

Audit Committee
Terms of Reference

SOVEREIGN DIAMONDS LIMITED

Audit Committee (AC)

Terms of Reference

Date: 26th May, 2014

Audit Committee

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AUDIT COMMITTEE TERMS OF REFERENCE

1. FORMATION:

As per section 177 of the Companies Act, 2013 it is mandatory for the Listed Company to constitute an Audit Committee consisting of Board Members of the Company. Hence it is necessary to constitute an Audit Committee consisting of Board Members of the Company. The Terms of reference of the Audit Committee is as follows:

2. MEMBERS & CHAIRMAN:

- a) The Audit Committee shall have minimum of 3 directors as members.
- b) Two thirds of the members of Audit Committee shall be Independent Directors.
- c) All the members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- d) The Chairman of the Audit Committee shall be an Independent Director.
- e) The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries.
- f) The Audit Committee may invite such of the Executives of the Company as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the Committee, but on occasions it may also meet without the presence of any executives of the Company. The Finance Director, Head of Internal Audit and a representative of the Statutory Auditor may be present as invitees for the meeting of the Audit Committee.

3. MEETINGS:

The Audit Committee shall meet atleast four times in a year and not more than four months shall elapse between two meetings, particularly to discuss and review the quarterly/half yearly and annual financial statements.

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4. QUORUM:

The quorum for the Audit Committee Meeting shall be either two members or one third of the members of the Audit Committee whichever is greater, but there should be a minimum of two Independent Members present.

5. SECRETARY:

The Company Secretary, shall act as the Secretary to the Audit Committee.

6. MINUTES:

The Company Secretary shall minute the proceedings and the resolutions passed in the meetings.

7. POWERS OF AUDIT COMMITTEE:

The Audit Committee shall have the following powers:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

8. ROLE OF AUDIT COMMITTEE:

The role of the Audit Committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the company;
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;

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4. 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. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
6. 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;
7. Review and monitor the auditor's independence and performance, and effectiveness of audit process;
8. Approval or any subsequent modification of transactions of the company with related parties;
9. Scrutiny of inter-corporate loans and investments;

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10. Valuation of undertakings or assets of the company, wherever it is necessary;
11. Evaluation of internal financial controls and risk management systems;
12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
13. 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;
14. Discussion with internal auditors of any significant findings and follow up there on;
15. 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;
16. 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;
17. 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;
18. To review the functioning of the Whistle Blower mechanism;
19. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate;
20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i): The term "related party transactions" shall have the same meaning as provided in Clause 49(VII) of the Listing Agreement.

9. REVIEW OF INFORMATION BY AUDIT COMMITTEE:

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The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.