Indostar Capital Finance Limited

Risk Based Internal Audit Policy

Internal Audit Charter	
Approval Authority	Board of Directors
Owner	Head Internal Audit
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Version Control		
Version Control Number	**Effective Date**	**Version Description**
V 1.0	Aug 05, 2022	Internal Audit Policy release
V 1.1	Mar 24, 2023	Annual Review – No change in Policy
V1.2	Aug 01, 2024	Annual Review – Refined the policy wordings, Para 4 – Roles &Responsibilities updated, Para 8. Risk Assessment and Audit Planning process refined, Para 12 – IS Audit updated as per the IT Guidelines issued in 2023.
V1.3	Aug 13, 2025	Separate IS Audit policy v2.3 effective Apr 29, 2025 aligned with RBIA and RBI (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2023 put in place. Relevant requirements on IS Audit is being removed from Internal Audit Policy and needs to be referred to IS Audit policy
v1.4	July 29, 2026	Insertion of Definition Clause (Clause 2 of the Policy) and other language changes for better clarity.

Risk-Based Internal Audit Policy

Contents

1. Purpose and Mission

(i) The mission of internal audit is to protect and enhance the functioning of the organization by providing a risk-based, independent and objective assurance designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control processes and governance.

(ii) The purpose of this Risk Based Internal Audit Policy ("**Policy**") of IndoStar Capital Finance Limited ("**Company**") is to define internal audit's function, purpose, authority, stature, responsibility and position within the Company.

(iii) This Policy sets forth the minimum requirement to be complied and overall framework within which the internal audit function should operate, including their roles and responsibilities in compliance with the Guidelines on Risk Based Internal Audit ("**RBIA**") issued by the Reserve Bank of India ("**RBI**") vide circular no. DoS.CO.PPG./ SEC.05/ 11.01.005/ 2020-21 dated February 3, 2021 ("**RBIA Guidelines**") read together with the Securities And Exchange Board Of India (Listing Obligations And Disclosure Requirements) Regulations, 2015, as amended from time to time ("**Listing Regulations**") and other applicable laws.

(iv) This Policy will be widely circulated within the Company.

2. Definitions

(i) "**Board**" means board of directors of the Company.

(ii) "**HIA**" means the Head of Internal Audit who will be a senior executive with the ability to exercise independent judgement.

(iii) "**Senior Management**" for the purpose of this Policy, means the management committee of the Company, which is responsible for the governance and department heads.

3. Objectives

(i) This Policy serves as a guide to the Company's internal audit function, describing its functions, authority, stature, independence, competency and responsibilities to contribute to the overall improvement of the Company's risk management, control processes and governance using a systematic and disciplined approach.

(ii) This Policy highlights the roles and responsibilities of the different functionaries with regard to effective implementation of the internal audit and the role and expectation from internal audit function of the Company.

(iii) This Policy seeks to create a mechanism for internal audit function to report to the Audit Committee of Board.

4. Risk Governance Model – Three lines of Defense

The Company has adopted a 'three lines of defense' model, which allows it to demonstrate the independence of internal audit from the risk taking/ business/ support functions. This model defines the following responsibilities at various levels:

(i) **Process Owners and Heads of Business / Departments - First line of defense** (functions that own and manage risks): These departments have primary accountability for identifying, assessing, and managing the various operational, compliance risk, etc. pertaining to their business or area of operations.

(ii) **Risk Management, Compliance & other control function - Second line of defense** (function that oversees or specializes in compliance or management of risk): These departments have the responsibility to design and deploy risk management framework across the Company and monitor adherence to the risk management framework and the set appetite for risk.

(iii) **Internal Audit - Third line of defense** (function that provides independent assurance to the Board and Senior Management): The internal audit function provides an objective and independent assurance to the Board and Senior Management. Its key responsibility is to assess whether the first-line and second-line functions are operating effectively, and to evaluate whether the internal controls across the Company are effective in its design and operation. The internal audit function shall also assess and make appropriate recommendations to improve the governance processes on business decision making, risk management and control.

5. Roles and Responsibilities

5.1. Board of Directors

The Board has delegated the responsibility for monitoring and oversight of internal audit activities to the audit committee, a specialized sub-committee of the Board ("**Audit Committee**").

5.2. Audit Committee of Board

(i) The Audit Committee, along with observing the duties set out under various applicable laws, will also be responsible for overseeing the internal audit function in the Company. It will ensure effective and independent review process for the internal audit activity. It will review the performance of internal auditors on an annual basis.

(ii) The Audit Committee will understand the internal audit risk assessment approach, results of assessment and approve the risk-based internal audit plan ("**RBIA Plan**") for the Company to determine the priorities of the internal audit function based on the level and direction of risk, as consistent with the Company's goal.

(iii) The Audit Committee will review the RBIA Plan on an annual basis.

(iv) The Audit Committee will ensure that the Company has an adequate internal audit coverage considering the size and nature of the business and the complexity of operations and risk.

(v) The Audit Committee will review the internal audit activity on a quarterly basis and initiate appropriate actions, where required.

(vi) Audit Committee shall promote the use of new audit tools/ new technologies for reducing the extent of manual monitoring/ transaction testing etc.

(vii) The Audit Committee will assess the independence of the internal auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard will be flagged by the Audit Committee to the Board.

5.3. Head of internal audit and internal audit team:

The HIA will be appointed for a long period of time, preferably for at least a span of 3 (three) years, unless the Company's internal audit function is a specialized function and is managed by career internal auditors.

(i) The HIA and internal audit functionaries shall:

a) develop/ assist in development of the RBIA Plan using appropriate risk-based methodology, including any risks or control concerns identified by the Senior Management and present the RBIA Plan to the Audit Committee for their approval.

b) execute engagements as per RBIA Plan, including establishing objectives, scope, timelines, allocation of resources, documentation of work programs and communicating results. The scope and objectives of each assignment should be based on a preliminary assessment of the risks relevant to the activity under review.

c) maintain audit staff with sufficient knowledge, professional skills and experience to meet the needs of audit engagement.

d) submit reports from RBIA that incorporate findings and recommendations, following the conclusion of each engagement, with distribution to the appropriate parties.

e) present updates on quarterly basis for the activities performed by internal audit and areas reviewed during the period, to the Audit Committee.

f) investigate conduct and ethics matters in accordance with the Company's code of business conduct and ethics.

g) monitor the implementation of remediation and agreed actions to verify that significant risk identified during the audit is promptly addressed and necessary timelines are adhered.

h) conduct special reviews and investigations as directed by the Audit Committee.

i) coordinate activities with, and rely on the work of other internal and external assurance and consulting service providers as required.

j) update the Policy from time to time and submit for consideration and approval of the Board.

k) have a system to monitor compliance to the observations made by internal audit. Status of compliance shall be an integral part of reporting to the Audit Committee.

5.4. Process Owners, Function Heads and Senior Management:

The Process Owners, Function Heads and Senior Management will be responsible for the following:

(i) To develop an adequate, effective and efficient internal control framework and environment that identifies, measures, monitors and controls all risks faced by the Company. Senior Management is ultimately responsible for ensuring adequate controls are in place for effective risk management / mitigation.

(ii) To maintain an organizational structure that clearly assigns responsibility, authority and governance, and ensures that delegated responsibilities are carried out.

(iii) To inform the internal audit function of all new products, initiatives, developments, projects, changes in reporting line, changes in accounting practices/ polices and operational changes so as to ensure that all associated risks, known and anticipated, are identified, and communicated at an early stage.

(iv) To ensure that timely and appropriate action is taken on all internal audit findings and recommendations, within the given timelines, and status on closure of audit reports is placed before the Audit Committee.

(v) The Senior Management will establish a comprehensive and independent internal audit function, which should promote accountability and transparency.

(vi) The Senior Management will ensure that the RBIA function is adequately staffed with skilled personnel of right aptitude and attitude who are periodically trained to update their knowledge, skill and competencies.

(vii) The Senior Management will be responsible for ensuring adherence to this Policy.

6. Independence & Objectivity

(i) The remuneration policies of the internal audit staff should be structured in a way to avoid creating conflict of interest and compromising audit's independence and objectivity.

(ii) Internal audit activity must be independent, and internal auditors must be objective in performing their work.

(iii) Independence is the freedom from conditions that threaten the ability of internal audit to carry out internal audit responsibilities in an unbiased manner.

(iv) Objectivity requires that internal audit functionaries perform their engagements and that they believe in their work product / output and no quality compromise is made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

(v) HIA will have the ability to exercise independent responsibilities. All internal audit personnel will report to the HIA who will report functionally to the Audit Committee and administratively to the chief executive officer of the Company.

(vi) Internal audit staff will have no direct operational responsibility or authority over any of the activities audited, will not have any reporting relationship with the business verticals of Company and will not be given any business targets. Accordingly, they will not engage in any activity that may impair their judgment or create an actual or potential conflict.

(vii) Internal audit staff will have discretion to determine the audit selection, engagement scope, procedures and communication of results.

(viii) If it is determined that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to Audit Committee of the Board. HIA will on an annual basis confirm independence of the internal audit function to the Audit Committee.

(ix) Internal audit staff as well as external audit firms and auditors engaged on internal audits, will need to confirm their independence. Any conflict or impairment of independence during the course of audit engagements should be communicated to HIA.

7. Authority - Access to Information

(i) The HIA and the internal audit functionaries will have the authority to communicate with any staff member and get access to all records that are necessary to carry out the entrusted responsibilities.

(ii) Audit functionaries, with strict accountability for maintaining confidentiality and safeguarding records and information. They are authorized to have unrestricted access to all functions, records, property, data and personnel pertinent to carrying out any engagement. All employees must assist internal audit in completing the engagements.

(iii) Documents and information shared with internal audit functionaries needs to be handled in the same prudent manner as by those employees who are normally accountable for them.

(iv) Internal audit is authorized to select areas, do the scoping, and apply the method required to accomplish the audit objective.

8. Resourcing and Competence

(i) Internal audit functionaries will maintain resources, internally or externally, with the knowledge, skills and competencies needed to perform their responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform assurance activities.

(ii) Internal audit staff will be adequately staffed to support assurance requirements of the Company.

(iii) Periodic training will be conducted/ provided to internal audit staff to keep the staff appraised about the industry and trends in internal audit.

(iv) Internal audit functionaries will augment their knowledge and skills required through support of external firms, whenever needed.

9. Risk Assessment and Audit Planning

(i) Internal audit functionaries will prepare the RBIA Plan annually, in accordance with the requirements identified in the RBIA Guidelines. The RBIA Plan, and the assumptions on which it is based, will be discussed with the Senior Management and Audit Committee. The RBIA Plan will be reviewed and adjusted, as necessary, in response to changes in the Company's business, risks, operations, systems or controls changes in consultation with the Audit Committee of Board. Approvals will be sought from Audit Committee in the upcoming Audit Committee meeting for any changes executed or proposed to the RBIA Plan.

(ii) Internal audit functionaries will perform an independent risk assessment on annual basis in formulating RBIA Plan, which considers inherent business risks emanating from an activity / location and the effectiveness of the control systems for monitoring such inherent risks.

(iii) The risk assessment performed by the internal audit staff will be used for focusing on the material risk areas and prioritizing the audit work.

(iv) Risk assessment methodology will inter-alia include parameters such as:

a. Identification of various business units and support functions (audit universe)
b. Identification of inherent business risks in various activities undertaken;
c. Evaluation of the effectiveness of the control system for monitoring the inherent risk of the business activities
d. Risk assessment will be carried on various parameters, using quantitative as well as qualitative metrics.
e. The qualitative approach may be adopted for assessing the quality of overall governance and controls in various business activities:

i. Previous internal audit reports and compliance to the same;
ii. Proposed changes in business lines or change in focus;
iii. Significant change in management / key personnel;
iv. Results of regulatory examination report;
v. Reports of external auditors;
vi. Industry trends and other environmental factors;
vii. Time elapsed since last audit;
viii. Volume of business and complexity of activities;
ix. Substantial performance variations from the budget; and
x. Business strategy of the entity vis-à-vis the risk appetite and adequacy of controls defined.

(v) Internal Audit will prepare a risk audit matrix based on the magnitude and frequency of risk assessed. The audit plan should prioritize audit work to give greater attention to the areas of:

- ✓ High Risk
- ✓ Medium Risk
- ✓ Low Risk

(vi) RBIA Plan will be regularly reviewed by internal audit functionaries to identify any revisions and / or updates required to align with changes in business environment, activities, emerging risk, work processes and regulatory environment.

10. Frequency of audits

(i) Frequency and coverage of internal audit function will need to be planned having consideration to the result of annual risk assessment, previous coverage, results/ outcomes of previous review and requirement of the Audit Committee, Senior Management and regulators.

Risk Category	Recommended Frequency
High, very high risk and extremely high risk business activities /	Once every year
Medium risk business activities / locations	Once every 2 years
Low risk business activities / locations	Once every 3 years

(ii) Internal audit will strive to cover all the processes and functions listed in the audit universe once every 3 years. HIA may override the result of risk assessment and make updates to the audit plan.

11. Audit Reporting

(i) Audit report will be prepared by internal audit functionaries following conclusion of every audit. The internal audit report should cover the scope and results of the internal audit review along with appropriate recommendation and /or action plans.

(ii) The audit report should bring out adequate, reliable, relevant and useful information to support the observations and conclusions.

(iii) The auditee response / remediation plans should be specific to address the risk and incorporate the timeframe within which agreed action will be implemented/ remediated.

(iv) Internal audit functionaries will ensure that the audit report is circulated to the relevant Senior Management, process owners and agreed distribution list.

(v) The internal audit functionaries will report the observations classified as high and medium risk to the Audit Committee on a quarterly basis. Where information technology related observations are involved, internal audit functionaries may also report such high risk and medium risk observations to the Board/ IT Strategy Committee of the Company. The observations on system and process audit will be submitted to the Audit Committee of the Board.

(vi) Consolidated position of major risks faced by the Company will be presented to the Audit Committee on an annual basis.

12. Issue Monitoring

(i) Internal audit functionaries will monitor actions as agreed by the Senior Management to remediate the issues / observations as part of the internal audit reports.

(ii) Internal audit will develop an action-tracking process to enable the business and the internal audit department to monitor and track status of issues and remediation, within the agreed timelines.

(iii) Extension of timelines for closure of issues to be considered by the internal audit functionaries based on the satisfactory reasoning provided by the auditee / business and the same will be documented / recorded.

(iv) All open high and medium risk items and persisting irregularities will be reported to the Audit Committee at quarterly intervals or such other frequency as may be required, in order to highlight key areas in which risk mitigations have not been undertaken despite risk identification.

13. Information Systems (IS) Audits

IS audit will form an integral part of the Company's RBIA Plan. Company has defined a separate IS Audit policy aligned with the RBI (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2023.

14. Quality Assurance

The Audit Committee is expected to formulate and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The quality assurance program may include assessment at least on an annual basis or any other frequency as maybe discussed or agreed with Audit Committee for adherence to the internal audit policy, objectives and expected outcomes.

15. Review of the Risk-based Internal Audit Policy

(i) The Audit Committee have adopted this Policy in accordance with the various directions, guidelines, circulars and notifications issued by the RBI.
(ii) The Policy will be reviewed by the Board/ Audit Committee, annually or when any regulatory or environment changes warrant for early review, as the case may be.
(iii) The HIA is entrusted with the responsibility for maintaining the Policy.

16. Links to other documents:

(i) IS Audit Policy.