



## **TATA CHEMICALS LIMITED INTERNAL AUDIT CHARTER**

### **1. MISSION:**

The mission of the Internal Audit department is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit will help Management achieve its business targets including cost reduction, maximization of turnover and profit and improving efficiency and effectiveness of process / operations through:

- Financial, Business Process and Compliance Audit**  
Provide independent assurance of the reliability and integrity of financial/operational information & reporting and compliance with key company policies and regulations.
- Operation Reviews**  
Conduct Operations Reviews in partnership with business teams to improve business processes continuously in terms of quality, reliability, responsiveness and cost.
- Best Practices and Benchmarking**  
Identify, facilitate transfer and implementation of Best Practices and Benchmarking through financial and operations reviews across business units of TCL and its subsidiaries.
- Leadership Development**  
Provide a diversified group of high potential individuals, broad exposure and training in challenging business environments.

### **2. SCOPE OF WORK:**

The scope of work of the Internal Audit department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.



### **3. THE TEAM**

The Internal Audit team would comprise of:

- The Head of Internal Audit and Risk Management, preferably a Finance Professional with commensurate experience & knowledge.
- Sr. Managers, Managers, Deputy / Assistant Managers with requisite exposure in Audit/Finance/IT or operations.
- Guest Auditors – taken from functions and other group companies to complement the Internal Audit team and to accord an independent evaluation where necessary.
- The strength of the Internal Audit department shall be adequate to ensure coverage of the annual plan and the objectives to be achieved during the year.
- The Internal Audit team should have the requisite blend of Finance and Technical professionals, required to carry out the planned assignments. The team blend would consider some members on a career basis and others on a 2 -3 year basis who will rotate across other departments within the organization.

### **4. ACCOUNTABILITY:**

The Head – Internal Audit and Risk Management in the discharge of his duties shall be accountable to Management and the Audit Committee to :

- Provide periodically an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work and as required under Clause 49 of the Listing Agreement of SEBI leading to CEO and CFO certification on effectiveness of internal controls.
- Report critical and important issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, SHE).

### **5. INDEPENDENCE**

To provide for the independence of the internal auditing department, its staff report to the Head – Internal Audit and Risk Management, who reports functionally to the Chairman of the Audit Committee and administratively to the CFO. Any non-audit related work which may conflict in role and independence of the Head - Internal Audit and Risk Management and/or other members of the internal audit team must necessarily be pre-approved by the Audit Committee Chairman.

### **6. RESPONSIBILITIES:**

#### **(A) Internal Controls**



- Evaluate adequacy and effectiveness of the internal control systems on a continuous basis through a systematic and disciplined approach.
- The Internal Audit Department will in consultation with management present an annual internal audit plan to the Audit Committee for approval. The plan shall set out the recommended scope of their work in the period.
- The annual plan will be developed using appropriate risk-based methodology with reference to a long term strategic outlook for internal audit work, prepared in conjunction with management and approved by the Audit Committee, and should have regard to the business plans and strategic outlook of the department as a whole.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee from time to time.
- Review information systems including information technology, information security and application controls, network controls, hardware and software controls
- Present to the Audit Committee significant findings relating to internal control / process weakness along with process owners action plan.
- Keep a track and follow up with the process owners for pending action plans and present the status to the Audit Committee.
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities.
- Share annual audit plan with Statutory Auditors.
- Conduct special investigations as directed by the Audit Committee / Management or suo-moto in case of matters of suspected fraud, irregularity or failure of internal control system after keeping Management informed.
- Establish a system of Controls Self-Assessment (CSA) across the enterprise which will supplement internal audit efforts, improve coverage and importantly help Process Owners take ownership of controls.

**(B) Compliance with Regulatory requirements and Policies:**

- Review effectiveness of the system for monitoring compliance with laws and regulations.
- Review compliance with Accounting Standards
- Review mechanism for adherence to the Tata Code of Conduct.
- Review compliance on policies, plans, procedures, laws and regulations
- Assist the Audit Committee in the review of the Company's financial reporting process and the disclosures of its financial information to ensure that the financial statement is correct, sufficient and credible.

**(C) Subsidiary and JV Company oversight:**

Conduct internal audits in subsidiary companies or review the work done by other auditors to assist the Audit Committee in overseeing the systems of internal control, results of audits and integrity of financial reporting of subsidiary companies.

**(D) Risk Management:**

To provide the policy framework for proactive identification and management of the Companies strategic, operational, financial & compliance risks in order to achieve reasonable assurance on the achievement of its business objectives & compliance to provisions of clause 49 of the listing agreement.



The risk management process will be integrated with the Long Term Strategic Planning Process and other business processes of the Company and will inter-alia ensure :

- Driving of structured risk identification, assessment & mitigation plans across all major businesses of TCL and its subsidiaries.
- Deriving enterprise level risks from individual business exercises and ensuring ownership for mitigation and action planning

#### **(E) Quality Assurance :**

The Head – Internal Audit and Risk Management shall ensure that high standards are sustained in the auditing process and towards this, he shall :

- Ensure that an Independent / Peer Review of the Internal Audit Department is carried out at intervals not exceeding 4-5 years.
- Establish a quality assurance program by which the Head – Internal Audit and Risk Management assures the operation of internal auditing activities.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.

#### **7. REPORTING :**

The primary purposes of internal audit reports are to provide management with an opinion on the adequacy of the internal control system, and to inform management of significant audit findings, conclusions and recommendations.

The aim of every internal audit report shall be:

- To prompt management to implement recommendations for change leading to improvement in performance and control
- To provide a formal record of points arising from the internal audit assignment and, where appropriate, of agreements reached with management.

Reporting arrangements, including the format and distribution of internal audit reports, shall be agreed with management. It will be ensured that reports are sent to managers who have a direct responsibility for the unit/function being audited and who have the authority to take action on the internal audit recommendations. Internal audit reports are confidential documents and their distribution should therefore be restricted to those managers who need to know, the Audit Committee and the External Auditors.

The Internal Audit Department shall produce clear, constructive and concise written reports based on sufficient, relevant and reliable evidence, which:

- state the scope, purpose, extent and conclusions of the internal audit assignment
- make recommendations which are appropriate and relevant, and which flow from the conclusions
- acknowledge the actions taken, or proposed, by management



The Head of Internal Audit and Risk Management shall also prepare flash reports to alert management on the need to take control, or when there are reasonable grounds for suspicion of any major irregularity fraud or theft.

All reports shall be discussed with appropriate levels of management, for confirmation of factual accuracy and for agreement of action plans on recommendations made.

## **8. BEST PRACTICES AND BENCHMARKING**

The unique advantage Corporate Audit staff enjoy is their exposure to multiple businesses and a variety of business situations. Hence, the audit department shall:

- Highlight best practices in different operations, in addition to focusing on areas for improvement.
- Conduct benchmarking exercises within Tata Chemicals across functions / units or facilitate benchmarking outside Tata Chemicals with benchmark functions or companies.

## **9. LEADERSHIP DEVELOPMENT:**

- As audit processes are by definition fact-based and analytical, they provide the audit staff an opportunity to look at different business situations objectively and draw conclusions without any bias. This provides a diversified group of high potential individual's from the Internal Audit department broad exposure and training in a challenging business environment. It will help these individuals take up important positions / assignments when they move into line functions.
- Induction of line managers into the team on rotational basis would add the necessary business perspective to operational audits. It would simultaneously provide line managers an opportunity to look at issues differently, which should stand them in good stead when they return to the mainstream of business.

## **10. AUTHORITY**

The Head – Internal Audit and Risk Management and staff of the internal auditing department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, determine scope of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.
- Request assistance of colleagues as Guest Auditors with relevant knowledge / expertise to assist in internal audit work for specific assignments.

The Internal Audit team will however not substitute for, or perform normal operational functions or initiate / approve transactions (external to the Internal Audit Department) or direct activities of any organization employee who is not an employee / associate of Internal Audit to avoid conflict of interest.



## **11. STANDARDS OF AUDIT PRACTICE:**

The Internal Audit department will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors.

All members of the Internal Audit Team will adhere to the Code of Ethics of The Institute of Internal Auditors (attached to this Charter).