

**THE TATA POWER COMPANY LIMITED****Charter of the Audit Committee****1. Preamble**

1.1 This Charter is granted by the Board of Directors of The Tata Power Company Limited (“TPC”) to the Audit Committee of Directors (hereafter called “**the Committee**”). It governs the operations of the Committee. The Charter is subject to laws and listing regulations. Any provision of the Charter that reduces the effectiveness of such laws or regulations shall not prevail.

1.2 The Committee has been set up by the Board of Directors to assist it in the discharge of its oversight role in the areas specified hereafter. The Board has the right, subject to applicable laws and regulations, to modify this Charter, to dissolve the Committee or to supersede its actions. In all cases, the Board shall take such decisions in a full meeting and shall minute such a decision, with reasons. In such cases the fact with reasons shall be disclosed in the annual governance report to shareholders.

1.3 The Committee is primarily responsible for TPC. To the extent that this entity issues financial information consolidating its subsidiary and associated companies, it is entitled to rely on the work of the audit committees of those entities and, should such a committee not exist on the reports received from such other Group entities. However, the Committee may, at its discretion, require checks to be performed on data included for the **Tata Power Group** that has not been audited by external auditors so as to be satisfied that it is adequately consistent and complete. This is further detailed in paragraph 6 below.

1.4 The Committee shall have at least three members of whom at least two-thirds shall be independent directors, all shall be financially literate and at least one shall be a financial expert. No executive director can be a member of the committee. The members of audit committee shall receive such fees as may be determined by the Board. The Company Secretary shall also be secretary to the Committee. The CFO will assist the committee in its work. The directors shall be on the committee as per the terms and conditions of their appointment as approved by the Board and the provisions of Companies Act, 2013.

1.5 The Committee will elect its chairman from amongst its independent members.

**2. Responsibilities****2.1 Primary Responsibilities-**

The Committee shall primarily be responsible for the following –

2.1.1 Overseeing the processes that ensure the **integrity of financial statements** issued by management from time to time. For this purpose the expression “financial statements” shall include full form and summarised annual and interim financial statements for external users, special purpose financial reports such as for a prospectus, **management discussion and analysis** reports, **board reports** (including, in particular, the directors’ responsibility statement) for coherence with the various documents referred to herein, the details of the **vigilance mechanism** in the board report, the particulars of **loans, guarantees & investments, press releases** in respect of the foregoing and earnings guidance. Where disclosures are mandated in these statements, the committee shall enquire into compliance therewith.

2.1.2 Overseeing the adequacy and effectiveness of the processes and controls for **economic and efficient operations** of the company.

2.1.3 Overseeing the adequacy and effectiveness of the processes and controls for **compliance with laws and regulations**.

2.1.4 Overseeing the adequacy and effectiveness of the process by which confidential or anonymous **complaints or information regarding financial or commercial matters** are received and acted upon. This includes the protection of whistle-blowers from victimization and the provision of access by whistle-blowers to the chairman of the Committee.

- 2.1.5 Approving, prior to their execution, **transactions with related parties** (as defined in the Companies Act, 2013), any subsequent modifications and half yearly disclosures to be made to the stock exchanges. In according approval, the committee will 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 committee shall be entitled to rely on the information and explanations submitted by management if it has no reason to doubt its completeness or accuracy. The committee shall also satisfy itself as to the **disclosure** of the transactions in the financial statements based on the work of the company's auditors and discussions with management.
- 2.1.6 Enquiring into reasons for any **default** by the company in honouring its **obligations to its creditors and members** and recommending appropriate action to the Board.
- 2.1.7 Satisfy itself that the **remuneration, expense reimbursements and use of company assets by the chief executive and other senior executives** is in accord with their terms of employment and the company's rules and policies in that respect.
- 2.1.8 Appointing expert valuers for any **valuation** by the company either of its own assets or liabilities or those of any other party and approving the valuer's opinion on conclusion of the valuation.
- 2.1.9 Approve the selection of the company's **Chief Financial Officer**.
- 2.1.10 Enquire into the **end-use of funds** raised from the public.
- 2.1.11 The Committee shall recommend to the board the appointment of and remuneration to the **cost and secretarial auditors**. Such of the activities for the external auditor in paragraph 2.2.4 below, as are appropriate, shall also be applied for the cost and secretarial auditors.
- 2.2 Enabling Responsibilities-
- In order to discharge the above primary responsibilities, the Committee shall also be responsible for the following –
- 2.2.1 Overseeing the quality of **internal accounting controls and other controls** relevant to its primary responsibilities. These include controls that ensure the prevention and detection of **frauds and errors**. The 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 Committee shall consider the management letters issued by the external auditor and the reports of the internal auditor.
- 2.2.2 Overseeing the system for storage (including back-up), modification, retrieval, display, print-out and disposal of **electronic accounting records**.
- 2.2.3 Overseeing the quality of the **financial reporting process**, including the selection of the most appropriate 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**. It shall enquire into **material or unusual transactions**. It shall oversee appropriate **disclosure and presentation** of information in financial reports. It shall enquire into the **key risks** affecting the business including the risk of **fraudulent financial reporting**. It shall decide on the most appropriate treatment in the event of any **disagreements between external auditors and management**. The committee shall review all written **communication between the auditors and management**, including, inter alia, engagement letters, management representations to auditors and management letters from the auditors. The committee shall also review the **financial statements of subsidiary companies and other entities that are consolidated into the Group financial statements** to satisfy itself that management is managing group financial risks, that the intra group transactions are commensurate with business needs and that material investments and other assets of the subsidiaries are real.

2.2.4 The Committee shall be responsible for ensuring the **independence of the external auditor** from management influence. It shall annually appraise the **quality of the external audit**. Based on such appraisal it shall recommend to the board the **appointment and the remuneration of an auditor**, including any other terms, for the following year. All **commercial relationships with the audit firm** shall be pre - approved by the Committee. Management shall not initiate any discussion with the audit firm for any non-audit opportunity except with the approval of the Committee. The Committee shall set **rules for the hiring of any current or former employee of the audit firm**. The Committee shall make such enquiries as are necessary regarding the independence of the audit firm and of its performance. For this purpose, the expression "audit firm" shall include its partners, senior employees and associate entities. The Committee shall decide the best structure for audit of the company, including the need for branch or joint auditors.

For the foregoing the committee shall enquire from the auditor any professional or legal proceedings against the firm or its partners and the results of any quality reviews of their work, internally or externally. It shall enquire into the firm's quality control processes.

2.2.5 The 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 Committee shall also review these, especially their utilization, in respect of its subsidiary and joint venture companies. For this purpose the committee shall use a materiality threshold of ₹100 crores or 10% of the entity's gross assets, whichever is lower.

2.2.6 The Committee will monitor the **end use of funds raised through public offers** and shall draw to the attention of the board significant deviations from the use as stated in the offer document.

2.2.7 The committee shall conduct the **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 statements. For this purpose, it shall decide the agency that shall undertake the valuation as also the terms of appointment and the remuneration payable. In a scheme of arrangement, the committee shall review the draft scheme, considering the valuation conducted by the independent Chartered Accountant appointed for the purpose, and recommend it to the board.

2.2.8 The Committee shall oversee the **internal audit function**. It shall recommend the individual chosen for **appointment as the chief internal auditor** prior to the approval of the board. The committee shall have a direct and independent line of reporting of chief internal auditor of the company. It shall make the final decision regarding **his compensation and promotion as well as his dismissal** from service or his **movement to other departments**. The internal audit department's employees shall be protected by the Committee from **inappropriate management influence**. The Committee shall approve the **internal audit charter** and shall annually review it. The Committee shall approve the **annual plan of internal auditing** (including the scope, periodicity, functioning & methodology). It shall annually appraise the **quality of internal audit** and direct the action necessary from such an appraisal. The Committee shall satisfy itself that the internal audit function has adequate resources for the discharge of its responsibilities. The committee shall consider any investigation conducted by the internal auditors, or others appointed for the purpose, into suspected **fraud**. For each of the above, the Committee shall obtain and consider the opinion of the Chief Executive Officer and Chief Financial Officer before making a final decision, except where doing so would be prejudicial to the company's interest. If an external firm is used to provide all or a part of internal audit services, the Committee shall select and annually appraise the performance of that firm in consultation with the company's chief internal auditor and management. Other provisions of 2.2.3 & 2.2.4 as appropriate for such an arrangement shall also apply to the Committee's responsibilities. The committee shall review process adopted for quality assessment program (Internal and External) and the compliance with The IIA's International Standards for the Professional Practice of Internal auditing.

2.2.9 The Committee shall bring to the notice of the board any lacunae in the **Tata Code of Conduct** and the vigil mechanism (whistle blowing process) adopted by the company. It shall review the processes for monitoring compliance with the Code and for action on any non-compliance. The committee shall review compliance with the provisions of SEBI (Prohibition of Insider Trading)

Regulations, 2015 (SEBI PIT), at least once in a financial year and shall verify that the systems for Internal Controls are adequate and are operating effectively. For the purpose of this clause Internal Controls shall, inter alia, be as listed under Regulation 9A (2) of SEBI PIT.

2.2.10 The committee shall review with the **CEO and the CFO** of the company the underlying process followed by them in their **annual certification to the Board** of Directors of matters related to financial statements, legitimacy of transactions, internal controls and other matters as required to be certified to the Board by them under laws and regulations.

2.2.11 The Committee shall approve the **appointment of the CFO**.

2.2.12 The Committee shall approve the schedule of authority to satisfy itself that there is a satisfactory division of powers and responsibilities and that these are commensurate with the levels of management.

### 2.3 Resources to the Committee-

The Committee shall discharge its oversight responsibilities by considering reports from and discussions with management, both auditors and other consultants as it deems necessary. The Committee shall take such steps as are reasonable in the circumstances to ensure the reliability of the reports it is depending upon.

The Committee is not expected to itself undertake any audit, evaluation, appraisal, investigation or other similar activities in the discharge of its responsibilities.

### 2.4 Management Responsibilities-

Management is solely responsible for preparing and issuing reliable financial statements and other reports. Management is also solely responsible for implementing and maintaining reliable systems, processes and controls for ensuring the integrity of financial reporting, the prevention and detection of fraud, the compliance with laws and regulations, the compliance by management personnel with their terms of employment and the company's policies, the meeting of obligations to creditors & members, compliance with the codes of ethics & conduct and the effective management of enterprise risks. Management is also responsible for the fair terms of transactions with related parties and for their business propriety. The Committee's role in these areas does not make it responsible for any lacunae or errors in them. The Committee's responsibility, when it is informed of such lacunae or errors, is to initiate appropriate action by directing management and reporting to the Board if action is not initiated by management. The Committee is not expected to audit the financial reports or to design systems, processes and controls or to investigate into transactions.

### 2.5 Board of Directors Responsibilities –

The Board will be responsible for the approval of the Charter of the committee and any revisions of it, for the constitution of the committee in accord with laws and regulations, for considering the reports and recommendations of the committee to it and for supporting the committee in its activities. Management has a right to appeal to the Board if it disagrees with any recommendations of the committee. The Board, after hearing management and considering the views of the committee, has the power to overrule the committee's recommendations; in which case the Board shall record its reasons and shall inform the shareholders of the same in the annual report or in the quarterly interim reports, as is appropriate.

### 2.6 Shareholders' Meetings -

The chair of the committee shall be present at all shareholders' meetings where the agenda includes the consideration of audited financial reports or the appointment or reappointment of auditors and it shall be his/her responsibility to respond to any questions relating to the audit opinion or to the appointment or reappointment of the auditors.

## 2.7 Coordination with other committees-

The committee shall coordinate with other committees to the extent that its work has a bearing on their scope of work. For example, the committee may consult the nominations & remuneration committee to discuss disclosures in the annual report of remuneration to directors and senior executives. It shall coordinate with the risk management committee for the segregation of responsibilities for review of internal controls between those related to the financial statements closing process, the accounting processes, for the efficient and economic operations of the business and those of a strategic nature. The risk management and audit committees shall jointly determine the annual internal audit work plan. The committee shall not be responsible for the reliability of disclosures that relate to the responsibilities of other committees.

## 3. Powers

The Committee shall have the powers to –

3.1 **Call for any explanation, information, representation or confirmation** from any employee, director, auditor, vendor, customer or other stakeholder, confidentially or otherwise.

3.2 Examine and take into its custody any **record or document** of the Company.

3.3 Appoint **legal counsel, accountants or other advisors** at its sole discretion at the cost of the Company.

3.4 **Management shall implement** the Committee's directions in respect of the foregoing areas. Management has a right of **appeal to the Board** of Directors should it disagree with the Committee's directions.

## 4. Meetings

4.1 The committee shall meet at least six times a year and not more than 120 days shall elapse between any two consecutive meetings.

4.2 The committee shall invite such employees or advisors as it considers appropriate. The statutory auditors and the head of internal audit shall generally attend all meetings unless the committee considers otherwise.

4.3 The quorum shall be two thirds of its membership or two independent directors, whichever is higher.

## 5. The Committee's Processes

The Committee shall –

5.1 annually **review this Charter** and recommend any changes it considers necessary to the Board;

5.2 **ensure the independence of its members** from any management or shareholder's influence. For this purpose, a member's independence will be considered impaired if -

5.2.1 it is so considered by the listing regulations or any laws;

5.2.2 the member has made recommendations to management in any of the areas for which the Committee is responsible, other than when acting as a member of the Committee;

5.2.3 the member has advocated management's opinion or interests other than when acting as a member of the Board;

5.2.4 the member shares any economic interests with management or the Company;

5.2.5 the member has put himself in a position subservient to management;

5.2.6 the member has accepted any gifts or favours from management.

For this purpose, the expression "management" shall include all employees, their immediate relatives and entities controlled by them.

- 5.3 **appraise its performance** annually and report to the Board the outcome thereof;  
5.4 hold separate, **private meetings** with external and internal auditors and with management.

5.5 The members of the Committee shall receive **exposure to developments** in accounting standards, laws and regulations and other relevant disciplines to enable them to discharge their responsibilities on the Committee. The Committee shall periodically review the process and level of such exposure and make any modifications it deems necessary.

6. **Tata Power Group**

The Committee shall specifically enquire into the following for the subsidiary companies and associate companies whose financial statements are consolidated into those of the Group.

6.1 That their accounting policies are consistent with those of the parent company and, where necessary, adjustments are made when consolidating the financial reports.

6.2 That, to the extent possible, the same auditors are appointed as those that audit the parent. Where this is not the case, that adequate care has been taken to ensure that transactions between intra-Group entities have been satisfactorily reconciled.

6.3 That important non-financial report information presented in the annual report on a Group basis is adequately reliable. In particular, that the Management Discussion and Analysis portion of the annual report of the directors reflects the performance of the subsidiaries correctly and completely.