



## **INTERNAL FINANCIAL CONTROL POLICY**

*[Pursuant to Section 134(5) (e) of the Companies Act, 2013]*

### **LEGISLATION AND REFERENCE**

The Board of Directors of **“Ravi Foods Private Limited”** (hereinafter referred to as ‘the Company’) has adopted the following Internal Financial Control Policy.

Section 134 (5) (e) of the Companies Act, 2013 requires, the Company to lay down Internal Financial Control Policy to be followed by the Company which helps in ensuring the orderly and efficient conduct of its business, including adherence to Company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the Accounting records and timely preparation of reliable financial information.

This Policy is divided into three parts. The first part of the policy deals with the purpose and scope of the policy, the second part consists of the definition of ‘Internal Financial Control’ and the third part contains the brief of the policy.

### **PURPOSE & SCOPE**

The purpose of this policy is to communicate to all the employees of the company about the internal control objectives of the company. The Board of Directors of the Company has the responsibility to establish and maintain an adequate system of internal control and to furnish to the Government agencies, creditors and other stakeholders reliable financial information as and when required.

An adequate system of internal control is necessary for the administration to discharge these responsibilities.

Controls established in the organisation are to:

- a). Ensure that assets are not exposed to unauthorized access and use,
- b). Transactions are properly recorded in the financial records and
- c). The resultant financial information is reliable and available to relevant stakeholders in efficient manner as and when required.

Auditors are required annually to report upon the adequacy of the company’s system for control over financial reporting and compliance.

### **DEFINITION**

A system of internal financial control consists of the policies and procedures established and maintained by administration to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity’s business.



The Company's system of internal financial control consists of such policies, procedures and financial systems that provide for financial transaction processing as well as financial reporting for control, planning and decision making purposes. These policies, procedures and financial systems support many areas, inter alia:

- a).* The determination and collection of revenues,
- b).* Control of expenditures,
- c).* Safeguarding of assets and management of liabilities and risks.

Financial controls provide guidance on:

- a).* The authorization of transactions and activities,
- b).* Appropriate segregation of duties,
- c).* Adequate documents and records and
- d).* Adequate safeguards over access to and use of assets and records.

## **POLICY**

### **A. Responsibility and accountability.**

1. The Board of Directors of the Company is responsible for:

- a.* Setting the company expectations for internal control,
- b.* Ensuring management is aware of those expectations,
- c.* Requiring the upward communications channels are open through all levels of management,
- d.* Evaluating management's effectiveness toward practicing an effective control environment and
- e.* Implementing effective control policies and procedures.

2. Individuals with delegated approval authority and Directors are responsible for establishing, maintaining, and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with company policies and procedures.

3. All employees in leadership roles are responsible for the application of this policy and the design, development, implementation, and maintenance of systems of internal controls focusing on the effectiveness of operations and the safeguarding of assets within their respective areas of responsibility.

4. All levels of management and supervision are responsible for strengthening internal controls when weaknesses are detected. Department managers should periodically review departmental procedures to ensure that the general principles of internal control are being followed.

5. Those in leadership positions have the responsibility to ensure that those who report to them have adequate knowledge, skills, and abilities to function within, and to contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job responsibilities.



6. Adequate supervision is necessary to ensure that internal controls are operating as intended, and to ensure their liability of accounting and operational controls by pointing out errors, omissions, exceptions, and inconsistencies in procedures.
7. Auditors and Advisors are responsible for reviewing the adequacy of departmental and institutional internal controls and for reporting any weaknesses to the management.
8. All levels of internal control are subject to examination by external auditors who are required to report on the adequacy of internal controls over finance and compliance.

**B.** Establishment and maintenance of a system of internal controls.

The administration will establish and maintain a system of internal controls that satisfies the Company's objectives in the following categories:

1. Safeguarding the assets of the company;
2. To mitigate risks and provide reasonable assurance that operations are efficient and effective, assets are safeguarded;
3. Financial reporting is accurate and reliable;
4. To ensure Company's resources are used prudently and in an efficient, effective and economical manner;
5. Resources of the Company are adequately managed through effective internal controls;
6. A framework for an effective internal control system which conveys to managers that they are responsible for ensuring that internal controls are established, documented, maintained and adhered to across the Company and also to all employees that they are responsible for adhering to those internal controls;
7. To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Company's objectives through operational efficiency.

**C.** General internal control principles.

1. Separation of duties

- Duties are separated so that one person's work routinely serves as a check on another's work.
- No one person has complete control over more than one key function or activity (e.g., authorizing, approving, certifying, disbursing, receiving, or reconciling).



## 2. Authorization and approval

- Proposed transactions are authorized when proper and consistent with Company's policy and plans.
- Transactions are approved by the person who has been delegated approval authority, which is usually delegated on the basis of special competency or knowledge.

3. Custodial and security arrangements a. Responsibility for physical security/custody of Company's assets is separated from record keeping/accounting for those assets. b. Unauthorized access to Company's assets and accounting records is prevented.

4. Timely and accurate review and reconciliation

a. Accounting records and documents are examined by employees who have sufficient understanding of the Company's accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with Company's policies and procedures.

b. Accounting records and documentation are compared with Company's accounting system reports and financial statements to verify their reasonableness, accuracy and completeness.

5. The general internal control principles should be applied to all operations, especially accounting records and reports, payroll, purchasing/receiving/ disbursement approval, equipment and supply inventories, cash receipts, petty cash and change funds, billing and accounts receivable.

## D. Evaluation of systems and processes.

All systems, processes, operations, functions, and activities are subject to evaluations of internal control systems. The overall results of these evaluations provide information regarding the Company's overall system of control.

## E. Information and communication.

Information must be communicated in a timely manner which will enable people to carry out their responsibilities efficiently.

1. All personnel must receive a clear message from the administration that control responsibilities are to be taken seriously. Failure to comply with established practices will subject individuals to the terms of disciplinary action or dismissal.



2. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. To this end, whenever a new budgetary unit, financial activity, research project, etc. is setup, the Management will provide notification to the appropriate parties of the responsibilities incumbent on them for good business practices and sound financial management, including reference to the principles within this policy.
3. Employees must have a means of communicating significant information to the administration.
4. The Board must communicate effectively with external parties, such as creditors, contractors, suppliers, regulators and other stakeholders.

#### **F. Internal controls – Cost and Benefit.**

Internal control is meant to keep the Company focused on achieving its mission while avoiding surprises. There is a balance between effective controls and mission accomplishment. Costs associated with internal controls should not exceed their benefit, nor should controls be allowed to stifle mission effectiveness and timely action. All levels of management must assess the costs, benefits, and risks when designing controls to develop a positive control environment and compensate for the risks of noncompliance, loss of assets, or unreliable reporting while accomplishing the mission of the company.

#### **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 pre-approved sale order/ order Acceptance.
- Invoice generation should be system driven and online.
- Establish price approval policy, discounts approval policy with proper authorization by sales head.



- Without valid invoices, dispatch of goods shall not be made.

### **RECEIVABLES MANAGEMENT**

- Dealers are provided with credit period according to the customer and trade.
- New credit customers shall be pre-approved by the designated authority after proper credit check.
- Establish regular reporting and follow-up on aging accounts.
- 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.
- Bank guarantee, LC expiry to be reviewed and monitored regularly.
- Monthly statement of accounts to be sent to all sales officers on timely interval basis.

### **PURCHASE OF GOODS & SERVICES**

- All procurements of goods & services shall be at competitive prices.
- Ordering for purchase of goods & services shall be backed by Purchase orders.
- (PO) or work order (WO) duly signed by Purchase Department Head.
- All POs, WOs shall be pre-approved by the duly authorized official.

### **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 Account payee cheques /RTGS / NEFT.
- Vendor ledger to be reconciled on a periodical basis.

### **EMPLOYEE PAYMENTS**

- All payments to employees are to be governed by pre-approved policies.
- Maintain accurate employee attendance, leave records.
- Employee payments shall be made through e-payment to respective bank accounts.
- Maintain confidentiality about individual employee's earnings unless it is required for statutory purposes.

### **TREASURY OPERATIONS**

- Cash receipts from any customers are accounted and proper receipts are issued.



- Reconciliation with bank statement for receipts side should be done Weekly and BRS is prepared on monthly basis.
- Adequate insurance cover for all risks associated with cash is mandatory.
- Un-used cheque leaf's shall be in safe custody.
- Authorised cheque signatories shall not sign blank cheques under any circumstances.
- Transactions involving forex shall be governed by a statutory provisions.

### **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 authorisation 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 for relating to all statutory compliance or obligations.

### **FIXED ASSETS**

- Maintain an asset register with all relevant details of each asset.
- Establish physical security protection measures such as locks on premises.
- Take out appropriate insurance cover for all types of assets to cover relevant perils associated to it.
- Review insurance coverage details regularly.
- 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 warehouse management should be in place.
- Physical verification of inventory is to be carried out for all classes of items on periodical basis by internal team.
- Cross functional team should conduct the physical verification of inventories at the end of the year.



- Adequate insurance cover should be in place for all types of risks for inventories.
- 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.
- Systematic review of GL for Revenue, Expenses, Assets and Liabilities should in place.
- Centrally controlled master data management of chart of Accounts.
- Systematic review of each and every component of financial statements.
- Access control of GL to Authorised users and surveillance system for monitoring unauthorized access.
- Disaster recovery system is established in place and evaluate its fail-safe capabilities.
- Adoption of statutory legislation to the accounting software as and when made applicable.

### **REVIEW OF THE POLICY BY BOARD OF DIRECTORS**

The Policy shall be reviewed by the Board of Directors of the Company from time to time for any modifications or amendments, including due to changes in the Companies Act, 2013.