Internal Audit Policy

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Policy Custodian:

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1. Introduction

This policy is recommended by the Board and approved by the Committee of Senior Executives and it defines the Internal Audit function's purpose, authority, stature, responsibility and position within the organization.

The Audit Policy is prepared based on reference and best practises to applicable regulatory standards and professional practices from time to time.

The policy has been adopted in line with the regulatory requirement prescribed by RBI Notification DoS.CO.PPG./SEC.05/11.01.005/2020-21 dated February 03, 2021, as amended from time to time.

2. Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding of records and information, should be authorized full, free, and unrestricted access to any and all of records, physical properties, and personnel pertinent to carrying out any engagement. All employees of the Company are expected to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Following are the facilities which needs to be ensured by the Company to the Internal Audit function:

2.1. The Internal Audit function shall be provided a separate sitting arrangement and sufficient record room to keep their audit records and files safe and intact along with separate sets of computers and its peripherals and other communications facility.

Additionally, the Internal Audit function shall be provided with an access to a separate server space or file server in the Company. The access to the server space or file server should be provided to all members of the internal audit function. This server or storage space should be a common drive where all audit reports, audit evidences & correspondences should be stored for record purposes and ready retrieval.

2.2. The Internal Auditor should have full & free access to all functions and all the records. The Internal Audit is free to review and critically appraise any activity of the functions/authorities, but their review and appraisal does not in any way relieve the Executives of their responsibilities as internal audit is an advisory function

2.3. The usefulness of the internal audit will depend much on the co-operation and working facilities provided to the function.

2.4. Head of Internal Audit would have power to split the yearly programme as approved by the Board approved into detailed quarterly programme / monthly programme.

2.5. Internal Audit function should not be involved in any operational activities like tendering, hiring, etc.

2.6. As an inherent limitation, it may not be possible to audit all the functions each year. Therefore, selection of the functions / disciplines for audit should be in line with the Risk Based Audit Plan, where preference should be given to those functions which have been identified as high-risk areas as per audit policy or which by nature of their activities and as revealed by past experience, are more sensitive. The functions selected for this purpose should include those where lapses and inadequacy of internal control may result into considerable financial losses.

2.7. The Internal Audit function will be an independent function. The Internal Auditors shall not have any reporting relationship with the business verticals, shall not assume operational responsibilities and shall not be given any business targets. Persons transferred to or temporarily engaged by the Internal Audit function should not be assigned to audits of activities which they previously performed until a reasonable period of time has elapsed. The Internal Auditors shall conduct a Risk Based Internal Audit of the Company based on the scope decided by the Committee of Senior Executives, Board of Directors and as mentioned in the Policy.

The Risk-Based Internal Audit Policy of the Company depicts the proposed organization chart showing internal audit set-up, their locations and area of activities. Based on strength available, the preference shall be given to plan audits with the internal team. In absence of required manpower strength or the requisite skillsets, specific Internal Audits can be outsourced by the "Senior Executive Committee" formed by the Board in this regard. The head being assured that such expertise does not exist within the audit function of the Company. However, the ownership of the audit reports in all such cases shall rest with regular functionaries of the internal audit function.

3. Roles & Responsibilities

The Duties and responsibilities of various functionaries of the Company including the internal audit function are as under:

3.1. Role of Senior Management

3.1.1. Senior management, which shall include Managing Director / Chief Executive Officer / Chief Financial Officer Principal Officer shall be responsible for developing an adequate, effective and efficient internal control framework that identifies, measures, monitors and controls all risks faced by the Company.

3.1.2. It should maintain an organisational structure that clearly assigns responsibility, authority and reporting relationships and ensures that delegated responsibilities are effectively carried out.

3.1.3. Senior Management should inform the internal audit function of new developments, initiatives, projects, products and operational changes and ensure that all associated risks, known and anticipated, are identified and communicated at an early stage.

3.1.4. Senior management should be accountable for ensuring that timely and appropriate actions are taken on all internal audit findings and recommendations.

3.1.5. Development of an effective internal control function that identifies, measures, monitors and reports all risks faced. It shall ensure that appropriate action is taken on the internal audit findings within given timelines and status on closure of Internal audit reports is placed before the Board

3.1.6. The senior management is responsible for establishing a comprehensive and independent internal audit function which should promote accountability and transparency. It shall ensure that the RBIA Function is adequately staffed with skilled personnel of right aptitude and attitude who are periodically trained to update their knowledge, skill and competencies

3.1.7. Senior management should ensure that the head of internal audit has the necessary resources viz. staffs, financial tools and otherwise, available to carry out his or her duties commensurate with the annual internal audit plan, scope and budget approved by the audit committee, thereby enabling the auditors to carry out their assignments with objectivity.

3.1.8. consolidated position of major risks faced by the organization shall be presented at least annually to the Board, based on inputs from all forms of audit

3.2. Head of Internal Audit

3.2.1. To update the Internal Audit Policy from time to time and place the same before the the Senior Executive Committee and the Board of Directors for approval.

3.2.2. To update the Internal Audit Manuals and Audit function's organization chart from time to time and get the same approved by the Senior Executive Committee.

3.2.3. To timely inform the Management about the findings of all the Internal Audits undertaken by internal auditors along with the compliances.

3.2.4. To investigate in the matters assigned by the Board from time to time.

3.2.5. Finalize the Internal Audit plan for the Company as a whole and obtain the approval from the Board.

3.2.6. Timely submission of MIS and inform CEO and the Board on all the matters pertaining to Internal Audit function.

3.2.7. Design appropriate training programme for the executives in internal audit.

3.2.8. To arrange for periodical internal audit in accordance with the audit plan.

3.2.9. To arrange for a special audit as and when required and also as per the direction of the management.

3.2.10. To ensure prompt disposal of audit observations.

3.2.11. To update the checklist for audit at regular intervals based on the experience gained during audit as well as based on changes in regulatory requirements or operations.

4. Rotation

The Company has a separate and independent Risk Based Internal Audit team (Committee of Senior Executives) and hence any staffs posted in this team (career internal auditor or otherwise) shall work in the internal function for a minimum period of three years. Post that permanent staff within the Internal Audit function may be transferred to other functions.

The Head of Internal Auditor shall be appointed for a reasonably long period, preferably for a minimum of three years.

Vacancies so created can be fill up by way of recruitment of suitable resources possessing specialized knowledge useful for the audit function from within the Company or outside to ensure continuity and adequate skills for the staff in Audit Function.

5. Code of Ethics for Internal Auditor

There are certain moral principles which the Internal Auditors should follow. These are illustrative and not exhaustive; these provide the basic guidelines to the Internal Auditors with regard to the moral hazards and conflicts which they may face while carrying out Internal Audit assignments.

5.1. Integrity, Objectivity & Independence of Internal Auditor

5.1.1. Internal Auditor shall have an obligation to exercise honesty, objectivity, and diligence in performance of their duties and responsibilities.

5.1.2. Internal Auditors shall refrain from entering into any activity which may be in conflict with the interest of the Company.

5.1.3. Internal Auditors shall not accept a fee or a gift from an employee, a Contractor or a supplier.

5.1.4. Internal Auditor must be fair and must not allow prejudice or bias to override his objectivity. She/he should maintain an impartial attitude. The internal auditor should not, therefore, to the extent possible, undertake activities, which are or might appear to be incompatible with her/his independence and objectivity. For example, to avoid any conflict of interest, the internal auditor should not review an activity for which she/he was previously responsible.

5.1.5. Internal Auditor should immediately bring any actual or apparent conflict of interest to the attention of the appropriate level of management so that necessary corrective action may be taken.

5.2. Confidentiality

5.2.1. Internal Auditor shall be prudent in the use of information acquired in the course of their duties. She/he shall not use confidential information for any personal reason or in a manner which would be detrimental to the interest of the Company.

5.2.2. Internal Auditor should not disclose any such information to a third party, including employees of the entity, without specific authority of management/ client or unless there is a legal or a professional responsibility to do so.

5.3. Proficiency and Due Professional Care

5.3.1. Internal Auditor should exercise due professional care in carrying out the work entrusted to him in terms of deciding on aspects such as the extent of work required to achieve the objectives of the engagement, relative complexity and materiality of the matters subjected to internal audit, assessment of risk management, control and governance processes and cost benefit analysis. Due professional care, however, neither implies nor guarantees infallibility, nor does it require the internal auditor to go beyond the scope of his engagement.

5.3.2. Internal Auditor should have obtained required skills and competence through general education, technical knowledge obtained through study and formal courses, as are necessary for the purpose of discharging his responsibilities.

5.3.3. Internal Auditor shall also have a continuing responsibility to maintain professional knowledge and skills at a level required to ensure that the Company receives the advantage of competent professional service based on the latest developments in the profession, the economy, the relevant industry and legislation.

5.3.4. in cases of serious acts of omission or commission noticed in the working of Company's own staff or retired staff, the accountability action would be fixed as per the extant process of the Company.

6. Duties and Responsibilities of the Internal Auditor

Key objectives of the internal auditor can be summarized as:

6.1. To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.

6.2. To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a significant impact on the functioning of the entity.

6.3. To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the internal audit.

6.4. All the duties and responsibilities including the scope of internal audit identified by the Board of Directors of the Company and the Committee of Senior Executives pursuant to RBI provisions from time to time.

7. Reporting Structure for Internal Audit

The Internal Auditor shall provide their report on Risk Based Internal Audit as per the scope prescribed by the Committee of Senior Executives. Such Committee shall discuss the report at their meeting and provide their recommendations / suggestions to the Board of Directors of the Company.

Report on Internal Audit on rest of the areas as per the scope decided by the Board of Directors of the Company shall be provided to the CEO/CFO who shall place the same before the Board of Directors of the Company.

8. Risk-Based Internal Audit

RBI has provided a guidance note on Risk Based Internal Audit. RBI advised initiation of necessary steps to prepare a risk-based internal audit system in a phased manner, keeping in view Company's risk management practices, business requirements, manpower availability etc.

A sound internal audit function plays an important role in contributing to the effectiveness of the internal control system. The audit function shall provide high quality counsel to the management on the effectiveness of risk management and internal controls including regulatory / statutory compliance by the Company.

9. Expectation Setting

This step facilitates the alignment of Internal Audit function resources with the Company's business objectives to maximize the value delivered to business by Internal Audit function and hence it forms a key cornerstone of Internal Audit function planning. This activity will require extensive interaction between the Internal Audit function and Top Management.

The following are the key milestones of this activity:

9.1. Risk assessment: Risk Assessment is a critical and important part of Planning. It includes the process of identifying the risks, assessing the risk, taking steps to reduce the risks to acceptable levels, considering both probability and impact of the risks. Risk Assessment allows the auditor to determine the scope of the audit and nature, extent and timing of audit. Risk Assessment mainly implies Inherent risk assessment, control risk assessment and the residual risk. The Auditor should satisfy himself that the risk assessment procedure adequately covers the periodic and timely assessment of all the risks.

9.2. Prioritization of business objectives through identification of priority / focus level of business areas: Priority should be given to the risk that has the potential to cause significant impact and harm.

9.3. Scope, coverage and management expectations from Internal Audit function: Coverage would specify the extent of audit work to be conducted. Expectations of Management, is the outcome of audit which would satisfy the objective and its requirement to all the stakeholders. In order that there is no confusion, the scope, coverage and management expectation should be clearly defined and that should be integrated as a part of the Planning exercise.

9.4. Timelines with respect to completion and presentation of results to management: Timeline is an essential milestone to measure the achievement of objectives of audit. It defines the timeliness of delivery of required deliverables to various stakeholders. Reports should be issued in a timely manner, to encourage prompt corrective measures. When appropriate, the auditor should report significant findings promptly to the concerned persons.

10. Risk Assessment Framework

The risk assessment framework would include the following:

- Identification of Audit Universe
- Inherent Risk Assessment
- Control Risk Assessment
- Residual Risk Assessment.

All the activities will be reviewed annually along with the overall Policy.

11. Identification of Audit Universe

The first step in performing the risk assessment is to identify various business groups and support functions within the Company based on which the inherent risk profile would be prepared and presented for each such groups. The groups shall be identified and updated to remain aligned with the other prevailing frameworks for management oversight and control of the business and operations. Thus, the Audit Universe of the Company, comprises of the Business, Operations, and other Support groups collectively called "Business Groups". Each Group is further broken up into auditable units/areas.

Based on the risk assessment process explained below, a risk matrix for the Company, comprising all the Business groups is drawn up. Further a risk matrix for each Business Group comprising various auditable units/ areas, is also drawn up.

At the beginning of the year as a first step towards preparation of the RBAP (Risk Based Audit Plan), a list of all Business Groups and the auditable units/areas are drawn up. This will consider and evaluate modifications during the financial year, required on account of changes, if any in the control environment in the auditee units within the same business / group.

- Account Opening
- Accounts Modification
- Loan Processing
- Administration
- Corporate Secretarial
- Compliance
- Corporate Legal
- Finance & Accounts
- Asset-Liability Management
- Fraud containment and Monitoring function
- Human Resource
- Information Security
- Information Technology
- Capital Expenditure
- Risk
- Treasury
- Vigilance
- Outsourced Activities
- Investments

12. Risk assessment methodology

The risk assessment process should, inter alia, include the following: - Risk Assessment for Business Groups based in business model

12.1. Identification of inherent business risks in each Business Group in the Company;
12.2. Evaluation of the effectiveness of the control systems for monitoring the inherent risks of the business groups (`Control risk');
12.3. Drawing up a risk-matrix for taking into account both the factors viz., inherent and control risks.

The steps to be followed is detailed hereunder:

12.4. The basis for determination of the inherent risk (high, medium, low) should be clearly spelt out.
12.5. The process of inherent risk assessment may make use of both quantitative and qualitative approaches.
12.6. Compare of the current residual risk of auditable units with that of the previous audit to assess the effectiveness of the control environment and assess the direction of risk.

While the quantum of credit, market, and operational risks could largely be determined by quantitative assessment, a qualitative approach may be adopted for assessing the regulatory and reputation risks in various business groups. In order to focus attention on areas of greater risk to the Company, an activity-wise and location-wise identification of risk should be undertaken.

The risk assessment methodology will also include, inter alia, the following parameters:

- Previous internal audit reports and compliance
- Proposed changes in business lines or change in focus
- Significant change in management / key personnel
- Results of latest regulatory examination report
- Reports of external auditors
- Substantial performance variations from the budget etc.
- Operational Risk, Credit and Market Risk parameters
- Time elapsed since last audit
- Asset-Liability Management

13. Risk Matrix for the Company

Based on the Control Risk Score and the Inherent Risk Scores, a Risk Matrix for the Company is prepared comprising all Business Groups. Based on the Inherent Risk and Control Risk for each group, the group will be placed in the Risk Matrix.

14. Inherent Risk

Inherent Business risks indicate the intrinsic risk in a particular area/activity of the Company and could be grouped into low, medium and high categories depending on the severity of risk.

For ease of determination, all the primary risks will be grouped into six categories, namely, credit risk, market risk, operation risk, regulatory risk, reputation risk, and information technology risk. These may be further broken down into risk parameters as under:

Operations Risk: a) Volume of transaction b) Complexity c) Documented process d) Staff skills e) Frequent changes in process f) System Support

Market Risk a) Risk from changes in interest/exchange rates b) Laid down system support c) Availability of tools/models d) Skill sets

Reputation Risk a) Impact of process on reputation of Company b) Extent of customer interaction c) Risk on account of outsourcing d) Proper grievance handling mechanism

Credit Risk a) Existence of proper credit appraisal process b) Complexity of products c) Existence of strong Delegation of Financial Power (DFP) System d) Level of delinquencies

Regulatory Risk a) Degree of regulation in process b) Complexity of regulation c) Existence of compliance risk monitoring process d) Regulatory findings

IT Risk e) Complexity of system f) Vulnerability of system to cyber attacks g) Dependence on external vendor for system support h) Existence and effectiveness of BCP/DRP

15. Measurement of impact of risk parameters

The risk parameters as defined above for all the primary risks are considered for arriving at the score for Inherent Risk. A high, medium or low score is assigned to each parameter, wherever applicable. Based on these scores for each risk parameter, an aggregate score for that risk category is quantified and a score on the scale of 1 to 6 (High 5-6, Medium 3-4 and Low 1-2) is awarded to each of the six primary risks listed above. Where a business group is not exposed to a particular risk, a score of zero is given. Thus, the maximum Inherent Risk score would be 36 (aggregate of six primary risks) for any business group based on discussion and internal judgment, an inherent risk of up to 20% may be considered as "low", between 21% to 50% may be considered as "medium" and inherent risk greater than 50% may be considered as "high".

16. Control Risk evaluation

The previous audit rating would indicate the level of control risk. Control risks arise out of inadequate control systems, deficiencies/gaps or likely failures in the existing control processes, incidents pointing to gaps in implementation of control processes etc. The control risks could also be classified into low, medium and high categories. Control Risk would be numerically indicated on a "0 to 100" scale, with a score of "0" being the ideal score, which would indicate that the risks are fully covered by the existing controls.

In order to measure the extent to which the inherent risks are addressed by controls, threshold limits i.e. three levels of threshold for measurement of Control Risk viz., "High", "Medium" and "Low" have been defined. These would be expressed in terms of percentage as under:

Control Risks	**Score**
Low Less than	15%
Medium	15% to 30%
High Above	30%

The gaps observed in the control risks vis-à-vis, the inherent risks lead us to the residual risk. The residual risks can be classified into Extremely High, Very High, High, Medium and Low based on the following and accordingly fall in the respective cells in the Risk Matrix (as under):

Inherent Risks	**High (19-36)**	(4) High	(2) Very High	(1) Extremely High
	Medium (8-18)	(7) Medium	(5) High	(3) Very High
	Low (0-7)	(9) Low	(8) Medium	(6) High
		Low <15%	**Medium 15%-30%**	**High >30%**
		Control Risks		

In the overall risk assessment both the inherent business risks and control risks should be factored in. The overall risk assessment as reflected in each cell of the risk matrix is explained below:

1. Extremely High Risk – Both the inherent business risk and control risk are high which makes this an Extremely High Risk area. This area would require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the Company's top management.

2. Very High Risk- The business unit/area is perceived to have "high" inherent risk coupled with medium control risk makes this a Very High Risk area

3. Very High Risk – Although the inherent business risk is medium, this is a Very High Risk area due to high control risk.

4. High Risk- The business unit/area is perceived to have "high" inherent risk, but the control risks as borne out by the previous audit ratings are weak

5. High Risk – Although the inherent business risk is medium this is a High Risk area because of control risk also being medium.

6. High Risk – Although the inherent business risk is low, due to high control risk this becomes a High Risk area.

7. Medium Risk – Although the control risk is low this is a Medium Risk area due to Medium inherent business risks.

8. Medium Risk - The inherent business risk is low and the control risk is medium.

9. Low Risk – Both the inherent business risk and control risk are low.

17. Audit Planning

An Audit plan defines the scope, coverage and resources, including time, required for audit over a defined period. Adequate planning ensures that appropriate attention is devoted to significant areas of audit, potential problems are identified, and that the skills and time of the staff are appropriately utilised.

The Audit plan would be drawn up consistent with the goals and objectives of the Internal Audit function as listed out in the Internal Audit charter as well as the goals and objectives of the Company.

A plan once prepared would be continuously reviewed by the Board and the Committee of Senior Executives to identify any modifications required to bring the same in line with the changes, if any, in the audit environment.

18. Frequency of audits

The Internal Audit function carries out internal audits as a part of the overall audit assurance framework to the Company. The risk map of the auditable units so derived will decide the frequency of audit of the respective units as under:

18.1. Auditable units falling under cell "9" (i.e., Low Risk) would be audited once in a year.

18.2. Auditable units falling under cell "7 & 8" (i.e., Medium Risk) would be audited once in six months.

18.3. Auditable units falling under cell "4, 5 & 6" (i.e., High Risk) would be audited once in six months..

18.4. Auditable units falling under cell "2 & 3" (i.e., Very High Risk) would be audited as may be decided by the Committee of Senior Executives but atleast once in six months.

18.5. Auditable units falling under cell "1" (i.e., Extremely High Risk) would be audited as may be decided by the Committee of Senior Executives but atleast once in six months.

The above intervals between two internal audits is indicative and the interval is the outer limit and the audit must be conducted within the quarter in which the audit becomes due.

19. Audit Scope and Coverage

The scope of each audit shall be determined by Head of Internal Audit and approved by the Board.

As per the Board approval following are scope of Internal Audit:
1. Review of Investments
2. Borrowings – documentation, interest working, demand notes, etc.
3. To review and audit the expenses with respect to the Authorizations, Supporting, Nature of Account, & Appropriate accounting;
4. Compliance with key parameters of CIC policies and guidelines.
5. Compliance with RBI notifications /guidelines.
6. Verify & Report on TDS compliances and returns filed;
7. Verify there is no income leakage & TDS Credits received.
8. GST payments, filing of returns, calculations, input credits, reverse charges incurred and all the things related to GST.
9. Review of Income tax matters, provisions, etc.

Scope of Risk Based Internal Audit as approved by the Committee of Senior Executives and the Board

A. Evaluation of Risk Management systems;
B. Evaluation of control procedures in various areas of operations;
C. Undertake an independent risk assessment for the purpose of formulating a risk-based audit plan which considers the inherent business risks emanating from an activity / location and the effectiveness of the control systems for monitoring such inherent risks;
D. Review of the Risk Based Internal Audit Policy/ ies;
E. Every activity / location, including the risk management and compliance functions;
F. Governance processes on business decision making, risk management and control;
G. Promote appropriate ethics and values within the organization;
H. Ensure effective performance management and staff accountability; and
I. Minimum scope shall include:
    - Process guidelines
    - The control environment in various areas
    - Data integrity, information security
    - Regulatory and Internal Compliance
    - Adherence to KYC/AML Guidelines
    - Compliance with outsourcing guidelines
    - Compliance to previous audit observations

20. Issue Assessment Framework, Reporting and Communication

Likelihood	**Frequent**				
	Likely				
	Occasional				
	Seldom				
	Unlikely				
		Catastrophic	**Critical**	**Marginal**	**Negligible**
		Impact on Materialization			

Combining the above two factors of 'Effect' and 'Frequency' of risks to infer impact shall be conducted using a heuristically based but consistent classification scheme for the risks, and the risks shall be classified as:

- Extremely High Risk – Failure of controls / strategy with severe consequences
- High Risk – Significant failure of parts of controls / strategy resulting in non-achievement of certain goals
- Moderate Risk - Noticeable failure of parts of controls / strategy threatening the success of certain goals
- Low Risk – Certain controls / strategies shall not entirely be successful

The risk categorization may be done as under:

Risk	Financial Impact	Brand / Reputation Impact of investee	Systems / Processes affected	Regulatory, Internal Policy and Legal implications	Information Security risk / System users impacted
Extremely High					
High					
Moderate					
Low					

21. Compliance Report / Issue tracking Standards

At all levels, the Company is subject to audits initiated both internally and externally via regulatory / statutory institutions. It is important to monitor the findings raised during audits as well as the progress made to resolve them. In order to make this process more efficient and transparent, the Internal Audit function would follow a standard action tracking process which would enable the business to keep track of the status of the issues with regard to resolving them within the timelines agreed.

22. Information System Audit

Aspects pertaining to Information Systems Audit forms part of the Information Technology Policy of the Company. The Internal Audit team shall take note of the observations specified by the IS Auditor in its audit report and steps taken by the Company thereon .

23. Effective Date

This policy version 1.0 has been adopted at the Committee of Senior Executives on 15th March, 2022 and shall stand applicable organization wide with effect from 15th March, 2022.

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