Internal Audit Policy and Manual

Digamber Capfin Limited

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Table of Contents

PART A: INTERNAL AUDIT POLICY 4

1. **Preamble** 4
2. **Objective** 4
3. **Scope** 4
4. **Audit Universe** 5
5. **Audit Plan** 6
6. **Audit Sampling** 8
7. **Audit Reporting** 8
8. **Compliance Monitoring and Closure of Audit Report** 9
9. **Documentation** 9
10. **Organization** 10
11. **Manpower and Outsourcing** 10
12. **Code of Ethics** 10
13. **Access to Information** 11
14. **Auditee Responsibilities** 11
15. **Review of The Audit Policy** 11

PART B: INTERNAL AUDIT MANUAL 12

1. **Purpose of Manual** 12
2. **Position & Mission of Internal Audit** 12
3. **Job description of internal auditors** 13
4. **Professional Standards of Internal Auditors** 14
5. **Audit Quality** 15
6. **Computer Assisted Audit Techniques (CAATs)** 15

SCOPE OF INTERNAL AUDIT 16

GUIDELINES FOR INTERNAL AUDIT REPORT 28

PART A: INTERNAL AUDIT POLICY

1. Preamble

Though there is no statutory or regulatory requirement for NBFC's to have an internal audit policy, the Board of Directors of Digamber Capfin Limited, as a part of their oversight function considers Internal Auditing as an independent and objective consulting activity designed to add value and improve the company's operations. Internal Audit assists the company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the company's risk management, control and governance processes. The responsibilities of Internal Audit function are defined by this Policy.

The procedure of audit need to be documented for the different streams of activity viz HO departments, information system etc. Audit manuals or checklist will be followed for all audit streams to facilitate the audit activity.

2. 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 ascertain whether quality of assets is as per approved norms;

iv. To advise the management of any deficiencies in processes, procedures, and functions;

v. To determine the integrity, security, and controls in the information system are at acceptable standards; and

vi. To identify deficiencies in the internal control system and recommend procedures to plug the control gaps.

3. Scope

(I) The scope of internal auditing encompasses the examination and evaluation of the Adequacy and effectiveness of the Internal Control System and the quality of Performance in carrying out assigned responsibilities at the organizational, Departmental and functional level.

It includes:

a) Reviewing the reliability and integrity of financial and operating information;
b) Assessing compliance with policies, plans, and procedures;
c) Assessing compliance with laws and regulations;
d) Reviewing the means of safeguarding assets and verifying the existence of such Assets;
e) Verifying quality of Assets;
f) Reviewing and appraising the economy and efficiency with which resources including IT Resources are employed;
g) Reviewing established systems of internal control to ascertain whether they are functioning as designed;
h) Monitoring and evaluating the effectiveness of the company's operational risk management processes;
i) Examining and reporting on the adequacy of internal controls for all new or significantly modified information systems.
j) Investigating and reporting on violations of policies and procedures, errors, fraud or misuses of company assets.
k) Reviewing specific operations, programs, functions or activities at the request of the Audit Committee or management, as appropriate.
l) Reviewing of Internal Capital Adequacy Assessment Process (ICAAP) on quarterly basis.
m) Reviewing periodically verify the accuracy of system-based asset classification and provisioning, including validation of LMS configurations and sample loan testing.

(II) The Internal Audit Department will provide advice and assistance to the management, when requested, by:

a) Serving as a consulting resource for the review of policies and procedures, Financial and administrative systems, organizational structures, and other related administrative activities;

b) Serving as a consulting resource for the development of control procedures for New or significantly modified functional areas and computer-based financial and Management information systems.

4. Audit Universe

Audit universe includes all the present and future activities in the company.

5. Audit Plan

i. Frequency of audit of an activity/ function should be determined based on the risk perception.

1. Risk Perception

Risk perception refers to the organization's understanding and evaluation of potential threats or vulnerabilities associated with its business operations, processes, products, and entities. In the context of internal audit, risk perception is a qualitative and quantitative assessment of the probability of occurrence of adverse events and their impact on the achievement of the company's strategic, financial, operational, and compliance objectives.

Risk perception is derived from:

- Historical audit findings and recurrence of issues
- Volume and complexity of transactions
- Regulatory changes and non-compliance risks
- Operational environment and external threats
- Fraud vulnerability and control deficiencies
- Management concerns and whistleblower complaints

This perception helps prioritize audit resources and define the audit coverage and periodicity based on inherent and residual risk levels.

2. Risk Matrix Framework for Determining Audit Frequency and Coverage

To adopt a risk-based approach, the Internal Audit Function uses a **Risk Matrix Framework** that categorizes auditable entities or processes based on **two key parameters:**

- **Likelihood (Probability)** of risk occurrence
- **Impact (Severity)** if the risk materializes

2.1 Risk Rating Criteria

Risk Level	Impact	Likelihood	Examples
High (Red)	Severe financial, regulatory or reputational loss	Frequent or probable occurrence	Credit appraisal, Branch cash handling, Loan disbursement, KYC/AML compliance

Medium (Amber)	Moderate impact, possible reputational damage	Possible occurrence	HR processes, Vendor management, IT backups
Low (Green)	Low financial or operational impact	Rare or unlikely	Admin activities, Internal MIS, Stationery procurement

2.2 Audit Frequency Based on Risk Rating

Risk Level	Audit Frequency	Audit Coverage
High	Every 3 months or less	Detailed review with sampling and walkthroughs
Medium	Annual	Focused review of controls and exceptions
Low	Once in 2–3 years	Limited scope review or desktop audit

2.3 Coverage Determination Factors

In addition to risk level, coverage shall also consider:

- Process/system changes since last audit
- Prior audit observations and their closure status
- Volume and value of transactions
- New regulatory or business developments
- Stakeholder or management requests

3. Dynamic Risk Assessment and Audit Plan Review

The risk perception and matrix shall be reviewed annually or upon significant business or regulatory changes. This enables the Internal Audit team to:

- Re-calibrate the audit universe
- Re-prioritize audit activities
- Adjust the audit plan dynamically based on emerging risks

ii. However, all activities of the company will be audited at least once a year.

iii. The frequency of HO audit will on quarterly basis or as may be required for the lesser frequency as given above.

iv. The audit frequency may be changed by conducting surprise audits as and when required.

6. Audit Sampling

i. The internal auditor may perform sample verification where 100% verification is not warranted based on the risk perception

ii. The internal auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence to meet the objectives of the internal audit engagement.

iii. When designing an audit sample, the internal auditor should consider the specific audit objectives, the population from which the internal auditor wishes to sample, and the sample size.

iv. The internal auditor should select sample items in such a way that the sample can be expected to be representative of the population. This requires that all items or sampling units in the population have an opportunity of being selected.

7. Audit Reporting

i. An audit report shall be prepared by the Auditor following the conclusion of each audit. The report will be finalised after discussion with the head of department/activity under review.

ii. The response should include a time-frame for anticipated completion of the action to be taken for rectifiable irregularities and an explanation for any recommendations that will not be addressed.

iii. Timelines for closure of audit reports for various streams of audit -by which time all irregularities should be rectified- will be laid down

iv. For non-rectifiable irregularities, appropriate action be taken within the time prescribed by the operational guidelines or permission for maintaining status quo obtained from appropriate authority (except regulatory violations and high risk matters)

v. The distribution of the report, obtention of the comments, determination of the adequacy thereof and taking up the matter again if needed will be carried out by internal audit department.

vi. The Internal Audit department will report findings to the senior management. Any important points shall be reported to the ACB.

vii. Head of the Internal Audit department shall report to the audit committee on quarterly basis.

viii. Audit will be completed as under:-

Particulars	**TAT**
Frequency of Audit	Quarterly
Completion of Audit	15 days of end of the quarter
Sharing preliminary observations with departments	Same day of finding during the Audit to give them time to close the observations
Getting the observation sheet (not closed)	At the end of the audit
Finalizing the Audit Report and sending the same to concerned persons	T+3 days (T means last day of audit). The report should be précised
Closure of all observation/ reply on	Within 10 working days of receiving the report
Presenting the observations to Audit Committee	Quarterly

8. Compliance Monitoring and Closure of Audit Report

i. There shall be a guideline to with internal audit department specifying the timeline for rectification/closure of audit report. The audit once finalized and communicated to the auditee shall be closed within 30 days of date of issue of such audit report.

ii. Auditee should re-verify the status of compliance provided by the respective departments and there shall be a mechanism to report the recurrence of irregularity once reported. Further the pending issues in the closed audit reports shall be incorporated in the current audit report.

A detailed Audit closure governance process is attached as Annexure 1 to this policy.

9. Documentation

i. The auditor shall prepare audit documentation on the basis of which he reached his conclusions

ii. The documents may be kept in paper form or in electronic form. However, as far as possible electronic documentation methods shall be resorted to.

iii. The retention period of audit documents will be for 1 year from the date of completion of internal audit. The documentation will be recalled in case of any dispute on the audit findings

10. Organization

i. The 'Head – Internal Audit' shall report administratively to the WTD-CFO and functionally to the Audit Committee of the Board.

ii. The Internal Audit department should be and appear to be independent and objective in providing its services.

11. Manpower and Outsourcing

i. Company shall have an Internal Audit department adequately staffed with competent auditors.

ii. The auditors will generally be employees on the rolls of the company either on normal or contract employment

iii. The company may appoint professional(s) or firm of professionals on contract as Internal Auditors of the company.

12. Code of Ethics

Internal Audit staff members are responsible for conducting themselves so that their integrity, objectivity, confidentiality, and competency are not open to question.

Internal Auditors shall:

a. Possess the educational background, qualifications and competencies commensurate with their level of responsibility with providing assurance and consulting services to the company;

b. Exercise objectivity, and diligence in the performance of their duties and responsibilities;

c. Exhibit loyalty in all matters pertaining to the affairs of the company and not be a party to illegal or improper activity;

d. Refrain from entering into any activity which may be in conflict with the interest

of the company or which would prejudice their ability to objectively carry out their duties;

e. Be prudent in the use of information acquired in the course of their duties and not use confidential information for any personal gain or in a manner that knowingly would be detrimental to the interest of the company;

f. Use reasonable care to obtain sufficient factual evidence to support the conclusions drawn.

g. Reveal such material facts known to them which, if not revealed, could distort the reported results of the audit; and

h. Continue to strive for improvement in the proficiency and effectiveness of their service.

13. Access to Information

i. Internal Audit has the authority to audit all functions of the company and shall have full and complete access to all information, programmes, database, records, facilities and personnel relevant to the performance of an audit.

ii. Documents and information given to internal auditors during a review will be handled consistent with company policy and in the same manner as the employees are normally accountable for them.

14. Auditee Responsibilities

i. The division/department or activity under review is to provide full cooperation to the Internal Audit Department.

ii. Where verification of valuables viz, cash etc are involved there will be no prior intimation of audit to the auditee unit. Even in other cases there may be occasions when audit is planned without prior intimation. The auditee unit shall furnish information to the auditor whenever required.

iii. Head of the auditee department is responsible for developing action plans and implementing the recommendations contained in the audit report or alternatives that meet the objectives of the recommendations.

15. Review of The Audit Policy

i. The Internal Audit policy shall be reviewed once in a year.

ii. The Audit committee is responsible for the review and modification of the Internal Audit policy.

PART B: INTERNAL AUDIT MANUAL

1. Purpose of Manual

This Internal Audit Manual is developed to guide/assist the internal audit wing of the Company /Internal Auditor to provide independent, objective, value-added and advisory services in order to improve the achievement level of the Company. More specifically this manual is intended to provide internal audit wing of Company / Internal Auditor with tools and information for assessing risk in processes and activities, developing an appropriate internal audit work program and planning, performing and reporting on audit engagements.

2. Position & Mission of Internal Audit

Internal Audit in the Company should aid the Company in strengthening its management systems, and procedures and internal controls to prevent errors and frauds and deviations from the laid down procedures and processes in consonance and aligned with the overall objectives of the Company.

The major scope of internal audit activity is summarized below:

a) Planning of Annual Audit Program

b) Assessment of Internal Controls within the Department

c) Risk Assessment and Sampling to narrow down areas of focus

d) Reporting on the adequacy and effectiveness of the functioning of the Internal controls and major deviations there from, suggesting improvement to existing systems and procedures.

e) Tracking compliance to audit findings and preparation of report for the consideration of the Audit Committee.

f) Report on significant deviations from the applicable compliance norms and Annual budgets of the Company

Financial Compliance

There should also be focus on financial compliance while conducting different types of audits as mentioned below:

1. Transaction audit includes examination of all relevant vouchers of receipts and expenditure as per the cashbook / bank book to establish the expenditure with reference to the activities and that the authority approving the expenditure has not exceeded its powers.

2. That expenditure of a personal nature is not charged to the Company.

3. Compliance audit means examination of documents as to whether money spent was legally available for expenditure and sanctioned by the competent authority.

4. That the expenditure incurred are strictly as per the contractual obligations, as per the contract documents and are arising out of compliance with statutory requirement.

5. Financial Reports Review includes Trial balance Audit and audit of the Annual financial statements for compliance with the requirement of the Companies Act, and the accounting standards before they re-submitted to the Statutory Auditors of the Company.

3. Job description of internal auditors

1. To visit all prescribed departments of DCL and to carry out internal audit in accordance with the approved audit program.

2. To issue Audit Requisition to various departments for production of relevant accounting records, registers, files, returns and other documents required to be checked during the course of audit.

3. To conduct physical verification of the cash book and cash balance on the date of commencement of audit. Findings of the physical verification shall be reported in the Internal Audit Report.

4. To obtain a general view of all accounts, records maintained by the DCL to prepare detailed plan of audit.

5. To evaluate the effectiveness of Internal Control System followed in the DCL.

6. To review the compliance with the existing Statutory requirements, financial rules, regulations, procedures etc. and instructions/orders issued by the competent authorities

7. To conduct a detailed check of accounts of records of the period as given in the approved audit program.

8. To verify whether the Cash book is written in the prescribed form and maintained according to Companies Act and other applicable Statutory Provisions.

9. To verify the correctness of opening balance, totaling of receipt and expenditure shown in the cash book and closing balance for the period of audit.

10. To examine the receipts and disbursements with reference to relevant supporting documents and registers.

11. To identify the areas of wastage of resources, cases of general misuse of funds or properties and misappropriations of financial resources, if any.

12. To verify the reconciliation statements pertaining to bank and loans and advances.

13. To verify whether parking funds in banks etc. beyond authorized period, if any and the funds have been placed with the banks or other places based on the competitive rates of interest.

14. To conduct review of the procurement of goods and services and checking whether the same has been done as per the prescribed guidelines

15. To conduct performance review of specific scheme (including but not limited to incentive scheme) objectives and outcomes, if any.

16. To conduct review of the status of past audit reports, Statutory Audit observations and other audit findings and its compliances.

17. To conduct review of the budgetary compliances

18. To prepare draft audit reports in the prescribed format enclosing relevant documents.

19. To submit the draft audit report to the concerned Departmental Head within 7 days of the date of completion of the audit.

20. To perform any other duties assigned by DCL.

21. To Submit final Internal Audit report after discussion the draft reports and after considering further information to the WTD-CFO of the Company.

4. Professional Standards of Internal Auditors

The Internal Auditors are expected to maintain the following professional standards:

- **Objectivity:** Internal Auditors should acknowledge and incorporate all information received from DCL without withholding any information which may distort the reporting of activities under review. Internal Auditors shall be fair in reporting and any deviations from the laid down systems and procedures. Without fear or favor.

- **Competency:** They should possess thorough knowledge of the internal audit process and techniques.

- **Confidentiality:** Internal Auditors should not disclose the information acquired during audit to any person other than the Company unless there is a legal or

professional obligation to do so. They should not use the information for any personal gain or in any other manner, which is detrimental to the DCL.

- **Integrity:** Internal Auditors should comply with ethical principles and code of conduct governing the auditor's professional behavior and responsibilities, which include; Integrity, Objectivity and fairness, Confidentiality and Technical Standards.

5. Audit Quality

The services rendered by the Internal Auditors are expected to be of high quality and the quality can be maintained by following:

1. By deploying professionally qualified personnel for conducting the Audit.
2. Understanding the functioning of the DCL going to be audited, including the thorough knowledge of the various rules and regulations as applicable on the Company
3. Frequent discussions with the DCL and its officers at the field and Head Office level
4. Use of standard sampling methods
5. Use of Computer Assisted Audit Techniques (CAATs)
6. By adopting the format of report insisted by the Company.

6. Computer Assisted Audit Techniques (CAATs)

Computer Assisted Audit Techniques (CAATs) is the practice of using computers to facilitate and speed up the audit process by using spread sheets, word processers, advance software packages involving use of statistical analysis etc. to analyse the data and transactions

Usage of CAAT increases economy and efficiency in audit covering huge volume of transactions saves times and focuses on areas of risk.

While planning an audit, the auditor may use both combinations of manual as well as computer assisted audit techniques in relation to the situation and context.

While deciding use of CAATs, the Internal Auditors may consider the following factors:

- Availability of CAATS with the DCL;
- IT infrastructure;
- Availability of data and data sources;
- Economy and time constraints.

Audit Quality will be subject to the review by Audit Committee.

SCOPE OF INTERNAL AUDIT

Format of Internal Audit Report is enclosed at Annexure-I.

Areas to be covered in Internal Audit:

I. Mobilization of Funds

II. Deployment of Funds

III. Accounting and Record Keeping

IV. Human Resources Management

V. General Administration Matters.

VI. Statutory Compliances

VII. Action Taken On Previous Internal Audit Observations

VIII. Legal Matters

IX. Project Works/Capital Expenditure

X. Loan Sourcing

XI. Recovery and Repayment of Loans a Provisioning and Write Off

XII. Cyber Security and It Structure Related Compliances Including Compliance of Rules and Regulations Prescribed by RBI Regarding the Same

XIII. Risk Management Framework

XIV. Trial Balance

XV. Others

I. MOBILIZATION OF FUNDS:

A. Areas to be covered in this section

1. Share capital
2. Borrowings through bonds and loans

B. Percentage of Coverage: 100%

C. Share capital: Verify and report whether

i. The Share Capital does not exceed the Authorized capital as per the Memorandum and Articles of Association of the Company and verify the limit of the Authorized Capital.

ii. The addition to issued and subscribed capital is backed by proper authorization of the Board/Shareholders.

iii. The legal requirements as laid down by the Companies Act, SEBI (wherever applicable) and other regulatory bodies are met.

iv. Compliance requirements: Auditor should check that various compliance requirement in relation to share capital and filing of related returns are carried out within the Statutory period.

D. Borrowings through bonds and loans:

i. Verify whether the Company has obtained necessary approval from the Annual General Meeting of the Company, Board of Directors and others as applicable for borrowing.

ii. Verify whether the Company has complied with all the required Statutory Provisions while borrowing the funds including applicable Companies Act.

iii. Verify whether the Rate of Interest at which the funds are raised are best rates. Verify whether the Company has complied with all the provisions of Information Memorandum / Loan agreement after the borrowing, and post issue SEBI guidelines in respect of Bonds including complying with the relevant clauses of Trustee agreement

iv. Verify, in case of debentures, bonds, allotment of the securities has been made as per the terms of prospectus / Information Memorandum / applicable statutory provisions.

v. Verify whether the money borrowed has been utilized for the purpose for which it has been borrowed.

vi. To verify and report whether Debt Servicing is done regularly and paid as per the terms of borrowing.

vii. To verify whether proper reports and accurate returns and statements are submitted to the lenders on time as per the sanctioned terms

viii. To verify and report whether sufficient Asset Cover is available as per the terms of borrowing.

II. DEPLOYMENT OF FUNDS

A. Areas to be covered in this section

1. Investment of Short-term surplus.
2. Budgetary Control
3. Releases to Project (works).
4. Payment of bills / Other expenses

B. Percentage of Coverage: 100%

C. Investment of Short-term surplus.

i. To verify and report whether the Company has proper Investment policy in force.

ii. To verify and report (a) instances current account balances have been carried in excess of 7 days without utilization, (b) surplus amount in the current account have been invested in interest bearing deposits as per the Investment policy or as per the instructions of the management.

iii. To verify and report whether the rate of interest received on deposits are competitive rates prevailing at the time of deposit.

iv. To verify and report whether the interests on deposits have been received fully and are reconciled and proper documents for deduction of tax at source are available and they are reconciled with the entries and statement generated on the IT Portal

v. To verify and report whether proper Certificates of Deposits in the name of DCL have been received and the same has been kept in safe custody. Physically verify the existence of the fixed deposit receipts as the date of commencement of audit.

vi. To verify and report whether proper Registers have been maintained with regard to Deposits and updated regularly.

vii. To verify whether there is any negative carrying of funds and report the same

D. Budgetary Control

To verify and comment on the Company's Budgetary Control system and give suggestion for improvement.

E. Payment of bills for others expenses

i. To verify and report whether necessary supporting documents are available.

ii. To verify and report whether the expenditures are within the budgetary provisions and are approved by competent authority and as per delegation of powers

iii. To verify and report whether proper Internal Control procedures are followed.

iv. To verify and report whether all deductions are made, remitted and Returns filed as per the Statutory Provisions.

III. ACCOUNTING AND RECORD KEEPING

A. Areas to be covered in this section

1. Petty cash expenses payment procedures
2. Cheque and bank payment procedures
3. Accounting and Record keeping
4. Bank Reconciliation and Confirmations
5. Temporary Advances to Employees outstanding for settlement.

B. Percentage of Coverage: 100%

C. Petty cash expenses payment procedures: To verify and report whether:

1. Imprest amount drawn are in excess of the limits sanctioned,
2. Proper authorization from the competent authority has been obtained for the expenditure as well for payment.
3. Proper supporting documents are available for the transaction.
4. The expenditure has been accounted properly in the books and all the vouchers are authenticated by the competent authority.
5. The drawee has submitted accounts before drawing next Imprest advance.
6. That expenditure of a personal nature are not charged to the Company.
7. The bills are not split to avoid it from requirement of inviting quotes/tenders.
8. The petty cash book is checked by a competent officer named for the purpose and entries are authenticated. The petty cash book is balanced daily and the opening balance for the next day is physically verified.

D. Cheque and Bank payment procedures: to verify and report whether:

1. The expenditure is bonafide and is in the interest of the Company.
2. The transaction is supported with proper documentary evidence.

3. The expenditure and the payment are approved by the competent authority and are as per the procedures mentioned in the Internal Control manual and relevant statutory provisions.

4. The statutory deductions/payments (including GST under reverse charge mechanism, wherever applicable) have been made, remitted and returns have been filed as per the relevant provisions.

5. The transactions have been accounted as per the standard accounting principles in the books of accounts and the vouchers are authenticated by the competent authority.

6. A proper cheques register is maintained and the entries in the register are authenticated by the authorities writing the Cheque and signing the cheque.

7. A record of Cheque books is kept with serial numbers of cheques and unused cheque books are properly accounted for are held in the safe deposit locker, when not in use.

8. Records of all bank payments are kept properly

E. Accounting and Record keeping: To verify and report whether:

1. Ledger accounts are reviewed periodically at least once in a month and correction entries are passed only with the approval of the authorized signatory/ies by way of approved Journal Vouchers. Entries once passed shall not be deleted in the system. A system of hierarchical authorization for various levels of officers for passing of correction entries has been laid down and actually is being followed.

2. Check whether proper books of accounts as laid down under the Companies Act, 2013 and Rule there under are maintained in the manner required to be maintained as per extent provisions of the said Act and Rules.

3. That proper back up norms to save and preserve the electronic accounting records are laid down and properly being followed.

4. That Physical vouchers, ledgers and other Accounting records are properly preserved in safe locations so as to protect them from destruction etc.

5. Whether proper internal control procedures are in practice to detect fraud, misuse of funds and documents.

F. Reconciliation and Confirmations: To verify and report whether:

1. There is a proper system of daily reconciliation of the various bank accounts and internal unit accounts. Check bank statements for extensions/carry forwards/balancing and accuracy of balance reflected.

Check all payments and receipts with the bank statements for each quarter.

2. Check that all items in the reconciliation of the previous period are cleared in accordance with the reconciliation.
3. Check through the items in reconciliation to the next period.
4. Comment upon the adequacy of/arrears in reconciliation.
5. Check whether Stale cheques are reversed and the fact is informed to the bank to stop payment.

G. Temporary Advances to Employees: To verify and report whether

1. Temporary advances, festival advance given are properly accounted
2. All the advances are approved by the appropriate authority.
3. All the advances are settled within the stipulated period and accounted for properly.

Any advances over and above the stipulated time period may be specifically reported.

IV. HUMAN RESOURCE MANAGEMENT

A. Areas to be covered in this section

1. Human resources management policy
2. Human resources planning
3. Employee recruitment, training etc.
4. Performance appraisal and control
5. Payment of employee emoluments

B. Percentage of Coverage: 100%

C. Human resources management policy: To verify (review once in a year) and report whether:

1. The company has well defined and active Human Resources Management Policy for regulation of the employees.
2. The company has documented succession and replacement plan.
3. The company has proper promotion policy.

D. Human resources planning: To verify and report whether Company has defined and active Human Resources Management policy

E. Employee recruitment, training etc. To verify and report whether:

1. The recruitments are based on man power requirement.

2. At the time of inviting applications vide publicity is given.
3. No discrimination is done based sex, caste etc.,
4. Proper training is provided to employees to update their knowledge to carry out day to day activities of the Company

F. Performance appraisal and control: To verify and report whether:

1. Proper performance measurement and appraisal policy is in vogue.
2. Proper feedback is given to the employee after appraisal for improvement
3. Corrective actions are taken based on the appraisal.

G. Payment of employee emoluments: To verify and report whether:

1. The employee emoluments are approved by the appropriate authority
2. Employee attendance is regulated properly.
3. Disbursement of employee emoluments like salaries, allowances, gratuity, EPF, advances are as per the relevant provisions and are accounted properly.
4. Tax is deducted at source wherever required as per the provisions of Income Tax Act and is remitted to Central Government A/c within the time limit and necessary Returns have been filed.

V. GENERAL ADMINISTRATION MATTERS.

A. Areas to be covered in this section

1. Purchase of fixed assets and maintenance of registers
2. Purchase of consumables, stores etc.,
3. Disposable of assets
4. Repairs and maintenance
5. Security of assets

B. Percentage of Coverage: 100%

C. Purchase of fixed assets and maintenance of registers: To verify and report whether:

1. Purchases of fixed assets are per the procedures laid down in related SoP and are authorized by the appropriate authority.
2. Fixed assets are accounted properly in the books of accounts as required in the CARO audit report

3. Fixed asset Register has been maintained properly and updated regularly including Location where such assets are currently placed including such properties lying with third parties

4. Physical verification of assets has been made at least once in a year

5. All the assets are numbered and can be identified.

D. Purchase of consumables, stores etc.: to verify and report whether:

1. Purchase of consumables, stores etc., have been purchased for the official use through a centralized basis operated by the Admin for Registered Office and concerned heads of offices as per the delegated financial powers and are authorized by the concerned department head

2. Purchases are authorized by proper authority as per the delegation of powers and all applicable statutory provisions have been complied with while purchasing.

3. Proper stock registers have been maintained and are updated regularly.

4. Purchases are based on actual requirement and should not be stocked for more than next three months requirement based on the average consumption for the last 2 quarters.

5. Issues are approved by competent authority.

6. The bills for purchase of consumables are checked for quantity and quality by an officer independent of the purchasing authority.

7. Stock verification is done regularly.

E. Disposal of Assets: To verify and report whether:

1. Disposal of assets has been done as per the SoP

2. Disposal of assets has been accounted properly bifurcating the book value of assets, depreciation provision and the sale price and accounting the Profit/ loss on the sale of assets as per the relevant Accounting Standard.

3. the Fixed Assets Registers have been updated.

4. Receipts from the disposal have been accounted properly.

F. Repairs and maintenance: To verify and report whether:

Whether repairs and maintenance have been done based on actual requirement and is carried on properly after obtaining the approval of the appropriate authority and the same have been certified and confirmed by the concerned officer with regard to quantity and quality of work.

G. Security of assets: To verify and report whether:

1. The Company has an inventory of assets.

2. Proper security arrangements have been made for the protection of the assets of the Company.

VI. COMPLIANCES TO LAWS, RULES & REGULATIONS APPLICABLE ON THE COMPANY INCLUDING CLINET GRIEVANCE REDRESSAL MECHANISM

A. Areas to be covered in this section

Compliance to all rules and regulations of Reserve Bank of India and other regulatory and misc. compliances.

B. Percentage of Coverage: 100%

C. Compliance to applicable laws, rules and regulations:

To verify and report whether the Company has complied with all the applicable laws, rules and regulations as applicable on it.

To check the status and quality of each and every applicable guideline issued by RBI including but not limited to adequacy and effectiveness of grievance redressal mechanism which will include following:

(a) process for recording customer grievances.
(b) response time, escalation mechanism, follow up mechanism pending customer grievances
(c) Effectiveness of grievance redressal mechanism

VII. ACTION TAKEN ON PREVIOUS AUDIT OBSERVATIONS

A. Areas to be covered in this section

1. Action taken on previous Internal Audit observations

B. Percentage of Coverage: 100%

C. Action taken on previous Internal Audit observations

1. To verify and report whether the Company has taken necessary action on previous Internal Audit observations. If not provide the details and provide pendency report.

VIII. LEGAL MATTERS

A. Areas to be covered in this section

1. Wherever orders/decrees are passed in favor of DCL, necessary action have been taken to execute the orders/decrees and realize the order/decreed amount.

2. Are there any long pending litigations.

3. Examine whether adverse decisions are appealed in higher courts and wherever the decisions are not contested 'non appeal' decisions have

been taken only by the Competent authority. Whether court deposits made have been properly followed up and withdrawn wherever DCL has won the case

4. To verify and report whether the Company has accounted/disclosed contingent liabilities arising out of litigations properly as laid down in the relevant accounting standard.

B. Percentage of Coverage: 100%

IX. PROJECT WORKS /CAPITAL EXPENDITURE

A. Percentage of Coverage: 100%

B. Sanction of new work: To verify and report whether

1. All necessary approval of the appropriate authority has been obtained for the new work
2. Estimates prepared are as approved by competent authority.
3. Agreement with Contractor is approved by competent Authority and is not detrimental to the interest of the Company.
4. Whether all capital expenses are done as per the capital expenditure budget?

C. Progress of existing work: To verify and report whether

1. The progress of the work as per the time schedule indicated in the Contract document
2. The progress of the implementation of the project has been reviewed as per contract and the delay has been apportioned between the Contractor and the Company
3. The work bills are supported with propoer supporting and are authorized by competent authorities.

D. Completion of work: To verify and report whether

1. Whether the work as completed as per the scheduled and approved time period.
2. Whether the concerned officers have inspected the work and certified the quality and quantity of work
3. Whether the completion certificate is issued.
4. Whether the Certificate for satisfactory maintenance of work during the maintenance period is available.
5. Whether all the audit recoveries legal case recoveries have been fully deducted from the final bill. Whether the bills have been finalized and

the assets are capitalized on completion as per the accounting policy of the Company.

E. Payment of works bills: To verify and report whether

1. Works bills have been pre-audited before payment.
2. Necessary entries for the Gross amount and recoveries / deductions have been passed in the books of Accounts properly keeping in view classification of Capital and Revenue expenditure in terms of accounting policies and accounting standards.
3. Statutory Deductions have been made for GST, TDS, etc.,

F. Whether all the capital expenditures are done as per the capital expenditure budget?

X. LOAN SOURCING

A. Percentage of Coverage: 100%

B. Check whether the loans are sources strictly as per the SoPs

C. Check whether the all applicable master directions and guidelines issued by Reserve Bank of India are followed while sourcing of the loan including but not limited to KYC, AML and CFT guidelines

D. Check whether any wrong payment is done and if yes the same has been recovered

E. Whether all documents for loan sourcing are available and kept in records

F. Whether revenue is booked properly

G. Whether underwriting process/credit process has been followed properly

XI. RECOVERY AND REPAYMENT OF LOANS AND PROVISIONING AND WRITE-OFF

A. Percentage of Coverage: 100%

B. Whether repayment is regular from the loans

C. Whether any provisions are made for NPAs

D. Whether the classification of assets are done as per the guidelines issued by RBI

E. Whether sufficient legal actions are taken for the recovery of loans

F. Whether ECL provisions are made as per the ECL policy of the company as approved by the Board of Directors of the company

XII. CYBER SECURITY AND IT STRUCTURE RELATED COMPLIANCES INCLUDING COMPLIANCE OF RULES AND REGULATIONS PRESCRIBED BY RBI REGARDING THE SAME

A. Percentage of Coverage: 100%

B. Whether the norms related to Cyber and IT compliances are met

C. Whether IT outsourcing norms are followed properly

D. Whether all the systems and processes are in place as required by RBI guidelines and as per the IT and Cyber Security framework of the company

E. Whether any incident of cyber and IT security breach was occurred and whether the process as defined under the IT policy was followed?

XIII. RISK MANAGEMENT FRAMEWORK

A. Percentage of Coverage: 100%

B. Whether the company is having the Risk Management Framework ?

C. Whether the Risk Management Framework is adequate and sufficient keeping in view of the size of the company

D. Adequacy of Risk Management process adopted in overseeing and managing the outsoucing arrangements

E. Compliance with Risk Management Framework

XIV. TRIAL BALANCE AUDIT:

A. The Trial Balance as at 31st March shall be audited along with the final audit spell with special emphasis on the Indian Accounting Standards (IND-AS) and the requirements of Companies Act, 2013, provisioning, etc. A separate report shall be submitted on the same.

XV. OTHERS:

A. CSR activities and compliances

B. ESG activities and functions

C. Risk associated with outsourced activities and compliance with outsourcing norms.

D. Any other issue or subject related to the audit referred by the Management of the company.

GUIDELINES FOR INTERNAL AUDIT REPORT

1. No objection shall be booked or reflected in draft audit report without discussing the matter with the concerned Department Head, without issue of initial draft Audit report. Initial observations issued by Internal Auditors shall be complied by the respective department head within 2 days from the date of issue and returned to the Internal Auditors with necessary reply under the signature of the head of the Department.

2. In case the reply of the officer is found to be satisfactory, the objection need not be incorporated in the Audit Report. The original initial draft audit observations with reply thereon shall be appended with the Audit Report for reference.

3. If initial draft Audit report is not returned within stipulated time or returned with unsatisfactory replies, the Auditor shall incorporate the objection in the Audit report without waiting for an indefinite period for the reply.

4. The Head of the Audit Teams should check the supporting Audit evidence for each observation that is proposed to be put in the report. He should satisfy himself about the sufficiency and relevance of the evidence. Then He/she should prepare a Draft Audit Report.

5. The format of the draft report shall be same as final report after approval by the concerned authority. All the applicable quality checks equally holds good for draft report also except that the title of the report shall be “Draft Internal Audit Report”.

6. Qualities of a good report

   The Internal Auditors should exercise due professional care to ensure that the internal audit report, inter alia, is:

   1. Clear and not ambiguous
   2. Factual – presents all significant matters with disclosure of material facts
   3. Specific
   4. Concise
   5. Timely and
   6. Complies with generally accepted audit procedures

7. Preparing the Internal Audit Report: Internal Auditor(s) shall use a standard format for reporting audit observations.

The Internal Audit Report and important observations should be placed before the Audit Committee once in a quarter.

Classification of observation

The observations found in Internal Audit will be classified as under:

Category A: Most Critical

Category B: More Critical

Category C: Critical

S. No.	Category A: Most Critical	Category B: More Critical	Category C: Critical
	Matters which needs WTD-CFO attention immediately and to be reported to the Audit Committee	**Matters which needs CFO attention could be cleared at CFO level**	**Matters which will be brought to the notice of the Head of Department and complied with at their level**
1.	Non Compliance of regulatory nd statutory compliances	Non Compliance of internal process	Non maintenance of/ completion of/ updation of Registers
2.	Involves substantial monetary value.	Non Reconciliation of Bank Accounts	Matters which could be verified during the next spell of audit and could be cleared at Department level
3.	Where loss of revenue to the Company is involved	Non recovery/ Short recovery of loans	Recovery dues
4.	Non remittance / Short remittance of Statutory Deductions	Deviations from the approved Budget/ Program of works	Non-compliance of previous Audit observations
5.	Non filing of Statutory Returns in time	Non-renewal of Security Deposits/ Bank Guaranties etc.	Non maintenance of proper Records
6.	Major/Serious Fraud, suspected frauds, serious irregularities/ discrepancies which needs Management	Non-renewal of Security Deposits in time exceeding Rs. 15.00 lakhs.	Any other matters which Internal Auditor feels which needs to be brought to the notice of Department Head
7.	Mis-appropriation of funds Lack of proper security to the Assets of the Company	Long pending Category C observations	
8.	Non-compliance to the Statutory Provisions and Internal Control Guidelines of the Company	Any other matters on which WTD-CFO attention is required	
9	Lack of Internal Control System/		

	Internal Guidelines / policies which may lead to major fraud, risk etc.		
10	Long pending Category B observations		
11	Any other matters which Internal Auditor feels it is most critical		

Audit Closure Governance

Closure Process Flow

1. **Issuance of Audit Report:**

   Upon completion of fieldwork, the internal audit team shall issue a detailed audit report containing observations, risk ratings (High/Medium/Low), root causes, and recommended corrective actions.

2. **Management Response and Action Plan:**

   The audited department shall provide a formal response within 10 working days, including:

   a) Acceptance or rebuttal of findings (with justification)
   b) Corrective and preventive action plan
   c) Timeline for implementation
   d) Designated responsible person

3. **Audit Observation Tracker (AOT):**

   All findings and action items shall be recorded in a centralized Audit Observation Tracker, updated regularly and monitored by the Internal Audit Department.

4. **Periodic Follow-up and Validation:**

   a) Follow-ups shall be conducted at predefined intervals based on risk rating (e.g., monthly for high-risk, quarterly for medium-risk).

   b) The Internal Audit team shall validate the implementation of corrective actions through evidence review or re-audit.

5. **Closure Approval:**

   a) An audit observation shall be considered closed only after validation and supporting documentation.

   b) Closure of High-risk findings requires review and approval by the Audit Committee of the Board.

   c) Medium and Low-risk findings may be closed with Head–Internal Audit's approval.

6. **Escalation Matrix:**

In case of non-compliance or delay in implementation beyond agreed timelines:

- 1st escalation: Department Head
- 2nd escalation: CXO / Functional Head

- 3rd escalation: WTD / Audit Committee

3. Reporting to Audit Committee

a) A quarterly status report on pending and closed audit observations (with risk classification) shall be presented to the Audit Committee.
b) Long-pending or repeated observations shall be separately flagged with root cause analysis and justification from the respective departments.

4. Documentation and Record Keeping

a) All audit closure documentation including evidences, closure memos, and approvals shall be digitally archived for a minimum of 5 years.

b) Closure status of previous audits shall be a key input for risk-based audit planning and entity risk scoring.

Digamber Capfin Limited

Address: J 54-55, Anand Moti, Himmat Nagar, Gopalpura, Tonk Road, Jaipur-302018, Rajasthan.