



KLM AXIVA FINVEST LIMITED

INTERNAL AUDIT POLICY

Version	Date of Board Approval	Remarks
1	07 July,2023	Original Policy
2	14 May, 2024	First review
3	14 Nov, 2025	Second review
4	28 May 2026	Third review
5	29 June 2026	Fourth review



Internal Audit Policy

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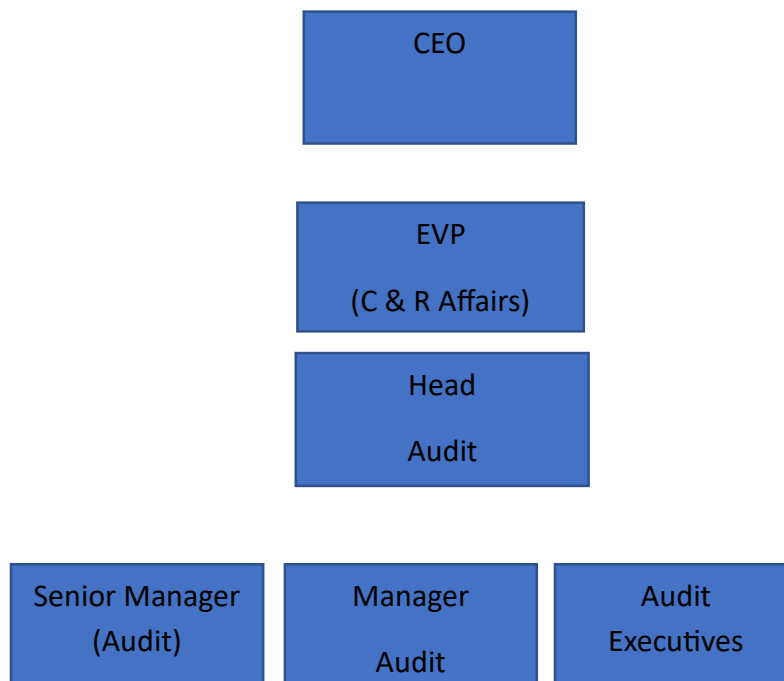
1. Introduction

The Company is exposed to Credit, Operational, Portfolio concentration, Interest rate, Market, People, Regulatory etc. risks. The wide distribution of Branches across 6 States, the large number of customer transactions handled each day by its employees and the total dependence on the quality of Gold pledged, all go to determine the risk profile of Company's operations. To mitigate the risks associated with its operations, the Company has put in place various systems and procedures. Audit and Inspection plays a critical role in ensuring compliance with these systems and procedures and mitigating the risks associated with it. It enables the BMs, RMs, ZMs and the CO functionaries to assess the governance standards at all operating units and helps in timely identification and assessment of risk, implementing remedial measures to counter the risk and strengthening the systems and procedures to prevent its recurrence. The role of the Auditor should therefore, be seen as a facilitator for smooth conduct of business and not that of a disruptor.

2. Audit Architecture

a) Hierarchy of Internal Audit Department

The Audit and Inspection Department functions as an independent Department under the administrative control of the Chief Executive Officer and functional control of the Executive Vice President (Compliance and Regulatory Affairs). The Audit staff is selected from amongst the existing staff or from the market directly after going through a selection process. They are then provided with on-the-job trainings on a regular basis to upgrade their skills and keep them updated with the latest guidelines. Irrespective of whether attached to RO / ZO or part of other teams, they are the eyes and ears of the CO in discharging their duties.



b) Nature of Audits

Audit of a Branch shall cover detailed Audit of all functions and operations of the Branch. While it must be a comprehensive Audit, the process shall be divided into the following categories:

1)Accounts Audit

The Audit shall cover detailed verification of all entries in the GL and subsidiary ledgers. Focus shall be on high value and long pending unreversed entries, unauthorized debit / credit entries in nominal accounts, credit sanctions, NPA management, interest expenditure, payment of incentives / commission, other expenditure, interest income, fee-based income, other income, maintenance of Key / Gold packet movement Registers, Other Registers, Mandatory Certificate display, Cash and Bank account management, compliance with systems and procedures, customer service etc.

Irregularities shall be classified as:

- Irregularities leading to financial loss to the Company like excess payment of expenses, short collection of incomes, fine for late payment, advance payment without sanction, excess fund holding etc.
- Procedural irregularities like expenses without bills / sanctions, sanctioning of loans without the signature of the customer / BM, single operation of safe / strong room, late opening / early closing of branches, issue of cheques without making entries in Cash book etc.

Branches shall be advised to regularize the irregularities pointed out by the Auditor before the finalization of Audit. The un-rectified irregularities shall be regularized within 14 days from the date of completion of Audit and the 1st reply to be sent through RM / ZM to CO: Audit under copy to CO: Operations and Audit-in-charge of the Region / Zone. If un-rectified irregularities continue even after submission of 1st reply, the Final Rectification Certificate (FRC) shall be submitted within 30 days of completion of Audit through RM / ZM to CO: Audit with a copy to CO: Operations.

For financial loss, not recovered within 30 days, recovery steps shall be initiated by CO: Audit against the employee responsible for such loss. Frequent procedural violations also shall be treated seriously and appropriate action shall be initiated from CO: Audit on such erring employee.

2. Gold Audit

Auditors shall carry out In-depth verification **of all Gold Packets** as follows:

- a) 100% of all packets added from the date of completion of last Audit to date of end of current Audit.

- b) 10% of all packets from the date of start of last Audit to date of end of last Audit.
- c) 10% of all packets prior to the start of last Audit.
- d) 100% verification of all packets with single loans of Rs. 5 lakhs and above and aggregate balance of Rs. 5 lakhs and above for a single customer.
- e) All loan packets due date for repayment.

The Audit shall cover quantity, quality, nature of ornaments, permitted Gold or otherwise, LTV, mode of disbursement, KYC compliance, multiple ID creation for the same customer, sanction within discretionary limits, disbursement of loans etc.

The following procedure shall be followed by Branches when irregularities are pointed out in the Gold Verification Report.

- (a) In case of low purity Gold pledged, Branches shall ensure that the items are got released within three months from date of detection / report. After the three months' time limit, the unreleased items shall be lifted from the Branches for disposal.
- (b) In case of Branches requiring extension of time beyond three months, RM / ZM shall seek prior approval of CO: Operations by giving valid reasons. A detailed review shall be taken up by CO: Audit and CO: operations of all such cases.
- (c) Branches where the financial irregularities reported earlier still remain unresolved and where no prior approval of CO: Operations is obtained for extension of time, the incentive payment to that Branch shall be withheld till the position is regularized irrespective of whether the Gold is lifted by CO or not.
- (d) 3 months' time allowed as above for release cannot be claimed as a matter of right and is granted at the discretion of the Management after being satisfied that the occurrence is of un-intentional nature despite having taken all precautions and Branch having complied with other procedures and formalities stipulated for granting such loans.
- (e) Cases involving large amounts, cases due to negligence and non-compliance, willful or otherwise, staff involvement / suspected cases of frauds etc. shall be dealt with immediately including withholding of incentives without waiting for 3 months.

The instructions given with regard to gold verification Audit reports shall apply without any change in respect of mobile Audit reports also.

3. MSME / Business Loan Audit

Auditors shall conduct detailed verification of MSME / Business Loan accounts as given below:

- a) All fresh sanctions for new, renewed and reviewed loan accounts from the date of completion of last Audit to date of end of current Audit.

- b) 10% of all loan accounts prior to the date of completion of last Audit.
- c) 100% verification of all loan accounts with aggregate sanctioned limit of Rs. 10 lakhs and above for a single customer.
- d) All loan accounts due / overdue for repayment.

The Auditor shall verify 1) Compliance with the stipulations of MSME / Business Loan Policy 2) KYC compliance as per KYC Policy 3) Pre and Post sanction Unit Visit Reports 4) Follow-up for end use of funds 5) Legally enforceable Security creation 6) Engineers Valuation Report (EVR) / Legal Opinion (LO) for property under Equitable Mortgage (EM) 7) Encumbrance Certificate (EC) / Land and Building Tax Receipts once in three years for property under EM 8) GST Returns and Bank transactions every quarter 9) Timely servicing of interest and installments 9) Classification of accounts as per NPA Policy 10) Compliance with Terms and Conditions of Sanction.

4. Audit of unsecured personal loan

Being an integral part of the loan portfolio of the Company, unsecured loans are also subjected to audit as under.

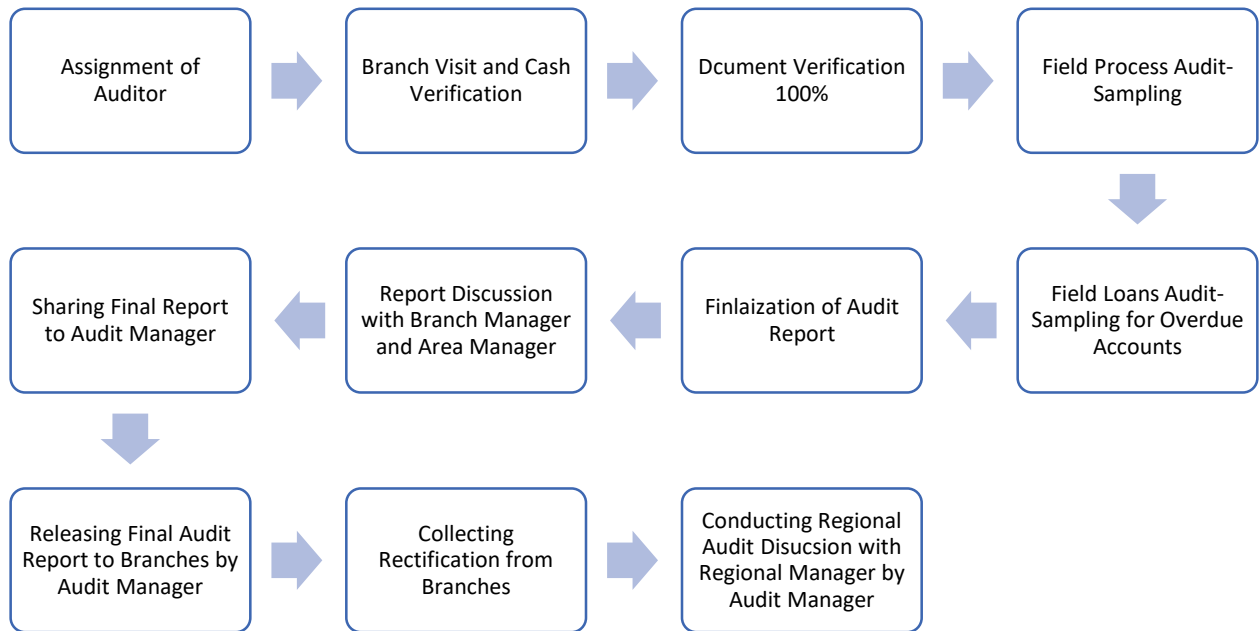
Periodicity: All Branches will Cover the Audit Cycle in 45 Days , Where Preferably within 30 Days and Release Branch Grading

Auditor Assignment : Auditors are assigned to branches by Audit Manager, where More than Consecutive 3 Audit will not be conducted by the same Audit Officer or Executive

Scope of Audit

1. Physical Cash vs LMS Verification with back up Records on Arrival of the audit
2. Cash Book vs Physical Reciept Verification to identify Reciept Leakages to Company- All Records will be verified detail
3. Field Loan Process Based on Sample Accounts – As per Sampling Activity to ensure quality of Loan Origination
4. Disbursed Loan Document Verification to identify the gap of False loan Signature by any loanee or co borrower
5. Customer Calls and Visit to identify the Missed Payment leakages and trace Chance of Frauds
6. Expense Voucher Audit- for Identifying the Proper expense validation and reduce the cost

Process



5. Surprise Audit

An Official not below the rank of Audit Manager shall make surprise visits to Branches to take an overall view of the entire operations and ensure that the Branch is not found lacking in any respect whatsoever with regard to business operations as well as security and Risk control measures. The Auditor shall Report specific issues requiring initiation of disciplinary action or intervention of top Officials from the CO.

6. Specific Purpose Audit

The Audit is situation specific and is arranged by CO: Audit. An Auditor or a team of Auditors identified for the purpose will be deputed to the Branch by CO: Audit. The Auditor(s) shall carry out specific or detailed Audit of the Branch, as the situation demands and also investigate the irregularities identified by the CO: Audit and submit a Status Report.

7. KYC Audit

KYC Audits are conducted at Branches periodically to assess Compliance of the stipulated KYC norms and maintenance of records as detailed in the KYC Policy of the Company.

8. Online Audit

Online Audit is one of the recently introduced Audit method by which Audit is done without visiting the Branches / Offices. With the help of IT systems, transactions, accounts in Branches shall verified through Online mode and corrective actions shall be taken by the Online hub located at CO: Audit. Bills / vouchers /documents etc. are also shall be verified by collecting the scanned copies from the Branches. Online Audit shall function as a support center for all Audits.

c) Processing of gold and accounts Audit Reports

On receipt of Audit Report, CO: Audit shall send an e-mail to the Branch with copies to the RM / ZM advising them to follow up with the Branch for rectification of irregularities pointed out in the Audit Reports. Branches shall submit their point wise reply for rectification done, through RM / ZM to CO: Audit. RM shall process the Audit Report reply and follow up for rectification of pending irregularities with Branches and advice the rectification status through ZM to CO: Audit fortnightly.

Corporate Office may take up issues with RM / ZM directly, if warranted. Major irregularities, depending on the gravity, shall be dealt with by CO: Audit directly with RM / ZM and Branches. Branches shall submit their rectification reply and Final Rectification Certificate (FRC) within 30 days from the date of completion of Audit to CO: Audit through RM / ZM. One copy of the FRC should be filed by the Branch with the Audit Report for their records and verification by subsequent Auditors.

RM shall furnish a consolidated status of all Audits conducted in the Region to ZM who in turn shall submit the same to CO: Audit with their observations. The consolidated status shall be sent on the last working day of every month.

d) Periodicity of gold Audit

Periodicity of Audit is linked to volume of gold loan business of a Branch. Periodicity shall be as follows:

GL Outstanding	Periodicity of Audit
Up to Rs. 1 Cr	Once a month
Rs. 1 Cr to Rs. 5 Cr	Twice a month
Rs. 5 Cr to Rs. 10 Cr	Thrice a month
Above Rs. 10 Cr	Four times a month

Periodicity of Audits shall be “Once in month” subject to the condition that the gap between two Audits shall not exceed 30 days in respect of those Branches that fall under any one of the following Risk parameters. This shall be irrespective of the volume of Gold Loan linked periodicity.

Parameter
Location of a Branch is in Remote, Sensitive or State borders.
Volume of GL business is above Rs. 10 Crs.
Branches showing growth or decline of 10% and above in business level over the balance outstanding in the previous month.
Branches without Branch Manager for more than 15 days continuously.
Branches Graded D in the previous Audit.

e) Grading of Branches / Regions / Zones

Branches shall be Graded on the basis of marks obtained by a Branch in Audit. Regions and Zones shall be Graded depending on the Grades of Branches under a Region and Grades of Regions under a Zone.

Branch Grading

Marks secured in grading	Grade
90% and above	A
70% to 89.99%	B
50% to 69.99%	C
Below 50%	D

Region / Zone Grading

Region / Zone	Grade	Parameter
	A	1) The Grade of a Region shall be the Grade of the largest number of Branches in the Region with a particular Grade. In case of two different Grades for equal number of Branches, higher of the two Grades shall be taken into account.
	B	
	C	
	D	2) The Grade of a Zone shall be the Grade of the largest number of Regions under the Zone with a particular Grade. In case of two different Grades for equal number of Regions, higher of the two Grades shall be taken into account.

RM / ZM shall closely monitor C and D Grade Branches for improvement in their operations and migration of Grades to higher levels.

Upward migration of C and D Graded Branches shall be taken on record only if the Branch maintains the higher Grade in the next succeeding Audit. This is to ensure that the migration in Grading is consistent and Stable and is based on sustainable improvement in Branch functioning.

Any incidence of staff related fraud in a Branch shall downgrade the Branch to Grade D irrespective of the total marks obtained by the Branch.

Duties and responsibilities of Audit and Inspection Department shall be as furnished in Annexure A.

Duties and responsibilities of field level functionaries during Audit shall be as furnished in Annexure B.

3. Duties and responsibilities of Audit and Inspection Department

Audit and Inspection Department shall be responsible for conduct of:

- 1) Gold, Accounts, KYC Audits and Online Audit of Accounts.
- 2) Audit based Grading of Branches.
- 3) Surprise Audit and Specific Purpose Audit.
- 4) Pre-disbursement verification of Gold in respect of Pledge for Loans above Rs.10.00 lacs sanctioned by CO.
- 5) Follow up with RM/ZM for time bound rectification of irregularities pointed out in the Audit Reports, submission of FRC and closure of Audit Report.
- 6) Lifting and Auctioning of Gold from Branches and ensuring that related accounting entries are passed by the Branches.
- 7) Permitting subsequent release of Gold lifted for Auction.
- 8) Follow up for reversal of outstanding balances in Advances, New Branch Account, Suspense Account, other odd Account heads / Sub heads created by Branches in their General Ledger on a daily basis.
- 9) Providing Faculty support for trainings and organizing periodical training programs for Gold / Silver appraisal, Accounting and IT aspects for Staff by CO: L and D.
- 10) Conducting Staff trainings by senior Gold Audit Staff at select Regions to hone appraisal skills with focus on precautions to be taken while appraising brand new Gold and detection method for low purity brand-new Gold also exhibiting various types of such low purity ornaments detected at different Regions and demonstrating the techniques to be applied to detect such items.
- 11) Recommending disciplinary actions and withholding of Staff incentives.
- 12) Conducting Special investigations.
- 13) Submitting reports periodically to the Audit Committee of Executives (ACE) and Audit Committee of the Board (ACB).

4. Duties and responsibilities of field level functionaries during Audit

- 1) Audit staff will have unhindered access to all documents, records, assets, liabilities etc. for verification and are authorized to take possession of or take copies wherever required.
- 2) It is the duty of BMs / RMs and ZMs to provide full support to the Auditor for efficient and effective conduct of Audit process.
- 3) Field level functionaries shall not dispute or challenge the authority of the Auditors to conduct verification.
- 4) Before finalizing the Audit Report, Auditors have to discuss their Report with the BM and ABM.
- 5) Difference of opinion, if any, on any of the observations made by the Auditor shall be discussed threadbare by the Auditor with the BM and ABM and then take a view on whether to retain the observation or reverse it.
- 6) Ample opportunity should be given by the Auditor for on-the-spot rectification of irregularities observed by the Auditor.
- 7) Only un-rectified Audit observations should find a place in the final Audit Report.
- 8) It is mandatory on the part of the BM to be physically present in the Branch during the Audit process.
- 9) If for unforeseen reasons the BM is not able to be present, then he may depute the ABM / Joint Custodian or a Senior Branch Staff to be present throughout the Audit process.
- 10) RM shall obtain prior approval from ZM for the absence of BM during the Audit process and delegating the authority to ABM / Joint Custodian or a Senior Branch Staff.
- 11) RM, with the concurrence of ZM, shall provide Staff on deputation, if required, during Audit process.
- 12) RM / ZM shall ensure that under no circumstances Gold are allowed to be kept under single custody.
- 13) The responsibility of providing Staff during Audits vests with the RM / ZM. Excuses such as non-availability of Staff will not be accepted.
- 14) Audit once scheduled shall not be stopped or postponed.
- 15) Refusal to give gold packets to the Auditors, adopting delaying tactics for production of packets demanded for verification etc. will be treated as gross

dereliction of duties on the part of the BM / ABM.

- 16) Staff deputed from other Branches should not be assigned with the responsibility of assisting the Auditors.
- 17) Staff provided to assist the Audit team shall be the prime witness for irregularities detected during the verification process. They shall be responsible for ensuring that the Gold taken out of the gold packets for verification are returned to the packets intact without shortage or damage.
- 18) Staff assisting the Audit team shall ensure that the gold packets taken out for verification are received back from the Auditors then and there and handed over to the Joint Custodians. The movement should be recorded in the Packet Movement Register.
- 19) Subsequent disputes or allegations against the Auditors shall not be entertained.
