

AQUILA FINANCE LTD

AUDIT AND INSPECTION POLICY

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History of the Document	Adopted by	Date of Adoption/Review
Originally Adopted	Board of Directors	10-06-2023
Review & Amendment	Board of Directors	27-04-2024
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I PREAMBLE & OBJECTIVE

1.1 PREAMBLE

This Policy on Audit and Inspection ("the Policy") is framed to establish a robust, independent, and effective audit framework for Aquila Finance Limited ("the Company"). It is designed to ensure compliance with the Companies Act, 2013, the Reserve Bank of India (RBI) Master Directions, and other applicable statutes and regulations.

1.2 OBJECTIVE

The primary objective of this Policy is to provide the governing principles and architecture for the audit function to:

- Provide independent and objective assurance on the adequacy and effectiveness of the Company's risk management, control, and governance processes.
- Ensure accuracy and reliability of financial and operational records.
- Verify compliance with internal policies, regulatory guidelines, and statutory laws.
- Prevent and detect fraud, errors, and operational inefficiencies.
- Safeguard the assets of the Company, with a primary focus on gold and cash.
- Add value and improve the Company's operations by recommending process enhancements.

This Policy is supported by the detailed "Internal Audit Manual" (the Manual), which provides the standard operating procedures for the execution of all audits.

II. GOVERNANCE & INDEPENDENCE

2.1 AUDIT COMMITTEE

The Audit Committee of the Board (ACB) shall have the overarching responsibility for overseeing the effectiveness of the audit function. Its key roles include:

Reviewing and approving the annual audit plan and schedule.

Reviewing the adequacy of internal financial controls and internal audit function.

Discussing significant audit findings, management responses, and the status of implementation.

Recommending the appointment, remuneration, and terms of engagement for Special Auditors.

2.2 INDEPENDENCE OF THE AUDIT FUNCTION

The Internal Audit Department shall be independent of the activities it audits. The Head of Audit shall have direct and unrestricted access to the Chairperson of the Audit Committee to ensure objectivity and independence in the discharge of its duties.

III. TYPES OF AUDIT & INSPECTION

The Company shall institute a multi-layered audit ecosystem comprising the following:

A. STATUTORY AUDIT

Conducted by a firm of Chartered Accountants appointed by the members of the Company.

The audit is carried out in accordance with the Companies Act, 2013, and relevant RBI regulations to express an opinion on the true and fair view of the financial statements.

The Board, based on the ACB's recommendation, shall finalize the appointment, remuneration, and terms of engagement.

B. INTERNAL AUDIT

Internal Audit is a continuous, critical appraisal of the functioning of the entity, conducted by the Company's internal team. It comprises several verticals:

1. COMPREHENSIVE BRANCH AUDIT: A full-scope audit covering all aspects of a branch's functioning, as detailed in the Audit Manual.

- Key Verification Areas:

- Cash & Bank: Physical cash verification (including denomination check, fake notes), bank reconciliation, cheque book custody, and verification of all payments with supporting vouchers.

- Gold Loans: As per the Manual, this includes:

- Physical verification of gold packets (weight, purity, stone deduction, grading).

- Tallying packet numbers with system data to identify excess/short packets.
- Verification of key documents (Pledge forms, KYC, Release Tokens, Indemnity bonds).
- Scrutiny for risks like third-party releases without documentation, frequent pledges by the same customer, and loans with high gold value but low pledge amount.
- Non-Gold Loan Portfolios (Mortgage, Business, Personal Loans):
- Verification of loan application forms, KYC documents, and loan agreements.
- Scrutiny of the disbursement process, including presence of borrower/guarantor and original ID proof verification.
- Center visits to verify the existence of borrowers and their business activities.
- Thorough verification of the collection process, including reconciliation of Center Transaction Receipts (CTR) and monitoring of arrears.
- Staff & Operations: Verification of attendance, leave records, key movement registers, adherence to circulars, and strong room operations.
- Vigilance Checks: The internal audit process incorporates preventive vigilance checks to deter malpractices and ensure adherence to the Company's Code of Conduct by staff.

2. GOLD & CASH VERIFICATION AUDIT: A specialized, high-frequency surprise audit focused exclusively on the physical verification of gold ornaments and cash balances, ensuring their existence and accuracy as per records.

3. ONLINE AUDIT (OA): A team of authorized officials conducts remote, real-time checks of branch transactions through the core banking/system software to verify the authenticity of payments and identify irregular transaction patterns. Branches must provide prompt clarifications and supporting documents as requested.

4. HANDING OVER/TAKING OVER AUDIT (H/T): This is a mandatory audit triggered by the resignation, termination, or transfer of a Branch Manager. No manager shall be relieved until this process is formally completed, documented, and the report is countersigned by the internal auditor and submitted to Head Office.

C. SPECIAL AUDIT

1. Initiation: A Special Audit may be initiated by the Management or the Audit Department as and when required, based on specific triggers such as suspicious transactions in a branch, significant operational anomalies, whistle-blower complaints, or a high-risk perception. The Board, on the recommendation of the ACB, shall appoint external professionals (Chartered Accountants, etc.) to conduct such an audit.

2. Purpose: To conduct an in-depth investigation into specific areas, transactions, or branches where the standard internal audit process may be insufficient to address the heightened risk or complexity.

3. Scope: The scope shall be explicitly defined by the ACB in consultation with the management. It will focus on the areas of concern that triggered the audit.

4. Eligibility: The Special Auditor shall be an independent external professional with no conflict of interest with the Company or its promoters/Key Managerial Personnel.

5. Reporting: The Special Auditor shall report its findings directly to the ACB.

D. SECRETARIAL AUDIT

1. Mandate: In accordance with Section 204 of the Companies Act, 2013, the Board shall appoint a Practicing Company Secretary to conduct the Secretarial Audit.

2. Scope: The audit verifies compliance with all applicable statutory laws and regulations.

3. Reporting: The Secretarial Audit Report is submitted to the Board and forms part of the Company's Annual Report.

IV. STRUCTURE & RESOURCES

4.1 HEAD OF AUDIT

The Internal Audit Department shall be headed by a senior officer, designated as the Head of Audit.

Qualifications: Must have worked in banks, NBFCs, or financial institutions for at least 5 years, with a minimum of 2 years in a supervisory role within an audit or risk function.

Reporting Line: The Head of Audit shall report administratively to the Managing Director & CEO and functionally to the Audit Committee of the Board.

4.2 AUDITOR QUALIFICATIONS

Gold & Cash Auditors: Must be a qualified gold appraiser from a reputed institution with ≥2 years of experience, OR have ≥3 years of hands-on experience in gold appraisal within the Company or a comparable gold-loan NBFC.

Loan & Document Auditors: Must possess a minimum of 5 years of experience in the Company or a similar financial organization, with a deep understanding of loan products, documentation, and recovery processes.

V. AUDIT PROCESS & METHODOLOGY

5.1 PLANNING & SCHEDULING

The Head of Audit shall prepare a risk-based Annual Audit Plan, which shall be reviewed and approved by the ACB.

The plan shall specify the frequency of audits for each branch/unit, with higher-risk branches audited more frequently.

Periodicity:

Gold & Cash Verification: Surprise audits at least once every 60 days for all branches.

Comprehensive Branch Audit: At least once every 6 months for all branches.

Audits shall be primarily unannounced (surprise) to ensure authenticity of checks.

5.2 EXECUTION

The audit execution shall strictly adhere to the procedures detailed in the Internal Audit Manual. Key mandatory checks include:

Cash: Physical cash count must be conducted at the start of business on the first day of the audit. Denomination-wise cash must be tallied with the system and manual records.

Gold: 100% physical verification of gold packets, checking weight, purity, and making deductions for stones.

Packet numbers must be matched with the system's outstanding loan list.

Verification of the weighing scale's stamping certificate.

Loans: Gold Loans: Scrutiny for third-party releases, token management, and overdue accounts.

Non-Gold Loans: Sampling of loan files for document completeness, KYC, and agreement validity. Mandatory center visits for high-arrears or high-risk locations to verify borrower existence and business activity.

Processes: Verification of CTR reconciliation, bank account operations, voucher authorization, and register maintenance (e.g., key movement, stationery).

5.3 ON-SITE PROTOCOLS

Auditors must present their company ID and authorization letter from Head Office.

A meeting with branch staff must be conducted at the start and end of the audit to discuss scope and preliminary findings.

Instances of discrepancies that can be rectified on the spot should be documented as "Spot Rectified."

VI. REPORTING & COMMUNICATION

6.1 DRAFT REPORT & MANAGEMENT RESPONSE

The auditor shall discuss all adverse observations with the Branch Manager/auditee and seek their written response before finalizing the report.

The final internal audit report, incorporating auditee responses, shall be submitted to the Head of Audit by the 10th of the month following the quarter in which the audit was completed.

6.2 SUBMISSION TO AUDIT COMMITTEE

The Head of Audit shall compile a consolidated summary of all audit reports, along with management's corrective action plans, and present it to the ACB in its first meeting after the end of the quarter.

6.3 CONFIDENTIAL & SPECIAL REPORTING

Confidential Report: Any major irregularity, suspected fraud, or malpractice requiring immediate attention shall be communicated directly to the Head of Audit and the Chairperson of the ACB via a confidential email/letter, bypassing normal reporting channels.

SPECIAL REPORT: For branches with a high number of critical irregularities, a separate Special Report detailing the overall poor health of the branch shall be submitted to senior management for urgent intervention.

6.4 RISK RATING

All audit observations must be classified based on the Risk Rating Framework provided in Annexure A to facilitate prioritization of remedial actions.

VII. FOLLOW-UP & CLOSURE OF OBSERVATIONS

7.1 TIMELINES FOR CLOSURE

High-Risk Observations: Must be rectified within 30 days of the report being presented to the ACB, or as directed by the Committee.

Medium-Risk Observations: Must be rectified within 60 days.

Low-Risk Observations: Must be rectified within 90 days.

7.2 FOLLOW-UP AUDIT

The internal auditor shall specifically verify the closure of all high-risk observations from the previous audit during the subsequent audit cycle and report the status in the current audit report to the ACB.

7.3 NON-COMPLIANCE

Persistent non-compliance or failure to implement corrective actions may be treated as a disciplinary issue and escalated to the HR Department and the ACB for appropriate action.

VIII. IMPLEMENTATION & DELEGATION

The Managing Director is authorized to issue necessary operational guidelines, circulars, and amendments to the Internal Audit Manual for the effective implementation of this Policy. The MD may delegate these powers for administrative convenience, provided that such delegation is exercised by the Head of Audit

IX. REVIEW AND AMENDMENTS

This Policy shall be reviewed by the Board at least once a year, based on the recommendations of the ACB, to ensure its continuing relevance and effectiveness. The Policy can be amended by a resolution passed by the Board at a meeting or through circulation.

X. EFFECTIVE DATE

This Policy shall be effective from the date of its approval by the Board of Directors of Aquila Finance Limited.

XI. DEFINITIONS & INTERPRETATIONS

Audit Manual: Refers to the "Internal Audit Manual" of Aquila Finance Ltd, which contains the detailed standard operating procedures for conducting audits.

KYC/CFT: Know Your Customer/Combating the Financing of Terrorism.

CTR: Center Transaction Receipt.

Words in the singular include the plural and vice versa. Words in the masculine gender include the feminine and vice versa.

Examples (from Audit Manual)	Impact Description	Examples (from Audit Manual)	Closure Timeline
HIGH	Fundamental control failure that could lead to significant financial loss, regulatory penalty, or reputational damage. Threatens the achievement of key objectives.	- Cash shortage / Gold packet shortage.	30 Days
		- Fake gold ornaments discovered.	
		- Evidence of fraud or misappropriation.	
		- Disbursement without proper KYC/documentation.	
		- Unauthorized third-party release of gold.	

MEDIUM	Significant deficiency in controls that could negatively impact efficiency, compliance, or asset safeguarding, but does not pose an immediate threat.	- Missing loan documents.	60 Days
		- Incomplete KYC records.	
		- Lack of center visits for high-value loans.	
		- Unreconciled CTRs.	
		- Non-adherence to delegation of power.	
LOW	Weakness that would improve efficiency or strengthen controls but is not vital to the overall system. Often relates to procedural gaps.	- Minor errors in register maintenance.	90 Days
		- Lack of punctuality in staff.	
		- Untidy strong room.	
		- Minor stationery mismanagement.	

BY THE ORDER OF THE BOARD OF DIRECTORS

For AQUILAN FINANCE LTD.