



ASIAN PAINTS LIMITED
ABRIDGED VERSION OF INTERNAL AUDIT CHARTER

Approved on: 19th January, 2023

1. INTRODUCTION: THREE LINES OF DEFENCE

As part of robust internal controls, Asian Paints Limited ('the Company') has adopted the three lines of defense model:

- a. The front line includes the functions which are responsible for delivery of product/ services while managing the risks. They have the necessary knowledge, skills, information, and authority to operate the relevant policies and procedures for risk management.
- b. The second line are the functions which provide assistance with managing risks. They are specialized in compliance, quality, information security etc. and provide support in the management of risk to the first line.
- c. The third line is Internal Audit (IA) which provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.

The objective, scope, independence & objectivity, authority and responsibility of IA are governed by the Internal Audit Charter. The authorities and responsibilities relating to IA are delegated to the Chief Internal Auditor (CIA), by whatever name called within the Company, to achieve these objectives.

This is an abbreviated version of the Internal Audit Charter, and the detailed version of the Charter is for internal reference purposes.

2. OBJECTIVE

The Internal Audit (IA) department's objective is to provide independent and objective assurance and consulting services to add value and improve the Company's operations. It helps those charged with governance {which comprises of Board of Directors (Board) and Audit Committee (AC), Managing Director & Chief Executive Officer (MD & CEO), Chief Financial Officer (CFO) & Company Secretary (CS)} in the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

3. SCOPE OF INTERNAL AUDIT

The scope of IA includes providing reasonable assurance on the adequacy and effectiveness of risk management processes in the Company and internal control over operations viz. policies and procedures towards orderly and efficient conduct of business, sustainability of business, compliance with applicable laws, information systems including information technology and information security, safeguarding of its assets, prevention & detection of frauds & errors, accuracy & completeness of the accounting records and financial information.

Additionally, as per the request of AC and/or MD & CEO, internal audit could be involved in an advisory or consulting role in so far as it is not impinging upon its independence and objectivity. To ensure independence, the person involved in advisory, and consulting will be different from the person carrying out audit of that area.

As part of the oversight responsibility, the AC and/or MD & CEO may ask the IA department to perform internal audits, advisory or consulting activities for subsidiaries, associates, and joint ventures of the Company.

4. INDEPENDENCE AND OBJECTIVITY

- a. The CIA will report functionally to the Audit Committee and administratively to the MD & CEO.
- b. IA will be independent of the activities it audits, IA personnel will not have any responsibility/authority for management of operating activities, controls, or procedures it audits.
- c. IA personnel will not design the operating procedures. However, they may provide suggestions to operating employees insofar as it is not impinging upon their independence and objectivity.
- d. Personnel of IA department and co-sourced internal audit service provider shall be free from any conflicts of interest.
- e. In case there is any potential conflict to either independence or objectivity, the CIA should bring the same to the attention of the AC and act in accordance with the guidance from the AC.

5. AUTHORITY

The CIA or other IA personnel/ external agency/ firm, nominated/appointed by the CIA, for the purpose of carrying out any audit, shall have the following authority with respect to the Company, its subsidiaries, associates and joint ventures:-

- a. full, free, unrestricted and timely access to records (manual/electronic), systems, property, personnel and facilities;
- b. complete authority to audit any and all of the activities;
- c. allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to perform the audit;
- d. obtain the necessary assistance of personnel where they perform audits;
- e. obtain any other specialized services from within or outside the Company to carry out their work;
- f. access to the objectives, long and short terms plans, budgets, performance reports, IT systems and other related information;
- g. to have periodic sessions with the AC and, direct access to the AC Chairperson.

All employees of the Company and of the subsidiaries, associates and joint ventures are required to assist the IA department, by providing necessary information, records, access, resources to effectively discharge the IA responsibilities.

6. CHIEF INTERNAL AUDITOR RESPONSIBILITIES

- a. Internal Audit plan:
 - i. Develop a risk-based internal audit plan in consultation with those charged with governance and the management and obtain AC approval on the audit planned and implement the audit plan.
 - ii. Engage with risk management function to onboard emerging risks in IA plan/ scope.

- b. Internal Audit execution:
 - i. Ensure independence is maintained at all times.
 - ii. Ensure adequate coverage of all significant risks on all the audits conducted.
 - iii. Leverage technology and analytics, wherever appropriate.
 - iv. Deploy resources (including external) with necessary expertise required for the audit.
 - v. Ensure appropriateness of management action to address any shortcomings highlighted during audit.
- c. Internal Audit Practices:
 - i. Ensure that IA stays relevant by keeping abreast of emerging auditing practices and changing business environment and needs of the Company.
 - ii. Take periodic feedback from auditee, benchmark with industry peers/ professional practices/ framework by professional bodies, to strive for continuous improvement in audit practices.
- d. Reporting:
 - i. Periodically reporting progress made with respect to the audit plan along with significant findings and management's action plan to address these issues, to those charged with governance.
 - ii. Report to other relevant internal stakeholders on matters which require external reporting as per any applicable law.
 - iii. Share/ discuss the audit plan and findings with the Statutory Auditors of the Company.
- e. Assist the management in investigation of fraud/ misconduct, where called upon.
- f. Provide IA service/ Internal Financial Control related assurance support to the subsidiaries, associates and joint ventures on request from the Board of the respective companies, AC or the MD & CEO of the Company.

7. ADHERENCE TO STANDARDS

The CIA and other IA personnel, including personnel from the co-sourced internal audit service providers to follow the Company's Code of Conduct and auditing processes/ guidelines/ standards issued by the Institute of Chartered Accountants of India from time to time as applicable/ relevant to the Company.

8. PERFORMANCE MANAGEMENT

The AC, along with the MD & CEO, shall evaluate the performance of the CIA as per a formal and systematic approach and based on objective criteria agreed upon from time to time.

9. LIMITATIONS

- a. Corrective Actions: IA does not have the authority or responsibility for implementing corrective actions for resolving audit findings as these are management's responsibility. IA can assist the management in formulating corrective actions and carrying out follow-up audits to ensure that these have been implemented.
- b. Reasonable assurance: IA's procedures are based on selective and sample testing, therefore, IA may not be able to detect all cases of significant risks, management override, misrepresentation, material error, fraud, bribery, non-compliance and corruption and any other illegal/ unethical activities.
- c. Fraud risks: While IA personnel should be sensitive to any significant control weaknesses that could be a potential source of fraud and report any instances of suspected or detected fraud uncovered during an audit, however they are not expected to have knowledge equivalent to that of a person whose primary responsibility is to detect and investigate fraud.

10. AMENDMENTS TO THE CHARTER

The Company is committed to continuously reviewing and updating its policies and procedures. Therefore, the Internal Audit Charter is subject to modification. The Audit Committee shall review the Internal Audit charter once in three (3) years. The abridged version of the Internal Audit Charter and every subsequent modification, alteration or amendment made thereto, shall be promptly disclosed on the Company's website at www.asianpaints.com.