

INTERNAL AUDIT POLICY

(Passed by the board on 11/02/2020)

(Revised and approved by the board in the meeting held on 15/11/2021)

(Revised and approved by the board in the meeting held on 11/03/2024)

Background

It is the responsibility of the board of Directors of a company to ensure that various risks are identified, reported, and controlled in an effective manner. The Company has to ensure that risks associated with financial, operational, statutory aspects are identified and cleared at the right time in order to fill in the gaps in the entire control system in the business. Internal audit offers risk management and evaluates the effectiveness of a company's internal controls, corporate governance, and accounting processes.

The Company is growing and hence the complexity of operations is increasing day by day. It is necessary to establish a system to ensure proper risk management and control systems to avoid revenue leakage and statutory risks. The Board of Directors of JMJ FINANCE LIMITED believes that internal auditing policy is necessary to fulfil essential component of Company's risk management and governance mechanisms. Internal Audit function plays a very crucial role in an organisation's corporate governance framework, internal processes and controls, risk management, regulatory compliance, financial reporting and overall assisting the Board of Directors to help fulfil their responsibilities towards the organisation, shareholders, creditors and other stakeholders. Internal audit helps the management to identify flaws in a process and correct the flaws prior to external audit/ statutory audit.

Definition

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

Scope of internal audit

- Financial audit – audit undertaken to ensure completeness and fairness of financial aspects of the Company, starting from the point where transaction entries are made to the point where final financials are drawn.
- Operational audit - effectiveness and efficiency of operations.
- Safeguarding of assets and verifying the state of assets of the company.
- Fraud detection and identify deficiencies in the internal control system.
- Review of effectiveness of internal control.
- Preservation of ethical culture.
- Ensuring compliance with applicable laws, regulations, policies and also procedures laid down by the Company.
- Preservation of ethical climate within the organisation.
- Making practical suggestions to the middle level management and top management to rectify the issues in control system.
- Conducting investigation on the instruction of Board/Committee/Wholetime Director/Managing Director or assisting the Key Managerial Personnel/ any other authorised officer of the Company in conducting particular investigations on frauds,

- violations, misappropriation of cash or other assets in departments of the Company.
- Monthly/periodical reporting to the Board/committee of Board on findings and practical suggestions for filling control gap if any.
 - Achieve savings by identifying waste, inefficiency and duplication of effort across the organization.

Objective

The main object of this document is to guide the internal audit department in conducting internal audit and to ensure that internal audit is conducted in a systematic and efficient manner by utilising the available resources of the Company. Any act performed by the internal audit department shall be within the premises of this policy and shall be in line with the intention of the management approving this policy.

Internal Audit Department

- In JMJ Finance Limited, we have an internal audit department. The internal audit department shall provide their support and assistance to the Board of Directors and Key Managerial Personnel (MD/WTD, CS and CFO) in ensuring the objective of this policy.
- The internal audit department shall have at least one head in suitable designation and he shall be responsible to the management to ensure proper functioning of his department.
 - The internal audit head and staff/sub-ordinates shall be employees of the Company.
 - The internal audit department shall have adequate number of staff with requisite qualifications and knowledge level.
 - All the staff in the department shall be given proper training from time to time. Junior staff shall be given assignments/minor audits on an experimental basis along with other team members. Based on the performance of the staff, they shall be given better assignments. Total work shall be divided among the staff and no staff shall be given assignment which does not commensurate with his/her knowledge and experience.
 - The company may outsource a part of the work (which needs deep professional knowledge and experience) to outside professionals like CA, CS, CMA, if necessary.
 - The Company may induct staff from other departments to the audit department, if he/she suits the requirements.
 - The internal audit department head and staff shall approach Managing Director/ Wholetime Director, Company Secretary, Chief Financial Officer, General Manager, Assistant General Manager and senior officials in the Company in case of any clarification on administrative /statutory/financial matters, and aforesaid officers may address such queries based on their area of knowledge and experience.
 - The internal audit department members shall obey the instructions of Managing Director, AGM or other senior management officials above their rank, in administrative matters.

Duties/Responsibilities of Internal audit department/ Internal Auditor

- The internal auditor/audit dept shall act as watchdog in the organisation and shall take maximum efforts to identify risks/ issues at the first instance and report to the concerned authority at the earliest. He/it shall act independently and shall not act in a biased manner /favorable manner to any officers/departments/subjects coming under his auditplan.

- The internal auditor/audit dept shall conduct periodical audit in 60 to 90 days intervals in branches/places of business of Company and to submit report on the same to the Managing Director/Wholetime Director/Operations –in-charge.
- The internal auditor/audit dept shall follow up with employees and various departments to ensure the efficiency and effectiveness internal control systems.
- The internal auditor/audit dept shall detect fraud of any type in branches/places of business of Company and to make suggestions to the management to prevent frauds.
- The internal auditor/audit dept shall comply with the directions of the Board of Directors/concerned Committee of Directors or any other officer designated by the Board/committee and to co-ordinate with Key Managerial Personnel of the Company in ensuring compliance with applicable laws, rules and regulations.
- The internal auditor/audit dept shall report the urgent matters to the Managing director/concerned officers at the earliest and to prevent loss to the company.
- The internal auditor/audit dept shall check and make timely suggestions on the adequacy of Information Technology systems in operations of the Company.
- The internal auditor/audit dept shall help the Company achieve savings by identifying waste, inefficiency and duplication of effort across the organization.
- The internal auditor/audit dept shall adapt to new technologies/updation/innovations in the area of internal audit and streamline the internal audit procedures from time to time based on directions/feedback of the Board/committee/KMP.

Audit Universe

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

Audit Plan

The Audit plan for each year shall be placed in the Audit Committee and any changes in the audit plan shall be subject to the prior approval of the Audit Committee.

The head of the audit department shall with the help of his sub-ordinates prepare a audit plan for the current year. The plan shall be prepared with due care, based on recommendations of Audit Committee and based on the previous comments received from Key Managerial Personnel of the Company. The audit plan shall be a concrete and detailed plan that includes the nature, extent and timing of audit procedures to be performed by teammembers in the department. Audit plan of this year shall be prepared based on the findings of the previous years and each year the procedures shall be streamlined. The plan shall possess capacity to fill the control gaps pointed out in previous period. The department shall stick on to the audit plan to maximum possible extent. Audit plan could be amended based on the requirements of the Company and availability of the resources after obtaining approval of the Board/Committee, wherever necessary. The audit plan shall contain the frequency of audits in branch and H.O level and the role of each team member in such audits.

Audit Evidence

Evidential matter obtained during the course of the audit provides the documented basis for the auditor's opinions, findings, and recommendations as expressed in the audit report. Evidence may be categorized as physical, documentary, testimonial, and analytical. Internal auditors are obligated to collect sufficient, competent, relevant, and useful information (whether in physical format/electronic format) to provide a sound basis for audit findings and recommendations. Evidences could be collected directly or indirectly by physical examination or observation or any other methods, as the case may be. However, evidence obtained by the auditors themselves through direct physical examination, observation, computation, and inspection is shall be considered to have more value and credibility than

the evidence obtained indirectly. The details of evidences collected shall be mentioned in Audit report and copies/originals of the same shall be enclosed as annexures along with the audit report.

Working papers

Work papers contain the records of planning and preliminary surveys, audit procedures, fieldwork, and other documents relating to the audit. Most importantly, the workpapers document the auditor's conclusions and the reasons those conclusions were reached.

METHODS

The auditor may use one or more of the following major methods during his audit in branch or departments, depending upon the circumstances and scope of audit-

- a) **Inspection:** This involves inspection of documents, books, equipment's etc. which the auditor has reason to believe to contain vital information. In case of planned inspection, the auditor shall provide checklist/intent list of documents/expected data to the auditee beforehand (at least two days in advance). In case of surprise inspection, there is no need of advance intimation. The auditor shall take copies of documents in order to prove his findings and the copies shall be preserved in a file for future reference.
- b) **Observation:** The auditor shall observe places, people, processes etc while being at the place of the auditee. Observation shall be carried out based on the scope of the audit.
- c) **Vouching & Verifying:** It is another very popular method. The transactions or events are verified against supporting documents for accuracy and validity. Examination of accounting transactions against bills, attendance register against wage payments are some examples.
- d) **Reconciliation:** It is an audit test to match two sets of data which provides similar information and analyse the variances between them. It may help in detecting frauds or errors. This could be done from HO or at branch level, considering the nature of transaction or scope of audit.
- e) **Recalculation & Valuation tests:** The auditor may recalculate certain figures like interests or instalments payable on a loan to verify the accuracy.
- f) **Interview/Face to Face interaction:** It gives greater understanding of the business processes as the interviewer can seek clarifications and details on the spot. It has all the advantages of face-to-face communication like establishment of rapport, personal opinions on issues and solutions. The Interviewer (Auditor/Audit staff) has to make the person feel at ease and gather significant information. Interviewer shall be tactical and the auditee shall not get a hint on what the interviewer is trying to scrape out of the interview. It is suggested to ensure that the conversation do not have an investigative mood. The results of the interview depends upon the tactics and communication skills of the interviewer.
- g) **Questioning:** Though similar to interview, here the auditor/audit person shall try to point specific questions without alienating the auditee. The results of the interview depends

upon the asking the right questions based on available data and gathering further information from the auditee.

- h) **Informal interaction:** this is a very useful tool in some cases. The auditor shall understand things through informal interaction with officers, customers, other stakeholders etc and double verify his understanding by applying other methods. However, this is applied only considering the nature/scope of the audit the auditor is into.

Audit Report

An audit report is the only formal document of the Internal Auditor's work, which concerned officers outside the Internal Audit function get to see. It is a well drafted document summarizing the work done and reports the findings and recommendations. It is a means of communicating all of the auditor's work on a particular audit to Board/Committees/Management and hence shall be dealt seriously.

- The expressions and words used in the audit report shall be clear-cut and understandable to the management. The auditor shall avoid words and expressions which are vague/meaning less and are merely decorative in nature. The auditor shall pay due attention to the conciseness, spelling, grammar, logic, order of findings etc and shall eliminate what is irrelevant and immaterial to the recipient/reader of the report.
- The auditor shall prepare a detailed audit report containing the conclusion of the audit.
- The audit report shall point out serious frauds, errors and irregularities with special highlights and shall mention in detail the findings supporting the conclusion.
- It shall also contain whether the explanations/comments from auditee was satisfactory or not.
- Findings must be supported by sufficient evidence and be within the audit's scope and objectives.
- The report shall not contain beliefs, fancies or assumptions of the auditor, but shall contain only findings and conclusions which the auditor can prove with evidence.

The audit report shall contain the following-

- Findings
- Description of findings
- Evidences and nature of evidences
- Level of support extended by the auditee and the Response of auditee to the questions of auditor
- Suggestions and Recommendations of auditor on major findings.
- General Comments used for points that are of lesser magnitude than the findings, but could of interest to the management.

Oral Reports & Interim Reports

This mode of communication should be supplementary to written reports. This mode could be used for reporting any findings, which may need emergency action, or as an oral presentation as a preface to the formal written report.

When management or other recipients of report have to be informed of significant developments or problems for which prompt action needs to be taken, an interim report can be issued. Interim reports might contain Action Taken Report (ATR) from auditee and comments from the auditor regarding current status.

Emergency actions

The internal audit department head/staff shall communicate in formal manner (written letter/email) minor mistakes/mismatch in figures/transactions/entries in the books/software, to the concerned department heads within 5 days. The department shall ensure that the concerned dept head takes corrective action within a reasonable time.

Action Taken Report (ATR)

The auditor shall *Suo motu* or on the instruction from the management/Board/Committee, direct the auditee/concerned department or branch to submit action taken report on various matters or irregularities pointed out during the audit from time to time. Action taken Report shall contain the points rectified or under rectification from auditee's side. The suggested format of ATR is provided in Annexure-2. Action Taken Report shall be clear-cut, formal, dated report signed by the Branch Manager and Assistant Branch Manager or concerned department heads.

First draft and Final draft

Based on the discussion with management and Key Managerial Personnel's, the auditor may refine first draft and prepare final draft. The final draft shall be considered based on the views of management/KMP and also the auditee. However, major points shall not be diluted/deleted based on the comments by auditee alone. Final draft may be generated after making minimum two-level corrections/amendments or more amendments based on discussion with management.

Dissemination

All major reports shall be submitted to the audit committee for consideration through the Managing Director and/or Company Secretary of the Company. However, minor reports shall be discussed with Managing Director and/or Company Secretary, Chief Financial Officer and follow-up action be taken. The major findings of the auditor shall be communicated to the auditee after finalisation and approval of audit report by concerned authority in the Company.

Audit committee

The Company has a duly constituted Audit Committee under Companies Act 2013 and rules framed thereunder. The following details shall be submitted to the audit committee with the assistance of the Company Secretary. The audit committee may call upon the internal audit head and/or staff to give explanation/additional comments on their reports.

- Report on no. of audits conducted in each quarter ie. April-June, July-September, October-December, January – March and status of follow-up action.
- Pending Action taken reports from branches/depts.
- Major findings from overall audits eg. There is no efficient system to check the cash outstanding at branch, Branches are not reporting gold held by them on daily basis etc.
- Auditor recommendation on major findings
- Frauds at department level or employee level
- Any serious non-compliance or serious negligence from the part of branches/branch managers. Continuous non-compliance or failure to co-operate with audits.
- Major irregularities if any at branch level and HO level, which needs the attention of the Committee.
- Overall report on efficiency of internal control systems
- Level of compliance with RBI norms and other applicable norms at operational/functional level.
- Irregularities noticed in loan documentation or deposit documentation at branches or HO level.

- Related party transactions as per Companies Act 2013
- Misuse of assets or misappropriation of cash or chances for the same.
- Wastage of resources of the Company like electricity, assets etc. which will affect the financial position of the Company.
- Any other irregularities or issues in the internal control or risk management systems which is likely to affect the financial position or reputation of the Company or put the Board of directors or Key Managerial Personnel (KMP) to statutory or financial risk.

Code of Ethics

The internal audit head and staff shall follow the code of ethics mentioned below.

- They shall understand their importance in the Company and comply with this policy without fail.
- They shall have a positive attitude and adaptability to changes suggested by the management and shall take efforts to improve their knowledge and skills on a day-to-day basis.
- They shall have qualities like integrity, objectivity, confidentiality, reliability, loyalty and shall strive to comply with applicable policies, instructions of concerned authorities and applicable laws in true letter and spirit.
- They shall not engage in any activity which is likely to affect their independent view and professionalism or create conflict with interests of the Company.
- They shall deal with auditees in a professional manner and shall make their report submissions in professional manner.
- They shall not use any confidential information of the Company or employees for their personal gains or against the interests of the Company/stakeholder, whether at present or in future.
- They shall not intentionally hide or distort material facts obtained in the course of audit.

Duties of Auditee

- To be polite and to extend full support and co-operation to the auditor in conducting the audit in all types of audits, whether informed in advance or surprise audits. The auditee shall inform his subordinates/colleagues about the objectives and scope of audit.
- To communicate important matters to the auditor in clear cut and unambiguous manner.
- To provide copy of previous/latest reports or communications received by the auditee unit from auditor/internal audit department/HO.
- To provide access to the facilities and evidential material as requested by the auditors.
- To ensure that audit does not affect the normal operations of the units and does not cause any inconvenience to the customers of the auditee unit.
- To determine and initiate corrective action based on the audit report/comments.

Review of audit policy

The audit policy may be reviewed by the Audit Committee of the Board based on the requirements of the Company.

For JMJ Finance Limited

Sd/-
Wholetime Director

ANNEXURE- I

Suggestive list of areas of audit (Branch level/HO level)

- Company name display Board
- Whether accounts (including ledgers, cash book, bank transactions etc) are maintained in the desired manner viz comparison of amount in bank and books maintained at branch and HO level.
- Verification of day book of branches maintained in software online and/or by field visit.
- Verification of documents and KYC relating to loans.
- General verification of security systems like security cameras, lock and key, lockers etc
- Gold locker/strong room register and Keys record
- Cleanliness of office cabins and premises and waste disposal facilities
- Level of Customer interactions and customer satisfaction
- Maintenance of fixed assets
- Cash management systems at branch level and whether cash is held within limits set by HO
- Gold handling and safety measures at branches
- Gold quantity recorded and physical
- Condition of Gold weighing machines/ Gold purity checking machines
- Office discipline of staff/employees
- Maintenance of Registers attendance register, muster roll, and other registers under HR laws
- Internal control system for receipt, issue and custody of the stock of stationery items and physical verification of the same.
- Physical File system
- Customer Grievance/Complaint Box and display of Grievance Redressal Officer details
- Certificate of incorporation under RBI
- Check receipt of interest/money and its subsequent credit to be given to Head Office.
- Overdue accounts and followup action initiated by branch
- Duplication of entries in system and in physical mode
- Serving of loan agreement/letter copies to customers
- Reversal of any large/old/unexplained entries
- Accuracy of daily statements submitted to HO
- Absence of employees/staff during office hours and working after office time
- Suspense Accounts
- Inter-branch transactions, if any
- Power/Energy, water consumption and wastages
- Locks and key and proper maintenance of confidential documents/files in almirahs.
- Branch manager/Asst manager cabins overall verification
- Maintenance bank passbooks and chequebooks
- Security hazards, if any and Safety of woman employees
- Notice Board and Fair practice code display
- Maintenance of circulars/notifications issued by the HO in files
- Exercise of powers by branch manager and/or ABM
- Meetings in the branch and register/minutes of the same.

ANNEXURE 2

To,

Date:

Audit Team
JMJ Finance Limited
Pooma complex, Naduvilal Junction,
Thrissur, Kerala. 680001

In continuation to the audit conducted by Shri./Smt.:..... at our office on..... th day of 20..., and matters intimated to us, we herewith submit the action taken report below for kind perusal.

AUDIT ACTION TAKEN REPORT (AATR) FROM BRANCH/AUDITEE

1	2	3	4
Sl.NO	Observation and comment of Auditor/Audit officer	Reasons for non-compliance	Compliance action taken by branch (with date of such actions and details.)
1.			
2			
3			
4			
5			
6			

Kindly receive the same and in case of any clarifications, please let us know.

Yours sincerely,

Name of signatory (Branch Manager/ Branch in charge) :

Signature:

NB:

- The AATR shall be submitted by mail/post as per direction given by audit officer.
- Column 3 & 4 shall be filled by the branch manager/branch in charge.
- Reply/Matters filled in shall be clear, readable and easily understood by person reading it.
- 1 & 2 shall be filled by Auditor/Audit officer/Audit Team.
- The AATR shall be submitted within the time limit intimated by Audit officer/Audit team.
- The Audit officer may return the AATR or ask for revising AATR, if the reply is not satisfactory.