

## **CHARTER OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD**

The Jana Small Finance Bank Limited has in place the Audit and Compliance Committee in accordance with the provisions of Section 177 of the Companies Act, 2013 and as required by RBI.

**Chairman:** The Chairman of the Audit and Compliance Committee shall be an Independent Director and who is elected by the members of the Audit and Compliance Committee.

**Composition:** Minimum 3 (three) members with the majority of directors to be independent directors. All members of the Audit and Compliance Committee shall be financially literate and at least one member shall have accounting or related financial management expertise. Majority of members including chairperson shall be person with ability to read and understand financial statement.

**Secretary :** The Company Secretary of the Bank shall act as the Secretary to the Committee.

**Meetings and Quorum:** The Audit and Compliance Committee shall meet quarterly and at least six 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 and Compliance Committee whichever is greater, but there should be a minimum of two Independent members present.

### **Terms of reference:**

The Committee will be governed by the terms of reference specified by Companies Act 2013, RBI Circular issued from time to time & the regulations of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The Bank has adopted the terms of reference from the three regulators which are listed as Annexure I, II and III to this Charter.

## **Annexure I**

**(A) As per the provision of Section 177 of the Companies Act, 2013, the Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia, include**

- (i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (iii) examination of the financial statement and the auditors' report thereon;
- (iv) approval or any subsequent modification of transactions of the company with related parties;
- (v) scrutiny of inter-corporate loans and investments;
- (vi) valuation of undertakings or assets of the company, wherever it is necessary;
- (vii) evaluation of internal financial controls and risk management systems;
- (viii) monitoring the end use of funds raised through public offers and related matters.

The Committee 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.

The Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) of Section 177 of the Companies Act, 2013 or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.

## **Annexure II**

**(B) Terms of Reference as per RBI Circular issued from time to time are as below:**

### **Quarterly**

1. Exposure to sensitive sectors i.e. capital market & real estate.
2. KYC / AML Guidelines - (i) Review of implementation (ii) Review of compliance of concurrent audit reports with respect to adherence to KYC / AML guidelines at branches.
3. Review of housekeeping - particularly balancing and reconciliation of long outstanding entries Suspense / Sundries / Drafts payable / paid / Funds in Transit / Clearing / SGL / CSGl accounts
4. Review of compliance in respect of the Annual Financial Inspection conducted by RBI and any other inspection conducted by any regulators (ACB should review this on ongoing basis till the bank furnishes full compliance. ACB should closely monitor persisting deficiencies pointed out in RBI Inspection Reports )
5. Review of Audit plan and status of achievement thereof.

6. Review of significant Audit Findings of the following audits along with the compliance thereof - (i) LFAR (ii) Concurrent Audit (iii) Internal Inspection (iv) I.S. Audit of Data Centre (v) Treasury and Derivatives (vi) Management Audit at Controlling Offices / Head Offices (vii) Audit of Service Branches (viii) Currency Chest (ix) FEMA Audit of branches authorized to deal in foreign exchange, etc.
7. Compliance report on directives issued by ACB / Board / RBI.
8. Report on compliance of clause 49 and other guidelines issued by SEBI from time to time.
9. Report on compliance of regulatory requirement of Regulators in Host Countries in respect of overseas branches.
10. Review of Frauds (frauds of Rs.1 crore and above to be reviewed as and when reported).
11. Review of financial results for the quarter
12. Review of information on violations by various functionaries in the exercise of discretionary powers.
13. Information in respect of equity share holdings in borrower companies more than 30% of their paid up capital.
14. Review First Year Audit Committee minutes and give recommendations.

#### **Half Yearly**

1. Status of implementation of Ghosh and Jilani Committee reports
2. Detailed report on fraudulent transactions relating to Internet Banking through phishing attacks pointing out in particular the deficiencies in the existing systems and steps taken by the IT department to prevent such cases.

#### **Annual**

1. Change in accounting policy and practices which may have significant bearing on financial statements. A confirmation that accounting policies are in compliance with accounting standards and RBI guidelines.
2. Review of IS Audit Policy
3. Review of transactions with related parties
4. Review of accounting policies / systems of the bank with a view to ensuring greater transparency in the bank's accounts and adequacy of accounting standards.
5. Review of adequacy of the internal audit function, 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.
6. Review of the bank's financial and risk management policies.
7. Review of annual accounts of the bank.
8. Appointment of statutory auditors and review of performance - both for domestic and overseas operations.
9. Penalties imposed / penal action taken against bank under various laws and statutes and action taken for corrective measures
10. Review of report on Revenue leakage detected by Internal / External Auditors and status of recovery thereof - reasons for undercharges and steps taken to prevent revenue leakage.

Further, following are the additional terms of reference

- Performs periodic review of incidents of fraud
- Examines the accountability of senior bank executives (MD & CEO, Executive Director, or equivalent) in respect of cases involving such executives, and presents the findings to the Board.
- Ensures that the internal auditors fulfil their responsibility related to fraud prevention, detection, controls, management and reporting with the necessary oversight and due diligence.

### **Annexure III**

**(C) As per the regulations of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the role of the Audit Committee and review of information by Audit Committee is as under below :**

- (1) oversight of the Bank'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 Bank;
- (3) approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- (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 legal requirements relating to financial statements;
  - f) disclosure of any related party transactions;
  - g) modified opinion(s) 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) reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- (8) approval or any subsequent modification of transactions of the Bank with related parties;
- (9) scrutiny of inter-corporate loans and investments;
- (10) valuation of undertakings or assets of the Bank, 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 nonpayment of declared dividends) and creditors;
- (18) periodic inspection report submitted by the RBI and Certificates/returns/reports to the RBI pertaining to the Audit Committee function
- (19) annual Tax Audit statement and auditors report thereon
- (20) to review the functioning of the whistle blower mechanism;
- (21) approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
- (22) to ensure that an Information System Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the Bank.
- (23) Carrying out any other function as is mentioned in the terms of reference of the audit committee.

The 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 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 internal auditor shall be subject to review by the committee.
- (6) statement of deviations as and when becomes applicable: {Need to review once the Bank get listed}
  - (a) quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1) of SEBI (LODR) Regulations, 2015.
  - (b) annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of SEBI (LODR) Regulations, 2015.

#### **Compliance Charter for the Audit and Compliance Committee of the Board (ACB)**

Sl. No	Particulars	Frequency
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1	Report on compliance breaches/failures, if any	Quarterly, Annually
2	Review of the annual compliance risk assessment	Annually
3	Review of the implementation of KYC-AML guidelines	Quarterly