Reliance Capital Limited

Policy Internal Audit Charter

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1. Introduction

1.1 This Charter defines the purpose, authority, and responsibility of the internal audit function of Reliance Capital Limited, an unlisted Non-Banking Financial Company - Core Investment Company (NBFC-CIC).

1.2 It establishes the governance framework and provides guidelines for the internal audit staff, ensuring alignment with the Reserve Bank of India (RBI) Master Directions, the Companies Act, and other relevant rules and regulations.

2. Purpose and Scope of Internal Audit

2.1 The purpose of internal audit is to provide independent and objective assurance and consulting services designed to add value and improve the organization’s operations, particularly in the areas of risk management, control, and governance processes.

2.2 The scope of internal audit encompasses a comprehensive review of the organization's processes, systems, and controls, including but not limited to:

- **Credit Risk Management:** Evaluation of credit origination, appraisal, monitoring, and recovery processes.
- **Market Risk Management:** Review of treasury operations, investment activities, and adherence to market risk policies.
- **Operational Risk Management:** Assessment of the effectiveness of controls over business processes, including IT systems, outsourcing, and business continuity planning.
- **Information Technology (IT) and Information Systems (IS) Audit:** Review of IT governance, security, infrastructure, data management, and system development life cycle, in line with RBI's Master Direction on IT Framework for the NBFC Sector.

- **Compliance:** Ensuring adherence to all applicable statutory and regulatory requirements, including RBI directives, Companies Act provisions, KYC/AML guidelines, and other relevant laws.
- **Financial Reporting:** Assessing the accuracy, reliability, and integrity of financial and management information.
- **Asset Liability Management (ALM):** Review of the company's ALM framework and adherence to its policies and procedures.
- **Fraud Prevention and Detection:** Evaluating the adequacy of controls designed to prevent and detect fraudulent activities.
- **Corporate Governance:** Assessing the effectiveness of the organization's governance structure and practices.
- **Special Investigations:** Conducting investigations into suspected fraud, irregularities, or other matters as requested by management or the Audit Committee.

3. Authority, Independence, and Objectivity

3.1 The internal audit function has unrestricted access to all records, personnel, and physical properties relevant to the performance of its audits, as approved by the Audit Committee and senior management.

3.2 Internal auditors shall be independent of the activities they audit and objective in their findings and recommendations. They will be free from any interference in determining the scope of internal auditing, performing work, and communicating results.

3.3 The Head of Internal Audit (HIA) shall report directly to the Audit Committee on all significant internal audit matters, ensuring organizational independence. Administratively, the reporting line will be [Specify Administrative Reporting Line, e.g., to the CEO/MD].

4. Responsibility of Internal Audit

4.1 The internal audit function is responsible for:

- Developing and implementing a risk-based internal audit plan aligned with the organization's risk assessment.
- Conducting audits in accordance with the approved plan and relevant professional standards.
- Evaluating the adequacy and effectiveness of the organization's risk management, control, and governance processes.
- Identifying and reporting on control weaknesses, non-compliance with regulations and policies, and operational inefficiencies.
- Making recommendations for improvement in risk management, internal controls, and governance practices.
- Monitoring and following up on the implementation of management's responses to audit recommendations.
- Providing advisory and consulting services to management as requested, consistent with the independence and objectivity of the internal audit function.
- Coordinating with external auditors and regulatory authorities as necessary.
- Assessing the adequacy of IT and IS controls and compliance with RBI's IT framework guidelines.
- Conducting fraud risk assessments and evaluating the effectiveness of anti-fraud controls.

5. Risk-Based Internal Audit (RBIA)

5.1 **Risk Assessment and Audit Planning**

- The internal audit plan will be developed using a risk-based approach. An annual risk assessment will be conducted to identify, evaluate, and prioritize auditable entities and activities, considering both internal and external factors, including strategic objectives, regulatory requirements, and emerging risks.

- The risk assessment process will involve input from senior management and the Audit Committee and will consider inherent risks and the effectiveness of existing controls.
- The audit plan will clearly link the audit activities to the identified risks and allocate audit resources accordingly.

5.2 **Audit Plan and Reporting**

- An annual internal audit plan, including the scope, objectives, timing, and resource allocation for each audit, will be prepared and presented to the Audit Committee for review and approval.
- Audit reports will be clear, concise, and timely, communicating audit findings, recommendations, and management's agreed-upon actions.
- Reports will be distributed to relevant levels of management and the Audit Committee. The HIA will periodically report to the Audit Committee on the progress of the audit plan, significant audit findings, and the status of management's response to recommendations.

6. Internal Audit Function

6.1 **Head of Internal Audit (HIA)**

- The HIA will be a senior executive with the necessary qualifications, experience, and expertise to effectively lead the internal audit function.
- The HIA is responsible for the overall management of the internal audit department, including planning, organizing, staffing, directing, and monitoring its activities.

6.2 **Competence and Proficiency**

- The internal audit function will be staffed with individuals who possess the necessary knowledge, skills, and professional certifications to perform their responsibilities effectively.

- Continuous professional development will be encouraged and supported to ensure that internal audit staff remain current with best practices and regulatory requirements.

6.3 **Reporting Line and Communication**

- The HIA will have direct and unrestricted access to the Audit Committee and will report to them on a regular basis regarding the activities and findings of the internal audit function.
- Open and effective communication will be maintained with senior management and the Audit Committee.

6.4 **Tenure and Rotation (if applicable)**

- To maintain independence and objectivity, the tenure and rotation of the HIA and internal audit staff may be considered, as deemed appropriate by the Board and Audit Committee, in line with regulatory guidelines and best practices.

6.5 **Use of Technology**

- The internal audit function will leverage technology, including data analytics tools and audit management software, to enhance the efficiency and effectiveness of audit processes.

7. Audit Committee Oversight

7.1 The Audit Committee of the Board will oversee the internal audit function and will:

- Review and approve the Internal Audit Charter.
- Review and approve the annual risk-based internal audit plan and any significant changes thereto.
- Review the findings and recommendations of internal audit and monitor management's responses and implementation of corrective actions.
- Meet regularly with the HIA to discuss audit activities and findings.
- Assess the effectiveness of the internal audit function.

- Ensure the independence and objectivity of the internal audit function.

8. Coordination with Other Assurance Providers

8.1 The internal audit function will coordinate its activities with external auditors, compliance functions, and other assurance providers to ensure adequate coverage and minimize duplication of effort.

9. Quality Assurance and Improvement Program

9.1 The internal audit function will maintain a Quality Assurance and Improvement Program (QAIP) that includes periodic internal assessments and may include external assessments to evaluate the effectiveness and efficiency of the internal audit function and ensure adherence to professional standards and the Internal Audit Charter.

10. Charter Review and Updates

10.1 This Charter will be reviewed and updated at least annually, or more frequently as needed, to reflect changes in the organization, regulatory requirements, and best practices. Any revisions to this Charter will be subject to the approval of the Audit Committee and the Board of Directors.