

FORTIS HEALTHCARE LIMITED



AUDIT AND RISK MANAGEMENT COMMITTEE

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FORTIS HEALTHCARE LIMITED

Audit and Risk Management Committee¹

(A) PURPOSE

The primary functions of the Audit and Risk Management Committee ("Audit Committee") is to assist the board of directors in fulfilling its oversight responsibilities for reviewing (a) the integrity of the financial statements and disclosures, (b) framework to monitor the compliance with applicable legal and regulatory requirements, (c) the internal financial controls and risk management systems, (d) the independent auditor's qualifications and independence, (e) the performance of the company's internal audit function and independent auditors, (f) the related party transactions and (g) selection of the statutory, cost, secretarial and internal auditors for board and/or shareholder approval as required.

(B) MEMBERSHIP & QUALIFICATION

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| Reg. 18.1(a),
18.1(b) & Sec.
177(2) ² | 1. The Audit Committee shall have minimum three directors as members. Two-thirds of the members of Audit Committee shall be Independent Directors ³ . |
| Reg.18.1(d) | 2. The Chairperson of the Audit Committee shall be an independent director. |
| Reg.18.1(c) &
Proviso to
Sec.177(2) ⁴ | 3. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise. |
| Reg.18.1(c) | Explanation (i): The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.
Explanation (ii): A member will be considered to have "accounting or related financial management expertise" if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. |

¹ Constituted in terms of Section 177(1) of the Companies Act, 2013 & Regulation 18 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

² The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority.

³ Independent Directors have been defined at Regulation 16(1)(b) of the Listing Regulations

⁴ Majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand the financial statement.

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Reg.18.1(d) 4. The Chairperson of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries.

Reg.18.1(e) 5. The Company Secretary shall act as the secretary to the committee.

(C) MEETINGS OF THE COMMITTEE

Reg.18.2(a) 1. The Audit Committee should meet at least four times in a year and not more than four months/120 days shall elapse between two meetings.

Reg.18.2(b) & Sec. 174(1)⁵ 2. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but with atleast two independent directors.

Sec. 174(1) 3. Participation of the Members by video conferencing or by other audio visual means shall also be counted for the purposes of quorum.

Rule 4(iv)⁶ However, the Audit Committee shall not consider financial statements including consolidated financial statements, if any, to be approved by the Board of Directors under sub-section 1 of Section 134 of Companies Act, 2013 in any meeting held through video conferencing or other audio visual means.

Reg.18.1(f) 4. 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 finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee.

Sec. 177(7) 5. The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Committee when it considers the auditor's report but shall not have the right to vote.

Reg. 18(2)(c) & Sec. 177(6) **(D) POWERS OF THE 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.

⁵ The quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher, and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum under this sub-section

⁶ Companies (Meetings of Board and its Powers) Rules, 2014 and Clause 1.2.3 and 3.3 of Secretarial Standard on Meeting of the Board of Directors (SS-1)

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4. To secure attendance of outsiders with relevant expertise, if it considers necessary.
5. To have full access to information contained in the records of the company.

Reg.18(3) and
Part C of
Schedule II

(E) ROLE OF THE COMMITTEE

The role of the Audit Committee shall be as under:

(I) Financials

A.4 of Part C of
Schedule II &
Sec. 177(4)(iii)

1. To review, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:

Sec. 177(5)

- (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) Modified Opinion(s) in the draft audit report.

A.5 of Part C of
Schedule II

2. To review, with the management, the quarterly financial statements before submission to the board for approval.

A.1 of Part C of
Schedule II

3. To oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

B.1 of Part C of
Schedule II

4. To review management discussion and analysis of financial condition and

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results of operations.

- Reg. 24(2) 5. To review the financial statements, in particular, the investments made by the unlisted subsidiary company(ies).

(II) Related Party Transactions

A.8 and B.2 of Part C of Schedule II, Reg. 23(2), Reg. 23(3)(d), Sec. 177(4)(iv) & Rule 6A⁷ To review and approve all related party transactions as reported by the Management or any subsequent modification thereof. All related party transactions shall require prior approval of the audit committee and the Committee may make omnibus approval for all related party transactions proposed to be entered into by the company. Further, the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.

A.4(f) of Part C of Schedule II To review disclosure of any “related party transactions” made in the Annual Financial Statements.

(III) Funds

Reg. 32(7), A.6 and B.6(b) of Part C of Schedule II & Sec. 177(4)(viii) 1. To review, 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, monitoring the end use of funds raised through public offers and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue on annual basis, and making appropriate recommendations to the Board to take up steps in this matter.

A.9 of Part C of Schedule II & Sec. 177(4)(v) 2. To scrutinize of inter-corporate loans and investments.

A.17 of Part C of Schedule II 3. 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.

B.6(a) of Part C of Schedule II Reg. 32(3) 4. To review the following statement(s) before submitting them to the stock exchanges on a quarterly basis for public issue, rights issue, preferential issue etc. ,-
(a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for

⁷ Companies (Meetings of Board and its Powers) Rules, 2014

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the general meeting, as applicable;

(b) indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.

(IV) Valuation

- A.10 of Part C of Schedule II & Sec. 177(4)(vi) Sec.247(1)⁸
1. Valuation of undertakings or assets of the company, wherever it is necessary.
 2. To appoint a Valuer for the aforesaid purposes.

(V) Statutory Auditors

- A.7 and A.12 of Part C of Schedule II Sec. 177(4)(ii)
1. To review and monitor the auditor's independence, performance, and effectiveness of audit process and may invite the management for discussion.
- A.2 of Part C of Schedule II & Sec. 177(4)(i) Rule 3⁹
2. To recommend appointment, remuneration and terms of appointment of auditors of the company (i.e. Statutory Auditors, Internal Auditors, Cost Auditors and Secretarial Auditors, as the case may be) after taking into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and that such qualifications and experience are commensurate with the size and requirements of the company. The Committee shall also have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any competent authority or any Court.
- A.3 of Part C of Schedule II & Sec.144
3. Prior approval of other services rendered by the statutory auditors (other than the ones prohibited under Section 144 of the Companies Act, 2014)¹⁰ and approval of payment therefor.
- A.16 of Part C of Schedule II
4. To discuss with statutory auditors before the audit commences, about

⁸ The Section is not yet notified by the MCA

⁹ Companies (Audit and Auditors) Rules, 2014

¹⁰ Other services shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:—
(a) accounting and book keeping services; (b) internal audit; (c) design and implementation of any financial information system; (d) actuarial services; (e) investment advisory services; (f) investment banking services; (g) rendering of outsourced financial services; (h) management services; and (i) any other kind of services as may be prescribed.

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the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

Sec.148 read with Rule 14¹¹

(VI) Cost Auditors

The Committee may review and, if advisable, select and recommend for board approval and subsequently approval of shareholders:

- (a) the appointment (or re-appointment as the case may be) or terms of appointment or replacement or removal of the cost auditors; and
- (b) the compensation of the cost auditors.

(VII) Internal Audit

B.5 of Part C of Schedule II

1. To review appointment, removal and terms of remuneration of the Chief Internal Auditor.

Rule 13(2)¹² & Sec. 177(5)

2. The Audit Committee, in consultation with the Chief Internal Auditor, finalize Internal Audit Charter, scope (including Medical Processes), functioning, periodicity, methodology and appointment of service providers for conducting the internal audit.

A.12 and A.13 of Part C of Schedule II

3. To review the adequacy of internal audit function, including the structure of the internal audit department, staffing and security of the official heading the department, reporting structure coverage, frequency of internal audit and the performance of the Internal Auditors.

A.14 and B.4 of Part C of Schedule II

4. To discuss with internal auditors any significant findings and Internal Control weaknesses noted in the Internal Audit Report and follow up thereon.

A.15 of Part C of Schedule II

5. To review 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.

(VIII) Internal Controls

¹¹ Rule 14 of the Companies (Audit and Auditors) Rules, 2014 w.r.t. Section 148 of the Companies Act, 2013, provides that the appointment and remuneration of Cost Auditors shall be recommended by the Audit Committee to the Board.

¹² Companies (Accounts) Rules, 2014

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- A.12 of Part C of Schedule II
1. To review with the management, adequacy of the Internal Control System.
- Sec. 177(5)
2. To invite comments / observations from the auditors on internal control systems.
- C and D of Part B of Schedule II
3. (a) To review the plan submitted by the management to mitigate the deficiencies reported in the design or operation of internal financial controls; and
- (b) To receive from the management update, if any, on the:
- significant changes in internal control over financial reporting during the year;
 - significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting
- B.3 of Part C of Schedule II
4. Review of Management letters / letters of internal control weaknesses issued by the statutory auditors.
- A.11 of Part C of Schedule II & Sec. 177(4)(vii)
5. To evaluate the system of internal financial controls established by the management.
- Reg. 17(9)(b)
- (IX) Risk Management**
- A.11 of Part C of Schedule II & Sec. 177(4)(vii)
- To evaluate the Risk Management System (both Medical and Non-Medical), including Risk Policy, Risk Process (Risk Identification, Assessment, Mitigation and Monitoring) and Risk Registers, laid down by the management.
- (X) Whistle Blower Mechanism – (Vigil Mechanism)**
- A.18 of Part C of Schedule II, Reg. 22(2), Sec. 177(9) & (10) & Rule 7¹³
1. To review and oversee the Whistle Blower mechanism.
2. To ensure that the complainant has direct access to the chairperson of the Audit Committee.

¹³ Companies (Meetings of Board and its Powers) Rules, 2014

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3. To take suitable action against any Director or employee in case of repeated frivolous complaints.

(XI) Others

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| A.19 of Part C of Schedule II | 1. 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. |
| Sec.177(5) | 2. The Audit Committee may also discuss any other issue with the internal auditor, statutory auditor and management of the Company. |
| Sec.143(12) & Rule 13 ¹⁴ | 3. If any Fraud has been reported to the Audit Committee by the Statutory Auditors; or the Audit Committee has, sufficient reasons to believe that an offence involving fraud, is being or has been committed against the Company by officers or employees of the Company, it shall investigate the matter in a manner as provided in Companies Act, 2013 and issue a Report thereof, within 45 days. |
| Rule 3(5) ¹⁵ | 4. The Audit Committee may advise on the system for storage, retrieval, display or printout of the electronic records. |
| Policy on Material Subsidiary | 5. The Audit Committee shall take note of "Material Subsidiary" of the Company during each financial year. The identification shall be exercised soon after preparation of annual accounts and the outcome shall be placed in the meeting where the Annual Audited Accounts of the Company are considered. |

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¹⁴ Companies (Audit and Auditors) Rules, 2014

¹⁵ Companies (Accounts) Rules, 2014