

POLICY ON INTERNAL FINANCIAL CONTROLS

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1. Internal Financial Controls means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, safeguarding its assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records and timely preparation of reliable financial information including adherence to the company's policies and compliance with the applicable laws and regulations. Internal Controls forms an integral part of company's financial and business policies and procedures. They are good business practices.
2. The day to day operations of the company involve number of transactions, financial and otherwise like –
 - a. Account payables
 - b. Account receivables
 - c. Billing for sale of goods and services
 - d. Entering contracts for sale of goods and services
 - e. Entering contracts for purchase of goods and services
 - f. Receipt of goods and services and their accounting including inter unit transfers
 - g. Inventory management
 - h. Accounting of consumption of goods and services and utilities
 - i. Accounting of assets and their physical maintenance
 - j. Accounting of personnel, labor, payroll preparation
 - k. Making investments
 - l. Preparation of financial statements
 - m. Maintenance of accounts and records
 - n. Safety and security of assets
 - o. Complying with the policies of the company
 - p. Complying with the Government laws and regulations
3. Everyone within the company has some role in internal financial controls. The roles vary depending upon the level of responsibility and the nature of involvement by the individual. Managers and supervisory personnel are responsible for executing internal control policies and procedures within their specific area. Each individual within the area of assignment is to be cognizant of proper internal control procedures associated with their specific job responsibilities.

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4. The internal financial control activities generally fit into two types of activities.
 - a) Preventive: Preventive control activities aim to deter the instance of errors or fraud. Preventive activities include through documentation and authorisation practices. Preventive control activities prevent undesirable "activities" from happening.
 - b) Detective: Detective control activities identify undesirable "occurrences" after the fact. The most important detective control activity is reconciliation and internal audit.
5. The internal financial controls that are required to be followed in the Company are described herein after. The description is not exhaustive. There may be several areas where the Company may consider putting new controls. The type and extent of controls will vary from one transaction to another depending on their individual requirements. The step by step procedure for execution of a transaction may be decided by convention or by generally followed procedure in the industry but the financial controls shall become an integral part of those transactions.
6. Authorisation

Authorisation is the basis by which the authority to complete the various stages of a transaction is delegated. These stages include the processes of Recording (initiate, submit, process), Approving (pre-approval, post entry review), and Reconciling.

All transactions and activities should be carried out and approved by employees acting within their range of authorisation and proper span of control. Proper authorisation practices serve as a proactive approach for preventing invalid transactions from occurring.

7. Documentation

Paper or electronic communication, which supports the completion of the transaction, meets the criteria for documentation. Anything that provides evidence for a transaction, who has performed each action pertaining to a transaction, and the authority to perform such activities are all considered as documentation.

Documents provide a financial record of each event or activity, and therefore ensure the accuracy and completeness of transactions. Proper documentation

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provides evidence of what has transpired as well as provides information for researching discrepancies.

8. Reconciliation

Reconciliation is the process of comparing transactions and activity to supporting documentation. Further, reconciliation involves resolving any discrepancies that may have been discovered. The process of reconciliation ensures the accuracy and validity of financial information. Also, a proper reconciliation process ensures that unauthorised changes have not occurred to transactions during processing.

9. Security

The security of Company assets and records includes three types of safeguards; Administrative, Physical and Technical. Administrative security includes the process of authorisation and reconciliation. Physical security is the protection of physical records and assets from loss by theft or damage. Technical security is the protection of electronic records from loss by theft, damage, or loss in transport. Assets and records should be kept secure at all times to prevent unauthorised access, loss or damage.

10. Separation of Duties

Separation of duties is the means by which no one person has sole control over the lifespan of a transaction. Ideally, no one person should be able to initiate, record, authorise and reconcile a transaction. The company should separate functional responsibilities. The separation of duties assures that mistakes, intentional or unintentional, cannot be made without being discovered by another person.

11. Qualification of staff and advisors

Staff should be properly trained, qualified and competent for the tasks that they are required to perform. This reduces the scope for errors. It is also important that regular contact should be maintained with professional advisers.

12. Budgetary Controls

Revenue Budgets - Annual budgets of income and expenditure should be prepared. By comparing actual results to those budgeted, the company can

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quickly highlight areas of the business which may need attention. Capital Budgets - Financial viability of new schemes should be assessed before a project is approved by the company.

13. Internal Audit

Internal Audits are to appraise and evaluate compliance with the policies and procedures. This can give an indication of the reliability of the financial reporting, the security of assets and compliance with statutory requirements etc. The Internal Department can provide the Board with recommendations for improvements to systems.

14. Controls protect both the Company and its staff. These controls should be embedded in the operations and culture of the Company. However when a good system of Financial Controls is in place and is fully utilised, it can only provide reasonable, and not absolute, assurance against material misstatement of accounts, loss or misuse of resources and non-compliance with laws or regulations.

The above policy was approved by the Audit Committee and Board of Directors at its respective Meetings held on **15th November, 2018**.

Recommended

**Sd/
(S.PARVATHARAO)
Chairman of the Audit Committee Meeting**

Approved

**Sd/
(P.NARENDRANATH CHOWDARY)
Chairman of the Board of Directors.**