

LOYAL TEXTILE MILLS LIMITED

**POLICIES & PROCEDURES ON
INTERNAL FINANCIAL
CONTROLS**

INTERNAL FINANCIAL CONTROLS POLICY

[Under Section 134(5) (e) of the Companies Act, 2013]

LEGISLATION AND REFERENCE

Section 134(5)(e) of the Companies Act, 2013, requires a Company to have Internal Financial Controls (IFC) Policy. In case of Listed Companies, the Directors' Responsibilities states that the Directors have laid down IFC to be followed by the Company and that such controls are adequate and operating effectively. The Act does not prescribe the contents of the Policy, Procedures and Practices.

As per Section 177 of the Companies Act, 2013, the Audit Committee shall review the IFC before their submission to the Board and shall also discuss any related issues with the Internal and Statutory Auditors and Management of the Company. It shall also act in accordance with the terms of reference specified in writing by the Board.

As per Section 143(3)(f) of the Companies Act, 2013, the Statutory Auditors report shall state whether the Company has adequate Internal Financial Controls system in place and the operating effectiveness of such controls.

As per Schedule IV of the Companies Act, 2013, the independent directors shall satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

COMPANY'S GOVERNANCE FRAMEWORK

Internal financial controls and risk management are the key elements of this frame work.

POLICY

The Company shall have defined organisation structure, policies, procedures, records and methods of reporting that are necessary to collectively ensure that the financial and non-financial operations of the Company is conducted in an orderly and efficient manner to achieve the Company's objectives by

1. Assessing and containing the risks faced by the Company to acceptable level.
2. Preventing and correcting irregularities.
3. Safeguarding assets against the loss / misuse.
4. Ensuring financial and other records are complete and accurately and reliably reflect the conduct of the Company.
5. Preventing the misuse or appropriation of resources.
6. Resources are acquired economically and employed efficiently, qualify business processes and continuous improvement are emphasised.
7. The actions of all Company officers including Directors, Key Managerial Personnel, Senior Management and Staff are in compliance with the Company's policies standard compliance and procedures and also relevant laws and regulations.

POLICY SCOPE

Internal Financial Control is basically a process which encompasses systems, policies and procedures that protect the assets of the Company, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

These systems are not only related to accounting and reporting but also relate to the organisation's culture, communication process both internal and external, which include, handling of funds received and expenditure incurred by the Company, preparing appropriate and timely financial report to the Board and Officers, conducting the annual audit of the Company, company's financial statements, evaluating staff and progress, maintaining inventory records and properties and their whereabouts and maintaining personal and conflict of interest policies.

Internal Financial Controls of the Company has got the following key elements.

1. Control Environment
2. Information and Control System
3. Control Procedures

CONTROL ENVIRONMENT

It includes –

- * Integrity and ethical behaviour
- * Commitment to competence
- * Directors and Audit Committee participation
- * Management Philosophy and operating style organisation structure
- * Assigning authority and responsibility
- * Human resource policy and practices

INFORMATION CONTROL SYSTEM

It facilitates –

- * Focus on preventing of errors or irregularities
- * Focus on identifying errors or irregularities if occurred
- * Focus on recovery from repairing the damaged from or minimising the cost of an error or irregular.

CONTROL PROCEDURES

The control activities shall be physical.

- * Controls which include security over assets, limiting access to the assets to only authorized people and periodical reconciliation of quantities on hand with the quantities recorded in the Company's records.
- * Information processing control shall be divided into general controls and application controls.
- * General Control shall cover data centre operations, system software, acquisitions and maintenance, access security and application systems, development and maintenance.
- * Application control shall be for processing of a specific application, namely, running computer programme to prepare payroll every month.

Policies on Control Activities

1. All Accountants shall act like control consultant with a real time proactive, control philosophy that focus first on preventing business risk than on detecting and correcting errors and irregulars.
2. Use modern information technology to achieve the objectives of recording, maintaining, producing of outputs of accurate and timely information, evaluating the risks associated with the updated mode of collecting and storing and reporting data and designing specific control procedures that help control the risks applicable to the new design.
3. Evolve control procedures to the business process so as to improve the quality of internal control systems while enhancing the organizational effectiveness.
4. Hard copy documents should largely be eliminated and shall be maintained in the electronic form. Work flow enabled application of administrative authority to be assigned to the individuals. Duplication of recording of business event should be eliminated.

PROCEDURES ON INTERNAL FINANCIAL CONTROLS

PREAMBLE

Internal Financial Controls comprises the plan of the Company and all the coordinated methods and measures adopted by the Company in order to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to the prescribed managerial policies, prevention and detection of frauds & errors, accuracy and completeness of the accounting records and timely preparation of reliable financial information.

INTERNAL CONTROL POLICY

It is Company's policy to develop an adequate system of internal control which will promote high level of compliance with Company's policies and procedures and ensure compliance with statutory obligations.

CEO/CFO are primarily responsible for implementing, maintaining the internal financial controls in order to assist the Board in carrying out its activities in an efficient and orderly manner to ensure adherence of the management policies, safeguarding of its assets, ensuring reliability of its records and statutory compliances.

INTERNAL CONTROL FRAMEWORK

The Company shall create, maintain accounting records in e-platform and shall establish, review & manage control framework in the following operational areas:

1. Sales & Invoicing
2. Receivables Management
3. Purchase of goods & services
4. Payables management
5. Employee payments
6. Treasury operations
7. Taxes and duties
8. Fixed assets
9. Inventories
10. General Ledger

SALES & INVOICING

Prices for invoicing shall be driven by masters or pre-approved sale orders.

Invoice generation should be system driven and online.

System of obtaining acknowledgement for invoices should be in place.

Establish price approval policy, discounts approval policy with proper authorization to vary rules.

Without valid invoices, dispatching of goods shall not be made.

RECEIVABLES MANAGEMENT

Credit sales shall not be done without security back up.

New credit customers shall be pre-approved by the designated authority after proper credit check.

Establish regular reporting and follow-up on aging accounts

Segregation of duties of employees in accounts receivable and receipt accounting

Review credit balances in customer account regularly.

Payments viz., cheques / DDs should be banked without any delay.

Establish monitoring system for timely collection of concessional form.

Debit notes are to be raised for bank charges on dishonour of cheques.

Bank guarantee, LC expiry to be reviewed and monitored regularly.

Annual statement of accounts to be sent to all customers promptly.

System of monitoring acknowledgements from customers.

PURCHASE OF GOODS & SERVICES

All procurements of goods & services shall be at competitive prices.

Procurement decisions shall be evaluated and monitored by cross functional team at all levels.

Vendors shall be pre-approved by Corporate Office before first transaction.

Ordering for purchase of goods & services shall be backed by Purchase orders (PO) or work order (WO) duly signed by two authorized officers; one shall be mandatorily by a person with knowledge in accounting.

All POs, WOs shall be pre-approved by the duly authorized official with appropriate delegated financial authority.

PAYABLES MANAGEMENT

Authorization for payment of the invoice after adhering to the terms and conditions of the POs / WOs.

Payments of Invoices shall be based on original invoice as per the terms of approved PO / WO.

Vendor payments shall be made through e-payments. Other mode of payment is only second option.

Vendor ledger to be reconciled on a monthly basis and control account are to be cleared up by following up for the pending items.

Confirmation of balance in writing from all vendors is must for at least once in a year.

Concessional forms like C-form shall be issued for eligible purchases.

EMPLOYEE PAYMENTS

All payments to employees are to be governed by pre-approved policies.

Maintain accurate employee attendance, leave records.

Segregate duties for maintenance of personnel records and running of pay roll.

Employee payments shall be made through e-payment to respective bank accounts.

All payroll control accounts are to be reviewed and reconciled on a monthly basis.

Maintain confidentiality about individual employee's earnings unless it is required for statutory purposes.

TREASURY OPERATIONS

No cash receipts from any customers without prior approval in writing.

Accounting of receipts and depositing of cheques, DDs in to banks shall be on same day.

Reconciliation with bank statement for receipts side should be done daily.

Cash balance should be counter checked by supervisory officer on a daily basis.

Adequate insurance cover for all risks associated with cash is mandatory.

Segregation of duties to ensure cash handling is separated from the finance manager.

Un-used cheque leafs shall be in safe custody.

Authorised Cheque signatories shall not sign blank cheques under any circumstances.

Rotation of cheque signatories for payments is encouraged.

Independent direct confirmation of bank balances from banks by internal audit department.

Transactions involving forex shall be governed by a policy.

TAXES AND DUTIES

Remittance of statutory liability & filing of prescribed returns on or before due date is the primary responsibility of the concerned accounts head.

Tax ledgers and control accounts are to be reconciled before remittance of taxes, duties based on the applicable laws and regulations.

All signatories to any statutory remittances or return or appeal or application or correspondence in whatever manner shall have appropriate authorization in writing including for digital signatory.

Develop a monitoring & reporting system for ensuring compliance of all statutory obligation mapped to its time schedule.

Develop a monitoring & reporting system for systematic review of all disputes in appeals before quasi-judicial, judicial fora relating to all statutory compliance or obligations.

FIXED ASSETS

Keep all smaller valuables in a safe.

Maintain an asset register with all relevant details of each asset.

Establish physical security protection measures such as locks on premises.

Establish security / surveillance cameras for enhancing protection measures for large area where movements of men and machines are there.

Take out appropriate insurance cover for all types of assets to cover relevant perils associated to it.

Review insurance coverage details regularly.

Perform periodical asset register audit with physical count.

Establish safeguarding measures to protect those assets from misuse or encroachment or theft where such assets are located away from the normal business premises.

INVENTORIES

Storage areas for inventories shall be properly secured with proper security arrangements. It shall be regularly reviewed for improvements.

Inventories shall be properly organised and stored for smooth access for both verification & delivery.

Segregation of administrative duties for material procurement and stores/warehouse management should be in place.

Establish paperless e-authorization for issuance of materials from Stores/warehouse.

ABC classification of inventory management system shall be followed.

Physical verification of inventory is to be carried out for all classes of items (i.e. ABC) for the pre-set time schedule for each category.

Cross functional team should conduct the physical verification of inventories.

Adequate insurance cover should be in place for all types of risks for inventories.

Establish systematic review process for initiation of insurance claims for damaged inventories during storage or transit.

Periodical review of obsolete, non-moving inventories to design a plan for periodical disposal.

GENERAL LEDGER

Segregation of duties with regard to creation & authorisation of entries.

Systematic work flow enabled authorisation of journal vouchers.

Statistical analysis for reasoning of cancelled / deleted entries periodically.

Reconciliation of control accounts and review system for monitoring.

Systematic monthly period closure of books.

Systematic review of GL for Revenue, Expenses, Assets and Liabilities should in place.

Centrally controlled master data management of chart of Accounts.

Budget controls for expenditure.

Systematic review of each and every component of financial statements.

Third party assessment certifications of inventory to be used to corroborate closing stocks on selective items.

Access control of GL to authorized users and surveillance system for monitoring unauthorized access.

Establish disaster recovery system in place and evaluate its fail-safe capabilities.
