

Muthoot Mercantile Limited

(A Unit of Muthoot Ninan Group)

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INTERNAL AUDIT POLICY

1. Preamble

The Board of Directors of Muthoot Mercantile Limited ('MML' or 'Company'), as a part of 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.

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 appraise 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 examination and evaluation of the adequacy and effectiveness of the internal control system and quality of performance in carrying out assigned responsibilities at 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 existence of such assets.

- (e) Verifying quality of assets.
 - (f) Reviewing and appraising financials 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 effectiveness of the Company's operational risk management processes.
 - (i) Examining and reporting on 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 misuse of Company assets.
 - (k) Reviewing specific operations, programs, functions or activities at the request of Audit Committee or management, as appropriate.
- (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 coverage

Audit coverage includes all present and future activities in the Company.

5. Audit plan - Branches

- (i) Frequency of audit of an activity/ function should be determined based on risk perception.
- (ii) However, all activities of the Company will be audited at least once a month.
- (iii) The frequency of Branch audit will be once in 21 days OR fresh opening of 100 packets / loans whichever is earlier.
- (iv) The audit frequency may be changed by conducting surprise audits as and when required.
- (v) Internal Auditor to verify prevailing LTV norms and valuation adherence followed by branches as per Head Office directions.
- (vi) Vault controls, Key movement register.
- (vii) Borrower protection and transparency measures like issuance of Pawn ticket (KFS) release of pledge and auction process are in line with RBI/ Company policy guidelines.

6. Audit sampling

- (i) The Internal Auditor may perform sample verification where 100% verification is not warranted based on the risk perception.
- (ii) The Head of the Audit department should design and allocate audits in branches and perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence to meet objectives of internal audit engagement.
- (iii) When allocating audit in branches, Internal Auditor should consider specific audit objectives, No of packets and ticket size. Internal Audit has to be more specific to branches with abnormal growth in number and volume. All branches have to be audited with a minimum gap of 21 to 30 days and maximum gap of 30 to 45 days. 100% of new pawn packets have to be physically checked and minimum 5% of random sampled packets lying in the locker have to be audited while auditing. Purity and carat of gold has to be checked and any discrepancy has to be reported to Vigilance Officer in that area to investigate. Internal Auditor has to check whether gold pledged are spurious gold or gold pledged with less purity or covered any other metals. KYC regulations need to be checked and confirmed to the guidelines of RBI.
- (iv) Internal auditor from Head Office shall audit Gold Loan packets verified by the local auditor.

7. Audit reporting

- (i) An audit report shall be prepared by the Internal Auditor after closure of each audit. The report will be finalised after discussion with the head of department.
- (ii) The response should include a time-frame for completion of the action to be taken for rectifiable irregularities and an explanation for any irregularities noted by auditors that will not be addressed. Any major discrepancy found will be reported to Vigilance Officer to investigate and to give a second opinion on the findings reported by Internal Auditors.
- (iii) Timelines for closure of audit reports for various streams of audit shall be the time within which all irregularities should be rectified.
- (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 report, obtaining Explanations/comments, determining 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. All critical points shall be reported to the Audit Committee of the Board.
- (vii) Head of Internal Audit department shall prepare and submit a report on branch audit and submit critical findings to the Audit Committee on a quarterly basis.

8. Compliance monitoring and closure of audit report

- (i) There shall be a guideline to Internal Audit department specifying the timeline for rectification/ closure of audit report. The audit once finalized and communicated to the branch and shall be closed within 30 days from the date of issue of such audit report.
- (ii) Audit department should re-verify status of compliance provided by respective branch and there shall be a mechanism to arrest the recurrence of irregularity once reported. Further, pending issues in the previous audit reports not resolved shall be incorporated in the current subsequent audit report.

9. Documentation

- (i) Internal Auditor shall prepare audit report on the basis of which the conclusions were reached.
- (ii) 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 shall be for 10 years from the date of completion of internal audit. The documentation shall be recalled in case of any dispute on the audit findings.

10. Organization

- (i) The 'Head – Internal Audit' shall report to the Managing Director and functionally to the Audit Committee of the Board.
- (ii) The Internal Audit department shall be independent and transparent in providing its services.

11. Manpower and outsourcing

- (i) The 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.

12. Code of ethics

Internal Audit staff members are responsible for conducting audit in various branches and their integrity, objectivity, confidentiality, and competency are not open to questions.

Internal Auditors shall:

- (i) Possess educational, qualifications and competencies commensuration with their level of responsibility and services to the Company.
- (ii) Exercise objectivity, and diligence in the performance of their duties and responsibilities.
- (iii) Exhibit loyalty in all matters pertaining to the affairs of the Company and not to be a party to illegal or improper activity.

- (iv) 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.
- (v) 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.
- (vi) Use reasonable care to obtain sufficient factual evidence to support the conclusions drawn.
- (vii) Reveal such material facts known to them which, if not revealed, could distort the reported results of the audit.
- (viii) Continue to strive for improvement in the proficiency and effectiveness of their service.

13. Access to information

- (i) Internal Audit shall have access to information, 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. Review of the Internal Audit policy

- (i) The Internal Audit policy shall be reviewed once in a year.
- (ii) The Audit department shall be responsible for the review and modification of the Internal Audit policy and approved by the Board.

INTERNAL AUDIT FOR HEAD OFFICE

1. Purpose

This Internal Audit department is to guide/ assist the Company/ Internal Auditor's to provide independent, objective, value-added and advisory services in order to improve the achievement level of the Company. More specifically this department is intended to provide internal audit report 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. Scope & mission of internal audit

Internal Audit 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 Head Office audit activity is summarized below:

- (i) Planning of annual audit program.
- (ii) Assessment of internal controls within the department.

- (iii) Risk assessment and sampling to narrow down areas of focus.
- (iv) 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.
- (v) Tracking compliance to audit findings and preparation of report for the consideration of the Audit Committee of the Board.
- (vi) Report on significant deviations from the applicable compliance norms

Financial Compliance

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

- (i) 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.
- (ii) That expenditure of a personal nature is not charged to the Company.
- (iii) Compliance audit means examination of documents as to whether money spent was legally available for expenditure and sanctioned by the competent authority.
- (iv) Expenditure incurred is strictly as per the obligations under the documents.
- (v) Financial reports review includes trial balance audit and audit of annual financial statements for compliance with requirement of the Companies Act, and accounting standards before they are submitted to Statutory Auditors of the Company.

3. Departmental Audit – Head Office (Actionable)

SCOPE:

- (i) To visit all prescribed departments of MML and to carry out internal audit in accordance with the approved audit program.
- (ii) 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.
- (iii) To conduct physical verification of the cash book and cash balance on the date of commencement of audit. Findings of physical verification shall be reported in Internal Audit report.
- (iv) To obtain a general view of all accounts, records maintained by MML to prepare detailed plan of audit.
- (v) To evaluate the effectiveness of internal control system followed by MML.
- (vi) To review compliance with existing statutory requirements, financial rules, regulations, procedures etc. and instructions/ orders issued by the Managing Director/Chairman/ Company.
- (vii) To conduct a detailed check of accounts of records for the period as given in the approved audit program.

- (viii) To verify whether cash book is written in the prescribed form and maintained according to applicable statutory provisions.
- (ix) To verify correctness of opening balance, totalling of receipt and expenditure shown in the cash book and closing balance for the period of audit.
- (x) To examine receipts and disbursements with reference to relevant supporting documents and registers.
- (xi) To identify the areas of wastage of resources, cases of general misuse of funds or properties and misappropriations of financial resources, if any.
- (xii) To verify the reconciliation statements pertaining to bank and loans and advances.
- (xiii) To verify whether parking funds in banks etc. beyond authorized period, if any and funds have been placed with banks or other places based on the competitive rates of interest.
- (xiv) To conduct review of procurement of goods and services and checking whether the same has been done as per the prescribed guidelines.
- (xv) To conduct performance review of specific scheme (including but not limited to incentive scheme) objectives and outcomes, if any.
- (xvi) To conduct review of the status of past audit reports, statutory audit observations and other audit findings and its compliances.
- (xvii) To conduct review of budgetary compliances.
- (xviii) To prepare draft audit reports in the prescribed format enclosing relevant documents.
- (xix) To perform any other duties assigned by the Managing Director/Chairman.
- (xx) To submit final Internal Audit report after draft report and after discussion to the Managing Director.

4. Professional standards of Internal Auditors

- (i) Internal Auditors should acknowledge and incorporate all information received from MML 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 favour.
- (ii) They should possess thorough knowledge of the internal audit process and techniques.
- (iii) Internal Auditors should not disclose 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 MML.
- (iv) Internal Auditors should comply with ethical principles and code of conduct governing the auditor's professional behaviour and responsibilities, which include integrity, objectivity and fairness, confidentiality and technical standards.

5. Budgetary control

To verify and comment on the company's budgetary control system and give suggestions for improvement

6. 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 Managing Director/ Chairman 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

7. Accounting and record keeping

- (i) Petty cash expenses payment procedures: To verify and report whether:
 - (i.a) Impress amount drawn are in excess of the limits sanctioned.
 - (i.b) Proper authorization from competent authority has been obtained for expenditure as well for payment.
 - (i.c) Proper supporting documents are available for the transaction.
 - (i.d) the expenditure has been accounted properly in the books and all the vouchers are authenticated by the competent authority..
 - (i.e) Expenditure of a personal nature are not charged to the Company.
 - (i.f) Bills are not split to avoid it from requirement of inviting quotes/ tenders.

- (i.g) 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 opening balance for the next day is physically verified.
- (ii) Cheque and bank payment procedures: to verify and report whether:
 - (ii.a) All expenditures are bonafide and in the interest of the Company
 - (ii.b) All transaction are supported with proper documentary evidence
 - (ii.c) The expenditure and the payment are approved by the competent authority and are as per the procedures mentioned in the standard operating procedure and relevant statutory provisions
 - (ii.d) 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.
 - (ii.e) 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.
 - (ii.f) A proper cheques register is maintained and entries in the register are authenticated by authorities writing the cheque and signing the cheque.
 - (ii.g) A record of cheque books is kept with serial numbers of cheques and unused cheque books are properly accounted and held in the safe deposit locker, when not in use.
 - (ii.h) Records of all bank payments are kept properly.
- (iii) Accounting and Record keeping: To verify and report whether:
 - (iii.a) Ledger accounts are reviewed periodically at least once in a month and correction entries are passed only with the approval of 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.
 - (iii.b) 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.
 - (iii.c) That proper back up norms to save and preserve the electronic accounting records are laid down and properly being followed.
 - (iii.d) That physical vouchers, ledgers and other accounting records are properly preserved in safe locations so as to protect them from destruction etc.
 - (iii.e) Whether proper internal control procedures are in practice to detect fraud, misuse of funds and documents.
- (iv) Reconciliation and confirmations: To verify and report whether:

- (iv.a) 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.
- (iv.b) Check all payments and receipts with the bank statements for each quarter.
- (iv.c) Check that all items in the reconciliation of the previous period are cleared in accordance with the reconciliation.
- (iv.d) Check through the items in reconciliation to the next period.
- (iv.e) Comment upon the adequacy of/ arrears in reconciliation.
- (iv.f) Check whether stale cheques are reversed and the fact is informed to the bank to stop payment.

8. Other Activities of Internal Auditors – Head Office

- (i) Purchase of fixed assets and maintenance of registers: To verify and report whether:
 - (i.a) Purchases of fixed assets are authorized by the Managing Director/ Chairman.
 - (i.b) Fixed assets are accounted properly in the books of accounts as required in the CARO audit report.
 - (i.c) 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.
 - (i.d) Physical verification of assets has been made at least once in a year.
 - (i.e) All the assets are numbered and can be identified.
- (ii) Purchase of consumables, stores etc.: to verify and report whether:
 - (ii.a) Purchase of consumables, stores etc., have been purchased for the official use as per the delegated financial powers and are authorized by the concerned department head.
 - (ii.b) Purchases are authorized by proper authority as per the delegation of powers and all applicable statutory provisions have been complied with while purchasing.
 - (ii.c) Proper stock registers have been maintained and are updated regularly.
 - (ii.d) 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.
 - (ii.e) Issues are approved by Managing Director/ Chairman.

- (ii.f) The bills for purchase of consumables are checked for quantity and quality by an officer independent of the purchasing authority.
- (ii.g) Stock verification is done regularly.
- (iii) Disposal of Assets: To verify and report whether:
 - (iii.a) Disposal of assets has been done as per the approvals of Managing Director/ Chairman.
 - (iii.b) 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 Standards.
 - (iii.c) Fixed Assets Registers have been updated.
 - (iii.d) Receipts from the disposal have been accounted properly.
- (iv) 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.
- (v) Security of assets: To verify and report whether:
 - (a) The Company has an inventory of assets.
 - (b) Proper security arrangements have been made for the protection of the assets of the Company.

8. Recovery and repayment of loans and provisioning and write-off

- (i) Whether repayment is regular from the loans.
- (ii) Whether any provisions are made for NPAs.
- (iii) Whether the classification of assets are done as per the guidelines issued by RBI.
- (iv) Whether sufficient legal actions are taken for the recovery of loans.
- (v) Whether ECL provisions are made as per the ECL policy of the Company.

For Muthoot Mercantile Limited

S/d
 Mathew Mathaininan
 Chairman & Whole-time Director
 DIN: 00063078
