

KRIBHCO GREEN ENERGY PRIVATE LIMITED

POLICY ON INTERNAL FINANCIAL CONTROL

INTRODUCTION

Section 143(3)(i) of the Companies Act, 2013 requires that the auditor's report shall also state whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls. In view of the same, a proper Policy on Internal Financial Control system should be in place duly approved.

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 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. Accordingly the following policy for Internal Financial Control has been framed and all employees/officials have to follow the same in their day to day working.

OBJECTIVE OF THE POLICY

- To mitigate risks and provide reasonable assurance that operations are efficient and effective assets are safeguarded.
- Financial reporting is accurate and reliable.
- To ensure Company's resources are used prudently and in an efficient, effective and economical manner.
- Resources of the Company are adequately managed through effective internal controls.
- 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's and to all Employees that they are responsible for adhering to those internal controls.
- To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Company's objectives through operational efficiency.

POLICIES AND PROCEDURES FOR ADEQUATE INTERNAL FINANCIAL CONTROL :

In order to fulfil with requirement of adequacy of internal financial control, following are important requirements to be observed by all the employees/officials while discharging their duties:

- Approved Authority Matrix is to be followed
- Financial concurrence and online file movement system/workflow system for seeking various approvals should be in place for ensuring adequate and systematic approval process with transparency and monitoring methods
- Physical verification of inventories at reasonable intervals shall be conducted by the Board of Directors and Senior Management.
- Physical verification of all Fixed Assets at reasonable intervals shall be conducted by the Board of Directors and Senior Management.
- All undisputed statutory dues including provident fund, Investor Education Protection Fund, Employee State Insurance, Income Tax, Sales Tax, Service Tax, Custom Duty, Excise Duty, rates and Taxes and other statutory dues shall be paid within the prescribed time.
- Funds availed on short term basis are not used for long term investment.
- The Company shall comply with all applicable Statutory Laws, Rules and Regulations.
- No loan or deposit exceeding Rs. 20,000/- or more are taken or accepted from any person otherwise than by an account payee cheque or account payee bank draft.
- No loan or deposit s exceeding 20,000/- is made otherwise than by an account payee Cheque or account payee bank draft.
- The Balance Sheet and Statement of Profit and Loss of the Company shall be in accordance with Schedule III of the Companies Act, 2013.
- Invoice generation should be system driven and online.
- System of obtaining acknowledgement for invoices should be in place.
- Without valid invoices, despatching of goods shall not be made.
- 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.
- Work flow enabled application of administrative authority through ERP system is being assigned to the individuals. Duplication of recording of business event should be eliminated.
- Evolve control procedures to the business process so as to improve the quality of internal control systems while enhancing the organisational effectiveness.

- All Accountants shall act like control consultant with a real time pro-active, control philosophy that focus first on preventing business risk than on detecting and correcting errors and irregular.
- Bank guarantee, LC expiry to be reviewed and monitored regularly.
- Priority to be given for safe and secure online net banking system. While registering the vendor/customer in vendor/customer master, KYC documents such as PAN, GSTIN, Bank Account details etc. are to be recorded after obtaining the same from them. Wherever receipt of Payments are thorough , cheques / DDs, they should be banked without any delay.
- Ordering for purchase of goods & services shall be backed by Purchase orders (PO) or work order (WO) duly signed by authorised officials as per Authority Matrix.
- All POs, WOs shall be pre-approved by the duly authorised official with appropriate delegated financial authority as per Authority Matrix. Effective transparent price discovery mechanism should be in place alongwith tendering process wherever required.
- 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/Customer ledger to be reconciled on a monthly basis and control account are to be cleared up by following up for the pending items.
- All payments to employees are to be governed by pre-approved policies.
- Maintain accurate employee attendance, leave records etc. with latest softwares with
- 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.
- 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. Bank reconciliation is to be done at regular periodic intervals.
- Un-used cheque leafs shall be in safe custody.
- Authorised cheque signatories shall not sign blank cheques under any circumstances.
- 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.
- Remittance of statutory liability & filing of prescribed returns on or before due date is the primary responsibility of the concerned accounts head.
- 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.
- Strict visitor management control system should be in place with latest available electronic/software/hardware for prompt monitoring so that the assets/data/information of the company are protected
- Proper and latest access control system should be in place in the plant area to regulate unauthorized access to Hazardous Zone in plant
- Robust Canteen Management software is to be deployed for monitoring canteen in plant as they are frequented by employees/visitors and check idle time/unauthorized activity which may lead to financial loss to the company in any manner
- All Building, Plant & Machinery, Furniture, Office Equipment, Stock etc are adequately protected under Insurance Policy with Insurance Company approved by IRDA 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.
- Storage areas for inventories shall be properly secured with proper security arrangements. It shall be regularly reviewed for improvements.

- Robust Contract Management system for regulating contract labour attendance and compliance verification of statutory documents of contractor compliances should be in place as the plants will be employing large manpower through activity based contracts/labour contractors
- Inventories shall be properly organised and stored for smooth access for both verification & delivery. Effective ERP system should be in place to cover all the resources of the organization.
- Quality control system should be in place for monitoring quality of input/output material including by products and other purchased items. Preparation of quality specifications for purchase of material, equipment, spares, replacements, consumables, raw material, fuel, packing materials etc for adhering to the Company policies and products
- Effective security system should be in place with support of latest available software/hardware and quality personnel
- Statistical analysis for reasoning of cancelled / deleted entries periodically.
- Reconciliation of control accounts and review system for monitoring.
- Budget controls for expenditure.
- Monitoring of output of each equipment so that optimized working is arrived at and the efficiency of equipments are maintained to keep the cost lower. All floor levels employees/officials shall be responsible for the effectiveness in production process, maintenance process, ensure full utilization of equipments, men and material, minimize breakdowns, ensure repair/ restart within a very short period so that there is production loss and the production/output is as per the norms by establishing proper input/output ratio of both material and equipments
- Proper mechanism for safety of plant, equipment, product etc are to be monitored so that there is no loss of material, equipment, men in the process. Adequate measures for ensuring Employee/public safety should be in place.
- Systematic review of each and every component of financial statements.
- Establish disaster recovery system in place and evaluate its fail-safe capabilities.
- All Bank compliances as per the terms of loan sanction are to be complied within the due date at periodical intervals specified in such arrangements.
- All credit rating compliances as per the terms of the credit rating engagement are to be complied within due date at periodical intervals specified in such arrangements
- The Company has adequate system in place to protect its cash balance which is managed at optimum level, under the supervision of a senior official of the Company.

- The Company needs to prepare its accounts as per the provisions of Companies Act and by considering the guidance notes and accounting standards laid down by the Institute of Chartered Accountants of India. The Company is in process of implementing a Enterprise Resource Planning system which is capable of recording all accounting entries in a proper manner.
- Quarterly financial statements are to be put up to the Board for their consideration and approval every quarter
- Systematic Internal Audit system is to be in place and observations of Internal Audit are to be resolved periodically
- Adequate MIS system should be in place for reporting at periodical levels and analysis of variances for remedial measures leading to cost savings
- Adequate policy on scrap disposal, waste disposal, hazardous material disposal, compliance of environmental laws, Zero Liquid Discharge requirements etc. are to be in place for proper business management and running.
- Company should adhere to robust corporate governance practices and should follow ethical business practices and be a law abiding Corporate Entity, so that the declarations/verifications/representations given to Statutory Auditors, Government Agencies, Secretarial Auditors, Board of Directors, Shareholders, other Stake holders are provided with accurate information and no misrepresentation is made of any facts and figures.
- Company's Risk Management Policy, Vigil Mechanism Policy, Authority Matrix and other relevant guidelines issued from time to time are to be kept in view by employees/officials so that a robust internal financial control system is in place.
- Any other relevant measures which are required for ensuring adequate internal control system should also be followed from time to time.

PREVENTION AND DETECTION OF FRAUD

The Company has put in place various policies, systems and procedures to guide employees for undertaking various transaction(s) within and outside organization and to conduct the same in a transparent & uniform manner by way of authority matrix and adherence to Company's Policies, Code of Business Ethics, and deploying checks and balances at various levels. The Company has also established a Vigil Mechanism Policy to enable the Directors and Employees of the Company to report genuine concerns about unethical behavior, actual or suspected fraud or any other matters or activity on account of which the interest of the Company is affected.

Following are some of the examples of fraud:

- a) Forgery or unauthorized alteration of any document or account belonging to the Company.
- b) Forgery or unauthorized alteration of cheque, bank draft, E-banking transaction(s) or any other financial instrument etc.
- c) Falsifying records such as pay-rolls, removing the documents from files and /or replacing it by a fraudulent note etc.
- d) Willful suppression of facts/ deception in Matter of appointment, placements, submission of reports, etc. as a result of which a wrongful gain(s) is/are made to one and wrongful loss(s) to the others.
- e) Utilizing Company funds for personal or other than official purposes.
- f) Award of fake contracts
- g) Authorizing or releasing payments for goods not supplied or services not rendered.
- h) Destruction, disposition, removal of records or any other assets of the Company with intention to manipulate and misrepresent the facts so as to create suspicion /suppression /cheating as a result of which objective assessment/ decision would not be arrived at.
- i) Any other act that falls under the fraudulent activity.

Fraud Prevention and Detection

The Company has designed fraud prevention and detection measures considering the fraud risk as such they may need to be flexible, adaptable and continuously changing to meet the various changes in fraud risk.

The Company has in place various essential elements of fraud detection process which inter alia include:

- Internal Control
- Internal Audit by an Independent Agency
- Statutory Audit carried out on quarterly and annual basis
- Bill watch system
- File management system
- Mechanism of authorization
- Routing of fund through Corporate Office at Noida.
- Reconciliation of all banks accounts regularly.

There is frequent supervision of all employees and review of their work especially those who have access to financial records. The company has adequate internal controls to prevent fraud from occurring and detective controls to reveal any inconsistency. In case of violation of Code of Business Ethics, the gradual system of punishments has been laid down, depending on the gravity of the misdeed which presumably acts as a deterrent for violating the said Code.

REVIEW OF THE POLICY

The above policy has been reviewed by the Board of Directors and will be subject to the change as it may deem necessary by the Board of Directors.