

RISK BASED INTERNAL AUDIT POLICY ("RBIA Policy/Policy")

A. PURPOSE

The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively. Under risk-based internal audit, the focus is prioritization of audit areas and allocation of audit resources in accordance with the risk parameters.

This RBIA Policy is formulated taking consideration of RBI requirements as per RBI circular no. DoS.CO.PPG./SEC.05/11.01.005/2020-21 dated February 03, 2021 ('Circular'), best industry practices and other factors as per the need of the Core Investment Companies ("CIC"). It will come to effect immediately on approval by the Board and will be in force until the same is revised.

B. OBJECTIVE

The objectives of internal auditing are:

- i. To ascertain compliance with statutory and regulatory requirements;
- ii. To ascertain compliance with norms laid down by the company;
- iii. To determine the integrity, security and controls in the information system are at acceptable standards;
- iv. To advise the management of any deficiencies in processes, procedures, and functions;
- v. To identify deficiencies in the internal control system and recommend procedures to plug the control gaps.

C. SCOPE

The scope of Internal Audit encompasses examining and evaluating the adequacy and effectiveness of the Company's internal controls and quality of operating performance against established standards. It includes:

- Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and determining whether the Company is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
- Investigating and reporting on violations of policies and procedures, errors, fraud or misuse of company assets.
- Reviewing and appraising the economy and efficiency with which resources including IT Resources are employed.

D. AUDIT DEPARTMENT

The Internal Audit Department will be an independent Department. Neither the Head of Internal Audit nor any Internal Auditors shall have any reporting relationship with the business verticals. They 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.

In absence of required manpower strength or the requisite skillsets, specific Internal Audits can be outsourced by the HIA in consultation with the Managing Director, subject to the Audit Committee of the Board (ACB) 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.

E. AUTHORITY

Members of the Internal Audit function engaged in internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfil their responsibilities to senior Management. Internal Audit staff shall:

- Have unrestricted access to all departments, offices, activities, records, information, properties and personnel, relevant to the performance of audit function.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Not perform any operational duties for the organization or its affiliates.
- Not initiate or approve accounting transactions external to the internal audit department.

F. ROLES AND RESPONSIBILITY

Board of Directors / Audit Committee of Board

- The Board of Directors (the Board) / Audit Committee of Board (“ACB”) of the Company are primarily responsible for establishing and overseeing the internal audit function in the organization.
- The ACB/Board shall approve the RBIA policy and RBIA plan to determine the priorities of the internal audit function based on the level and direction of risk, as consistent with the Company’s goals.
- The ACB/Board will review the performance of RBIA annually.

Senior Management

- The senior management is responsible for ensuring adherence to RBIA Policy as approved by the Board and development of an effective internal control function that identifies, measures, monitors and reports all risks faced.
- The senior management shall ensure that appropriate action is taken on the internal audit findings within given timelines and status on the closure of audit reports is placed before the ACB/Board.
- The senior management is responsible for establishing a comprehensive and independent internal audit function that 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.
- A consolidated position of major risks faced by the organization shall be presented at least annually to the ACB/Board, based on inputs from all forms of audit.

Head of Internal Audit(“HIA”)

- i) To evaluate the effectiveness of risk management processes
- ii) To assess and make appropriate recommendations for improving the governance process in promoting ethics and values within the organization
- iii) To update the RBIA Policy from time to time and place the same before the ACB/Board for approval.
- iv) To update the Audit Manuals and Audit Department's organization chart from time to time and get the same approved by the competent authority.
- v) To timely inform the Management about the findings of all the Internal Audits undertaken by internal auditors along with the compliances given by Head of the auditee units.
- vi) To investigate in the matters assigned by the ACB from time to time.
- vii) Finalize the Internal Audit scope for the Company as a whole based in risk assessment and obtain the approval from the ACB.
- viii) To arrange for periodical internal audit in accordance with the audit plan.
- ix) To arrange for a special audit as and when required and also as per the direction of the management.
- x) To ensure prompt disposal of audit observations.
- xi) To present report/update to the Audit Committee, confirming on annual basis independence of the Internal Audit Department and its audit staff, its performance during the period.

G. RISK BASED INTERNAL AUDIT ASSESSMENT AND PLAN

- i) The Internal Audit Department will prepare Internal Audit Plan based on the Risk Assessment.
- ii) The frequency of audits/prioritisation of areas will be determined based on the Risk Assessment process.
- iii) The areas identified as high, very high, extremely high risk (based on the matrix) will be audited at shorter intervals as compared to medium and low-risk areas.
- iv) The risk assessment process will cover the following activities:
 - Identification of inherent business risks in various activities undertaken by the Company.
 - Evaluation of the effectiveness of the control systems for monitoring the inherent risks of the business activities ('Control risk').
 - Drawing up a risk-matrix for considering both the factors viz., inherent business and control risks
- v) The risk assessment process shall involve but not be limited to processing the following information:
 - Previous internal audit reports and compliance
 - Proposed changes in business lines or changes in focus
 - A significant change in management / key personnel
 - Results of the latest regulatory inspection report
 - Reports of external auditors
 - Industry trends and other environmental factors
 - Time elapsed since the last audit
 - The volume of business and complexity of activities
 - Substantial performance variations from the budget

- vi) The Extremely High-Risk Areas would require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the Company's top management.

The inherent business risks and control risks will also be analysed to assess whether these are showing a stable, increasing or decreasing trend. The risk matrix will be prepared for each business activity/location.

- vii) The outcome of the risk assessment will be a key factor to decide on the frequency of audit, the extent of audit to be undertaken and the type of audits to be performed. E.g., Extremely high-risk areas will be subjected to audits at a higher frequency or concurrent audits and higher scrutiny.
- viii) All observations need to be closed within the timelines as agreed at the time of closure of the published internal audit report. These timelines are key to ensuring the systems are upgraded and improved to cover the identified risk areas. There can be changes in the operational activities, systems, and controls

during the period from publishing the internal audit report to the committed date of closure. If due to any unforeseen circumstances, the auditee is unable to fix the issue and ensure closure of the observation, and/or if there are repeated observations, the auditee must get approval from management for extension of timelines or closure of the observation without fixing the issue as the risks have been mitigated with other controls/system upgrades.

H. INDEPENDENCE OF INTERNAL AUDIT DEPARTMENT

- i) To maintain the independence of internal audit department, its personnel shall report to HIA, who shall report to the ACB.
- ii) Internal Audit department shall be independent of the activities audited. HIA shall not have any reporting relationship with the business verticals and shall not be given any business targets
- iii) HIA may communicate directly, and on its own initiative, to the Board and the members of ACB, if required.
- iv) The performance of Internal Audit Department will be evaluated by the Audit Committee.

I. REVIEW OF POLICY

This documents and processes described herein are subject to review by Authorities from time to time. The Policy shall be subjected to review at least once annually to keep it current with regulatory / statutory and business requirements. Revisions other than as stated herein shall be done only in case of any major regulatory / environment changes, which shall be placed for ratification before the ACB / Board.