

AUDIT POLICY

(Approved in the Board dated 30th June, 2022 and reviewed on 18th March, 2024)

Mission & purpose of Audit:

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 control and governance processes. The main purpose of the Audit is to provide support for the Company in all its responsibilities relating to assurance of the internal control system of the Company. The Audit function provides its independent and objective assurance whether the Company meets / adheres to:

- compliance with laws, regulations and internal norms;
- reliability of information,
- efficiency and effectiveness of operations and
- existence and efficiency of internal controls

Application and Scope of Audit Policy The scope and objectives for every audit will be determined through discussion with the Management and a department specific risk assessment. However, the scope of the 'audit policy' will cover all aspects of the Company and its activities so as to enable it to meet its primary objective. This includes, but is not limited to, the assessment of systems, processes, controls, information and operations compliances with applicable regulatory and other provisions of law for the time being in force relating to the following-

- Review activity for most recent 12 month period
- IT systems and services
- Risk management and assessment
- Finance and accounting
- Compliance and regulatory operations and oversight
- Corporate governance
- Company's planning and strategy, including resource planning, product development, sale and marketing and management etc.
- Human resources
- Management information
- Third party relationships
- Ethics related objectives, programs and activities, and risk and control culture
- Other functions that support the operation and infrastructure of the Company including regulatory related models and frameworks. Inherent within Audit's approach will be the consideration of significant errors, fraud, non compliance,

culture, and other exposures when developing the business objectives and strategies. The scope of Audit's activities (internal and statutory) will extend to all legal entities and business units forming part of the Company. Internal/Statutory Audit may support Executive Management by performing advisory services related to governance, risk management and control, as appropriate. It may also evaluate specific operations at the request of the Board or Audit Committee, as appropriate. In conducting any such advisory activity, Audit may be mindful not to impact objectivity and independence of any subsequent Audit work, by ensuring appropriate safeguards are in place for this work. The scope of such advisory work may include the investigation of any perceived or actual significant risk or irregularity, or undertaking audit activities of emerging and current corporate events (for example, an acquisition or divestment, or a significant regulatory or legislative change). The role and extent of Audit's involvement in such events will generally be determined as part of the audit planning process or on an ad hoc basis, where required. The scope of the 'audit policy' does not extend to the following:

- carrying out any operational duties for the Company, other than those required for Internal/Statutory Audit's own operation or in specific circumstances where it may be expedient for Internal/statutory Audit to do so; and
- exercising executive or managerial authority or functions, except where they relate to the Internal/Statutory Audit function itself.

Charter and Scope of Audit Function The scope of the Audit function comprises of review of major functions and processes in the Companies.

The internal audit in the Company is primarily performed by the Internal Auditor function. However, in some cases requiring specialized knowledge, the required audit may be outsourced to subject matter experts. Audit comprises both Internal Audit and Statutory Audit. While performing activities, auditors are empowered

- to have access to all documents and records of a company relating both to this company and to cross-sectional activities, provided they are carried out by the company.
 - to have access to all information systems and software applications of a company containing both data on this company and on cross-sectional activities, provided they are carried out by the company.
 - to have access to all premises where an audited company/activity is located.
 - to make copies/records of all documents containing relevant information and use recording devices for recording communications
- While performing audit activities,

The Head of Audit is also empowered:

i) to attend the meetings of all advisory and decision-making committees / bodies of the Company and in meetings of the management of the Company as such.

ii) to require the co-operation of any employee of any unit (or of a person providing its services to the Company on the base of contract), and they are obliged to provide Internal Audit function with a necessary collaboration,

iii) to require any information about the Company or its activities,

iv) to survey information about the fulfilment of corrective measures proposed in the audit report or in the report based on a control of an external subject.

v) to have complete and free access to Audit Committee. While performing audit activities Head of Audit & officials engaged with Audit function are entitled to have unlimited access:

i) to all information, records and employees,

ii) to all property and to all premises of the Company which are possessed or administered by the Company. The relevant employees of the departments, within which auditing activities will be carried out, are obliged to provide the employees of the Internal Audit function with maximum support, cooperation, information, consultancy and standpoints in the course of performance of their job.

Authority and Access of Records of the Company In carrying out its duties and responsibilities, Auditors (Internal/Statutory) will be entitled to:

- full and unrestricted access to all of the Company's activities, records, property and other information.
- full and free access to the Board/Audit Committee/other committees of Company.
- allocate and apply resources, scope of work and audit techniques, set frequencies and select appropriate subjects in order to meet its objectives.
- the assistance of staff across the Company where necessary to fulfil its objectives.

Confidentiality In fulfilling its objectives, Audit (internal and statutory) will handle and safeguard all confidential information of the Company with which they come into contact in the same prudent manner as those members of staff who would normally be accountable for them.

Independence and Objectivity In order to ensure unbiased judgements and impartial advice to the Audit Committee and to management, Audit (internal and statutory) will be independent of the activities that it audits. In order to ensure this independence and objectivity, Audit Committee shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in the independence of statutory auditors' shall be flagged by Audit Committee to the Board of the Company and RBI. Further, where Audit (internal or statutory) is unable to provide independent and objective assurance in a particular circumstance, a third party or parties with the requisite expertise will be engaged by the Company, if deemed fit. The work of Audit (internal and statutory) will adhere to the mandatory guidance including the Code of Ethics and the Standards for the Professional Practice of Auditing.

The Reserve Bank of India on April 27, 2021 issued circular on Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of NBFCs under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs on 27th April, 2021. ("Guidelines"). Appointment of the Auditor shall be done as provisions of the Companies Act, 2013 and provisions of the aforesaid Guidelines.

Intimation of Appointment of Statutory Auditor Within one month of appointment/re-appointment of statutory auditors by the Company, intimation about such appointment/re-appointment shall be given to RBI in the form prescribed by RBI.

x



Internal Audit Manual & RBIA Policy

HCL Corporation Pvt. Ltd.

Version : 1

Prepared By : Internal Audit Function

Approved By : Board

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1. Introduction

Internal Audit of HCL Corporation Private Limited ("the Company" / "HCL Corporation") shall be performed by Corporate Internal Audit Team of the Company with support of external Audit Firm, if required.

This Internal Audit Manual stipulates the basic principles of the functioning of HCL Corporation Internal audit function.

2. Audit Policy

2(a) Mission & purpose of internal audit

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.

The main purpose of the internal audit is to provide support for the Company in all its responsibilities relating to assurance of the internal control system of the Company. The Internal Audit function provides its independent and objective assurance whether the Company meets / adheres to :

- compliance with laws, regulations and internal norms;
- reliability of information,
- efficiency and effectiveness of operations and
- existence and efficiency of internal controls

2(b) Charter and Scope of Internal Audit Function

The IA Manual / Charter is binding on all employees of the Company. The scope of the Internal Audit function comprises of review of major functions and processes in the Company. **As a specimen, standard Scope of a financial audit is explained in Appendix-1**

The internal audit in the Company is primarily performed by the Internal Audit function. However, in some areas requiring specialized knowledge, subject matter experts from other sources may be also utilized on a case to case basis.

While performing activities, an internal auditor is empowered:

- (i) to have access to all documents and records of a company relating both to this company and to cross-sectional activities, provided they are carried out by the company,
- (ii) to have access to all information systems and software applications of a company containing both data on this company and on cross-sectional activities, provided they are carried out by the company,
- (iii) to have access to all premises where an audited company/activity is located,
- (iv) to make copies/records of all documents containing relevant information and use recording devices for recording communications

While performing audit activities, the Head of Internal Audit is also empowered:

- (i) to attend the meetings of the Committees / bodies of the Company, if required.
- (ii) to require the co-operation of any employee of any unit (or of a person providing its services to the Company on the base of contract), and they are obliged to provide Internal Audit function with a necessary collaboration,
- (iii) to require any information about the Company or its activities,
- (iv) to survey information about the fulfilment of corrective measures proposed in the audit report or in the report based on a control of an external subject.
- (v) to have access to Audit Committee.

While performing audit activities Head of Internal Audit & members of the Internal Audit function are entitled to have unlimited access:

- (i) to all information, records and employees,
- (ii) to all property and to all premises of the Company which are possessed or administered by the Company.

The relevant employees of the departments, within which auditing activities will be carried out, are obliged to provide the employees of the Internal Audit function with maximum support, cooperation, information, consultancy and standpoints in the course of performance of their job.

3. Duties and Responsibilities of the Internal Auditor

Main responsibilities of internal auditor:

- (i) Work with management to ensure a system is in place which ensures that all the identified risks* (High, Medium or Low) of the Company are assessed on an annual basis.

- (ii) Plan, organize and carry out the internal audit function including the preparation of annual Internal audit plan which fulfils the responsibility of the department, scheduling and assigning work and estimating resource needs.
- (iii) Provide an independent, objective assurance and consulting service to management, with the principal aims of evaluating and improving the effectiveness of Internal controls and governance processes;
- (iv) Conduct audits and generate Audit Reports as per the annual Internal audit plan
- (v) Conduct special assignments assigned by Senior Management / Audit Committee

Note*:: The prime responsibility of Identifying the Risks of business and other functions of the Organization rests with Risk Management Function.

Other Responsibilities of an Internal Auditor

- (i) Managing the Internal Audit function.
- (ii) Developing and maintaining an Internal Audit function manual
- (iii) Developing and obtaining proper approval for audit work schedules, staffing plans, and financial budgets for the function.
- (iv) Perform audit activities impartially and objectively and avoid any conflict of interests. If independence or objectivity is apparently or factually infringed, an internal auditor is obliged to inform the Audit Committee about this fact.
- (v) Supervise staff auditors by assigning them to jobs which match their abilities, reviewing their work, and appraising their performance.
- (vi) Conduct scheduled regular & special audits and make recommendations on audit observations for improvement.

4. Functionality of Internal Audit Function

Formulation of Annual Internal Audit Plan		
S.No	Process Steps	Responsibility
1	<u>Formulation of Annual Internal Audit Plan</u> An annual Internal audit plan and its frequency shall be designed	Internal Audit Team
2	<u>Presenting Annual Internal Audit Plan</u> Annual Internal audit plan shall be presented to the Audit Committee	Internal Audit Team & Audit Committee
Execution of Audits as per Annual Internal Audit Plan		
1	<u>Execution Planning for Audits to be initiated</u> Scope of Audit i.e. Areas to be covered is identified and a	Internal Audit Team

	compatible resource from IA team is identified for execution of Audit.	
2	<p><u>Selection of Samples to be verified and Circulation of Initial Data Requirements to the relevant auditee</u></p> <p>Sample transactions to be verified is identified from complete set of population. For the purpose of Sample selection, it is ensured that Pareto Rule i.e. 80/20 rule is followed.</p> <p>Post selection of Sample transactions to be verified, Initial Data requirement is floated to auditees</p> <p><i>P.s :: For high risk areas such as Treasury operations, review of 100 % transactions is carried out</i></p>	Internal Audit Team
3	<p><u>Conducting review of transactions and maintenance of Working papers</u></p> <p>Post receipt of documents pertaining to auditable transactions, the documents are reviewed and initial queries arising out of review are discussed with auditees.</p> <p>Also relevant working papers pertaining to the reviews are maintained for records and future references.</p>	Internal Audit Team & Auditee
4	<p><u>Preparation and Circulation of Draft Report</u></p> <p>Observations noted during the course of an audit are reported in Draft Audit report and circulated to the respective auditees for providing management response and target date for closure of reported observations</p>	Internal Audit Function & Auditee
5	<p><u>Finalization of Draft report and Release of Final Audit report</u></p> <p>Post receipt of management responses on draft report, final exit meeting is scheduled with all the relevant functions of auditee.</p> <p>On the basis of the discussions held in the aforesaid meeting, changes, if any, are incorporated in the draft report and Final concurrence is obtained from the respective functions of Auditee.</p>	Internal Audit Function & Auditee

	On receiving the concurrence from auditees, Final Internal Audit report is released	
6	<u>Circulation of Monthly Dashboard</u> Monthly Dashboard detailing the Open Audit points is circulated to all the relevant auditees and regular follow ups are conducted for closure of open points	Internal Audit Function
Reporting in Audit Committee Meeting		
1	<u>Preparation of Audit Committee Deck</u> An audit Committee Deck detailing various important points / observations (noted during audits) along with their current status is prepared.	Internal Audit
2	<u>Finalization of Audit Committee Deck</u> Audit Committee deck (as detailed in S.no:1 of this section) is shared with the CFO & his inputs obtained. The deck is finalized and Pre-read is circulated to the Audit Committee members	Internal Audit , Audit Committee Chairman & CFO
3	<u>Presentation of Audit Committee Deck in Audit Committee Meeting</u> Audit Committee Meetings are conducted on a regular basis where Audit Committee deck is presented.	Internal Audit & Members of Audit Committee Meeting

5. Annual Risk Assessment:

Method for allocating the overall Risk rating to various risks identified for treasury operations is defined below. For the purpose of identifying the overall Risk rating, Cognizance to the scores of Inherent Risk and Control Risk are also given.

Inherent Risk :: *Inherent risk represents the amount of risk that exists in the absence of controls.*

Control Risk :: *Control risk is the failure of a transaction due to failure of relevant internal controls*

Risk Matrix Used for allocating the overall Risk rating to various risks identified for NBFCs Financial Audits

	Score	Risk Quadrants		
INHERENT RISK	3	3	6	9
		M	H	H
	2	2	4	6
		L	M	H
	1	1	2	3
L		L	M	
	Score	1	2	3
		CONTROL RISK		

S No	Score	Risk Rating
1	1 to 2	Low (L)
2	3 to 4	Medium (M)
3	> 4	High (H)

6. Report on Risk Based Internal Audit (RBIA)

With reference to RBI circular, (Ref : RBI Circular no : RBI/2020-21/88 Ref.No.DoS.CO.PPG./SEC.05/11.01.005/2020-21 dt : 03-Feb-21), pertaining to RBIA, for the purpose categorizing a particular transaction during the course of quarterly Audit, below mentioned method will be considered

- Magnitude will be considered as value of a particular transaction
- Frequency will be considered as No. of transactions executed in a quarter
- Slabs to be used for categorizing the magnitude and Frequency as High, Medium and Low

Category	Magnitude of Transaction	Frequency of Transactions
High	≥ 50 lakhs	≥ 25
Medium	≥ 25 Lakhs < 50 Lakhs	≥ 10 < 25
Low	< 25 Lakhs	< 10








Refer Appendix-2 for sample format of RBIA Report.

Appendix – 1
Standard Scope of a financial audit

S. No.	Scope of Financial Audits
<i>Ledger Scrutiny and Expense validation</i>	
1	Detailed Scrutiny of all account ledgers
2	Scrutiny of expense vouchers and supporting documents such as agreements / contract, invoice, approvals etc.
3	Scrutiny of asset purchased by validating supporting documents such as agreements / contract, purchase order, GRN, invoice and approvals etc.
4	Verification of completeness of supporting documents for expenses / assets procured
5	Analysis and reporting of outstanding Employee and Vendor advances
6	Analysis and reporting of overdue balance of Creditors
<i>Statutory Compliances</i>	
7	Review of various statutory compliances such as TDS, GST, Filing of RBI Returns & Labour Cess
<i>Others</i>	
8	Adequacy of Insurance coverage of assets
9	Review of inter-company loans along with board resolution
10	Review of Bank Reconciliation Statements
S. No.	Scope of review of Investment Transactions
<i>Investment Analysis</i>	
1	Quarterly Analytical Report (QAR) for reporting of exceptions to compliance of investment guidelines
2	Verification of Titles of Investments includes verification of AMC / Venture Fund account statements, Depository Participants (DP) statements and Fixed Deposit advise etc.
3	Verification of Investments / Re-Investments made in Mutual funds / Venture funds / Bonds / Commercial Papers / FDs by verifying AMC / Venture Fund account statements / Depository Participants (DP) statements / Fixed Deposit advise

4	Verification of redemptions / Fixed Deposit maturity / Dividend received / Interest received by verifying AMC / Venture Fund account statements / Depository Participants (DP) statements / Fixed Deposit advise / bank statements
5	Verification of Management Approval of transactions for Investments/ Redemptions/ Renewals/ Switch-overs etc.
6	Physical verification of FD certificates, DP slips, Bond certificates (available in physical form) and Maintenance of Safe Log book
Compliance of Investment Guidelines	
7	Verification of Compliance of Investments / Re-Investments with the Investments guidelines
Banking Related	
8	Review of timeliness of receipt of funds from redemptions of Mutual funds / Venture funds / Bonds / Commercial Papers / FDs
9	Review of Bank Reconciliation Statements of Bank Accounts
Review of 26 AS, TDS and Capital Gains	
10	Review of 26AS, TDS certificates and calculation of capital gains on quarterly basis
Balance Confirmations	
11	Obtaining Direct Balance Confirmations of mutual funds, bank balances & FDs on yearly basis
12	Obtaining quarterly confirmation letters issued by Banks for Fixed Deposits etc.
Others	
13	Timeliness of Recording of Transaction
14	Ensuring timely back up of Accounting System

Appendix - 2

S.No	Particular	Format
1	Initial Data Request Mail	 Sample Mail for Data Requirement.msg
2	Mail for circulation of Draft report	 Sample Mail for release of Draft report
3	Mail for circulation of Final IA report	 Sample Mail for Final Report.msg
4	Mail for circulation of Monthly Dashboard	 Sample Mail for Dashboard.msg
5	Sample Report Format	 Format of Internal Audit Report.docx
6	Sample Audit Committee Deck	 Sample Audit Committee Meeting C
7	Sample RBIA Report Format	 RBIA%20Report%20Format.docx