



MUTHOOTTU MINI FINANCIERS LTD

AUDIT POLICY

Reviewed in the Meeting of Board of Directors held on 20-07-2020

CHAPTER - I

OBJECTIVES OF AUDIT

1.1 OBJECTIVES:

Audit is the method used to assure the Management about the adequacy and effectiveness of internal control and compliance with laid down systems, procedures and guidelines. Audit makes a Qualitative Review of the Organisation. The ultimate aim is to ensure that the Company is run on sound lines from the financial, statutory and organisational points of view.

1.2 SCOPE:

Internal Audit of a Branch / Office involves verification as to a) whether the books of accounts are properly maintained, checked and balanced periodically) whether all transactions are properly accounted for and c) whether various checks and balances prescribed by Corporate Office regarding investments, advances, cash, securities and other valuables are strictly observed in letter and spirit. Internal Audit has to pay special attention to the following:

- To examine that the books/records/registers are properly maintained and balanced in accordance with the instructions given by Corporate Office through Memoranda of Instructions/ Circulars etc.
- To check and ensure that the cash / securities and other valuables are in order and that they are in agreement with the information available in the books/ records of the Branch / Office.
- To examine whether the books / records reflect an accurate and correct record of the liabilities and assets of the Branch / Office.
- To examine whether the assets shown in books / records physically exist, are otherwise identifiable and their condition is satisfactory.
- To examine whether the documents obtained by the Branch / Office from borrowers and other constituents are complete and enforceable.
- To examine whether proper records of instructions received from Corporate Office from time to time are maintained properly and the extent to which they are being complied with.
- To examine whether advances granted and expenditure incurred are under proper authority and as per norms.

- To examine whether internal checks and balances prescribed are being properly observed/ complied.
- To examine whether returns to Corporate Office / Regional Office and Statutory bodies are correctly compiled and regularly / promptly submitted.
- To assess the quality and quantity of business of the Branch / Office and scope for further development in the area of operations.
- To examine whether securities obtained to cover advances are adequate and realisable.
- To examine whether the advance outstanding at the Branch is generally in conformity with the lending policies framed by the Management.
- To point out the major undesirable features commonly prevailing in the Branch / Office and if necessary, to recommend corrective actions for toning up the entire working of the Branch / Office so as to improve its overall efficiency.
- To evaluate the overall performance of the branch to the rating mechanism introduced by the management.
- To submit Special Reports about very serious irregularities noticed - such as misuse of delegated powers, suspected frauds, unethical practises followed at the Branch by members of staff, gross violation of important instructions, matters affecting image of the Company etc- which need immediate attention of higher authorities and to safeguard the interest of the Company.
- To identify and report the **Strength, Weakness, Opportunity & Threat** (in line with **SWOT Analysis**) in the working of the Branch / Office and enable the Controller/s to initiate corrective steps.
- To examine adequacy and effectiveness of the internal control systems.
- To review application and effectiveness of risk management procedures and risk assessment methodologies.
- To examine whether customer service is satisfactory
- To examine whether Know Your Customer and Anti Money Laundering guidelines issued by the Company/RBI / other Statutory Agencies are being observed.

1.3 TYPES OF AUDIT:

a) **RISK FOCUSSED INTERNAL AUDIT**

RFIA covers all areas of operation of the Branch, with special attention to risk factor. These are to be performed by Audit Managers (AMs).

Risk Gradation Of Branches Based On Key Parameters:

Very High Risk Branches:

Branches where one of the following parameters is present will be treated as VERY HIGH RISK Branch.

- i) GL o/s above Rs.400.00 lakh. (At present, there are 39 Branches.)
- ii) Branches with NPA above 5%. (At present 68.)
- iii) Branches with individual exposure of single Customer being above 20% of Branch GL o/s. (20 at present.)
- iv) Branches where fraud was reported during the previous 6 months period. (At present 92.)
- v) Isolated Branches: no other Branch within 25 KMs. (73 at present.)
- vi) Branches with 1 + 1 or less staff. (Number can be computed only after HRMS is made operational.)

High Risk Branches :

Branches where one of the following parameters is present will be treated as HIGH RISK Branch.

- i) Branches with GL o/s above Rs.300.00 lakh up to Rs.400.00 lakh. (76 at present.)
- ii) Branches with overdue above 10%.
- iii) Branches with average ticket size above Rs.50,000/- (141 at present.)
- iv) Branches where a Branch head has been working as Branch head for above 3 years at the same Branch.

Any Branch satisfying i) above will be categorised as HIGH RISK Branch. Any Branch satisfying any 2 of parameters ii), iii) & iv) above will also be a HIGH RISK Branch.

Medium risk Branches:

Branches where one of the following parameters is present will be treated as MEDIUM RISK Branch

- i) Branches with GL o/s above Rs.200.00 lakh to Rs.300.00 lakh will be categorised as having MEDIUM RISK.(148 at present.)
- ii) Branches with overdue above 10%.
- iii) Branches with average ticket size above Rs.50,000/- (141 at present.)
- iv) Branches where a Branch head has been working as Branch head for above 3 years at the same Branch.

Any Branch which satisfies any of the parameters ii), iii) or iv) above will also be a MEDIUM RISK Branch.

All other Branches will have LOW RISK. (520 at present.)

Audit Periodicity:

All Very High Risk rated Branches will have Gold Audit once in 25 days, High rated once in 35 days, Medium rated once in 45 days and Low rated Branches once in 60 days.

Accounts Audit also will be conducted based on the above risk factors. Periodicity will be 3 months / 4 months / 5 months / 6 months respectively in Very High / High / Medium / Low Risk rated Branches.

In case of special circumstances like resignation / termination of BIC, major fraud, serious issues reported through Whistle Blow etc, Gold / Accounts Audit will be conducted out of turn, even if the stipulated period mentioned above has not been completed.

a) GOLD AUDIT:

Gold loan is the Company's primary product. Gold and Cash constitute high risk areas. Hence, these need to be inspected at more frequent intervals to reduce (if not mitigate) the risks. In view of the precious nature of the commodity and its easy liquidity, it is associated with various risks. Lack of adequate skill to accurately assess quality of the ornaments under pledge is an area of concern. Cash is another risk prone area. To mitigate these risks, more frequent Audit is essential. Gold Audit procedure has been chalked out in this direction.

These will be performed by Gold Auditors cum Appraisers (GAA).

b) MANAGEMENT AUDIT:

Management Audit is essentially a tool designed to appraise the effectiveness of Management at different levels in accomplishing the designed tasks towards achieving the overall Corporate Objectives / Goals. Management Audit is an independent and systematic appraisal as to how well the Management is achieving / accomplishing its objectives, goals and performing the managerial functions (such as planning, organising, motivating, directing, cooperating, consulting, co-ordinating and controlling). Management Audit is required to be conducted once in a year at Zonal Offices/Corporate Office

This will be carried out by a designated senior staff from Audit Department OR THE Company will engage an external agency for the same, with approval of the Board of Directors or Committee thereof.

c) SPECIAL AUDIT:

A Special Audit (out of turn Audit) is to be arranged under the following circumstances:

- Change of Branch Head due to transfer, resignation or termination.
- Report of fraud, whistle blowing or any other serious violation of systems and procedures, which may affect the Company's image or result in loss.

- Looting or burglary at Branch.
- Closure/ merger of Branch.
- Any other issue where Management deems it necessary to have an immediate inspection.

The areas to be verified depends on the cause for which the Audit is arranged. If the Audit is on account of change of BH / closure or merger, in addition to verification of the entire gold packets, all internal functions/ processes have to be verified.

This will be conducted by Audit Manager or Gold Auditor cum Appraiser.

d) AUDIT OF AUCTION CENTRES

On commencement of Auction Process one Audit Manager and Gold Auditor are sent to the concerned Auction centre who shall verify all related documents and gold loan packets. A report on their inspection shall be submitted to the Audit Department.

On completion of Auction, the documents shall be brought to the Corporate Office and an audit of the same shall be completed within a reasonable time and in any case not later than three months from the date of shifting the documents to the Corporate Office.

e) AUDIT BY EXTERNAL AGENCIES:

Besides the above, various external agencies also conduct audit:

- Reserve Bank of India, SEBI and any other Statutory Agency.
- Company's Chartered Accountants (Statutory Auditors).
- Qualified Information System Auditors.

f) COVID- Short Audit:

Total lock down was enforced from 24.03.2020 all over India due to the spread of COVID cases. As a result, Branches all over India remained closed for about 2 months.

Since return of Auditors to their parent Zones and resume normal Audit may take more time, we have to resort to alternate methods to carry out checking, even if it is to a limited scale which is to be mitigated by "SHORT AUDIT" as per the following procedure.

- 1) RMs / AMs / CHs / Senior BHs may be deputed by Zonal Managers to check major parameters like cash, number of GL packets, tare weight, security arrangements and Bank reconciliation.
- 2) Wherever services of Gold Appraiser are available, some GL packets on random basis may be opened and contents verified.
- 3) Inspecting Officials have to submit reports in the prescribed format to Audit Department at CO. After scrutiny, wherever required, Audit Department will escalate the contents to concerned Branch / Department for rectification.
- 4) This exercise is intended to overcome in a limited way the risk of non-inspection for prolonged period. Branches will not be removed from due / overdue list merely because of

conducting Short Audit. These Branches will be taken up for regular Audit as soon as situation stabilizes.

CHAPTER II

ROLES AND RESPONSIBILITIES

2.1 DUTIES AND RESPONSIBILITIES OF INSPECTING OFFICERS:

The term Inspecting Officer refers to Audit Managers, Gold Auditors cum Appraisers and senior staff deputed by Audit Department to carry out various types of Audit covered in 1.3 a) to f) above. They are considered to be the “eyes and ears” of the Management. They should be creative, constructive and helpful. Their main duties are:

- To report whether the Branch/Office is working smoothly, efficiently and within the frame work of the policy and guidelines laid down/issued by the Corporate Office from time to time.
- To report whether the system of internal control such as rotation of duties, custody and operation of strong room keys, joint custody of cash / gold / other valuables, prompt accounting of all transactions, sanction of loans, KYC Compliance, balancing of different accounts, Statutory compliance etc. as laid down by Corporate Office are being followed by the Branch / Office.
- To report whether the quality of assets, adequacy of security for advance and proper accounting of assets by the Branch / Office are ensured; securities are identifiable and their condition and reliability are satisfactory.
- To suggest ways and means to improve the working and/or remove lacunae, if any, in the system

2.2 ESSENTIAL QUALITIES OF INSPECTING OFFICERS:

- The Inspecting Officers have to play a key role in conducting a thorough scrutiny of affairs of a Branch / Office and guiding the Branch officials for improved performance. An unbiased and objective reporting style as well as an analytical and practical approach shall be the traits of the Inspecting Officer. Besides certain personal qualities and professional skills, they should have the ability to communicate effectively.
- Personal qualities include possession of high integrity, robust common sense, initiative, analytical ability to distinguish the important from the unimportant, ability to judge and a sense of thoroughness and orderliness to complete the task on hand systematically and efficiently.

2.3 APPROACH AND ATTITUDE OF AN INSPECTING OFFICER:

- The audit work is more a fact finding mission than a fault finding one.
- The Inspecting Officers’ approach should be objective and unbiased. They should be guided by a sense of professional independence and should not be swayed by fear, favour or other influences.

- Audit work should be thorough, exhaustive and dispassionate. If there is the slightest suspicion of fraud, defalcation, misappropriation, dereliction of duty, and/or abuse of authority causing loss / likely to cause loss to the Company, the Inspecting Officers should submit, after thoroughly verifying the facts, a ‘Special Report’ to the Head (Audit) through mail.
- The Inspecting Officers should develop empathy with the Branch functionaries. Since reciprocal confidence and trust are the prerequisites for effective communication, they should endeavour to have proper understanding of the feelings of the Branch staff and act accordingly, but without compromising rules.
- The Inspecting Officers should discuss the findings with the Branch Officials before drawing up the final report. .
- The Inspecting Officers should work in such a manner as not to disturb the normal working of the Branch and conduct themselves in a dignified manner. They should not do anything that may affect the image of the Branch Head or any other staff in the eyes of members of staff and the Customers.
- Queries arising in the course of Audit should be passed on to the Branch staff then and there and should not be allowed to accumulate till the closing date/stage. All the irregularities/adverse findings should be discussed with the Branch Head and other staff members to ascertain their view points and encourage them to get maximum irregularities rectified during the course of Audit itself.
- The Inspecting Officers are not authorised to issue any special instructions to the Branch Head other than those relating to and complying with normal Audit as detailed in this document. In cases where special instructions are to be issued to the Branch Head in respect of Special Report / frauds detected / any other important matter, they should contact Audit Department at CO so that necessary instructions can be passed on to the concerned.
- All Audit assignments are to be surprise exercises - i.e. without prior intimation to the Branch / Office concerned. It is hence important that Audit programme is kept strictly confidential and the tour is arranged in such a way that nearby Branches to be audited by the same team in succession do not get the hint about the date of the intended visit.

CHAPTER – III

3.1 ORGANISATIONAL SET-UP:

The set-up of Audit Department will be as decided by the Top Management from time to time.

3.2 FUNCTIONING OF AUDIT DEPARTMENT:

- The Audit Department is responsible for reporting non-implementation of policies framed by the Company.

- The Department shall frame policies and programme for Audit and inspection of Branches/Administrative Offices and formulate guidelines for their implementation, with the approval of the Management.
- The Department is responsible for periodical allotment of programmes to field level Auditors for conducting RFIA, Gold Audit and Special Audit. It should ensure timely conduct of various types of Audit in line with the prescribed periodicity.
- The Department should place before the Audit Committee of the Board on a quarterly basis serious irregularities and other important matters arising out of Audit of the Branches / Offices.
- They should appraise the Top Management and HODs of the major and serious irregularities/frauds observed/detected during Audit of branches and while conducting Management Audit.
- They should follow up with various Departments at Corporate Office and ensure that all Audit Reports are closed within the prescribed time limit.
- They should conduct periodical review meeting with Operations Department officials and at RM/RH level to sort out issues, if any.
- Based on Audit findings, Audit Department will suggest ways and means to remove loop holes/lacunae, if any, in the systems and procedures, with a view to improving the working of Branches/Administrative Offices. This will enable the Corporate Office to have effective and adequate control and supervision over the Branches/Offices.
- The Department is responsible for submission of Audit reports, data and other required particulars relating to Audit during the Annual Financial Inspection by RBI.
- Audit Department is responsible for reporting frauds to RBI in Form FMR 1 and submission of progress reports in Forms FMR2 & 3 as stipulated by RBI.
- Department should issue guidelines/instructions to Audit staff and conduct workshops/training sessions to bridge knowledge gap and empower them to function more effectively.
- They should assess man power requirement of Audit staff at various levels and submit indent to HR Department on regular basis.

CHAPTER - IV

4.1 General Instructions Regarding Audit of Branches:

- The Auditor will verify the documents and gold loan accounts at the Branch.
- The list of irregularities noticed by the Inspecting Officers should be passed on to the Branches on a daily basis for spot rectification. They should discuss with the officials of the Branch about the progress in spot rectification, deficiencies and other procedural irregularities.

- If the findings are of very serious in nature, involving fraud, misuse of delegated powers, unethical practises followed at the Branch by members of staff, gross violation of important instructions, matters affecting image of the Company etc the matter shall be reported to the Audit Department over phone with a Special (Confidential) Report by e-mail to follow.

4.2 Allotment of Audit Programme:

- Allotment of Internal and Gold Audit programme to the Inspecting Officers will be by the system.
- Allotment of Special Audit and Management Audit will be communicated directly by Audit Department.
- As there should be an element of surprise in Audit, the communication received by the Inspecting Officer should be kept **STRICTLY CONFIDENTIAL**.

4.3 Commencement of Audit:

- The Inspecting Officers shall reach the Branch 15 minutes before the scheduled commencement of business (well before opening of the strong room and taking out cash from the safe/strong room) unless instructed to the contrary. They should mark attendance through Photo Attendance system. In case of late starting of Audit, physical checking of cash shall be carried out at the start of Audit, followed by physical count of gold loan packets.

4.4 Custody of Keys:

- Immediately on commencement of Audit, the Auditor should take custody of Joint Custodian's keys (strong room door / dual control cabinet, safe etc. as may be necessary) to avoid access to cash and valuables to others without his knowledge / involvement and retain the keys until cash / gold, other securities and all other contents in the strong room are checked.
- The Auditor should verify records relating to the deposit of duplicate keys of the Branch and confirm that the keys are deposited as per the direction from the CO. Any discrepancy in handling of duplicate keys is to be reported to Audit Department then and there through phone, followed by mail.

4.5 Destruction of cancelled instruments:

During the course of detailed Audit, instruments cancelled in between previous Audit and present Audit like cheque leaves, DPNs and other security documents are to be destroyed completely by the Auditor in the presence of the Branch staff. Details of cancelled instruments shall be recorded in register titled Branch Documents Register and duly certified by the key holders and the Auditor as having been cancelled during the period covered by the Audit. However, books and vouchers should not be cancelled before expiry of the stipulated period as per laws prevailing.

4.6 Conclusion of Detailed Audit:

On completion of Audit, the Auditor shall verify the schedules of accounts and confirm that these are balanced / tallied / reconciled as on date of Audit. All heads of accounts shall be tallied with general ledger / trial balance so as to confirm the coverage required for Audit.

At the end of Audit, a meeting of Branch Head and all staff of the Branch should be convened by the Auditor in the presence of the RM. All findings/serious lapses observed during Audit should be discussed in the meeting. RM should chalk out action programme for rectification and non-reoccurrence of similar lapses in future. Wherever RM has not been posted, the RH may attend the meeting. Detailed instructions on minimum number of such meetings to be attended by RH / RM has to be issued by the Competent Authority separately.

4.7 Audit Rating:

To evaluate the performance of the Branch in a more transparent manner, the Audit Rating System has been introduced under RFIA. Since performance of Branches under business parameters is reviewed separately by Business Development Department, this is not rated during Audit. Thus the rating is applicable for non-business parameters only. On completion of RFIA, the Auditor will prepare the rating chart based on the findings and performance under all parameters except business parameter. Branches are classified into 5 grades on the basis of total marks obtained as detailed below. The Auditor should encourage Branches to rectify all possible irregularities during the course of Audit itself, to enable them to get the benefit of these compliances in the scoring. These rating charts will be a fair indication of the areas where improvement is required to enhance the health of business.

Marks obtained	Grade	
90% and above	A+	Excellent
75% to 89%	A	Very Good
60% to 74%	B	Good
50% to 59%	C	Satisfactory
Below 50%	D	Not Satisfactory

4.8A udit Report preparation:

- On completion of Audit, the Auditor should prepare Internal Audit / Gold Audit Report on line in Audit Module. The Report should be up loaded in the system on the last date of Audit at the Branch audited. If the Auditor is allotted additional time for preparation of report, it should be done at the Head Quarter Branch of the Auditor. It should be ensured that the report is uploaded in the system before allotting next Audit assignment.
- In respect of Special Audit and Management Audit, Audit Report has to be prepared and sent by mail to Vice President (Audit), immediately after completion of Audit. The next Audit assignment will normally be only after submission of the report.

CHAPTER V

RFIAREPORTS, PROCESSING, FOLLOW UP AND CLOSURE.

5.1 REPORTING:

Audit Module is a software developed by System Department for management of all Audit related operations. Right from allotment of Audit programme to closure of reports is managed through this application. Reports in Audit Module have 2 parts – GL Quality Assessment and Other Audit Queries.

5.2 GL Quality Assessment:

All excess finance on account of spurious / low purity gold, weight difference, inadequate provision for stones / other extraneous matters, loans in violation of minimum carat value / weight etc. detected during Audit has to be reported under this head.

5.3 Other Audit Queries:

All Audit Queries other than those related to excess finance reported under GL Quality Assessment will come under this head. All such queries are classified under different categories such as Staff, Joint Custody, Cash Account, Bank Account, Gold Loans, KYC Compliance, Cross Selling etc. All lapses/deviations observed during Audit have to be reported against each question under the respective category. The Auditor should ensure that the report is up loaded in the system before taking up the next Audit programme.

5.4 Processing and Follow up:

- RM has an important role during Audit of Branches. RM should be aware of Branches under Audit on each day and closely monitor for rectification of all possible lapses during the course of Audit itself. RM should attend the closure meeting and discuss all complaints with the Branch staff in the presence of the Auditor and ensure rectification within 7 days. They should keep their RHs informed of Audit assignments in progress and serious issues reported by the Auditor from time to time. RHs should also be aware of Audit at Branches and instruct RMs on steps required to be taken for rectification / recovery. In case of serious issues involving loss of reputation to the Company, financial loss, violation of statutory norms etc, RM / RH should visit the Branch within the shortest time and personally supervise rectification and take steps required to prevent escalation of the issues.

5.5 Closure of Audit Reports:

- Reports under GL Quality Assessment and other Audit Queries have to be viewed by the concerned Departments at CO on daily basis. One of the staff in each Department has to be designated by the HOD for this purpose. As soon as a report is uploaded by the Auditor, an alert is generated to each Department. The irregularities reported should be taken up with the Branch / RM / RH immediately for rectification and recovery wherever applicable. The designated staff (or the HOD) should take stock of the irregularities reported and assess the comments made against each irregularity by the BH and RM. If the irregularity is not rectified or reply is not satisfactory, the concerned Department should continue to follow up

with the Branch / RM / RH till satisfactory rectification / reply. The HOD should then convey recommendation to Audit Department for closure of the report pertaining to the portion related to the concerned Department.

- Time frame for closure of the Audit Report by Audit Department is 15 days in case of RFIA and 10 days in case of Gold Audit. A report is treated as fully closed when each Department's recommendation for closure is received and accepted as having reached the desired level of compliance.

CONCLUSION.

The above mentioned are rules for conducting meaningful inspection of books and accounts as well as all other factors which contribute to making a Branch / Office. These rules will be examined periodically to determine whether these are sufficient to ensure health of the Branch / Office. In case amendments are required, these will be drawn up and submitted for approval by the Competent Authority (the Board). Audit Department is entrusted with this task.