

Tata Capital Financial Services Limited - Board Audit Committee Charter

The role of the Audit Committee shall flow directly from the Board of Directors' oversight function on corporate governance which holds the Management accountable to the Board and the Board accountable to the shareholders. Acting as a catalyst in helping the Company achieve its objectives, the Audit Committee's review function will include the financial reporting process, the system of internal financial controls, the audit process, the Company's process for monitoring compliance with laws and regulations and the Code of Conduct.

Authority

The Audit Committee shall act and have powers in accordance with the terms of reference which shall include the following:

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it considers it to be necessary.
- To have full access to information contained in the records of the Company.

Composition

- The Audit Committee shall have minimum three Members, all being Non Executive Directors, of which the majority shall be 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 Members of the Audit Committee shall elect a Chairperson from amongst themselves, who shall necessarily be an Independent Director.
- The Chairperson of the Audit Committee or in his/her absence, any other Member of the Committee, so authorised by him/her on his/her behalf shall attend the general meetings of the Company, in accordance with the provisions of the applicable laws.
- The Company Secretary shall act as Secretary to the Audit Committee Meetings.

Meetings

- The Audit Committee shall meet periodically, but at least 4 times a year and not more than 120 days shall elapse between two successive Meetings.
- One Meeting shall be held before the annual accounts and quarterly/ half yearly accounts are presented to the Board.
- The quorum for Meetings of the Audit Committee shall be either two Members or one-third of the Members of the Audit Committee, whichever is higher, including one Independent Director.
- The Chief Financial Officer, Internal Auditor and a Representative of the External (Independent) Auditors should be requested to be present as invitees for the Meetings of the Audit Committee. However, such persons shall not have the right to vote.
- The Audit Committee may invite such of the executives, as it considers appropriate (particularly, the Head of the Finance Function), to be present at the Meetings of the Audit Committee. Such persons shall not have the right to vote. On occasions considered necessary, the Audit Committee may also meet without the presence of any executive of the Company.
- The Auditors of the Company and the Key Managerial Personnel shall have a right to be heard at the Meetings of the Audit Committee when it considers the Auditors' Report but they shall not have the right to vote.

Responsibilities

The Audit Committee shall have discussions with the Auditors periodically about internal financial control systems, the nature and scope of audit including the observations of the Auditors and review the half-yearly and annual financial statements before submission to the Board and recommend the same to the Board for its consideration and also oversee compliance of internal financial control systems. In addition, the responsibilities of the Audit Committee shall include the following:

Financial Statements

- Overview of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are true, fair, sufficient and credible.
- Reviewing with the Management the Annual Financial Statements and the Auditors' Report thereon before submission to the Board, with particular reference to:
 - Matters required to be included in the Director's Responsibility Statement in the Board's Report in terms of sub-section (5) of Section 134 of the Companies Act, 2013.
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries involving estimates based on exercise of judgment by the Management.
 - Modified opinion(s) in the draft Auditors' Report, if any.
 - Significant adjustments made in the financial statements arising out of audit findings.
 - The going concern assumption.
 - Compliance with Accounting Standards.
 - Compliance with the requirements of the stock exchanges, if applicable, and legal requirements concerning financial statements.
 - Scrutiny of inter-corporate loans and investments.
 - Disclosure of contingent liabilities.
 - Any related party transactions as per the relevant Accounting Standards and the Companies Act, 2013.
 - The effect of regulatory and accounting initiatives as well as off- balance-sheet structures, on the financial statements.
 - Company's press releases, as well as financial information and earnings guidance, if any, provided to analysts and rating agencies.
 - Reviewing and evaluating the Company's financial and risk management policies and risk management systems.

Business Risk Assessment

The Audit Committee shall evaluate the adequacy of the risk management system of the Company. To obtain reasonable assurance with respect to the Company's risk management practices, the Audit Committee shall periodically review:

- the nature and extent of the risks facing the Company, the industry and the economy as a whole;
- the extent and categories of risk which it regards as acceptable for the Company to bear;
- the likelihood of the risks concerned materializing;
- the Company's ability to reduce the risks that do materialize;
- the costs of operating particular controls relative to the benefit thereby obtained in managing the related risks;
- consider the risk of management's ability to overlook / override the internal control systems;
- review with the Company's Legal Head and solicitors about the various legal matters which may have an impact on the financial statements and functioning of the Company; and
- Discuss with the Management, the Company's policies with respect to risk assessment and risk management, including appropriate guidelines to govern the process, as well as the Company's major financial risk exposures including policy for foreign exchange and derivative transactions and the steps Management has undertaken to control them.

Review and Examination of Information

- Internal audit reports relating to internal control weaknesses.
- Financial Statements and draft Auditors Report thereon, including the draft limited review report of the Auditors.
- Management Discussion and Analysis of financial condition and results of operations.
- Reports relating to risk management and compliance with applicable laws.
- Management letters / letters of internal control weaknesses issued by the Statutory / Internal Auditors.

Internal Control

- Evaluation of the internal financial controls, accounting policies, etc. with the Management, external and internal Auditors, and to review the adequacy of internal financial control systems.

Internal Audit

- Reviewing the Internal Audit Report and action taken thereon.
- Reviewing the adequacy of the internal audit function, including the Internal Audit Charter, the structure of the internal audit department, approval of the audit plan and its execution, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
- The Head – Internal Audit shall have a direct and independent line of reporting to the Audit Committee and administratively to the Managing Director.
- Reviewing the appointment, removal and terms of remuneration of the Head - Internal Audit.
- Discussing with the Internal Auditor any significant findings and follow-up thereon.
- Reviewing the findings of any internal investigations carried out by the Internal Auditor 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.
- Reviewing and monitoring the performance and effectiveness of the Internal Audit process.
- Conducting Information Systems Audit of the internal systems and processes atleast once in two years to assess operational risks.
- Appointment of Auditors to undertake such internal audits as may be directed by the Audit Committee of the Holding Company / Audit Committee of the Company / law /Board, from time to time.
- The Head – Internal Audit with the Chief Internal Auditor shall meet the Audit Committee of the Board without the presence of Management once in every financial year.

External Audit

- Recommending to the Board the appointment / re-appointment and removal / replacement of the Statutory (External) Auditors, fixation of the remuneration and terms of appointment of the Auditors and also approval for payment for any other services rendered by the Auditors, as permitted by law. While considering the appointment of the statutory auditor, the committee shall consider any order or pending proceedings relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any other competent authority or any Court.
- Discussing with the Statutory Auditors before the audit commences, the nature and scope of audit as well as post-audit discussion to ascertain any areas of concern.
- Reviewing and monitoring the Auditor's independence and performance and the effectiveness of the audit process.

Subsidiary companies

- The Audit Committee may recommend the adoption of policies, procedures and processes laid down by it to the Audit Committee of its subsidiaries, if any. Further, the Audit Committee may review the critical issues that may be referred by the Audit Committees of material subsidiaries, if any, to the Audit Committee of the Company.
- Reviewing the financial statements of the subsidiaries, in particular the investments made by the subsidiary companies.
- Overseeing compliance with legal and regulatory requirements including the Tata Code of Conduct (“TCoC”) for the Company and its material subsidiaries.
- Overseeing financial reporting controls and processes for material subsidiaries.

Related Party Transactions

Approval of Transactions with Related Parties or any subsequent modification thereto shall be dealt with by the Audit Committee, as under:

- All Related Party Transactions in the ordinary course of business and at arm’s length basis which are above Board approved thresholds as mentioned under ‘Framework for Related Party Transactions’ would require prior approval of the Audit Committee.
- A Statement of all Related Party Transactions in the ordinary course of business and at arm’s length basis which are below Board approved thresholds as mentioned under ‘Framework for Related Party Transactions’, will be placed before the Audit Committee for noting, on a half-yearly basis.
- All Related Party Transactions which are not in the ordinary course of business or not at arm’s length basis, would require the prior approval of the Audit Committee.

The Audit Committee will have the discretion to:

- grant omnibus approval for routine Related Party Transactions.
- recommend / refer any matter relating to Related Party Transaction to the Board for approval.

The following details shall be placed before the Audit Committee, on a half yearly basis, to oversee the potential conflict of interest situation:

- A statement in summary form of transactions with related parties in the ordinary course of business;
- Details of material individual transactions with related parties which are not in the normal course of business;
- Details of material individual transactions with related parties or others, which are not on arm’s length basis, together with the Management’s justification for the same;
- Approval of all or any subsequent modification of transactions with related parties; and
- Summary of transactions for which omnibus approval has been granted.

In case of any transaction, other than transactions referred to in Section 188 of the Companies Act, 2013, and where the Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

Fraud

- All cases above Rs. 1 crore are required to be monitored and reviewed by the Audit Committee.
- Additionally, a report containing details of attempted frauds involving an amount of Rs. 25 lakh and above shall be placed before the Audit Committee of the Board for its noting.

Defaults

- Looking into the reasons for substantial defaults / delays in payments to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

Others

- Audit Committee may consider and adopt the policies, procedures and processes laid down by the Audit Committee of the Holding Company. Further, critical issues may be referred by the Audit Committee to the Audit Committee of the Holding Company.
- Recommending the appointment of Chief Financial Officer to the Nomination and Remuneration Committee / Board of Directors, after assessing the qualifications, experience and background, etc. of the candidate.
- Reviewing the functioning of and compliance with the Company's Whistle Blower Policy.
- 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 utilised for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency with regard to 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.
- Reviewing the valuation of undertakings or assets of the Company, wherever it is necessary and the appointment of Registered Valuers.

Compliance

- Reviewing the effectiveness of the system for monitoring compliance with laws and regulations and the results of the Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Reviewing the findings of any examinations by regulatory agencies and any auditor observations.
- Reviewing the process for communicating the TCoc to Company personnel and for monitoring compliance therewith.
- Obtaining regular updates from the Management and Company legal counsel regarding compliance matters.

Reporting Responsibilities

- The Audit Committee shall recommend to the Board, the quarterly, half yearly and annual Financial Statements after reviewing the same.
- The Audit Committee will update the Board, periodically.
- The Board's Report shall disclose the composition of the Audit Committee, brief description of the scope of the Audit Committee Charter, names of the Members and the Chairperson of the Audit Committee and brief details of Meetings and attendance at Audit Committee Meetings.
- The recommendations of the Audit Committee on any matter relating to financial management, management discussion and analysis of financial condition and result of operations after its review, including the Auditors' Report, shall be binding on the Board.
- If the Board does not accept the recommendations of the Audit Committee, it shall disclose the same in the Board's Report, together with the reasons therefor.

Responsibilities under the Code of Conduct for Prevention of Insider Trading and Code of Corporate Disclosure Practices

- Setting forth the policies relating to and overseeing the implementation of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (“Regulations”), as amended from time to time and the Code of Conduct for Prevention of Insider Trading and Code of Corporate Disclosure Practices (“Code”);
- Taking on record such reports as may be required from the Compliance Officer under the Code;
- Deciding penal and disciplinary action in respect of violation of the Regulations / Code; and
- Reviewing compliance with the provisions of the Code, at least once in a financial year and to verify that the systems for internal control are adequate and are operating effectively.

Other Responsibilities

- Monitoring the effectiveness and reviewing the implementation of the Anti-Bribery and Anti-Corruption Policy, considering its suitability, adequacy and effectiveness.
- Performing other activities related to this Charter as may be requested by the Board of Directors.
- Carrying out additional functions as contained in any other regulatory requirements applicable to the Company or in the terms of reference of the Audit Committee.
- Instituting and overseeing special investigations as needed.
- The Chairperson of the Committee shall confirm annually to the Board that all responsibilities outlined in this Charter have been carried out.

Review of Committee Charter

- The adequacy of this Charter shall be reviewed and reassessed by the Board of Directors from time to time, as it may deem appropriate (based on changes that may be brought about due to the regulatory framework or otherwise).

Sitting Fees

- Members of the Committee shall receive such sitting fees, if any, for their services as Committee members as may be determined by the Board at its sole discretion.

Committee Evaluation

The Committee shall undergo an annual self-evaluation of its performance and report the result to the Board. Indicative areas for evaluation as part of this exercise include:

- Degree of fulfilment of key responsibilities.
- Adequacy of Committee composition.
- Effectiveness of meetings.
- Committee dynamics.
- Quality of relationship of the Committee with the Board and the Management.