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# RISK BASED INTERNAL AUDIT POLICY

DHARA MOTOR FINANCE LIMITED

FOR 2024-25

# INTRODUCTION

## Objectives and Scope

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1. The internal audit function broadly assesses and contributes to the overall improvement of the organization's governance, risk management, and control processes using a systematic and disciplined approach. The function is an integral part of sound corporate governance and is considered as the third line of defence.
2. Risk based internal audit (RBIA) policy lays a framework for entity-level risk assessment and assures the Board of Directors and the Senior Management on the quality and effectiveness of the organisation's internal controls, risk management and governance-related systems and processes.
3. Risk-based internal audit is expected to be an aid to the ongoing risk management by providing necessary checks and balances in the system.
4. The internal audit team would undertake an independent risk assessment to formulate a risk-based audit plan which considers the inherent business risks emanating from an activity/location and the effectiveness of the control systems for monitoring such inherent risks.
5. The scope of risk-based internal audit includes identifying potential inherent business risks and control risks, suggesting various corrective measures. The audit mechanism should also ensure adequacy, effectiveness of laid down procedures and ensure compliance with the same to control the risks to the optimum level.
6. The scope of the internal audit includes all the auditable entities/units within Ohara Motor Finance Limited including technology-related aspects.
7. The internal audit report should be based on appropriate analysis and evaluation. It should bring out adequate, reliable, relevant, and useful information to support the observations and conclusions. It should cover the objectives, scope, and results of the audit assignment and make appropriate recommendations and/or action plans.
8. All the pending high and medium risk observations and persisting irregularities should be reported to the Board to highlight key areas in which risk mitigation has not been undertaken despite risk identification.
9. The internal audit function should have a system to monitor compliance with the observations made by the internal audit. Status of compliance should be an integral part of reporting to the ACB/Board.
10. The information systems audit (IS Audit) should also be carried out using the risk-based approach.
11. Ensure compliance with regulatory guidelines specific to Internal Audit and related aspects.
12. The RBIA policy must be reviewed annually.

# POLICY GOVERNANCE

## Risk Based Internal Audit Policy Implementation

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All employees of DMFL (including branch employees) and management are responsible for ensuring that Risk based Internal Audit policy is adhered to. The Internal Audit department is responsible for ensuring that staff are aware of, and adhere to, this Policy and the standards thereunder.

## Policy Compliance

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The Internal Audit Department shall ensure that:

All users including DMFL employees and management adhere to the Policy standards.

Continuous compliance monitoring and measurement processes shall be adopted.

Reports about continuous compliance monitoring and measurement processes shall be shared with the Board annually.

## Review of Risk based Internal Audit Policy

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The document shall be reviewed at least annually by the Head of Internal Audit. The risk based internal audit policy and standard operating procedure documents shall be updated in line with any major or minor changes in the operating environment. This Policy shall also be reviewed and updated in line with recommendations provided by various stakeholders including risk management function, external auditors, and legal counsel.

## Training and Awareness

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1. AU-employees of DMFL should be provided with an awareness of the Risk based Internal Audit policies and procedures to enable them to ensure adherence and they operate in such a manner as to ensure its risk is appropriately addressed.
2. DMFL should arrange and coordinate periodic training and awareness programs through the training systems of the organization to ensure that sufficient, competent, and capable human resources are available. These programs should be targeted at all levels of employees including end-users in the organization, top management personnel and personnel managing the Internal Audit of the organization.
3. The respective departments should monitor the work performance of their staff and should hold periodic assessments to identify Internal Audit training needs and to discover any problem areas, particularly where staff deal with sensitive information, or work on sensitive information.
4. All management and staff should be briefed on their role in ensuring the protection of the organization's risk areas and complying with the relevant policies and procedures.

# ORGANISATIONAL STRUCTURE

The objective of this Policy is to create a risk based internal audit mechanism that manages inherent business risk emanating from an activity/location and the effectiveness of the control systems for monitoring such inherent risks. To disseminate the policy, an organizational structure has been set. The detailed roles and responsibilities have been spelt out to bring about clarity of roles of responsibilities of each stakeholder in the organizational structure.

## Roles and Responsibilities

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### A. Board of Directors/ Audit Committee

1. The Board of Directors (the Board) / Audit Committee of DMFL are primarily responsible for establishing and overseeing the internal audit function in the organization.
2. The Board shall approve the RBIA policy and RBIA plan to determine the priorities of the internal audit function based on the level and direction of risk, as consistent with the entity's goals.
3. Developing an effective culture around the importance of internal audit
4. The Board will review the performance of RBIA annually.
5. The Board should 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 of the internal audit function at least one a year for adherence to the internal audit policy, objectives and expected outcomes.
6. The Board shall promote the use of new audit tools/ new technologies for reducing the extent of manual monitoring/transaction testing/compliance monitoring, etc
7. The findings of the system and process audit including but not limited to IS Audit, shall be presented before the the Board.

### B. Internal Audit Department

The Internal Audit Department (IAD) will be responsible for undertaking risk based internal audits under the guidance of the Head of Internal Audit. IAD must have sufficient authority, stature, independence, and resources thereby enabling internal auditors to carry out their assignments properly. IAD shall be headed by a CFO with independent reporting to the Audit Committee.

The internal audit function shall not be outsourced. However, where required, experts including former employees can be hired on a contractual basis subject to the Audit" committee /Board being assured that such expertise does not exist within the audit function. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

#### Head - Internal Audit

- Provide annual assessment on the effectiveness of the organization's controls in managing key risks and control activities.
- Evaluate the reliability and operation of the accounting and reporting system.
- Consider the scope of work of the external auditors and regulators to determine audit coverage.

Evaluate the effectiveness of risk management processes

Evaluate fraud risk management process

Conduct or participate in internal investigations of suspected fraud, theft, or mismanagement, and provide advice relating to internal fraud and security at the request of those charged with governance

Maintain adequate professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this policy

The Head Internal Audit shall ensure that the department has the necessary resources, financial and otherwise, available to carry out his or her duties commensurate with the annual audit plan, scope and budget approved by the Audit Committee.

Assess the effectiveness of the management in communicating risk and control information to appropriate areas of the organization

Coordinate and communicate information with the external auditors

Report on potential improvements to the existing controls

Assess and make appropriate recommendations for improving the governance process in promoting ethics and values within the organization

Provide periodic information on the status of the implementation of the annual audit programme and the sufficiency of the Internal Audit Department resources

Issue periodic reports to those responsible for governance, and summarize results of the internal audits

Present quarterly report/update to the Audit Committee, confirming on annual basis independence of the Internal Audit Department and its audit staff, its performance during the period against key performance indicators.

- Maintain properly documented files supporting conclusions, holding in safe custody any documents or property or other material obtained for audit use or investigation.
- Ensure independence of Audit leads and staff.

## **INTERNAL AUDIT STRUCTURE**

### **Authority, Stature, Independence, and Resources**

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The internal audit function must have sufficient authority, stature, independence, and resources thereby enabling internal auditors to carry out their assignments properly. The Head of Internal Audit (HIA) and internal audit functionaries shall have the authority to communicate with any staff member and get access to all records that are necessary to carry out the entrusted responsibilities.

### **Competence**

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Requisite professional competence, knowledge and experience of each internal auditor are essential for the effectiveness of the internal audit function. The staff possessing the requisite skills should be assigned the job of undertaking risk-based internal audits. They should also be trained periodically to enable them to understand the business activities, operating procedures, risk management and control systems, MIS, etc. •

### **Remuneration**

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As such all auditors are full-time employees of the company. Auditors may also be appointed on a contract basis or any method. In any arrangement as decided, the remuneration policies of auditors should be structured in a way to avoid creating a conflict of interest and compromising the audit's independence and objectivity.

## **OUTSOURCED INTERNAL AUDIT ARRANGEMENTS**

Internal audit functions shall not be outsourced as per the regulatory guidelines. Wherever required, experts including former employees can be hired on a contractual basis subject to audit committee/ Board being assured that such expertise doesnot exist within the internal audit function of the Company. However, ownership of all audit reports shall rest with regular functionaries of the internal audit function.

The following aspects may, inter-alia, be kept in view to prevent any risk of a breakdown in internal controls on account of outsourcing arrangements:

- (a) Before entering an outsourcing arrangement for a risk-based internal audit, due diligence should be performed to satisfy that the outsourcing vendor has the necessary expertise to undertake the contracted work.
- (b) The contract, in writing, should at the minimum, specify the following:
  - the scope and frequency of work to be performed by the vendor
  - the manner and frequency of reporting to the entity the manner of determining the cost of damages arising from errors, omissions, and negligence on the part of the vendor
  - the arrangements for incorporation of changes in the terms of the contract, should the need arise
  - the locations where the work papers will be stored
  - the internal audit reports are the property of the Company and all work papers are to be provided to the Company when required
  - the authorised employees are to have reasonable and timely access to the work papers
  - the supervisors are to be granted immediate and full access to related work papers
- (c) The management should continue to satisfy itself that the outsourced activity is being competently managed.
- (d) All work done by the vendor should be documented and reported to the top management through the internal audit department.
- (e) To avoid the significant operational risk that may arise on account of sudden termination of the outsourcing arrangement, a contingency plan should be in place to mitigate any discontinuity in audit coverage.
- (f) Periodic review of work performed by the outsourced vendor to be done by Head of Internal Audit for reliability accuracy, and objectivity.

## **ACCESS TO INFORMATION**

For the risk assessment to be accurate, it will be necessary to have proper MIS and data Integrity arrangements. The internal audit function should be kept informed of all developments such as the introduction of new products, changes in reporting lines, changes in accounting practices/policies, etc. The risk assessment should Invariably be undertaken yearly. The assessment should also be periodically updated to consider changes In the business environment, activities, and work processes, etc.

## **DOCUMENTATION**

For the risk assessment to be accurate, clearly understandable, be unambiguous and verifiable at a later stage, documentation of each process is of utmost importance.

Documentation of the process would involve but not be limited to.

1. Maintaining of a register with columns to showcase the audit area, sub-area, process, risk rating, observation, methodology of assessment, details of data collected, curated observations
2. As far as possible all documentation will be in digital format and filed in a logical way for easy access
3. Data transferred on each finalized observation and updated thereon will be stored in a version-controlled method.
4. All past data about published audit reports should be in read-only format.
5. All data will be stored in compliance with as per IT policy.
6. Sensitive data to be stored and shared must be password protected.

## **CODE OF ETHICS**

All employees including the employees in the internal audit team are governed by the general code of ethics as per the staff Management policy of DMFL.



## **AUDITEES RESPONSIBILITIES**

Internal audit should not be a fault-finding mission. It is done to find out errors in the systems and working, lag from approved timelines, adequacy of controls and their effectiveness in managing inherent risk and to generate process improvement opportunities to improve overall efficiency in the area being audited.

To attain these objectives, there must be support from the auditee. His/ her responsibilities are as follows.

1. Providing required data to auditors -The auditee must provide accurate data/additional data with all fields as requested by the auditor. If the data request contains sensitive information, the auditee can take suitable guidance/approval from the appropriate authority before sharing such data.
2. The audit is conducted as per the approved audit calendar and with time constraints. During the audit, the auditee must attend and discuss the issues or queries raised by the auditors on time.
3. The auditee is responsible to oversee the activity in the department. He should work towards improvements in all aspects of his area/domain.
4. The auditee must be positive and commit to the timely closure of observations. In all cases where he agrees with the observation for improvements but is not empowered to decide on cost and other factors, he may take up the matter with suitable authority and get necessary approvals on time.

## **MANPOWER**

The senior management is responsible for establishing a comprehensive and independent internal audit function that should promote accountability and transparency. It shall ensure that the RBIA Function is adequately staffed with skilled personnel of the right aptitude and attitude who are periodically trained to update their knowledge, skill, and competencies.

## **POLICY DETAILS**

# RISK ASSESSMENT FRAMEWORK

Risk assessment is an important part of any Internal audit process that is used to understand the Impact of risk and the probability for the risk to be realized. The results of a risk assessment must be used to prioritize efforts to counteract the risks.

The process of risk assessment is not a one-time activity but an ongoing project, which is dynamic and responds to changes in the internal and external environment facing an organization at a point in time. Therefore, while risk assessment may be classified as a point in time exercise, an organizations' ability to assess and manage its risk continuously (in response to an ever-changing environment) is a key challenge.

## INDEPENDENT RISK ASSESSMENT

To prepare a risk based internal audit plan, the internal audit team must understand the existing and known risks in the system. It should be noted that the risk based internal audit plan would cover, based on criticality/ risk, all risks in the system. As and when a new risk is discovered, the risk based internal audit plan may be relooked and if the need arises, the plan may be updated.

### Risk Assessment Methodology

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The organization will undertake a yearly Risk Assessment to formulate the risk-based audit plan. The risk assessment would be performed as an independent activity to cover risks at various levels (corporate and branch; the portfolio and individual transactions, etc.) and the processes in place to identify, measure, monitor and control the risks. Further, the assessment will be updated periodically to account for changes in the business environment, activities, and work processes.

The risk assessment process will cover the following activities:

Identification of inherent business risks in various activities undertaken by the organization.

Evaluation of the effectiveness of the control systems for monitoring the Inherent risks of the business activities ('Control risk').

Drawing up a risk-matrix for considering both the factors viz., Inherent business and control risks

The risk assessment process shall involve but not be limited to processing the following information:

- Previous internal audit reports and compliance
- Proposed changes in business lines or changes in focus
- A significant change in management/ key personnel
- Results of the latest regulatory examination report

- Reports of external auditors
- Industry trends and other environmental factors
- Time elapsed since the last audit
- The volume of business and complexity of activities
- Substantial performance variations from the budget\_
- Business strategy of the entity vis-a-vis the risk appetite and adequacy of control.

The following phased approach shall be adopted for performing the independent risk assessment:

Preparation: To undertake a risk assessment, an understanding of the scope and functions of the various functions that support the business processes shall be obtained. This involves, but is not limited to:

- i. Identifying business functions and processes: Business functions critical to business delivery shall be identified and focused upon. Interviews with concerned stakeholders shall be scheduled to understand the business functions and priorities of the organization.
- ii. Understanding existing risk management framework: Applicable risk standards relevant to the DMFL environment shall be evaluated and assessed.
- iii. Assess overall control environment: Obtain information regarding the overall control environment by reviewing the existing risk registers, audit reports, organization structure, major changes within the function, business performance.

Preliminary risk assessment: The risks related to the various DMFL processes shall be identified. This involves, but is not limited to:

- iv. Interviews with key stakeholders: Interviews shall be conducted with the key stakeholder to understand the processes and identify possible gaps in the definition of processes.
- v. Performing high-level process walkthroughs: Process walkthroughs shall be performed to understand the operation of business processes and to identify possible issues in the working of such processes.
- vi. Verifying evidence of control design and implementation: Evidence of control design and implementation shall be verified to validate the efficacy of the control in mitigating risks.

The Extremely High-Risk areas would require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the organization's top management. The inherent business risks and control risks will also be analysed to assess whether these are showing a stable, increasing or decreasing trend.

The risk matrix will be prepared for each business activity/location.

(Risk Matrix)				
		High	A- High Risk	8- Very High Risk
		Medium	0- Medium Risk	E - High Risk
		low	E• Low Risk	H - Medium Risk
			High	Medium
			Control Risk	Low

The outcome of the risk assessment or final rating of an auditable unit will be a key factor to decide on the frequency of audit, the extent of audit to be undertaken and the type of audits to be performed. E.g., Extremely high-risk areas will be subjected to audits at a higher frequency

We also analyse the inherent business risks and control risks to assess whether these are showing a stable, increasing or decreasing trend. Illustratively, If an area falls within cell 'B' or 'F' of the Risk Matrix and the risks are showing an increasing trend, these areas will also require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the top management.

## RISK BASED AUDIT PLAN

- The Internal Audit Department will prepare Internal Audit Plan based on the Risk Assessment.
- The frequency of audits/prioritisation of areas will be determined based on the Risk Assessment process.
- The risks identified as high, very high, extremely high risk (based on the matrix) will be audited at shorter intervals as compared to medium and low-risk areas.

## AUDIT EXECUTION

The internal audit execution will be undertaken by a combination of process audits, concurrent audits, systems audits, file audits by way of offsite/remote auditing methods as well as physical verification and visits.

the following types of audits to provide comprehensive assurance to the management and the Audit Committee:

- Process audit based on risk assessment
- Branch/field audit based on risk assessment
- Information systems audit

Based on the Internal Audit Plan, Head - Internal Audit in coordination with the IA team will ensure timely audit execution. The organization will strive to undertake audits through in-house audit resources. However, audits that require specialized skill sets and are not available within IAD may be performed with the help of experienced external auditors. The contract with the external auditor should specify the scope of work to be performed and critical terms.

Internal Audits shall be performed using Audit Programs defined for the specific type of audit/area being audited. Head- Internal Audit shall ensure appropriate working paper documentation for all the audits and activities performed for record and future reference.

**It was put up before the board and same was approved vide Board Resolution No. 6 Dated 16-07-2024.**

Gajendra Singh  
Managing Director

G.S. Chauhan  
Executive Director