



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

Charter of Audit Committee



CHARTER OF AUDIT COMMITTEE



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Preface

The Audit Committee has an important role in ensuring the quality of governance practices followed by an organisation. While it is true that the Audit Committee is a sub-set of the Board, it has various specific tasks assigned with independent responsibilities that make it different from other committees constituted by the Board.

The Companies Act, 2013 as well as SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 both have prescribed a set of role and responsibilities for the Audit Committee. Considering the importance of the role assigned to an Audit Committee in the corporate fabric, it has become more obvious for its members to keep a vigil on the matters placed for its consideration and then make suitable recommendations to the Board. The Audit Committee, inter-alia, plays an important and critical role in ensuring the integrity of the financial statements through its oversight of the company's financial reporting process, internal control system and audit functions. To discharge this role effectively and efficiently, the Board of Directors ("the Board") must ensure that it has directors with appropriate qualifications to provide an independent, objective and effective oversight through Audit Committee.

Gravity of functions discharged by the Audit Committee, laid the foundation for formulating this Charter of Audit Committee comprising of legal, regulatory, as well as desirable good practices to be followed by the Audit Committee. Particularly, this Charter is inclusive of suggested good practices which may be adopted by the Audit Committee while approving related party transactions which is an focussed area from governance perspective.

I place on record my sincere thanks to all members of the Secretarial Standards Committee (SSC) as well as the Expert Group on Secretarial Standards, for their valuable contribution made during formulation and finalisation of this Charter of Audit Committee, under the leadership of CS B. Narasimhan and CS Satwinder Singh. My special thanks to CS Narayan Shankar (Group Convener) for leading this task and his immense contribution on the subject. I also acknowledge the valuable inputs received from CS K. Saravanan (Representative of SEBI) during the formation of this Charter of Audit Committee.

I commend the dedicated efforts put in by CS Rakesh Kumar, Assistant Director under the guidance of CS Saurabh Jain, Joint Director in bringing out this Charter of Audit Committee under the stewardship of CS Asish Mohan, Secretary, ICSI.

I am sure that this Charter of Audit Committee will be immensely useful for all readers interested in the subject. Improvement is a continuous process and equally applicable to this Charter of Audit Committee. I would personally be grateful to the readers to offer their suggestions/ comments for further advancement of this Charter.

Place: Mumbai

Date: 06th January, 2023

(CS Devendra V. Deshpande)

President

The Institute of Company Secretaries of India

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CHARTER OF AUDIT COMMITTEE

Preamble

The audit committee, *inter-alia*, plays an important and critical role in ensuring the integrity of the financial statements through its oversight of the company's financial reporting process, internal control system and audit functions. To discharge this role effectively and efficiently, the Board of Directors ("the Board") must ensure that it has directors with appropriate qualifications to provide an independent, objective and effective oversight through audit committee.

Introduction

A charter is a written set of statements explaining the rights, powers and responsibilities of an organization or a particular group of people. In the context of a corporate, the charter sets out the key aspects entrusted to a committee, Board or group of individuals enlisting their power and responsibilities while discharging their respective duties. Essentially, a charter is based on good governance principles which includes those enshrined under the applicable legal provisions.

The Companies Act, 2013 ('the Act') as well as SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') both have prescribed a set of role and responsibilities for the audit committee. Considering the importance of the role assigned to an audit committee in the corporate fabric, it has become more obvious for its members to keep a vigil on the matters placed for its consideration and then make suitable recommendations to the Board.

While it is true that the audit committee is a sub-set of the Board, it has various specific tasks assigned with independent responsibilities that makes it different from other committees constituted by the Board.

Gravity of functions discharged by the audit committee, laid the foundation for articulating this charter of audit committee comprising of legal, regulatory, as well as desirable good practices to be followed by the audit committee while discharging the various tasks assigned.

This charter begins with the applicable legal provisions, power, duties and responsibilities of the audit committee, followed by the good practices that may be adopted while discharging those responsibilities. Specifically, this charter is inclusive

of suggested good practices which may be adopted by the audit committee while approving related party transactions which is an area of concern in the arena of corporate mismanagement. In addition, this charter also gives an encompassing overview of international practices with respect to audit committees worldwide.

Words and expressions used but not defined in this charter but defined in Companies Act, 2013 and Securities Laws ("Applicable Laws"), shall have the same meanings respectively assigned to them in those laws or any statutory modification or re-enactment thereto.

This charter has been prepared keeping in view the extant provisions of the Applicable Laws. However, if due to subsequent changes in the Applicable Laws, any part of this charter becomes inconsistent then the provisions of the Applicable Laws shall prevail.

Regulatory Provisions

I. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [hereinafter referred as "Listing Regulations"]

1. Composition of Audit Committee as per Regulation 18(1) of the Listing Regulations

Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

- a) The audit committee shall have minimum three directors as members.
- b) At least two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.
- c) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (1).-For the purpose of this regulation, "financially literate" shall mean the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (2).-For the purpose of this regulation, a member shall be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

- d) The chairperson of the audit committee shall be an independent director and he/she shall be present at annual general meeting to answer shareholder queries.
- e) The company secretary shall act as secretary to the audit committee
- f) The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee:

Provided that occasionally the audit committee may meet without the presence of any executives of the listed entity.

2. As per Regulation 18(2) of the Listing Regulations

- a) The audit committee shall meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings.
- b) The quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.

As per Regulation 18(2) and 18(3) read with Part C of Schedule II of the Listing Regulations, the powers/ role of, and the information to be reviewed by, the audit committee shall include as under:

1. The audit committee shall have powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.
2. Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
3. Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
4. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
5. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - a. matters required to be included in the director's responsibility statement to be included in the Board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;

-
- b. changes, if any, in accounting policies and practices and reasons for the same;
 - c. major accounting entries involving estimates based on the exercise of judgment by management;
 - d. significant adjustments made in the financial statements arising out of audit findings;
 - e. compliance with listing and other legal requirements relating to financial statements;
 - f. disclosure of any related party transactions;
 - g. modified opinion(s) in the draft audit report;
 6. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval;
 7. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
 8. Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
 9. Approval or any subsequent modification of transactions of the listed entity with related parties;
 10. Scrutiny of inter-corporate loans and investments
 11. Valuation of undertakings or assets of the listed entity, wherever it is necessary;
 12. Evaluation of internal financial controls and risk management systems;
 13. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
 14. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;

15. Discussion with internal auditors of any significant findings and follow up there on;
16. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
17. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
18. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
19. To review the functioning of the whistle blower mechanism;
20. Approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
21. Carrying out any other function as is mentioned in the terms of reference of the audit committee.
22. Reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision.
23. Consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders.

The Audit Committee shall mandatorily review the following information:

- i. Management discussion and analysis of financial condition and results of operations;
- ii. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
- iii. Management letters / letters of internal control weaknesses issued by the statutory auditors;
- iv. Internal audit reports relating to internal control weaknesses; and
- v. The appointment, removal (including inter-company or intra-company

transfers or change in roles) and terms of remuneration of the chief internal auditor shall be subject to review by the audit committee.

vi. Statement of deviations:

- (a) quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1) of the Listing Regulations.
- (b) annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 32(7) of the Listing Regulations.

3. As per Regulation 23 of the Listing Regulations read with SEBI Circular dated 22nd November, 2021

With effect from April 1, 2022, unless otherwise specified:

- (i) All related party transactions and subsequent material modifications shall require prior approval of the audit committee of the listed entity. Provided that only those members of the audit committee, who are independent directors, shall approve related party transactions.
- (ii) Audit committee of a listed entity shall define “material modifications” and disclose it as part of the policy on materiality of related party transactions and on dealing with related party transactions.
- (iii) A related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds 10% of the annual consolidated turnover, as per the last audited financial statements of the listed entity;
- (iv) A related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual standalone turnover, as per the last audited financial statements of the subsidiary (with effect from April 1, 2023);
- (v) Prior approval of the audit committee of the listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if Regulation 15(2) and 23 of the Listing Regulations are applicable to such listed subsidiary.

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- (vi) For related party transactions of unlisted subsidiaries of a listed subsidiary as referred to in (iv) above, the prior approval of the audit committee of the listed subsidiary shall suffice.
- (vii) Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely-
- (a) Audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity;
 - (b) Omnibus approval shall be applicable in respect of transactions which are repetitive in nature;
 - (c) Audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
 - (d) Omnibus approval shall specify:
 - the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
 - the indicative base price / current contracted price and the formula for variation in the price, if any; and
 - such other conditions as the audit committee may deem fit.
- (viii) Where the need for related party transaction cannot be foreseen and aforesaid details are not available, the audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.
- (ix) Audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
- (x) Omnibus approvals by the audit committee shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.
- (xi) Following additional information is to be reviewed by the audit committee of a listed entity for approval of a proposed related party transaction:
- a) Type, material terms and particulars of the proposed transaction;
 - b) Name of the related party and its relationship with the listed entity or

- its subsidiary, including nature of its concern or interest (financial or otherwise);
- c) Tenure of the proposed transaction (particular tenure shall be specified);
 - d) Value of the proposed transaction;
 - e) The percentage of the listed entity's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for a related party transaction involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided);
 - f) If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary:
 - i. details of the source of funds in connection with the proposed transaction;
 - ii. where any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments,
 - nature of indebtedness;
 - cost of funds; and
 - tenure;
 - iii. applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - iv. the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the related party transaction.
 - g) Justification as to why the related party transaction is in the interest of the listed entity;
 - h) A copy of the valuation or other external party report, if any such report has been relied upon;
 - i) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed related party transaction on a voluntary basis;
 - j) Any other information that may be relevant

- (xii) Audit committee shall also review the status of long-term (more than one year) or recurring related party transactions on an annual basis.

Explanation:-

- I. For the purpose of Paragraph 3 above, the term **‘Related Party’** and **‘Related Party Transaction’** is defined under Regulation 2(1)(zb) and 2(1)(zc) as under :

➤ **Regulation 2(1)(zb) of the Listing Regulations defines “related party” as**

“related party” means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that:

- (a) any person or entity forming a part of the promoter or promoter group of the listed entity; or
- (b) any person or any entity, holding equity shares:
 - (i) of twenty per cent or more; or
 - (ii) of ten per cent or more, with effect from April 1, 2023;

in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year;

shall be deemed to be a related party.

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

➤ **Regulation 2(1)(zc) of the Listing Regulations defines “related party transaction” as**

“related party transaction” means a transaction involving a transfer of resources, services or obligations between:

- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
- (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and

effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that the following shall not be a related party transaction:

- (a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- (b) the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
 - i. payment of dividend;
 - ii. sub-division or consolidation of securities;
 - iii. issuance of securities by way of a rights issue or a bonus issue; and
 - iv. buy-back of securities.
- (c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the SEBI:

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

➤ **Exemptions from Audit Committee approval and omnibus approval**

Regulation 23(2) & (3) of the Listing Regulations pertaining to prior approval by the audit committee and omnibus approval are exempted for:

- a) transactions entered into between two government companies;
- b) transactions entered into between a holding company and its

wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

- c) transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

II. Companies Act, 2013 (“the Act”)

As per section 177 of the Act

1. The Board of every listed public company and such other class or classes of companies, as may be prescribed, shall constitute an audit committee.
2. The audit committee shall consist of a minimum of three directors with independent directors forming a majority:

Provided that majority of members of the audit committee including its Chairperson shall be persons with ability to read and understand the financial statement.

3. Every audit committee of a company existing immediately before the commencement of the Act shall within one year of such commencement, be reconstituted in accordance with sub-section (2).
4. Every audit committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, –
 - i. the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
 - ii. review and monitor the auditor’s independence and performance, and effectiveness of audit process;
 - iii. examination of the financial statement and the auditors’ report thereon;
 - iv. approval or any subsequent modification of transactions of the company with related parties;

Provided that the audit committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed;

Provided further that in case of transaction, other than transactions

referred to in section 188, and where audit committee does not approve the transaction, it shall make its recommendations to the Board:

Provided also that in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the audit committee and it is not ratified by the audit committee within three months from the date of the transaction, such transaction shall be voidable at the option of the audit committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it:

Provided also that the provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

- v. scrutiny of inter-corporate loans and investments;
 - vi. valuation of undertakings or assets of the company, wherever it is necessary;
 - vii. evaluation of internal financial controls and risk management systems;
 - viii. monitoring the end use of funds raised through public offers and related matters.
5. The audit committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.
 6. The audit committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.
 7. The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the audit committee when it considers the auditor's report but shall not have the right to vote.

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8. The Board's report under sub-section (3) of section 134 shall disclose the composition of an audit committee and where the Board had not accepted any recommendation of the audit committee, the same shall be disclosed in such report along with the reasons therefor.
 9. Every listed company or such class or classes of companies, as may be prescribed, shall establish a vigil mechanism/ whistle blower policy for directors and employees to report genuine concerns in such manner as may be prescribed.
 10. The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the audit committee in appropriate or exceptional cases:

Provided that the details of establishment of such mechanism shall be disclosed by the company on its website, if any, and in the Board's report.

MODEL CHARTER OF AUDIT COMMITTEE

1. Objectives

The objectives of the audit committee of the Board of Directors ("Board") of __ ("company") is primarily to assist the Board with an oversight of -

- i. The accuracy, integrity and transparency of the company's financial statement with adequate and timely disclosures;
- ii. Compliance with legal and regulatory requirements;
- iii. Internal control over financial reporting and on policies and procedures adopted for orderly and efficient conduct of business;
- iv. Monitoring the independence of the statutory auditors;
- v. External and internal audit processes including performance of the statutory auditors and internal auditors of the company;
- vi. Impact of schemes involving merger, demerger, amalgamation, etc. on the company and its shareholders; and
- vii. Scrutiny of loans given, investments made, guarantees and securities provided in connection with any loan taken by any person or entity.

The audit committee should also assist the Board with regard to-

- i. Laying down the criteria for granting omnibus approvals in line with policy on related party transactions which shall be applicable in respect of transactions which are repetitive in nature.
- ii. Evaluation of process of identification of related parties and related party transactions, involving cash or otherwise to ascertain that such transactions are not prejudicial to the interest of all stakeholders including minority shareholders.

This charter is subject to laws as applicable to the company.

2. Process

- The audit committee should –

- i. Annually review this charter and recommend any changes it considers necessary to the Board;
- ii. Ensure the independence of its members from any management or promoter's influence;
- iii. Ensure an effective and independent internal audit function which provides assurance regarding the adequacy and operation of internal controls and processes intended to safeguard the company's assets and other resources, effective and efficient use of the company's resources and, timely and accurate recording of all financial transactions. The head of the internal audit function should report functionally to the chairman of the audit committee to ensure independence of internal audit function;
- iv. Meet the statutory auditors at the end of each quarter and financial year to discuss key observations relating to the financial statement for the relevant period;
- v. Provide an independent channel of communication for the Chief Executive Officer, Chief Financial Officer, Chief Compliance Officer, internal auditors, statutory auditors, cost auditors and secretarial auditors;
- vi. At its discretion, invite members of the management and external experts in legal, financial and technical matters, to provide advice and guidance;
- vii. In case internal audit function is carried out internally, identify an employee as the person in-charge of internal audit who shall have a direct functional reporting line to either:
 - (a) the Non-Executive Chairperson, if any; or
 - (b) the Chairman of the audit committee, with a dotted reporting line to the Managing Director or CEO or Chairman for administrative matters only;
- viii. Meet the Person in-charge of internal audit, cost audit and secretarial audit on a half yearly basis, at which meetings nobody other than the members of the audit committee shall be present;
- ix. Provide periodic feedback to the Board about the financials and adequacy of internal control mechanism in the company, place the comments, if any, of the internal auditors, statutory auditors, cost auditors and secretarial auditors before the Board and review the feedback of the Board for any corrective measures to be taken;

- x. Review the accounting policies of the company periodically;
- xi. Review the compliances with the accounting policies and accounting standards and examine the deviations, if any, and its impact on the financial statements of the company;
- xii. Review the aspects of dissemination of financial information to the stakeholders.

In no circumstances shall the person in-charge of internal audit be dismissed or suspended or removed without the consent of the audit committee.

3. Composition

The audit committee shall have minimum three directors as members, with at least two-thirds of the members of audit committee being independent directors. All members of the audit committee shall be **financially literate*** and at least one member shall have accounting or related financial management expertise. The chairperson of the audit committee shall be an independent director and he shall be present at the annual general meeting to answer shareholder queries.

However, it is desirable that all members of the audit committee comprise of independent directors and non-executive directors, who are not in any way related to the promoters or executive directors. The chairperson of the Board should not chair the audit committee and no executive director should be member of the audit committee. They can be invited to the meetings as and when desired by the audit committee.

All related party transactions shall require prior approval of the audit committee and only those members of the audit committee, who are independent directors, shall approve the related party transactions.

*Financial literacy would generally include ability to read and understand basic financial statements, including balance sheet, profit & loss Account, statement of changes in equity, cash flow statement, notes to the statements, cost accounting, budgets and management's discussion and analysis ("MD&A"), ability to understand and assess general application of accounting principles, ability to assess the effectiveness of the audit process and the company's finance functions in generating reliable and timely financial information; and to ask probing questions about the company's operations against internal controls and risk factors.

Given the ever changing financial reporting and corporate landscape, it is essential for members of the audit committee to undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules etc.

4. Meetings and Reports

- i. The audit committee shall meet at least four times a year and not more than **one hundred and twenty days** shall elapse between two meetings. The audit committee shall also endeavor to have two meetings over and above the meetings held for quarterly financials. These two meetings should deal exclusively with matters related to internal audit reports, risk management and other matters in discharge of various governance responsibilities of the audit committee. Meetings may be in person or through video-conferencing as permitted by law.
- ii. Sufficient time shall be allocated during the meetings of audit committee to deal with issues other than financial statements, e.g., meeting to consider processes for ascertaining universe of related parties, determining arm's length basis for related party transactions etc.
- iii. It is desirable that the quorum for meetings of audit committee shall be at least half of the total strength of the audit committee with presence of at least two independent directors. In case of any fraction, the same shall be rounded to the nearest higher number. In case of a meeting to consider related party transactions, it is desirable that majority of independent directors who are members of the audit committee should be present at such meeting.
- iv. The audit committee shall report regularly to the Board with respect to the activities assigned and receive feedback/direction from the Board on such activities. Such reporting to Board shall include significant issues, if any, arises with respect to the quality or integrity of the company's financial statements, the company's compliance with legal or regulatory requirements, the performance of the internal audit function or the performance and independence of the statutory auditors.
- v. The audit committee shall facilitate open flow of information and co-operation with other committees of the Board, wherever necessary.
- vi. The audit committee shall invite such employees or advisors as it considers appropriate. The statutory auditors and the head of internal audit shall attend all meetings unless the committee considers otherwise. In case internal audit is being conducted by an outside professional agency, the partner in-charge of the internal audit shall be invited.

5. Powers

In discharging its responsibilities, the audit committee shall have the following powers:

- i. To have unrestricted access to the company's books and records.

- ii. To seek information from the management of the company and its external advisors.
- iii. To investigate into any matter in relation to the tasks assigned by the Board and to summon any employee of the company.
- iv. To obtain the advice of lawyers, accountants or other professionals / consultants at the committee's sole discretion. The audit committee shall have authority to approve the related fees and retention terms. Fees to auditors shall be recommended for approval by the Board with adequate information as may be required under the requisite law.
- v. To obtain any information from any employee of the company to perform its duties effectively and have direct access to any employee of the company particularly in relation to the functioning of the vigil mechanism.
- vi. To have necessary resources and authority to discharge its duties and responsibilities.

6. Responsibilities and Duties

6.1 Primary Responsibilities of Audit Committee

The audit committee shall primarily be responsible for the following:

- a) Overseeing the processes that ensure the integrity of financial statement issued by management from time to time. Where specific disclosures are required to be made in financial statement, the audit committee shall ensure compliance thereof.

The expression "financial statement" shall include full form and summarised annual and interim financial statement for external users, special purpose financial reports such as for a prospectus, management discussion and analysis reports, the particulars of loans, guarantees & investments etc.

- b) Review the audit strategy risk involved in the audit and audit observations.
- c) Overseeing the adequacy and effectiveness of the internal controls and processes by which confidential or anonymous complaints or information regarding financial, operational or commercial matters are received and acted upon. This includes the protection of whistle-blowers from victimization and the provision of access to the chairman of the audit committee by whistle-blowers. The audit committee shall nominate/ designate one or more of its senior management personnel or a committee comprising of senior management personnel for the purpose of dealing with the whistle blower complaints and providing status of the said complaints to the audit committee at least once in a half-year. The audit committee shall review the

status of whistle blower complaints which are received by the listed entity (relating to the listed entity as well as its subsidiaries) and ensure that the whistle blower mechanism including the framework for offering protection against victimization is functioning effectively.

- d) Ensuring that the process of identification of related parties is exhaustive. For example, the audit committee may check whether the company seeks the updated details of all related parties from its promoters, promoters group, directors, key managerial personnel, holding company / parent, subsidiaries, associates and joint ventures of the company at least once in a financial year. Approving transactions with related parties, for cash or otherwise, any subsequent modifications and half yearly disclosures to the stock exchanges. With effect from 1st January, 2022 onwards only those members of the audit committee, who are independent directors, shall approve the related party transactions.

The related party transactions should be approved by majority of independent directors who are members of the audit committee and while deliberating on such proposal they may ask the executive directors who are members/ invitees of/to the audit committee to leave the meeting.

While according approval to related party transactions, the audit committee should consider the business needs for those transactions and the fairness of the terms at which they are proposed to be contracted.

For this purpose, the audit committee shall be entitled to rely on the information and explanations submitted by the management if it has no reason to doubt its completeness or accuracy and may also ask the management for additional information, wherever necessary.

If required, outside experts may be engaged to assist the audit committee in understanding the fairness of the transaction under consideration. The audit committee shall also satisfy itself as to the disclosure of related party transactions in the financial statement with the help of reports submitted by internal auditors.

- e) Evaluate that the payment of royalty / brand usage value by the company to related party is not disproportionately high and the same is consistent with the benchmarks, if any, prescribed by the regulators such as SEBI/RBI etc.
- f) Evaluate the transaction on financial assistance given to promoter entities which have to be written off or are deemed unlikely to be recovered and ensure monitoring of the same.
- g) To seek confirmation from CEO and CFO that all loans (or other form of debt), guarantees, comfort letters (by whatever name called) or securities in

connection with any loan(s) (or other form of debt) given directly or indirectly by the listed entity to promoter(s), promoter group, director(s) (including their relatives), key managerial personnel (including their relatives) or any entity controlled by them are in the economic interest of the company. The audit committee shall scrutinize loans or advances in the nature of loan given, investments made, guarantees given and securities provided in connection with any loan taken by any person or entity.

This scrutiny shall not be applicable in the following cases:-

- i. loan given by the listed entity to its employees as per its policy on loan applicable generally to its employees
 - ii. banks, NBFCs and HFCs in case of loans given, investments made, guarantees and securities provided in normal course of business.
- h) Enquiring into reasons for default by the company in honouring its obligations to its depositors, debenture holders, creditors, shareholders (in case of non-payment of declared dividend) and recommending appropriate action to the Board.
- i) Appointing expert valuers for any valuation by the company either of its own assets or liabilities or those of any other party and adopt the valuer's report on conclusion of the valuation.

Expert Valuers here generally means an independent valuation professional with appropriate qualifications and experience in the valuation industry as would reasonably be required to make a financial valuation and who:

- a. has had no business relationship of any nature (whether directly or through any of its Affiliates) with the company or its subsidiaries in the twelve months prior to its selection;
 - b. is not, directly or through any of its Affiliates, in current discussions with either company or any of its subsidiaries regarding a proposed future engagement; and
 - c. has no other conflict of interest or financial interest in the proposed transaction (other than receipt of its fee).
- j) Approve and recommend to the Board the appointment of the company's Chief Financial Officer including extension of service tenure.
- k) Enquire into the end-use of funds raised from the public and to draw the attention of the Board to significant deviations from the use of funds as stated in the offer document.

6.2 Secondary Responsibilities of Audit Committee

In order to discharge the above primary responsibilities, the audit committee shall ensure the following:

- a) Overseeing the quality of internal controls and other controls relevant to its primary responsibilities. The audit committee shall also make enquiries about the management's control consciousness and the quality of the control environment prevailing in the company. For this purpose, the audit committee shall consider the management letters issued by the statutory auditors and the reports of the internal auditors.
- b) Overseeing the system for storage (including back-up), modification, retrieval, display, print-out and disposal of electronic accounting records.
- c) Overseeing the quality of the financial reporting process, including the selection of the most appropriate method of permitted accounting policies, significant adjustments and the disclosure of aggregate effect of material adjustments pertaining to last quarter, the appropriateness of use of the going concern assumption, the exercise of reasonable judgment where required and the use of the most appropriate estimates.
- d) oversee appropriate disclosure and presentation of information in financial reports.
- e) The audit committee shall also review the financial statements of subsidiary companies (including statutory audit reports) and other entities that are consolidated into the group financial statements to satisfy itself that the:
 - (i) management is managing group financial risks;
 - (ii) intra group transactions are commensurate with business needs; and
 - (iii) material investments and other assets of the subsidiaries are real.

The internal auditors of holding company may be assigned with the task to review internal audit issues of subsidiary companies, filter the relevant ones and place it before the audit committee of holding company.

- f) The audit committee shall annually appraise the quality of the statutory audit. Based on such appraisal it shall recommend to the Board, the remuneration of the statutory auditors, including any other terms, for the following year.
- g) Permitted non-audit assignments under the Act, with the statutory auditors shall be pre-approved by the audit committee.
- h) The audit committee shall scrutinize inter-corporate loans and investments with the object of ascertaining if management has taken appropriate steps to protect their value and that they are appropriately reflected in the financial

statements. The audit committee shall also review these, especially their utilization, in respect of its subsidiary and joint venture companies.

- i) The audit committee shall look into the matters pertaining to valuation of any undertaking or asset of the company where an independent valuation is required by law or regulation or where such a valuation is necessary for incorporation in the financial statement. For this purpose, it shall decide the agency that will undertake the valuation as also the terms of appointment and the remuneration payable. In a scheme of arrangement, the audit committee shall review the draft scheme, considering the valuation conducted by the independent valuer appointed for the purpose, and recommend it to the Board.
- j) Reviewing the findings of the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the same to the Board.
- k) Reviewing the findings of the statutory auditors with respect to the actual, suspected or alleged fraud affecting the entity or deficiency in the internal control or misstatements identified in disclosures during the audit.

6.3 Responsibilities of Audit Committee in relation to review of compliance

- (a) Overseeing the adequacy and effectiveness of the processes for compliance with applicable laws.
- (b) Review of statutory compliance reports with applicable laws, every quarter to assess non-compliance and seek clarifications and explanations together with steps taken to ensure compliance, including those reported by statutory auditors during the audit of the financial statements, looking for early warning signals to ensure objective of the audit committee is not defeated.
- (c) Review of financial/non-financial regulatory matters and violations under Code of Business Conduct to assess non-compliance, seek clarifications and explanations together with steps taken to ensure compliance.
- (d) Review the policies of the company such as Code of Ethics for Senior Financial Officers, Code of Business Conduct, Code of Conduct to Regulate, Monitor and Reporting of Trades by Insiders and recommend improvements, wherever necessary.
- (e) Updating of policies and processes in light of significant events pertaining to financial malpractices.
- (f) In addition to feeds from the management, also endeavour to look for third party sources of information while discharging its duties.

6.4 Other Responsibilities of Audit Committee

- (a) Ascertain that the company has periodically rotated its auditors (firm and partner) as mandated under the law.
- (b) Conducting a “post-audit review” of the financial statements and audit findings including any suggestions for improvements provided to management by the statutory auditors.
- (c) Coordination with other committees to the extent that its work has a bearing on their scope of work.
- (d) Review the impact of accounting and legal changes on company’s financial statement.
- (e) Review adherence to the guidelines issued by professional bodies such as Institute of Company Secretaries of India, Institute of Chartered Accountants of India, Institute of Cost Accountants of India in respect of internal control, secretarial standards, secretarial audit etc.

6.5 Principles which may be relied by the Audit Committee while discharging its “Roles and Responsibilities”

Audit committee should ensure:

- i. Optimum utilization of company’s financial resources in the **best economics interests** of the company.
- ii. **Arm’s length relationship** and fairness of the terms in all related party transactions.
- iii. **Integrity of financial reporting** process and financial statements of the company from time to time.
- iv. **Timely, adequate and accurate disclosure** of all the financial information to the stakeholders.
- v. Effective **assessment, appraisal and mitigation of all types of risks**—internal, external, audit, financial, operational, reputational, informational, cyber security, etc. in case of companies which are not required to have risk management committee.
- vi. Adequacy and effectiveness of **internal controls and processes** with respect to fraud detection mechanism, complaint redressal mechanism and whistle blower mechanism.
- vii. **Independent channel of communication** with internal auditors, statutory auditors and secretarial auditors.

GOOD PRACTICES FOR AUDIT COMMITTEE

The quality of a company's financial statements as vetted by the statutory auditors and audit committee, is the key to market confidence and informed investors.

Audit committee has an important role in ensuring the quality of the financial statements, since audit quality relates to an effective and independent audit function that is appropriately supported by the company.

This part of the charter outlines good practices for an audit committee as under:

1. Criteria and eligibility for an Audit Committee Member:

- i. Audit committee should comprise of experienced and well-credentialed non-executive members including its chairperson.
- ii. The Board should ensure that the members of the audit committee collectively have skills, experience, expertise and strategic intellect corresponding to the business activities of the company.
- iii. Since independent directors have a maximum period of two terms of five years each, the appointments to the audit committee should ideally be staggered to ensure that there is no vacuum at any point of time and there is continuity and clear succession of leadership.
- iv. There should be a blended induction process for new members including discussions, presentations, site visits, documentations etc.

2. Assessing Auditors

In assessing the performance of auditors, the adequacy and appropriateness of audit resources, audit committee should consider matters such as the auditor's knowledge of the company's business and industry, the extent of involvement of senior team members in the audit process, use of technical and specialist expertise, ability to conduct audit in different geographical locations.

In case of an eventuality of a forensic audit, the audit committee should ensure that the forensic audit team possesses the requisite skill sets, tools and resources to investigate fraud, embezzlement and other irregularities including those hidden as financial transactions.

While recommending appointment/re-appointment of auditors, the audit committee should take into consideration size, reputation, independence/integrity of the auditor, term completed by existing auditor/partner (more than 5 years), quantum of fees to be paid including increase in remuneration with the outgoing auditor & other non-audit fees paid to the auditor during the fiscal.

3. Consider all relevant matters while recommending audit fees

Audit committee should consider the extent to which audit fees are consistent with the cost involved and quality of audit.

4. Facilitating the audit process

Audit committee should promote quality and timely reporting by seeking explanations and advice on the appropriateness of accounting treatments and estimates, proper books and records, and systems and controls, which can facilitate a quality audit and avoid issues being missed or not adequately addressed due to deadline pressures.

5. Broader reporting and communication

Many organisations report broader information through mandatory and voluntary narrative reporting, but there is room for improvement. To enhance trust and transparency, the audit committee can play a crucial role in broader corporate reporting, overseeing a wider set of business and reporting risks, and assessing the connectivity and consistency between information in the financial statements and other disclosures.

6. Review management's accounting treatments and estimates

Audit committee should review management's accounting treatments and estimates, and should feel free to consult with an external expert, when considered necessary in carrying out its duties.

7. Communicating with the auditor to ascertain audit quality

Audit committee should have open, timely and meaningful communication with auditors about risks, issues and other matters to facilitate them in performing their respective roles in overseeing the financial reporting process and conducting a quality audit. Audit committee should assess audit quality with regard to enquiry, observation and how the auditors' findings are addressed by the management.

Audit committee should have proactive communication and briefing sessions with chief of internal audit / statutory auditors about significant business developments that could have an impact on the financials. Wherever feasible, audit committee

may consider, to hold meeting (physical or virtual) with the auditors, especially where there are different branch auditors, to address any of their concerns or expectations from management in effective and smooth conduct of audit process.

8. Support the internal audit department and its findings

Audit committee should ensure that the internal audit department is adequately funded and staffed to perform the duties assigned. The head of internal audit should report directly to the chairman of audit committee.

9. Look for red flags

Red flags include when management delivers the agenda papers to audit committee without sufficient time for members to digest it before the audit committee meetings. Other red flags include problematic findings that remain unaddressed between audits.

10. Conducting Audit Committee meetings

To the extent possible the chairman should avoid convening meetings at a shorter notice. The chairman should ensure that the members of audit committee should spend sufficient time for attending the meetings of audit committee and have an active participation. The agenda of audit committee meeting should be approved by the chairman of the audit committee before the same is circulated to the members of the audit committee. Audit committee should decide the priorities at the beginning of the meeting and flag the additional inputs required before arriving at a decision.

The chairman of the audit committee should facilitate deliberations amongst the members for effective decision making on the agenda items placed for consideration of audit committee and ensure that the views of members are well considered during decision making process.

Since the purpose of conducting four meetings of audit committee in a year would be specifically for approval of financial results/statements, the audit committee should endeavor to have at least two additional meetings to review internal audit reports, risk management and discharge various governance responsibilities of the audit committee. The gap between two meetings of the audit committee should preferably not exceed 90 days.

11. Hiring of external experts to advise the Audit Committee

Audit committee may not be well versed with all technical aspects on matters placed before it and may require external experts' opinion on those matters. When audit committee has been tasked with an increasing amount of responsibilities, it is important that the audit committee should not hesitate to obtain the experts opinion wherever required to perform its duties.

12. The Audit Committee should –

- i. Focus on the financial position and also have discussion on business performance and not restrict itself merely to the correctness of the format of financial statements.
- ii. Communicate in clear terms to the auditor that the committee supports a conservative approach for accounting as mandated. Create a culture where the auditor feels that they have the unstinted support of the audit committee and are free to raise any point of concern before the audit committee.
- iii. Question management on all major assumptions, estimates, forecasts and valuations, *inter-alia*, including the following:
 - a. **Revenue-** Whether aptly recognized
 - b. **Classification of Advances (specifically for Banks and Financial Institutions)**
 - Provisioning
 - Exceptional write offs allowed
 - Restructuring of large advances as per RBI norms
 - Greening of advances, upgradation
 - c. Whether all Regulatory guidelines have been followed
 - d. Instances of window dressing
 - e. **Depreciation & Amortization – Impairment**
 - Adequacy
 - Neither excessive nor short
 - Tampering with useful life
 - f. **Changes in Accounting Policies** - Needs to be Logical
 - g. **Assets** - Ensure clear titles including any encroachments, encumbrances
 - h. **Intangibles** - Whether procured or created
 - i. **Legal matters and claims** having financial ramifications
 - j. **Cyber security** & disaster recovery plan
 - k. **Adequate provisions made for**

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- Advances - debtors
 - Dead inventory
 - Employee benefits obligation
 - Diminution in value of investments, other than temporary
- l. **Off Balance Sheet items** - Capital commitments, third party guarantees, letters of comfort
 - m. **Fraud by or on company reported** - End use of funds, diversion
 - n. Sticky Accounts
 - o. Booking of personal expenses
 - p. CSR Spend
 - q. Dealing with price sensitive information
- (iv) Ask the auditor:
- a. analytical questions about the quality of the backups provided,
 - b. the conservatism and quality of accounting management,
 - c. the culture in the finance function,
 - d. the quality of explanations provided by the management,
 - e. adequacy of time for conducting audit,
 - f. the quality of compliance and governance functions of the company,
 - g. any irritants faced by auditors in conducting the audit process smoothly,
 - h. any specific area where the auditors have concern or suggestion of improvement about audit, which may include management letters.
- 13.** The audit committee should examine matters such as internal audit, legal compliance and whistle-blowing as these are very important. It is desirable that the appointment and remuneration of the cost auditors and secretarial auditors be approved and recommended by the audit committee to the Board.
- 14.** The audit committee should make it clear to senior management in committee meeting, in the auditor's presence, that it expects conservative or reasonable assumptions and policies in the drawing-up of the financial statements and that it expects full co-operation with the auditor in this matter.

- 15.** The audit committee should comprise of independent directors and non-executive directors who do not belong to the promote group. The audit committee members should meet the auditors without the presence of management before the commencement of audit committee meeting for consideration of financial results at which the auditor can freely raise concerns/express his views.
- 16.** Chairman of the audit committee should have a right to call upon the finance director or head of the finance function, head of internal audit, representative of the statutory auditor or any other executives, by which the latter can share with the former his concerns about any specific business practices. It is then the responsibility of the chair, if satisfied with the concerns raised, to convey them appropriately to the audit committee and the auditors so that these concerns can be addressed during the audit.
- 17.** Any proposal for removal of CFO or head of internal audit should be subject to the concurrence of the audit committee.
- 18.** Carefully evaluate the impact of business strategy, plans, practices, policies, instruments and transactions on the financials of the company.
- 19.** Satisfy itself that if a financial matter is to be carried forward for future action, management is genuinely committed to it and that they have the resources and competence to act within the agreed timeframe.
- 20.** Convey to the Board all significant concerns about the financials and other operational matters.
- 21.** In the event of uncertainty in the economy, fair values, and future earnings, specifically in turbulent times such as a COVID-19 pandemic, the audit committee should also consider the following:
 - i. Impact on profitability, cash flow, capital preservation, capability of the company to meet its financial obligations, going concern considerations and other financial reporting implications, such as accounting estimates and events occurring after the reporting period.
 - ii. Third-party risk management, scenario planning, awareness of new legislation, and ensuring comprehensive business continuity thinking that is relevant to the crisis.
 - iii. Maintaining an effective internal control environment, taking into account changes as a result of updated policies and procedures, increased cyber security and data privacy issues, and displacement of staff.

- iv. The potential for heightened risk of fraud due to financial pressures and new operating environments.
- v. Providing guidance on a broader set of issues and risks including around people and capacity.

22. A multi-disciplinary approach

Broadly speaking, the crisis such as COVID-19 pandemic makes the need for connectivity and collaboration across an organization more pressing. Examples include:

- i. The interaction between different committees such as the audit committee and risk management committee, particularly in the banking sector, is an important means of expanding expertise and insights, and strengthening collaboration. This can be achieved through crossover in committee membership, or through joint meetings.
- ii. The audit committee may also need to work with other committees of the Board, such as those focused on governance, ethics, remuneration, strategy and business planning.
- iii. In the context of a need for transparency and to ensure better analysis of information to help steer the organization, the finance function, internal audit, and information technology are closely working together, sometimes blurring the normal boundaries of what the different functions do and involving accountants and internal auditors stepping beyond their functions and traditional roles.
- iv. Audit committee should more focus on utilizing the potential of internal audit to provide an advisory role (while still maintaining their independence), wherever needed, particularly where they have expertise in areas like data analytics.

23. Internal Control Systems pertaining to UPSI

In pursuance of Regulation 9A(4) of Securities and Exchange Board of India (Prohibition of Insider Trading Regulations), 2015 ("PIT Regulations"), the audit committee of a listed company shall review compliance with the provisions of PIT Regulations at least once in a financial year and shall verify that the systems for internal control are adequate and are operating effectively.

Details about internal controls under PIT Regulations are placed at **Annexure-I**.

The matters related to internal control compliances should be reported to the audit

committee. In addition, the audit committee can verify the report of the internal auditors, if any, and compliance officer to comply with Regulation 9A(4) of the PIT Regulations.

24. Whistle Blower Policy vis-a-vis Responsibility of the Audit Committee

- i. Section 177 of the Act read with Rule 7 of The Companies (Meetings of Board and its Powers), 2014 and the Listing Regulations, *inter-alia*, provides, a mandatory requirement, for all listed companies and such class of companies as may be prescribed to establish a mechanism called “Vigil Mechanism (Whistle Blower Policy)” to report concerns about unethical behaviour, actual or suspected fraud or violation of the company’s code of conduct or ethics policy. The policy should contain following features:
 - a. Provide a framework to promote responsible and secure whistle blowing and protection to the whistle blowers raising concerns. The policy should provide for a dedicated helpline/e-mail for reporting concerns by whistle blowers.
 - b. Ensure that the whistle blower and/or the person processing the disclosure is not victimized and no disciplinary action is initiated on such person.
 - c. Ensure complete confidentiality of the name of the whistle blower, the subject and the persons involved in investigation.
 - d. Ensure not to conceal evidence of the disclosure.
 - e. Take disciplinary action, if anyone destroys or conceals evidence of the disclosure made.
 - f. Provide an opportunity of being heard to the persons involved especially to the ‘subject’.
 - g. It should cover malpractices and events involving abuse of authority; breach of contract; negligence causing substantial and specific danger to public health and safety; manipulation of company data/ records; financial irregularities including fraud or suspected fraud; criminal offence; pilferage of confidential/proprietary information; deliberate violation of law/regulation; wastage/misappropriation of company funds/assets; breach of employee code of conduct/ethics policy or rules; leak of unpublished price sensitive information or any other unethical, biased, favoured, imprudent event.

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- h. Policy should not be used in place of the company grievance procedures or be a route for raising malicious or unfounded allegations against colleagues.
 - i. Policy should provide disciplinary action against any abuse of protection to the 'subject'.
 - j. Any complaint which has been subsequently found to be mala fide, frivolous or malicious should be liable to be dealt with appropriately under company's code of conduct.
 - k. A periodic report with number of complaints received under the policy and their outcome should be placed before the audit committee and the Board.
 - i. The ombudsperson under the policy should be an independent director and preferably the chairman of the audit committee.
 - ii. The potential impact of the complaint should be determined before deciding whether the complaint should be investigated internally or by outside agencies.
 - iii. Depending upon the assessment, the complaints having minimal potential impact can typically be investigated internally. For complaints having significant potential impact, it would be more appropriate to rely on the greater expertise and resources of outside agencies.
 - iv. In cases where senior management is implicated in the complaint, the company should generally engage outside consultants to avoid conflict of interest.
 - v. Prompt reporting, wherever appropriate, can avoid significant negative consequences for the company in future. For example, any allegations of misconduct that could have a material impact on financial statements should immediately be disclosed to the company's auditor/stock exchanges. Failure to promptly disclose the report to the auditor may result in delayed filing of the company's financial statements if the auditor does not have sufficient time to perform procedures to issue an unqualified audit report. In addition, if the auditor learns of the whistle blower report after the impacted financial statements are issued, it may insist on a historical restatement of financial statements and/or refuse to act for the company in the future.
 - vi. The policy may permit anonymous reporting after considering their advantages/disadvantages. The top advantages of permitting anonymous reporting is that more employees will come forward. The whistle blowers may wish to stay anonymous due to following reasons:

- a. Have a close working or personal relationship with the accused person.
- b. Are reporting misconduct on another employee's behalf.
- c. Fear retaliation by the accused or the employer.
- d. Are involved in the misconduct somehow and don't want to implicate themselves.
- e. The employees feel less vulnerable. In case anonymous whistle blowing is not allowed, the company may never learn about issues plaguing the organization.
- f. Permitting anonymous reporting encourages internal resolutions. If they can't conceal their identity, employees may choose to report externally (to the media) which may harm the reputation of the company.

Drawbacks of anonymous reporting are as under:

- a. Not knowing the whistle blower's identity can make it harder to investigate the complaint as the investigators can't contact the whistle blower.
- b. Some employees may use this with malicious intent, submitting untrue reports against co-workers who have wronged them. An anonymous reporting option makes it harder to punish false reports because you don't know the whistle blower's identity.

In addition, the country's laws and guidelines may also limit this decision. For example, some countries do not allow any anonymous reporting and restrict whistle blowing to complaints regarding finance and accounting. While others allow but discourage anonymous whistle blowing. The audit committee should ensure that the procedures under the whistle blower policy exist in the company and are effectively implemented.

- vii. The audit committee should ensure that the whistle blowing process is fully embedded throughout the company, reporting/procedures are documented, concerns raised are responded within reasonable time, steps were taken to prevent victimization of the complainant and to ensure establishment of systems to keep the identity of the complainant/accused/investigating team confidential.
- viii. The audit committee shall nominate/ designate one or more of its senior management personnel or a committee comprising of senior management

personnel to be known as Ombudsperson for maintaining records of the whistle blower complaints and providing status of the said complaints to the audit committee at least once in a half-year. The audit committee shall review the status of whistle blower complaints which are received by the listed entity (relating to the listed entity as well as its subsidiaries) and ensure that the whistle blower mechanism including the framework for offering protection against victimization is functioning effectively.

25. Investigation / Forensic Audit

Investigations can be triggered by a variety of allegations / complaints. They range from allegations of financial misreporting, financial impropriety, bribery, and conflicts of interest to harassment and cyber breaches. Some of these activities could violate company's code of conduct / policy, while others could potentially lead to regulatory contraventions.

Oversight on such investigations is a critical responsibility of the audit committee. Role and extent of involvement of audit committee – whether it should direct, lead or oversee an investigation, would depend upon the nature and gravity of the allegation/ complaint as enumerated below:

Nature of complaint	Involvement of Audit Committee	Degree
1. Financial misreporting 2. Complaint against senior management 3. Bribery 4. Complaint in sensitive geographies 5. Potential impact on reputation / brand image	<ul style="list-style-type: none"> ● Approve scope of investigation ● Appoint the auditors / investigators ● Directly monitor progress ● Plan Remedial Action ● Manage communication protocol 	High
Other complaints	<ul style="list-style-type: none"> ● Oversight through periodic reports from compliance / internal audit function ● Monitor remedial actions periodically 	Moderate / Low

In addition key consideration for audit committee in legal compliance framework of a company is placed at **Annexure-II**.

26. Valuation

- i. Valuation report should be taken for all transactions where there is a legal requirement to obtain valuation. In large transactions – Mergers, Acquisitions etc. the practice is to have reports from two reputed valuers. In M&A transactions, the valuers provide a valuation range of valuation which is used to determine swap ratio. The audit committee can choose any value within the range recommended by valuers.
- ii. Wherever there is regulatory requirement / transaction has a potential impact on minority shareholders, a fairness opinion should also be obtained. In listed companies / large transactions, it is a practice to obtain fairness opinion in addition to valuation reports.
- iii. The audit committee should approve the transaction on the basis of valuation reports and fairness opinion. Technically, the audit committee doesn't approve the valuation report. It adopts the valuation report and places its reliance on it.

27. Related Party Transactions

While approving related party transactions, the role of audit committee is to ensure the following broad expectations:

- i. Requisite compliance under all applicable laws and regulations
- ii. Stakeholder protection
- iii. To avoid the related party benefitting at the cost of the company
- iv. Bringing financial wisdom
- v. Fairness and justification of the transaction from a business perspective.

Against this backdrop, some of the good practices which audit committee can follow while approving related party transactions are given at **Annexure-III**.

28. Remuneration to Audit Committee Members

The remuneration paid to members of the audit committee should be higher than that of the other committees considering the massive terms of reference and other responsibilities assigned.

Note: An international view on audit committee and its functioning is given at **Annexure-IV** for information of the readers.

BENCHMARKING BY PROXY ADVISORY FIRMS PERTAINING TO AUDIT COMMITTEE FOR LISTED ENTITIES

Proxy Advisory firms play an important role in guiding the institutional investors on the manner in which they should exercise their votes in respect of resolutions proposed at General Meetings or by Postal Ballots of large listed companies. Their recommendations in this regard do not carry any legal force but nonetheless, given that the advisory is based on acceptance of recognized practices in capital markets and based on an extensive analysis of the firm carried out by a team of professionals, they do exert some influence on the voting decision of the institutional investors in particular.

Briefly the benchmarks used by proxy advisors in respect of matters governed by the audit committee are as under:

1. Composition of Audit Committee

Where companies fail to constitute the required committees, proxy advisors recommend voting against the Board chair, as he/she should be held responsible for the company's failure to meet a legal requirement.

Proxy advisors recommend that members of promoters group and executive directors should not form part of audit committee as their presence may create conflict of interest. Generally, they recommend vote against Chair/all members of the audit committee up for re-election if:

- i. The non-audit fees paid to the auditor are excessive i.e. the non-audit fees have constituted more than 50% of the total auditor compensation during the fiscal year, with an exception that such fee is in relation to special projects or due to unusual circumstances, and are not recurring in nature and are unlikely to create conflicts of interest; or
- ii. The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.
- iii. Any member of the audit committee who owns or represents an entity that owns 20% or more of the company's stock.

2. Appointment/Re-appointment of Auditors

Audit committee should assess audit quality by using tangible metrics while appointing/re-appointing auditors or ratifying their audit appointments.

Proxy advisors generally recommend to vote FOR the appointment/re-appointment of auditors and authorizing the Board to fix their remuneration, unless:

- i. There are serious concerns about the accounts presented or the audit procedures used;
- ii. The auditor is being changed without explanation;
- iii. Non-audit related fees are in excess of standard annual audit fees; or
- iv. The profile of the new audit firm being appointed is not disclosed or not available in the public domain.

3. Adoption of Accounts

Proxy advisors generally recommend voting FOR on the resolution to adopt accounts. However, voting AGAINST may be recommended where:

- i. The auditors have qualified the opinion, or in instances where the quality of the audit firm and / or the audit committee are a concern.
- ii. There are concerns about the accounts presented or audit procedures used; or
- iii. There has been an accounting fraud or material misstatement during the year

4. Regularity in attending meetings

Considerable weightage is provided by the proxy advisory firms in regard to the attendance of the candidate at meetings of the company. The thumb rule that is applied is that the candidate ought to have been present at least in 75% of the meetings of the Board or committees of which he is a member. Attendance in General Meetings is also considered as an important attribute.

5. Right to appoint risk head, internal or statutory auditors

In order to maintain independence and objectivity of these functions, proxy advisors recommend that such appointments should be the sole prerogative of the audit committee/Board and not of any individual Board member or shareholder.

Disclaimer: As the benchmarks referred to above do not carry any legal basis, we do not in any way endorse the views of the Proxy Advisories. The above note is intended to serve only for the information of the readers.

Annexure-I**Internal controls under SEBI (PIT) Regulations**

In pursuance of Regulation 9A(2) of PIT Regulations, the internal controls shall include the following:

- a) all employees who have access to unpublished price sensitive information are identified as designated person;
- b) all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of PIT Regulations;
- c) adequate restrictions shall be placed on communication or procurement of unpublished price sensitive information as required by PIT Regulations;
- d) lists of all employees and other persons with whom unpublished price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons;
- e) all other relevant requirements specified under PIT Regulations shall be complied with; and
- f) periodic process review to evaluate effectiveness of such internal controls.

The internal auditor or the compliance officer should verify periodically the effectiveness of internal control system. The main areas / matters to be checked / verified and the best practices in this regard are as under:

- i. The Code of Conduct ("Code") has been updated (including amendments to incorporate changes in PIT Regulations) as and when required and the same was circulated to all concerned;
- ii. The compliance officer has communicated in writing to all the designated persons about closure of trading window for financials in advance and such intimation was also filed with the stock exchanges;
- iii. Trading plans have been properly processed, documented and disclosed;
- iv. The pre-clearances were sought and given by the compliance officer, wherever applicable, and the details of trades executed in pursuance of the such pre-clearances were submitted by the persons concerned;
- v. The details of trades exceeding the threshold limits, as submitted by the designated persons, were duly filed with the stock exchanges within the prescribed time;

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- vi. The details of trading by designated persons have been reported to the chairman of the audit committee and the Board as per the requirements of the Code;
 - vii. The records of initial, one-time and continuous disclosures (including disclosures about trading / pledging / revocation of pledge, etc. of shares of the company) made by the designated persons and persons forming part of the promoter group are properly maintained;
 - viii. The details of designated persons, their immediate relatives and persons with whom designated persons share material financial relationship are properly maintained in an online database;
 - ix. Structured Digital Database (SDD) is being properly maintained by the company in respect of UPSI shared for legitimate purpose and entries are made in timely manner in such database;
 - x. All employees who have access to unpublished price sensitive information ("UPSI") are identified as designated persons and proper system / procedure is in place to identify the concerned employees as designated persons as and when required;
 - xi. The list of designated persons is reviewed from time to time;
 - xii. Appropriate notices/ letters have been served upon and confirmations have been taken from employees and other persons for maintaining confidentiality of UPSI; and
 - xiii. Appropriate restrictions are in place on communication and procurement of UPSI and UPSI is protected through login, password, etc. wherever applicable. The physical files should be maintained under proper lock and key.
 - xiv. Compliance officer conducts awareness sessions from time to time to create awareness and sensitise the concerned employees regarding issues pertaining to insider trading.
 - xv. Mechanism is in place to investigate the instances of leakage of UPSI and the whistle blower policy contains the provision of reporting UPSI leakage instances.

Annexure-II**Key considerations for Audit Committee to check the adequacy of compliance framework**

The requirement under the Act is to ensure that there are proper systems in place to ensure compliance with all applicable laws to the company and such systems are operating effectively. Key consideration for audit committee are placed below to check the adequacy of compliance framework:

Design of compliance framework	Key considerations for Audit Committee	Remarks / Guidance
Positioning & structure of compliance function	<ul style="list-style-type: none"> ● Does the company have a senior officer heading the compliance function? ● Who does the function report to? ● Is the compliance function adequately staffed? 	Right positioning & independence of compliance function is critical for its effectiveness.
Content of Framework	<ul style="list-style-type: none"> ● Does the company have a comprehensive inventory of all applicable laws / compliances? ● Is the inventory periodically updated? ● What is the process for capturing / disseminating urgent regulatory updates? 	<ul style="list-style-type: none"> ● Robust and updated inventory of laws and compliances are non-negotiable. ● If the inventory is not current / action oriented, it discourages users / business functions
Reporting Structure	<ul style="list-style-type: none"> ● Are the compliance requirements correctly mapped to functions? ● Are the compliance responsibilities – doer /reviewer / approver clearly defined? ● Is the escalation matrix clearly defined? 	Mapping right compliances to right persons

Design of compliance framework	Key considerations for Audit Committee	Remarks / Guidance
Training & Awareness	What is the process of educating / sensitizing business-functions / field staff on compliance requirements?	Training / Awareness is important for sensitization and user acceptance of the framework
Operating Effectiveness	Key considerations for Audit Committee	Remarks / Guidance
Monitoring Exceptions	<ul style="list-style-type: none"> ● Have the exceptions / non-compliances being thrown by self-reporting or by internal audit process? ● What is the nature of non-compliances – high / moderate / low ● Are the non-compliances repetitive? ● Is the closure of major exceptions monitored and reported to audit committee? ● Periodic review of high impact litigations and their financial impact on the company in case the decisions were to go against the company. 	The hallmark of a robust compliance framework is that system itself throws exceptions
Periodic Health Check	Is the health check of compliance framework done periodically?	Periodic health check of the framework provides reasonable assurance to the audit committee on the efficacy of framework

Annexure-III**Suggested good practices which Audit Committee can follow while approving Related Party Transactions (RPTs) are given below:****1. What should the audit committee check while approving RPTs?**

While approving any RPTs, the audit committee can seek answers to the following:

- i. Whether proposed transaction is promoting the overall objects of the company?
- ii. Whether transaction is beneficial and in the best interest of the company, its members as a whole, its employees, community and environment?
- iii. The transaction is not prejudicial to the minority shareholders of the Company
- iv. The transaction is not beneficial to the related party at the cost of the company

While approving contracts/arrangements which are covered under Section 188 of the Act, the audit committee may additionally evaluate and record whether the transaction is in the ordinary course of business and whether it is an Arm's length transaction, as these are the deciding factors as to whether the transaction should be additionally placed before the Board / shareholders also.

In western countries, and specifically in USA (Delaware) and Australia, there is a concept of Business Judgement Rule, which can act as a defence for a director who can demonstrate that he has acted in good faith. In case of any litigations, courts will uphold the decisions taken by a director as long as they are made:

- i. In good faith,
- ii. With the care that a reasonably prudent person would use, and
- iii. With the reasonable belief and diligence that the director is acting in the best interests of the corporation.

In India, similar provisions are also covered under sections 456, 463 and 149(12) of the Act, in which a director can seek relief for acts of omission or commission by a company. Under these sections, courts can hold a particular director liable only if such acts of omission or commission have occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently.

In order to demonstrate that the directors acted in good faith and with reasonable care and diligence, it is very important that audit committee documents are reasoned

properly, i.e., records in the minutes about the process followed by it while approving RPTs or while granting any other approvals. It may also record the rationale as to why audit committee feels that the transaction is in best interest of the company.

The given good practices are aimed to provide inputs for independent directors on the audit committee as to how they can demonstrate that they have taken decisions in good faith in the event of any contingencies.

2. What data can be asked by the audit committee while approving RPTs?

In order to ensure that the RPT is in best interest of the company, the audit committee shall ask for the information in line with SEBI Circular dated 22nd November, 2021 and also the additional information as suggested below, over and above what is normally required to be placed before the audit committee under the Act and Regulation 23 of the Listing Regulations:

- i. Type, material terms and particulars of the proposed transaction;
- ii. Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise);
- iii. Tenure of the proposed transaction (particular tenure shall be specified - it should not be indefinite / open ended)
- iv. Value of the proposed transaction (may be upper limit for recurring items);
- v. Justification as to why the RPT is in the interest of the listed entity;
- vi. copy of the valuation or other external report of independent agency including for arms' length pricing, if any relied upon;
- vii. Percentage of the company's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided); in order to ensure that company does not become dependent on this transaction for its future growth & sustainability;
- viii. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
- ix. Percentage of the counter-party's annual total revenues, total assets and net worth, that is represented by the value of the proposed transaction in order to evaluate whether the counter-party can become dependent on this transaction for its future growth & sustainability. If so, then it becomes all

the more essential to check how this transaction is in the best interest of this company, whose audit committee is approving it.

For a transaction which relates to any loans, inter-corporate deposits, advances or investments made or given by the company or its subsidiary, following additional details can also be sought, in order to check that the loan / investment is not prejudicial to this company:

- i. Details of the source of funds in connection with the proposed transaction – in order to check whether funds are diverted;
- ii. Tax implications if loan is provided from borrowed funds at subsidized rate (not being lower than the rates stipulated in the Act) of interest to subsidiary;
- iii. If financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments, then:-
 - a. Nature of indebtedness
 - b. Cost of funds
 - c. Tenure
- iv. In order to check whether this company is covering at least the cost of funds through interest to be charged on loan to be given;
- v. Applicable terms, covenants, tenure, interest rate and repayment schedule;
- vi. Whether secured or unsecured and if secured, the nature of security;
- vii. Purpose for which the funds will be utilised by the ultimate beneficiary of such funds pursuant to the RPT.

For transactions covered under Section 188, audit committee can ask for back-ups for why a particular transaction be considered as Arm's length transaction with regard to pricing as well as other credentials of the transaction and the parties involved.

3. Confirmations/Questions that can be asked by the audit committee from management while approving RPT?

Following confirmations / questions can be asked by the audit committee from management while approving any RPT:

a. For any RPT

- i. Seek process of identifying related parties [e.g.: under section 2(76), 184, 185, 192 of the Act and rules made thereunder, applicable accounting standards, Regulation 2(1)(zb), 2(1)(zc) and other provisions of the Listing Regulations, etc.]

- ii. Which method of Income Tax have been relied upon for arriving at Arm's length pricing? Reason for choosing a particular method? It is recommended to record which method was adopted and the rationale for adopting this method.
- iii. What other parameters with regard to the transaction have been evaluated, over and above pricing?
- iv. Whether any previous RPTs had been challenged by any Regulatory Authority? If yes, those parameters must also be considered.
- v. Is there is any conflict of interest involved of any director / KMP in the transaction? If yes, how is the transaction yet in the best interest of the company?
- vi. Whether the transaction is material so as to require shareholders' approval? Any view which says a particular transaction does not require shareholders' approval may be evaluated for its sanity.
- vii. Seek compliance status of other applicable provisions of law (like section 179, 192 of the Act and Regulation 23 of Listing Regulations etc.)

b. For Loan / investment

- i. Loan is not being given to a prohibited party under section 185 of the Act, e.g., directors of company / holding company / their relatives or partners / firms in which they are partners, etc.
- ii. Loan is not for prohibited purpose, such as for subscription to the shares of the company or holding company
- iii. Whether short term funds raised were used for long term lending to a related party?
- iv. What is the source of funds used for making the loan / investment? Whether investing funds in related party will be in the interest of company?
- v. In case borrowed funds / new capital issuance is used for making loan / investment, then is there any diversion as compared to the purpose for which it was raised?
- vi. How safe is it to give loan / make investment in a particular related party? (e.g., any previous instances of default of loan / statutory dues etc.)

- vii. Whether repayment schedule & interest payment schedule is fixed for the loan?
- viii. If previously, loan was given to the same party, whether repayments of previous loans were regular?
- ix. If previously, loan was extended/ renewed, what was the justification put forth for extension / renewal (is it due to cash flow problems?)
- x. Whether the loan is either repayable on demand or without specifying any terms or period of repayment? If yes, whether the borrower has the capacity to repay the loan whenever it is demanded by the company?
- xi. If loan is repayable on demand, what is the proportion of this loan to total loans?

c. For guarantee / security

- i. Whether the loan for which guarantee / security is given, is for the principal business activity of borrower?
- ii. Whether the guarantee / security given is in the economic interest of the company?

4. What additional care audit committee can take while giving omnibus approval?

The audit committee may seek comfort on the below parameters while giving omnibus approval for RPTs:-

- i. Transactions are repetitive in nature;
- ii. The need for omnibus approval for those specific RPTs is justified and is in interest of the company;
- iii. Omnibus approval should be up to specific threshold and for specific period;
- iv. Statutorily required disclosures are covered in the omnibus approval, such as:
 - a. Indicative base price or current contracted price and the formula for variation in the price, if any;
 - b. Maximum amount of transaction that can be entered into pursuant to omnibus approval.

If any of the above details are not available for any particular RPT, then audit

committee may voluntarily grant omnibus approval if value of transaction is not exceeding Rs. 1 crore per transaction.

While considering approval of proposed RPTs under omnibus route, the audit committee of a listed entity is also required to seek the information as per SEBI circular dated 22nd November, 2021.

5. How can audit committee assure itself that the practices being followed by the committee for approval of RPT are sufficient?

In order to get an assurance on the practices being followed by audit committee while approving RPTs, it can get any of the following done:

- i. It can check whether the process of identification of related parties is exhaustive, i.e., whether there is a process of seeking the updated details of all related parties from its promoters, directors, key managerial personnel, holding company / parent, subsidiaries, associates and joint ventures of the company at least once in a financial year;
- ii. It can check whether the process of approval of related party transactions includes approval for non-cash transactions too;
- iii. It can seek views of statutory auditor about adequacy of practices followed;
- iv. It can seek presentations from professionals once in a year to check if there can be any improvement in process of determining arm's length transaction;
- v. It can get the process reviewed from third party expert once in 2-3 years;
- vi. It can collaborate with nomination and remuneration committee (NRC) and risk management committee with regard to critically important RPTs and seek their views.

In line with the best practices which can be adopted by audit committee while approving RPTs, some more recommended best practices for approvals in respect of other matters can be adopted as given below.

6. Financial assistance to promoter entities to be written off / deemed unlikely to be recovered

In cases where financial assistance has already been given to promoter entities and it now appears that such assistance has to be written off / or it is unlikely that such loans shall be recovered, the issue can fall under "scrutiny of inter-corporate loans and investments" function of the audit committee.

In such cases, audit committee may evaluate the following:-

- i. Whether the terms and conditions of the loan contain clauses by which there can be set off of other assets against the writing off of loans?
- ii. What was the analysis done while giving this loan to the promoter entity? What may be the reason why this analysis has gone wrong?
- iii. What are the apparent reasons for this tentative default on part of promoter entity?
- iv. What is the overall impact on the company due to this default?
- v. Whether anything can be suggested to promoter entity to regularise repayment of this loan?
- vi. Whether renewal / extending of this loan can help in recovering the same in future?
- vii. Whether there has been any renewal / extension of same loan in past? If yes, what was the justification for such renewal / extension? Will the reasons hold good now?
- viii. Whether this loan was evaluated when there had been a delay of more than 90 days in repayment? What were the corrective steps taken by the company towards recovery?
- ix. Whether this loan was repayable on demand? If yes, what was the justification at the time of giving loan for not fixing repayment schedule?
- x. What is the proportion of the promoter loans to total loans given by the company?
- xi. Whether the funds used for this lending were borrowed funds? If yes, how can the company ensure that there is no cascading effect of this default on company's borrowings?
- xii. Whether the funds used for this lending were out of issue of fresh capital issuance? If yes, should this matter be informed to the shareholders along with the steps being taken by company to generate equivalent value for shareholders' investments through company's operations?
- xiii. Is there any other loan given to same entity which has not yet become due for repayment? If yes, what precautions can be taken to ensure it gets repaid on time?

7. Default by the company in honouring its obligations to its creditors and members

In cases where there is default by the company in honouring its obligations to its creditors and members, the audit committee needs to enquire into the reasons for such default and recommend appropriate action to the Board.

This activity can fall under "evaluation of internal financial controls and risk management systems". In case of listed companies, it can also fall under "looking into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors" function of the audit committee.

In such cases, audit committee could evaluate the following:-

- i. Will there be any additional liability fastened on the company as per the terms and conditions of the arrangement with the creditors / commitment given to members?
- ii. What may be the reasons for this default?
- iii. Was there diversion of funds which might have a cascading effect leading to this default?
- iv. Whether any funds were stuck up with any related parties, due to which this default happened?
- v. Was there any external factor which has contributed to this default? How could that have been avoided?
- vi. Was this a genuine loss for the company which has resulted in this default?
- vii. What is the overall impact on the company due to this default?
- viii. What can be corrective action to deal with this default?
- ix. Whether any new borrowing needs to be raised? What shall be the mode of borrowing which shall be in the best interest of company?
- x. Whether any fresh capital needs to be raised? What can be the most preferred mode and who can invest?
- xi. Whether any division needs to be hived off/any assets sold to make good the default?
- xii. Whether any change are required to avoid such defaults in future?
- xiii. What shall be the overall strategy to come out of this default and what

shall be the risk management framework to avoid such occurrences in future?

8. Remuneration & re-imbursements of expenses to Chief Executive and other senior executives

It is one of the primary responsibilities of the audit committee to satisfy itself that the remuneration, expense reimbursements and use of company assets by the chief executive and other senior executives is in accordance with their terms of employment and the company's rules and policies in that respect.

Some of the best practices by which audit committee can fulfill this responsibility can be as follows:

- i. It can seek specific comments from internal auditor in this regard;
- ii. It can obtain separate confirmations from internal auditor as well as management and also seek views of NRC as to whether the remuneration and expense reimbursements and use of company assets by CEO and senior executives are as per company's policy in this regard;
- iii. Seek industry comparison for this policy once in 2-3 years;
- iv. In case of deviations from industry comparison, evaluate the following with regard to the specific personnel where there is deviation:-
 - a. His experience;
 - b. His KPI;
 - c. Diversity challenges faced by the company.
- v. Based on the above analysis, the audit committee can take a call about any corrective action which can be taken in this regard.

9. Appointment of Chief Financial Officer

In case of listed companies, "approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate" is one of the functions of the audit committee.

Some of the best practices by which audit committee can fulfill this role can be as follows:-

- i. Matching the value system of the candidate with that of the company;
- ii. Age, Qualification and Experience of the candidate;
- iii. Reason for leaving the previous organisation. Considering the responsibility

lauded on the position of being a CFO, this will help to evaluate whether the candidate has left previous organisation for growth or otherwise;

- iv. Whether candidate is, directly or indirectly, related or connected with promoter / director / auditor or can there be any other kind of potential conflict of interest;
- v. References for the candidate;
- vi. Comparison of compensation as per industry standards.

10. Appointment of Internal Audit Head

The head of internal audit occupies a critical position as it helps in evaluating the effectiveness of governance, risk management and internal control arrangements.

Since the internal audit function plays a key role in promoting good corporate governance, the audit committee should ensure that the head of internal audit has the requisite skill sets which should, *inter-alia*, include the following:

- i. Should be professionally qualified and suitably experienced;
- ii. Ability to objectively assess the adequacy and effectiveness of governance and management of risks, giving an evidence based opinion on all aspects of governance, risk management and internal control;
- iii. Championing best practice in governance and commenting on responses to emerging risks and proposed developments;
- iv. Aptitude to have engagements across the organisation, particularly with the leadership team and with the audit committee;
- v. Capacity to lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.

Annexure IV

AN INTERNATIONAL VIEW ON AUDIT COMMITTEE (AC) AND ITS FUNCTIONING

Basis	Singapore Code of Corporate Governance	NYSE Listing Rules	ASX Corporate Governance Council – Corporate Governance Principles and Recommendations	UK Corporate Governance Code
Composition	<p>i. The AC comprises of at least three directors, all of whom are non-executive directors and the majority of whom, including the AC Chairman, are independent. At least two members, including the AC Chairman, have recent and relevant accounting or related financial management expertise or experience.</p> <p>ii. The AC does not comprise of former partners or directors of the company's existing auditing firm or auditing corporation:</p>	<p>i. Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.</p> <p>ii. The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence set out in Section 303A.02 and, in the absence of an applicable exemption, Rule 10A-3(b)(7).</p> <p>iii. Each member of the audit committee must be financially literate,</p>	<p>i. The audit committee should be of sufficient size and independence, and its members should have the accounting and financial expertise and a sufficient understanding of the industry in which the entity operates, to be able to discharge the committee's mandate effectively.</p> <p>ii. The ASX Recommendations state that an audit committee should be structured so that it consists of:</p> <p>a. at least three members</p>	<p>i. The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two.</p> <p>ii. The chair of the board should not be a member.</p> <p>iii. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as</p>

	<p>a. within a period of two years commencing on the date of their ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case,</p> <p>b. for as long as they have any financial interest in the auditing firm or auditing corporation.</p>	<p>as such qualification is interpreted by the listed company's board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the audit committee. In addition, at least one member of the audit committee must have accounting or related financial management expertise, as the listed company's board interprets such qualification in its business judgment. While the Exchange does not require that a listed company's audit committee include a person who satisfies the definition of audit committee financial expert set out in Item 407(d)(5)(iii) of Regulation S-K, a board may presume that such a person has accounting or related financial management expertise.</p>	<p>b. all members should be non-executive directors</p> <p>c. The majority of the members should be independent directors.</p>	<p>a whole shall have competence relevant to the sector in which the company operates.</p>
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<p>Role and Responsibilities</p>	<p>The duties of the AC include:</p> <ul style="list-style-type: none"> i. Reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any announcements relating to the company's financial performance; ii. Reviewing at least annually the adequacy and effectiveness of the company's internal controls and risk management systems; iii. Reviewing the assurance from the CEO and the CFO on the financial records and financial statements; iv. Making recommendations to the Board on: <ul style="list-style-type: none"> a. the proposals to the shareholders on the appointment and removal of external auditors; and 	<p>(i) To assist board oversight of:</p> <ul style="list-style-type: none"> a. the integrity of the listed company's financial statements; b. the listed company's compliance with legal and regulatory requirements; c. the independent auditor's qualifications and independence; and d. the performance of the listed company's internal audit function and independent auditors <p>ii. prepare the disclosure required by Item 407(d)(3) (i) of Regulation S-K;</p> <p>iii. an annual performance evaluation of the audit committee; and</p>	<p>The role of the audit committee is usually to review and make recommendations to the board in relation to:</p> <ul style="list-style-type: none"> i. the adequacy of the entity's corporate reporting and internal control framework; ii. whether the entity's financial statements reflect the understanding of the committee members of, and otherwise provide a true and fair view of, the financial position and performance of the entity; iii. the appropriateness of the accounting judgements or choices exercised by management in preparing the entity's financial statements; iv. the appointment or removal of the external auditor; 	<p>The main roles and responsibilities of the audit committee should include:</p> <ul style="list-style-type: none"> i. monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them; ii. providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
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	<p>b. the remuneration and terms of engagement of the external auditors;</p> <p>v. Reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the company's internal audit function;</p> <p>vi. Reviewing the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up on. The company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns.</p>	<p>iv. the duties and responsibilities of the audit committee – which, at a minimum, must include those set out in Rule 10A-3(b)(2), (3), (4) and (5) of the Exchange Act and as well as to:</p> <p>a. at least annually, obtain and review a report by the independent auditor describing the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by</p>	<p>v. the fees payable to the auditor for audit and non-audit work;</p> <p>vi. the rotation of the audit engagement partner;</p> <p>vii. the scope and adequacy of the external audit;</p> <p>viii. the independence and performance of the external auditor;</p> <p>ix. any proposal for the external auditor to provide non-audit services and whether it might compromise the independence of the external auditor;</p> <p>x. if the entity has an internal audit function:</p> <p>a. the appointment or removal of the head of internal audit;</p> <p>b. the scope and adequacy of the internal audit work plan; and</p>	<p>iii. reviewing the company's internal financial controls and risk management systems, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself;</p> <p>iv. monitoring and reviewing the effectiveness of the company's internal audit function or, where there is not one, considering annually whether there is a need for one and making a recommendation to the board.</p> <p>v. conducting the tender process and making recommendations to the board, about the appointment, re-appointment and</p>
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	<p>vii. The AC meets with the external auditors, and with the internal auditors, in each case without the presence of Management, at least annually.</p>	<p>the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;</p> <p>b. meet to review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"</p> <p>c. discuss the listed company's earnings press releases, as well as financial</p>	<p>c. the independence, objectivity and performance of the internal audit function.</p>	<p>removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;</p> <p>vi. reviewing and monitoring the external auditor's independence and objectivity;</p> <p>vii. reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;</p> <p>viii. developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the</p>
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	<p>relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required; and</p> <p>ix. reporting to the board on how it has discharged its responsibilities.</p>
<p>information and earnings guidance provided to analysts and rating agencies</p>	<p>d. discuss policies with respect to risk assessment and risk management;</p> <p>e. meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;</p> <p>f. review with the independent auditor any audit problems or difficulties and management's response;</p> <p>g. set clear hiring policies for employees or former employees of the independent auditors; and</p>

<p>Disclosures</p>	<p>The names of the committee members, the terms of reference, any delegation of the Board's authority to make decisions, and a summary of each committee's activities, are to be disclosed in the company's annual report.</p>	<p>h. report regularly to the board of directors.</p> <p>If an audit committee member simultaneously serves on the audit committees of more than three public companies, the board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and must disclose such determination either on or through the listed company's website or in its annual proxy statement or, if the listed company does not file an annual proxy statement, in its annual report on Form 10-K filed with the SEC. If this disclosure is made on or through the listed company's website, the listed company must disclose that fact in its annual proxy statement or annual report, as applicable, and provide the website address.</p>	<p>The Board of a listed entity should disclose:</p> <ul style="list-style-type: none"> i. the charter of the audit committee; ii. the relevant qualifications and experience of the members of the committee; and iii. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>If it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>The annual report should describe the work of the audit committee, including:</p> <ul style="list-style-type: none"> i. the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed; ii. an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
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v. an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.				
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