

# Policy on Appointment of Statutory Auditors

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Presented By

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### 1 Preface

HDFC Credila Financial Services Ltd. (“HDFC Credila” or “the Company”) is a Systemically Important Non-Deposit Taking Non-Banking Finance Company (NBFC-ND-SI) registered with the Reserve Bank of India engaged in providing education loans to students for higher education in India and Abroad. HDFC Credila is a wholly owned subsidiary of Housing Development Finance Corporation Limited (“HDFC Ltd.”).

The Reserve Bank of India (“RBI”) vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001 /2021-22 dated April 27, 2021 has issued guidelines for Appointment of Statutory Auditors (SAs) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines require lending institutions to formulate a Board approved policy to be hosted on its official website / public domain and formulate necessary procedures thereunder to be followed for the appointment of SAs.

### 2 Objective

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

The Objective of the Policy is to:

- i. Determine the number of SAs based on various parameters;
- ii. Criteria for appointment of SAs; and
- iii. Procedure to be followed for appointment of SAs.

### 3 Applicability

This Policy will be applicable for appointment of Statutory Auditors by the Company from second half of the financial year 2021-22 and onwards including any amendments, if any made from time to time by the RBI.

### 4 Number of Statutory Auditors and Branch Coverage

As per the RBI guidelines, the Company can appoint minimum one SA and maximum four joint SAs based on the asset size of the Company. The Company shall decide on the number of SAs after considering 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 SAs will visit and audit at least the Top 20% of the branches of the Company, to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Company. In addition, the Company shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding audit of accounts of all branches, if applicable.

### 5 Eligibility Criteria of SAs

As per the RBI circular, the Company needs to follow the minimum eligibility norms applicable to an NBFC with an asset size as on March 31, 2021 of above Rs. 1,000 crore and less than Rs. 15,000 crore. The eligibility criteria are enumerated here below:

- 1) Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three years – **Three**
- 2) Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three years – **Two**
- 3) Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification – **One**
- 4) Minimum No. of years of Audit Experience of the firm – **Eight years**
- 5) Minimum No. of Professional staff – **Twelve**

**Full-Time Partners:** 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:

- a. The full-time partner should not be a partner in other firm/s.
- b. She/He should not be employed full time / part time elsewhere.
- c. 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.
- d. The Board/Audit Committee of Board (ACB) 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.

**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.

**Audit Experience:** Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs.

**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/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 Considerations

- (i) The audit firm 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 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 Company.
- (v) The auditors 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 Company where the accounting and business data reside in order to achieve audit objectives.

### 6 Tenure & 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 Circular, 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 Mumbai Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company will not 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, the Company shall appoint the SA as per the RBI guideline for a tenure of 3 years.

### 7 Independence and Performance of SAs

1. 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.
2. Concurrent auditors of the Company will not be considered for appointment as Statutory Auditors. While assessing the independence of the auditor, the fact that the auditor is also the auditor for any of the entities having large exposure (as defined by RBI) to the Company will be explicitly factored.
3. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) for the Company by the proposed Statutory auditors or same network of audit firms or any other audit firm having common partners or any audit/non-audit works for its group entities should be at least one year before appointment. This is applicable prospectively from FY 2021-22. Any such work should be either completed or relinquished prior to the appointment. On completion of their term as statutory auditor, there should be a time gap of one year before accepting any non-audit works of the Company or any audit / non audit works of the group entities. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the concerned entities, which may not normally result in a conflict of interest, and Company may take their own decision in this regard, in consultation with the Board/ACB.
4. The restrictions as detailed in the above two paras, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
5. The Audit Committee shall review the performance of statutory auditors on an annual basis. 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 the RBI within two months from completion of the annual audit. Such reports should be sent with the approval of the Board, with the full details of the audit firm.

### 8 Procedure for appointment of SA

The management of the Company shall shortlist the audit firms based on the applicable eligibility norms and requirements as per the RBI guidelines, Companies Act, 2013 and other applicable laws, as amended from time to time.

If an audit firm which is engaged in audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered for appointment, the audit committee and the Board shall ensure that there is no conflict of interest and independence of auditors is not impacted.

The Company shall obtain a certificate, along with relevant information as per RBI the guidelines, from the audit firm(s) proposed to be appointed as Statutory auditor to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment, under the seal of the said audit firm.

Subject to the provisions of the applicable laws, as amended from time to time, Audit Committee shall recommend to the Board of Directors of the Company the appointment of statutory auditor which shall further recommend to the shareholders of the Company for their approval at the General Meeting.

The Company shall inform about the appointment of statutory auditor(s) each year by way of a certificate in the prescribed form (Form A) within one month of such appointment to the Mumbai Regional Office of RBI (Department of Supervision).

### 9 Audit Fees 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 computerisation, identified risk in financial reporting, etc.

The Audit fees shall be approved by the ACB of the Board in consultation with the SA or as permitted by the Shareholders of the Company.

### 10 Review of the Policy

This Policy shall be reviewed annually and as and when deemed necessary and will be submitted to the Board for its approval on the recommendation of the ACB.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall stand modified in accordance with regulations.