

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

DRAFT TERMS OF REFERENCE OF AUDIT AND GOVERNANCE COMMITTEE

Constitution:

The Audit and Governance Committee of Directors of the Corporation (Audit and Governance Committee) shall comprise of 3 or more non-executive directors, out of which not less than 2/3rd shall be independent directors.

All members of the Audit and Governance Committee including the Chairperson shall have the ability to read and understand financial statements with at-least 1 member having accounting or related financial management expertise and 1 member who can understand the results of the Information System Audit.

Chairperson:

- (i) The Chairperson of Audit and Governance Committee shall be an independent director.
- (ii) The Chairperson shall be appointed by the Board. In case the Chairperson is not present at any Audit and Governance Committee meeting, the members present at the meeting shall, amongst themselves, elect a Chairperson for that particular meeting.
- (iii) The Chairperson of the Audit and Governance Committee shall be present at the Annual General Meeting (AGM) to answer shareholders queries.

Meetings:

- (i) The Audit and Governance Committee shall meet at least 4 times in a year and gap between 2 meetings shall not exceed 120 days. The Audit and Governance Committee shall also meet at such times as the Chairperson or any Member of the Audit and Governance Committee may deem appropriate.
- (ii) The quorum for meetings of Audit and Governance Committee shall be at-least 2 members or 1/3rd of the members, whichever is greater, including at-least 2 independent directors in attendance.
- (iii) The Audit and Governance Committee shall meet in person, except in extraneous circumstances when it may meet through video conferencing or other audio visual means, in accordance with the procedure prescribed in the Companies (Meetings of Board and its powers) Rules, 2014, as amended and Secretarial Standard on Meetings of the Board of Directors.
- (iv) The Members of the Audit and Governance Committee shall be entitled to sitting fees for attending meetings of the Committee, as may be fixed by the Board, from time to time.
- (v) The minutes of the meetings of the Audit and Governance Committee shall be recorded and maintained in accordance with the relevant provisions of the Companies Act, 2013, or any enactment or amendment or modification thereto and applicable Secretarial Standards issued by the Institute of Company Secretaries of India.

Invitees:

- (i) The Audit and Governance Committee may invite such of the whole-time directors, head of Policy Implementation and Process Monitoring department, representatives of statutory and internal auditors and such other executives of the Corporation, as it may deem appropriate to be present at its meetings.
- (ii) The statutory auditor and the internal auditors shall have the right to be heard at the meetings of the Audit and Governance Committee when it considers their report but shall not have right to vote.
- (iii) The Company Secretary of the Corporation shall act as the Secretary to Audit and Governance Committee and shall attend meetings thereof.

Role:

The Audit and Governance Committee shall consider and review the following matters and perform such other duties that may be assigned to it by the Board, from time to time, including but not limited to:

▪ **Auditors:**

- a. Recommend to the Board the appointment, re-appointment, if required removal/ replacement of statutory and internal auditor, remuneration and terms of appointment of statutory and internal auditor of the Corporation.
- b. Discuss with statutory auditor the nature and scope of audit and post audit discussions to ascertain any area of concern.
- c. Approve payments to be made in respect of any other services rendered by statutory auditors.
- d. Review and monitor the statutory auditors independence and performance and effectiveness of the audit process.
- e. Review with management, performance of statutory and internal auditors and adequacy of internal control systems.
- f. Review the adequacy of the internal audit function, including structure of Policy Implementation and Process Monitoring department, staffing and seniority of the official heading the department, reporting structure and frequency of audit.
- g. Review internal audit reports relating to internal control weaknesses and discuss with internal auditors, if deemed necessary, of any significant findings and follow up thereon.
- h. Review findings of internal investigation by the internal auditors into matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting the matter to the Board.
- i. Review management letters/ letters of internal control weaknesses issued by the statutory auditors, if any.
- j. Review information system audit report and discuss any significant findings, if deemed necessary, with information system auditors.

▪ **Financial Statements and report thereon:**

- k. Oversight of financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible.
- l. Review with management, the quarterly financial statements (including statement of cash flows for the half year) before submission to the Board for its approval.
- m. Review with the management, the annual financial statements and auditor's report, before submission to the Board for its approval, with particular reference to;

- Matters to be included in directors responsibility statement under Sec. 134 of the Companies Act, 2013;
 - Changes if any, in accounting policies and practices;
 - Major accounting entries involving estimates based on exercise of judgment management;
 - Significant adjustment made in the financial statements arising out of audit findings;
 - Compliance with listing and other legal requirements relating to financial statements;
 - Disclosure of related party transactions; and
 - Modified opinion in draft auditors report.
- n. Review of Management Discussion and Analysis of the financial conditions and results of operations.
- **Related Party Transactions**
- o. Approval or any subsequent modification of transactions of the Corporation with related parties and grant of omnibus approval for related party transactions proposed to be entered by the Corporation.
 - p. Review statement of related party transactions including details of related party transactions entered pursuant to grant of omnibus approval on a quarterly basis.
- **Fraud Monitoring**
- q. Review compliance with the Guidelines on Reporting and Monitoring of Frauds in Housing Finance Companies issued by the National Housing Bank and the Fraud Risk Management Policy of the Corporation as far as it relates to this Committee.
- **Governance**
- r. Review the governance practices of the unlisted subsidiaries of the Corporation and guide such companies to adopt appropriate governance practices.
 - s. Review the financial performance of the unlisted subsidiaries of the Corporation.
 - t. Review utilisation of loans/advances/investment in the subsidiary exceeding Rs. 100 crore or 10% of the asset size of the subsidiary, whichever is lower.
 - u. Review the investments made by the unlisted subsidiaries of the Corporation.
 - v. Oversee the vigil / whistle blower mechanism and review the safeguards in place against victimization of employees and directors who avail of such mechanism and ensure adequate provision is there to provide direct access to the Chairman of the Audit and Governance Committee, in appropriate or exceptional cases.
 - w. Review compliance with the provisions of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 on a half-yearly basis and verify that the systems for internal control are adequate and operating effectively.
 - x. Review the reports relating to violations, if any, of HDFC Share Dealing Code by Designated Employees.
- **Miscellaneous**
- y. Evaluation of the internal financial controls and risk management systems.
 - z. Reviewing and monitoring the end use of funds raised through an issue of securities.

- aa. Review of adherence to compliance with the KYC & AML Policy of the Corporation, assess the efficacy of the measures taken by the Corporation to prevent instances of material non-adherence.
- bb. Scrutiny of inter corporate loans and investments.
- cc. Valuation of undertakings or assets of the Corporation, wherever it is necessary.
- dd. Look into reasons for substantial defaults in the payment to depositors, debenture holders, shareholders [in case of non-payment of declared dividends] and creditors.
- ee. Approve the appointment of the Chief Financial Officer (CFO) (whole-time finance director or any other person heading the finance function or discharging that function), after assessing the qualification, experience and background etc. of the candidate.
- ff. Review statements of deviation in relation to utilisation of proceed of public issue, rights issue, preferential issue etc., from the objects stated in offer document.

The management of the Corporation shall provide necessary support and information through presentations, notes, documents/papers, reports, etc. to the Audit and Governance Committee in order to appropriately carry out the functions mentioned above.

The Audit and Governance Committee shall perform such other functions as may be required under the relevant provisions of the Companies Act, 2013, the Rules made thereunder or the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 or any other applicable laws, as amended from time to time.

Powers:

The Audit and Governance Committee be and is hereby vested with the power to investigate any activity within the terms of reference, seek information from employees, obtain outside legal counsel or other professional advice and secure their attendance if necessary.

Report:

The Chairperson of the Audit and Governance Committee shall apprise the Board on the recommendations made by it on any matter under these terms of reference. The minutes of the meeting of the Committee duly approved, shall be tabled at the meeting of the Board of Directors of the Corporation for its noting.

Review & Authority:

The terms of reference of the Audit and Governance Committee shall be reviewed periodically to reassess its adequacy.
