



MODERN DENIM LIMITED

POLICY ON INTERNAL FINANCIAL
CONTROL

INTERNAL FINANCIAL CONTROL POLICY

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 control are adequate and operating effectively.

As per Section 177 of the Companies Act, 2013 and Regulation 18 of SEBI (LODR) Regulation, 2015 the Audit Committee shall review the Internal Financial Control 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 control and the systems of risk management are robust and defensible.

OBJECTIVES 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.

- Assessing and containing the risks faced by the Company to acceptable level.
- Preventing and correcting irregularities.
- The actions of all Company officers including Directors, Key Managerial Personnel, Senior Management and Staff are in compliance with the Company's policies and procedures and also relevant laws and regulations.

SCOPE OF THE POLICY

Internal Financial Control is basically a process by which an organisation's resources are directed, monitored and measured. It plays an important role in detecting and preventing fraud and error and protecting organisations resources. It also comprises the plan of the Company and all the methods and measures adopted by the Company in order to safeguard its assets, accuracy and reliability of its accounting data, promote operational efficiency, prevention, accuracy and completeness of the accounting records and timely preparation of reliable financial information.

The framework of a good Internal Control System includes:

- **Control Environment:**

A sound control environment is created by management through communication, attitude and example. This includes a focus on integrity, a commitment to investigating discrepancies, diligence in designing systems and assigning responsibilities.

- **Risk Assessment:**

This involves identifying the areas in which the greatest threat or risk of inaccuracies or loss exist. To be most efficient, the greatest risks should receive the greatest amount of effort and level of control.

- **Monitoring and Reviewing:**

The system of internal control should be periodically reviewed by management. By performing a periodic assessment, management assures that internal control activities have not become obsolete or lost due to turnover or other factors. They should also be enhanced to remain sufficient for the current state of risks.

- **Information and Communication:**

The availability of information and a clear and evident plan for communicating responsibilities and expectations is paramount to a good internal control system.

- **Control Activities:**

These are the activities that occur within an internal control system.

PROCEDURES ON INTERNAL FINANCIAL CONTROLS

The Company shall establish, review & manage control framework in the following operational areas:

1. 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 authorisation to vary rules.
- Without valid invoices, despatching of goods shall not be made.

2. 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.
- All cheques/DDs should be deposited 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.
- Monthly statement of accounts to be sent to all customers promptly.
- System of monitoring acknowledgements from customers.

3. 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 authorised officers; one shall be mandatorily by a person with knowledge in accounting.
- All POs, WOs shall be pre-approved by the duly authorised official with appropriate delegated financial authority.

4. 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.

5. 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.

6. 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.
- Transactions involving forex shall be governed by a policy.

7. 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 fora relating to all statutory compliance or obligations.

8. 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.

9. 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.
- Establish paperless e-authorisation for issuance of materials from 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.

10. 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 authorised users and surveillance system for monitoring unauthorised access.
- Establish disaster recovery system in place and evaluate its fail-safe capabilities.

AMENDMENT IN LAW

This Policy shall be suitably amended, modified and improved to meet the changing business needs and in respect to any subsequent amendment/modification in the applicable laws and/or Listing Agreement in this regard.
