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STOVEC

STOVEC INDUSTRIES LIMITED

AUDIT COMMITTEE – TERMS OF REFERENCE

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Audit Committee - Terms of Reference

1. NAME AND PURPOSE

The Committee shall be named Audit Committee and shall assist the Board in the effective discharge of its responsibilities for Corporate Governance, Financial Reporting and Corporate Control. In the discharge of its functions, the Committee shall exercise the powers and responsibilities vested on it under the Companies Act, 2013, and the relevant clauses of the Listing Agreement with Stock Exchanges as amended from time to time or any re-enactment thereof.

2. ORGANIZATION

- (i) The Audit Committee shall have a minimum three Directors as members. Two thirds of the members of Audit Committee shall be Independent Directors;
- (ii) All members of Audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise;
- (iii) The Chairman of the Audit Committee shall be an Independent Director;

- (iv) The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;
- (v) The Audit Committee may invite such of the executives, 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 Chief Financial Officer, Head of Internal Audit and a representative of the Statutory Auditor may be present as invitees for the meetings of the Audit Committee;
- (vi) The Company Secretary shall act as the Secretary to the Committee;
- (vii) The Auditors of the 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.

3. MEETINGS

- a) The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum 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.

- b) At least 7 days advance notice for calling of the Audit Committee meeting shall be given to all the members of the Committee. Meeting may be called at shorter notice, if the same is agreed by majority of the members of Committee.

4. AUTHORITY

The Committee is authorized by the Board to:

- a. Investigate any matter within its terms of reference;
- b. Seek information from any employee of the Company and all employees are directed to co-operate with any request made by the Committee;
- c. Obtain outside legal or other professional advice, at the Company's expense and to secure the attendance of outsiders with relevant experience and expertise, if it considers necessary and shall have full access to information contained in the records of the Company.

5. DUTIES

The duties of the Audit Committee shall include the following:

A. Financial Reporting

- (i) Review Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible and also to examine the financial statement and the auditors' report thereon;

(ii) Review with the management, of the annual financial statements before submission to the Board for approval, with particular reference to:

- a. Matters required to be included in the Director's Responsibility Statement forming part of the Board's report in terms of clause (c) of sub-section 3 of Section 134 of the Companies Act, 2013 or any amendment or re-enactment thereof;
- 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.

(iii) Review with the management of the quarterly financial statements before submission to the Board for approval

B. Audit and Auditors

(iv) Recommending to the Board, the appointment, re-appointment, terms of appointment/re-appointment, fixation of audit fees and, if required, the replacement or removal of the Auditor;

- (v) Approval of payment to Statutory Auditors for any other services rendered by the Statutory Auditors;
- (vi) Review and monitor the auditor's independence and performance and effectiveness of audit process;
- (vii) 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;
- (viii) 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;
- (ix) Reviewing with the Management, performance of Statutory and Internal Auditors, adequacy of the internal control systems;
- (x) Review of 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;
- (xi) Discussion with Internal Auditors of any significant findings and follow up there on;
- (xii) Evaluation of internal financial controls and risk management systems;

- (xiii) 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;
- (xiv) Review of information relating to:
 - a) Management discussion and analysis of financial condition and results of operations;
 - b) Statement of significant related party transactions, submitted by management;
 - c) Management letters / letters of internal control weaknesses issued by the Statutory Auditors;
 - d) Internal Audit reports relating to internal control weaknesses;
 - e) The appointment, removal and terms of remuneration of the Chief internal auditor

C. Others

- (xv) Approval or any subsequent modification of transactions of the Company with related parties;
- (xvi) Scrutiny of inter-corporate loans and investments;
- (xvii) 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 utilization of proceeds of a public or

rights issue, and making appropriate recommendations to the Board to take up steps in this matter;

- (xviii) Valuation of undertakings or assets of the Company, wherever it is necessary;
- (xix) To look into the reasons for substantial defaults in the payment to the depositors, if any, debenture holders, if any, shareholders (in case of non-payment of declared dividends) and creditors;
- (xx) To review the functioning of the Whistle Blower/Vigil Mechanism; Details of establishing the Vigil Mechanism have been disclosed on the Company's website and in the Director's Report;
- (xxi) 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;
- (xxii) To review the financial investments, in particular, the investments made by the unlisted subsidiary company;
- (xxiii) Other matters as may be prescribed from time to time to be dealt with or handled by the Audit Committee pursuant to provisions of the Companies Act, 2013, the Rules framed thereunder, the Listing Agreements entered into with the Stock Exchanges where the securities of the Company are listed and the guidelines, circulars and notifications issued by Securities and Exchange Board of India ("SEBI")/Ministry of Corporate Affairs ("MCA") from time to time.

(xxiv) Carrying out any other function as may be assigned to the Committee by the Board from time to time;

6. REPORTING

- i. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Committee.
- ii. The Audit Committee shall annually review its terms of reference and its own effectiveness and recommend necessary changes, if any, to the Board.
- iii. The Board may ask the Audit Committee to prepare a report on the actions it has taken to discharge its responsibilities, for inclusion in the annual report and accounts. Such a report should specifically include:
 - a summary of the role of the Audit Committee;
 - the names and qualifications of all members of the Audit Committee during the period;
 - the number of Audit Committee meetings and attendance by each member; and
 - the way the Audit Committee has discharged its responsibilities.
- iv. Where disagreements between the Audit Committee and the Board cannot be resolved, the Audit Committee shall report the issue to the shareholders as a part of the report on its activities in the Company's annual report.
- v. If the Board does not accept any recommendation of Audit Committee, the Board shall include a statement in the annual report, explaining reasons, why the Board has taken a different stance.