



**POLICY FOR APPOINTMENT
OF
STATUTORY AUDITORS
FOR FINANCIAL YEAR 2021-22 AND ONWARDS
OF
PNB HOUSING FINANCE LIMITED**

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Summary of Version History

Policy approved by	Board of Directors
Policy drafted by	Chief Financial Officer
Last date of renewal of policy	August 04, 2021/V1.0
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DRAFT POLICY FOR APPOINTMENT OF STATUTORY AUDITORS FOR FINANCIAL YEAR 2021-22 AND ONWARDS

I. Background

The Company was incorporated under Companies Act, 1956 and is listed on National Stock exchange of India Limited and BSE Limited. The Company is Housing Finance Company and regulated by the directions and guidelines issued by the National Housing Bank, Reserve Bank of India and SEBI.

Reserve Bank of India ('RBI') vide Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 has issued Guidelines for the appointment/ reappointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) on April 27, 2021. Subsequently on June 11, 2021, RBI has published certain clarifications with respect to above circular in the form of Frequently Asked Questions (FAQs).

As per the Guidelines, the Company is required to formulate a Board approved Policy and also formulate necessary procedure thereunder to be followed for appointment of SA. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

Further, the duly approved Policy is to be hosted on the Company's website.

II. Objective

The objective of this Policy is to formulate necessary procedure for appointment of SAs to conform with the extant statutory and regulatory norms applicable to the Company.

III. Applicability

The Policy will be applicable to the Company from Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs.

IV. Number of SAs and branch coverage

- a) Minimum number of SAs (Partnership firms/Limited Liability Partnerships (LLPs)) to be appointed by the Company shall be two since the asset size as on March 31st of the previous year, is more than ₹ 15,000 crore.
- b) The number of SAs can be increased upto 4 until the asset size of the Company reaches ₹ 5,00,000 crore.
- c) 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. Basis above the Company shall appoint two joint statutory auditors.
- d) The Company shall ensure that joint auditors of the Company do not have any common partners and they are not under the same network of audit firms. The Company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with the SAs.
- e) SAs shall visit and audit at least the Top 20 branches/ Top 20% of the branches (where total branches are less than 100) 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. Further, the Company may allocate additional branches from different geographies and of different sizes.

- f) The Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.
- g) The Company shall inform Regional Office of RBI (Department of Supervision), under whose jurisdiction the Head Office is located, about the appointment of SAs for each year by way of a certificate in Form A (Annexure -2), within one month of such appointment.

V. Eligibility criteria

The minimum standards and eligibility criteria to be fulfilled by audit firms for appointment as SAs of the Company shall comprise of –

(a) Basic eligibility:

Asset size of the Company as on 31st March of the previous year	Minimum no. of full time partners (FTPs) associated with the firm for a period of three years (Note 1)	Out of 'A', minimum no. of Fellow Chartered Accountant (FCA) partners associated with the firm for a period of three 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)	No. of professional staff (Note 4)
Above ₹ 15,000 crore	5	4	2	15	18

Note 1: Full time partners associated with the firm:

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:

- (i) The full-time partner should not be a partner in any other firm/s.
- (ii) She/ He should not be employed full time / part time elsewhere.
- (iii) 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.
- (iv) Audit Committee of the 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.

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)/ UCBs/ NBFCs/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after two 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 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.

The above norms are subject to extant guidelines issued by RBI from time to time.

(b) Additional consideration:

- (i) The audit firm, at the time of empanelment as SAs should be duly qualified for appointment as auditor of the Company in terms of Section 141 of the Companies Act, 2013. 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. There shall not be any disciplinary proceedings pending against the partner / firm.
- (ii) 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.
- (iii) If any partner of a Chartered Accountant firm is a director in any of the group entities (regulated by RBI), the said firm cannot be appointed as SA of the Company.

(Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of Ind AS 27), Joint venture (defined in terms of Ind AS 31), Associate (defined in terms of Ind AS 28), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of Ind AS 24), common brand name, and investment in equity shares of 20% and above).

- (iv) The Statutory Auditors of the Company 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.

(c) 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 must 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 March 31st 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 and if the same is not rectified within reasonable time, the firm may approach the Board of Directors, to allow the concerned audit firm to complete the audit, as a special case,. The Company in such an event shall also approach RBI to allow the concerned audit firm to complete the audit as a special case.

VI. Independence of auditors

- a) ACB 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 ACB to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- b) Concurrent/ Internal auditors of the Company should not be considered for appointment as SAs of the Company.
- c) The Audit firm doing audit of any bank / entity with large exposure to the Company may be appointed as SA of the Company. However, this aspect should be explicitly factored by the ACB while assessing the independence of the auditors and the ACB shall ensure that there is no conflict of interest. Large Exposures as defined under RBI Large Exposure Framework as amended from time to time.
- d) The time gap between any non-audit works (services mentioned in Section 144 of Companies Act, 2013, internal assignments, special assignments etc.) by the SAs of the Company or any audit/non-audit works for its group entities (regulated by RBI) should be at least one year, before or after its appointment as SAs (one year before clause will be effective from FY 2022-23 i.e. if an audit firm is involved in some non-audit work with the Company and/or any audit/ non-audit work with other RBI regulated entities in the group and completes or relinquishes the said assignment prior to the date appointment of SA of the Company for FY 21-22, the said audit firm would be eligible for appointment as SA of the entity for FY 21-22). However, if an audit firm is engaged with audit/non-audit works for the group entities (which are not regulated by RBI) is being considered by the Company for appointment as SAs, then Board/ ACB of the Company will ensure that there is no conflict of interest and independence of the auditor is ensured and this should be suitably recorded in the minutes of the meetings of Board/ACB.

Further, during the tenure as SA, an audit firm may provide such services to the concerned Company which may not normally result in a conflict of interest, and Company may take their own decision in this regard, in consultation with the ACB/Board.

A conflict would not normally be created in the case of the following special assignments (indicative list):

- (i) Tax audit, tax representation and advice on taxation matters,
 - (ii) Audit of interim financial statements.
 - (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
 - (iv) reporting on financial information or segments thereof.
- e) The restrictions of clause 6(c) and 6 (d) above should 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.

VII. Professional standards of SAs

- a) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b) The ACB of the Company shall review the performance of SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SAs 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 recommendations of ACB and approval of the Board, with the full details of the audit firm.

- c) In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

VIII. Tenure and Rotation

- a) In order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Company removing the SAs before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.
- b) An audit firm would not be eligible for reappointment in the same Company for six years (two tenures) after completion of full or part of one term of the audit tenure (In case an audit firm has conducted audit of the Company for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Company for six years from completion of part-tenure).
- c) An audit firm proposed to be appointed as SA of the Company, can concurrently take up statutory audit of a maximum of four Commercial Banks (including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI, eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each entity and within overall ceiling prescribed by any other statutes or rules.

For the purpose of this Policy, a group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SA accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

IX. Audit fee and expenses

- a) The audit fees for SAs of the Company shall be approved at the Annual General Meeting of the Company or the shareholders may delegate/authorise the Board of Directors of the Company to fix remuneration i.e., audit fee and related expenses, in terms of the relevant statutory/regulatory provisions.
- b) The audit fees for SAs 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 risks in financial reporting, etc.
- c) The ACB shall review the proposed audit fee and expenses and recommend to the Board of Directors for approval or the Board shall make recommendation to the shareholders for approval of audit fee and related expenses of SAs as per the relevant statutory/regulatory instructions.

X. Procedure of appointment of SAs

Process for appointment of new firm as SAs:

- a) Applications for appointment of SAs will be invited from the Audit Firms /LLPs having their Head Office or Branch in Delhi/ NCR. (Annexure-3)
- b) The shortlisting of firms from applications/ proposal received, will be done by MD & CEO along with CFO of the Company after reviewing the resume/profile, eligibility, declarations etc. The shortlist firms will be minimum twice the number of vacancies, for making presentation to the ACB, by evaluating them on the basis of predefined parameters and willingness received from the firms.

- c) The short listed Audit Firms/LLPs for appointment as SAs will make presentation to ACB, including compliance on para 5 and 6 as above, for final selection. ACB shall select minimum of 2 audit firms of SAs for every vacancy so that even if firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of auditors does not get delayed.
- d) Thereafter, the Company will approach the audit firms to obtain their irrevocable consent in writing strictly in order of preference. If the approached audit firm does not give consent, the Company will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms who have given the consent equals to number of vacancies for the particular year.
- e) Thereafter, the Company will place the list of selected SAs before the Board for approval as recommended by the ACB and to recommend the proposal to the shareholders for their approval at the next Annual General Meeting.
- f) General process to be followed:
 - (i) The Company shall obtain a certificate, along with relevant information as per Form B (Annexure 1), from the audit firm(s) proposed to be appointed as SAs 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 of SAs of the Company, under the seal of the said audit firm.
 - (ii) The SAs are required to declare the list of their major corporate clients to avoid conflict of interest.
- g) The Board of Directors place the proposal for appointment of SAs with their recommendations to the shareholders, for their approval at the AGM, in terms of this policy and applicable provisions of the Companies Act, 2013 and other prevailing regulatory and statutory requirements.
- h) On appointment SAs the Company shall inform to RBI by submitting Form A (Annexure 2).
- i) Once resolution is approved by the shareholders, an appointment order is issued to the Audit Firm/LLP, indicating their role and responsibilities along with the remuneration payable for the assignment. The firm will submit their acceptance to the offer of appointment and also submit necessary documents viz., declaration of eligibility, certificate etc. as per extant RBI, SEBI and other statutory and regulatory guidelines.
- j) On completion of the process of appointment, the Company shall submit requisite form to ROC intimating appointment of statutory auditors for the Company.

XI. Resignation

Resignation of SA will be subject to extant SEBI guidelines with regard to listed entities as under:

- a) If the SA resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.
- b) If the SA resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter.
- c) Notwithstanding the above, if the SA has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the

limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.

- d) Further, the SA when submitting their resignation must also comply with the following, as per extant SEBI guidelines, which includes, inter-alia, reporting of concerns with respect to the Company to the ACB:
- (i) 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 auditor shall approach the Chairman of the ACB, and the ACB shall receive such concern directly and immediately without specifically waiting for the quarterly ACB meetings.
 - (ii) In case the SAs propose to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the ACB. In cases where the proposed resignation is due to non-receipt of information/ explanation from the Company, the auditor shall inform the ACB of the details of information/ explanation sought for and not provided by the management, as applicable.
 - (iii) On receipt of such information from the SAs relating to the proposal to resign as mentioned above, the ACB shall deliberate on the matter and communicate its views to the Board, the management and the auditor.

The Company to additionally consider the rules and regulations, if any, applicable for such resignations.

XII. Scope of work

Scope of statutory audit of the Company will be strictly as per the guidelines issued by RBI, regulations of SEBI, provisions of Companies Act and such other applicable provisions.

The audit firm will be required to conduct limited review of quarterly financial results, to conduct annual audit and submit audit report as required under SEBI (LODR) Regulations, 2015 and subject to RBI guidelines.

The audit assignment also includes issue of certificates mandated by RBI, SEBI, MCA etc., as part of the annual audit process.

In terms of RBI guidelines SAs shall visit and audit at least the top 20 branches/ / Top 20% of the branches (where total branches are less than 100), 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. Further, the Company may allocate additional branches from different geographies and of different sizes.

The Company may finalise the work allocation among joint SAs, before the commencement of the statutory audit, in consultation with SAs.

XIII. Review of Policy

The ACB and Board of the Company may review the policy as and when required/ need-based. In case there are any regulatory changes requiring modifications to the policy, the policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the policy till the time policy is suitably amended.

Form B**Eligibility Certificate from (Name and Firm registration number)****A. Particulars of the firm:**

Asset size of the Company as on 31st March of the previous year	Minimum no. of full time partners (FTPs) associated* with the firm for a period of three years	Out of 'A', minimum no. of Fellow Chartered Accountant (FCA) partners associated with the firm for a period of three years	Minimum no. of full time partners/ paid CAs with CISA/ISA Qualification	Minimum no. of years of audit experience of the firm#	No. of professional staff
A	B	C	D	E	F
Status of applicant firm with regard to the above -					

*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore

#Details may be furnished separately for experience as SCAs/SAs and SBAs

B. Additional Information:

- (i) Copy of Constitution Certificate.
- (ii) Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- (iii) Whether the firm has been appointed as SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- (iv) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v) Details of disciplinary proceedings etc. against firm by any Financial Regulator /Government agency during last three years, both closed and pending.

C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (as applicable). It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors have been declared as wilful defaulter by any bank/financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:

FORM A

Information to be submitted by the NBFCs regarding appointment of SA

The Company has appointed M/s Chartered Accountants (Firm Registration Number) _____ as Statutory Auditor (SA) for the financial year _____ for their 1st /2nd /3rd term.

The Company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SA of the Company for FY _____ along with relevant information in the format as prescribed by RBI.

The firm has no past association/association for _____ years with the Company as Statutory Auditor (SA).

The Company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of NBFCs.

Signature
(Name and Designation)
Date:

Application Form for appointment of Statutory Auditor

To,

PNB Housing Finance Limited

3rd Floor, Antriksh Bhawan,
22 Kasturba Gandhi Marg, New Delhi – 110001

We would like to submit our proposal for appointment as a statutory auditor of **PNB Housing Finance Limited** for the period

Our firm complies with all eligibility norms prescribed by RBI regarding appointment of Statutory Auditors of NBFCs. The brief detail of our firm is appended below:

Name of the Firm :

Firm registration number :

Registered address of the Firm:

Address of the Head office/branches*:

Contact details of Firm (Name, Contact no and Email ID):

S.No.	Particulars	Remarks/explanation
1	Asset size of the PNB Housing Finance Limited as on 31st March of the previous year	
2	Previous experience of Joint Audit of Banks/NBFC, details thereof (i.e. Name of Joint Auditor, Name of the Client/Company etc.)	
3	Number of full time partners (FTPs) associated with the firm for a period of at least three years	
4	Fellow Chartered Accountant (FCA) partners associated with the firm for a period of at least three years.	
5	Number of full time partners/ paid CAs with CISA/ISA Qualification.	
6	Number of years of audit experience of the firm.	
7	Number of professional staff.	
8	Qualified for appointment as auditor of a Company in terms of Section 141 of the Companies Act, 2013?.	
9	Any partner of a firm is a director in any of the group Companies of PNB Housing Finance Limited, details thereof.	
10	Is the firm eligible for appointment of Statutory Auditors is in line with the ICAI's Code of Ethics/any other such standards adopted?	
11	Is the firm a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.	
12	Has the firm been debarred from taking up audit assignments by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators? If yes, details thereof	

13	Details of disciplinary proceedings etc. against firm by any Financial Regulator /Government agency during last three years, both closed and pending.	
14	Does the firm have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS)?	

* List of address of the Head office/branches may be given as annexure.

We certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors have been declared as wilful defaulter by any bank/financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:

List of enclosure:

1. Peer Review Certificate
2. Certificate of Registration with ICAI