

Internal Control Policy

1. Purpose

The purpose of this Internal Control Policy is to establish a robust framework of controls, processes, and procedures to ensure:

- Efficient and orderly conduct of business
- Safeguarding of assets and client securities
- Prevention and detection of fraud and errors
- Accuracy and reliability of financial and operational reporting
- Compliance with applicable laws and regulations

2. Scope

This policy applies to:

- All departments and business functions
- Employees, directors, authorised persons, and agents
- Third-party service providers and vendors engaged in operations

3. Control Environment

The Company shall maintain a strong control environment based on:

- Ethical governance and tone from the top
- Clearly defined organisational structure
- Segregation of duties
- Accountability at all levels
- Compliance culture embedded across operations

4. Key Internal Control Principles

4.1 Segregation of Duties

No single individual shall control all aspects of a transaction. Key functions shall be separated as follows:

- Front Office (Client acquisition & trading)
- Middle Office (Risk & compliance monitoring)
- Back Office (Settlement, reconciliation, accounting)



4.2 Authorization & Approval Controls

- All transactions must be properly authorised
- Defined approval matrix for financial and operational decisions
- High-value or sensitive transactions require senior management approval

4.3 Record Keeping & Documentation

- All transactions must be accurately recorded
- Supporting documents must be maintained in physical or electronic form
- Records must be retained as per regulatory requirements

4.4 Access Controls

- Role-based system access shall be enforced
- Restricted access to sensitive data and trading systems
- Periodic review of user access rights
- Immediate revocation of access upon employee exit

5. Operational Controls

5.1 Client Onboarding Controls

- Mandatory KYC verification before account activation
- Proper documentation and audit trail
- Approval from compliance team before activation

5.2 Trading Controls

- System-based validation of client orders
- Prevention of unauthorized trading
- Monitoring of abnormal trading patterns
- Segregation of proprietary and client trades

5.3 Settlement Controls

- Daily reconciliation of client funds and securities
- Timely settlement with exchanges and depositories
- Exception reporting for discrepancies



5.4 Reconciliation Controls

- Daily reconciliation of:
 1. Bank accounts
 2. Trading positions
 3. Client ledgers
 4. Exchange records
- Investigation of mismatches without delay

6. Financial Controls

- Proper accounting and bookkeeping systems
- Monthly financial closing and review
- Budgetary control and expense approvals
- Audit trails for all financial transactions
- Prevention of unauthorized payments

7. Compliance Controls

The Company shall ensure compliance with:

- SEBI regulations
- Rules of National Stock Exchange of India and BSE Limited
- Anti-Money Laundering (AML) requirements
- Internal policies including COI, Risk, and AP policies

Compliance Officer shall conduct regular monitoring and reporting.

8. Risk Management Integration

Internal controls shall be aligned with the Risk Management Framework to:

- Identify operational and financial risks
- Implement preventive controls
- Monitor risk indicators
- Escalate significant issues to management

9. Fraud Prevention & Detection

The Company shall implement:



- Whistleblower mechanism for reporting fraud
- Surprise audits and inspections
- Monitoring of employee and AP activities
- System alerts for suspicious transactions
- Immediate investigation of red flags

10. Technology & System Controls

- Secure IT infrastructure with firewalls and encryption
- Regular system backups and disaster recovery setup
- Change management controls for system updates
- Cybersecurity monitoring and incident response mechanisms

11. Vendor & Outsourcing Controls

- Due diligence before onboarding vendors
- Written agreements with service level commitments
- Periodic performance review
- Monitoring of outsourced activities
- Control over data access and confidentiality

12. Internal Audit

- Independent internal audit function shall be established
- Risk-based audit plan approved by management/board
- Periodic audits of all critical functions
- Reporting of findings with corrective action plans (CAPA)
- Tracking of closure of audit observations

13. Reporting & Escalation

- Daily/weekly operational MIS reporting
- Immediate escalation of material deviations
- Reporting of critical incidents to senior management
- Quarterly review of control effectiveness



14. Training & Awareness

- Mandatory training on internal controls for employees
- Awareness sessions on fraud prevention and compliance
- Periodic updates on regulatory and process changes

15. Review & Update of Policy

This policy shall be reviewed:

- Annually
- After regulatory changes issued by SEBI or exchanges
- Following major operational or organizational changes

For CapitalSquare Financial Services Pvt. Ltd.


Authorised Signatory

