

## **Charter Audit Committee**

### **Role**

The Audit Committee will assist the Board of Directors in fulfilling its oversight responsibilities for:

- The integrity of the Company's financial statements;
- The Company's compliance with legal and regulatory requirements;
- The independent auditor's qualifications and independence; and
- The performance of the Company's internal audit function and independent auditors.

### **Membership**

The Audit Committee shall consist of three or more Directors all of whom in the judgment of the Board of Directors shall be independent.

The other members of the Board and officers of the Company may be invited to attend the Audit Committee meetings.

Company Secretary shall act as Secretary to the Committee.

### **Operations**

The Audit Committee will meet at least four times in a year, with authority to convene additional meetings, as circumstances require. Meeting agenda will be prepared and provided in advance to members, along with appropriate briefing materials.

Minutes of every meeting will be maintained.

The quorum of the meetings shall be one third of the total strength or two Directors whichever is more.

### **Reporting**

The Audit Committee will report to the Board.

### **Powers and authorities**

The Audit Committee shall:

- Discuss with management, internal and external auditors the annual audited financial statements and quarterly un-audited financial statements alongwith related disclosures and filing requirements under Indian and US GAAP.
- Review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company;
- Review with management and the external auditors the results of the audit, including any difficulties encountered and qualifications in audit reports. This review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management;

- Review complex or unusual material transactions that involve a high degree of judgmental decision making;
- Review related party transactions whether in the ordinary course of business or not and management justification for the transactions which are not at arm's length basis, if any.
- Review the utilization of funds raised through public issues, rights issue, preferential issue etc.
- Review the reasons for substantial defaults in the payments to shareholders and creditors;
- Retain independent counsel, accountants, or others to advise the Audit Committee or assist in the conduct of an investigation, if the need arises;
- Seek any information it requires from employees, all of whom are directed to cooperate with the committee's requests or external parties;
- Review the effectiveness of the Company's internal control systems;
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
- Review with management and the Chief Internal Auditor the charter, plans, activities, staffing, and organizational structure of the internal audit function;
- Ensure there are no unjustified restrictions or limitations, and review and review and give the final decision regarding the appointment, replacement, or dismissal of the Chief Internal Auditor;
- Review the effectiveness of the internal audit function;
- On a regular basis, meet separately with the Chief Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately;
- Appoint, remove, compensate, and oversee the work of the public accounting firm employed by the organization to conduct the statutory external audits;
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;
- Approve all permitted non-audit services performed by the Company's external audit firm;
  - Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately;
  - Set clear hiring policies for employees or former employees of the independent auditors;

- Obtain and review a report by the independent auditor describing the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm and assess the auditor's independence;
- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Review the findings of any examinations by regulatory agencies, and any audit observations;
- Discuss with management the Company's major policies with respect to risk assessment and risk management;
- Review the functioning of Whistle Blower mechanism;
- Review Financial Statements of subsidiary companies, in particular, investments made by unlisted subsidiary companies.
- Take funding of all administrative expenses and for carrying out any duties envisaged in this charter from the Company;
- Delegate authority to sub-committees.

#### **Policy for hiring of employees or former employees of the independent auditors**

The committee has adopted the following practices regarding the hiring by the Company of any partner, director, manager, staff, advising member of the independent auditors

- CEO must approve all appointments from the independent auditor.
- CEO shall report yearly to the Audit Committee the profile of the preceding year's hires from the independent auditor.
- No former employee of the independent auditor may sign Dr. Reddy's Securities and Exchange Commission (SEC) filing for 5 years following employment with the independent auditor.

#### **Report**

Audit Committee shall prepare a report each year for inclusion in the Company's annual report.