ROYAL INDIA CORPORATION LIMITED

INTERNAL FINANCIAL CONTROLS POLICY

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

Enforced from 01.04.2015

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 pro- active, 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 co- ordinated 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 and shall establish, review & manage control framework in the following operational areas:

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

Key responsibility is on the Internal Auditors for reporting any issues/concern on the Internal control system of the Company to the Audit Committee while laying the Internal Audit Report. Audit Committee to further report the same to the Board.

Internal Control Policy is framed as per the following regulatory requirements:

(A) Related Party Transactions

1. Details of all Material transactions with related parties shall be disclosed quarterly along with the Compliance Report on Corporate Governance.
2. The Company shall disclose the policy on dealing with Related Party Transaction on its Website and a web link thereto shall be provided in the Annual Report.

(B) Disclosure of Accounting Treatment Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

Companies Act 2013:

"Books of Account" as per Section 2(13) of Companies Act, 2013 defines: "Books of account" includes records maintained in respect of— (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place; (ii) all sales and purchases of goods and services by the company; (iii) the assets and liabilities of the company; and (iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

Provision of the Section 128 of Companies Act, 2013:

Every company shall prepare and keep at its registered office books¬ of account and other relevant books and papers and financial statement for every financial year and such books shall be kept on accrual basis and according to the double entry system of accounting Provided that all or any of the books of account aforesaid and other relevant papers may be kept at such other place in India as the Board of Directors may decide and where such a decision is taken, the company shall, within seven days thereof, file with the Registrar a notice in writing giving the full address of that other place:

Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed. [Sub-section (1) of Section 128].

Provision of the Section 129 of Companies Act, 2013:

The financial statements of the Company shall give a true and fair¬ view of the state of affairs of the Company and shall comply with the accounting standards as notified under section 133 and shall be in the form as may be provided in Schedule III.[Sub-section (1) of Section 129]

Without Prejudice to sub-section (1) where the financial statements¬ of the Company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.[sub-section(5) of Section 129]

Provisions of the Section 134 of the Companies Act, 2013:

(1) The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board at least by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director and the Chief Executive Officer, if he is a director in the company, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, for submission to the auditor for his report thereon.

(2) The auditors' report shall be attached to every financial statement.

(3) There shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include—

(a) the extract of the annual return as provided under sub-section (3) of section 92;
(b) number of meetings of the Board;
(c) Directors' Responsibility Statement;
(d) a statement on declaration given by independent directors under subsection (6) of section 149;
(e) in case of a company covered under sub-section (1) of section 178, company's policy on directors' appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under sub-section (3) of section 178;
(f) Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made— (i) by the auditor in his report; and (ii) by the company secretary in practice in his secretarial audit report;
(g) particulars of loans, guarantees or investments under section 186;
(h) particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the prescribed form;

(i) the state of the company's affairs;
(j) the amounts, if any, which it proposes to carry to any reserves;
(k) the amount, if any, which it recommends should be paid by way of dividend;
(l) material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statements relate and the date of the report;
(m) the conservation of energy, technology absorption, foreign exchange earnings and outgo, in such manner as may be prescribed;
(n) a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company;
(o) the details about the policy developed and implemented by the company on corporate social responsibility initiatives taken during the year;
(p) in case of a listed company and every other public company having such paid-up share capital as may be prescribed, a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors;

(q) such other matters as may be prescribed.

(4) The report of Board of Directors shall be attached to the financial statements under this sub-section.
(5) The Directors' Responsibility Statement referred to in clause (c) of sub-section (3) shall state that:

(a) In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
(b) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
(c) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
(d) The directors had prepared the annual accounts on a going concern basis; and
(e) The directors had devised proper systems to ensure compliance with the Provisions of all applicable laws and that such systems were adequate and operating effectively.

(6) A signed copy of every financial statement, including consolidated financial Statement, if any, shall be issued, circulated or published along with a copy each of—

(a) any notes annexed to or forming part of such financial statement;
(b) the auditor's report; and
(c) the Board's report referred to in sub-section (3).

RULE 8 OF THE COMPANIES (ACCOUNTS) RULES, 2014

The Board's Report shall be prepared based on the stand alone¬ financial statements of the company and the report shall contain a separate section wherein a report on the performance and financial position of each of the subsidiaries, associates and joint venture companies included in the consolidated financial statement is presented.[Rule 8(1)]

The details in respect of adequacy of internal financial controls¬ with reference to the Financial Statements.[Rule (5) (viii)]

Provisions of the Section 177 of the Companies Act, 2013:

The Audit Committee assists the Board in the discharge of its duties regarding the Group's financial statements, accounting policies and the maintenance of proper systems of risk management and internal control. Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include—
(i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
(ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;
(iii) examination of the financial statement and the auditors' report thereon;

(iv) approval or any subsequent modification of transactions of the company with related parties;

(v) scrutiny of inter-corporate loans and investments;

(vi) valuation of undertakings or assets of the company, wherever it is necessary;

(vii) evaluation of internal financial controls and risk management systems;

(viii) monitoring the end use of funds raised through public offers and related matters. The Audit Committee may call for the comments of the auditors about internal control, scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

INTERNAL AUDIT

Provisions of the Section 138 of the Companies Act, 2013: Company shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

****