation would also be forwarded to the National Housing Bank for their information.
- An intimation will also be made to the Ministry of Corporate Affairs as required under the provisions of the Companies Act, 2013 and rules made thereunder.
- Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SA or any other matters considered as relevant shall be placed before the Audit and Governance Committee or Board and along with its recommendations, the same shall be reported to RBI within two months from completion of the annual audit.
- Any concerns in the matters related to independence of auditors and conflict of interest positions may be highlighted by the Audit and Governance Committee to the Board and RBI.

8. Removal Process for SA:

- In the event of removal of SA before completion of their tenure, the same shall be in accordance with the relevant provisions of the Companies Act, 2013 and rules made thereunder.
- Further, the Corporation shall inform RBI about the removal of SA, along with reasons/justification for the same, within a month of such a decision being taken.

9. Policy Review:

This Policy may be amended, modified or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to RBI Guidelines or the Companies Act, 2013 or as may be otherwise prescribed by the Audit and Governance Committee/Board from time to time. The Policy shall be placed on the website of the Corporation.
