RAJASTHAN TUBE MANUFACTURINF COMPANY LIMITED

INTERNAL FINANCIAL CONTROL POLICY

Subject: IFC policy

Date: 30.07.2014

Policy For: Board Members & all employees

I. 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 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 on a timely basis. An adequate system of internal control is necessary for the administration to discharge these responsibilities. Controls ensure that assets are not exposed to unauthorized access and use, transactions are properly recorded in the financial records, and the resultant financial information is reliable. Auditors are required annually to report upon the adequacy of the company’s system for control over financial reporting and compliance.

II. DEFINITION:

The Board of Directors of RTMCL is accountable for the effective and efficient management of the funds of the company. 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 consist of 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 such as the determination and collection of revenues, control of expenditures, safeguarding of assets and management of liabilities and risks. Financial controls provide guidance on the authorization of transactions and activities, appropriate segregation of duties, adequate documents and records and adequate safeguards over access to and use of assets and records.

III. POLICY:

A. Responsibility

1) The Board of Directors is responsible for setting the company expectations for internal control, ensuring management is aware of the those expectations, requiring the upward communications channels are open through all levels of

management, and evaluating management's effectiveness toward practicing an effective control environment and implementing effective control policies and procedures.

2) Individuals with delegated approval authority, e.g. CFO, CS 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) Adequate supervision is necessary to ensure that internal controls are operating as intended, and to ensure the reliability of accounting and operational controls by pointing out errors, omissions, exceptions, and inconsistencies in procedures.

4) 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.

5) 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.

6) Audit & Advisory Services is responsible for reviewing the adequacy of departmental and institutional internal controls and for reporting any weaknesses to the management.

7) 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.

8) 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 contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job responsibilities.

B. 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) Reliability and integrity of financial information.

3) Compliance with the policies, plans, procedures, laws and regulations of the company.

4) Economical and efficient use of resources.

5) Meeting established objectives and goals for company’s operations and programs.

C. General internal control principles are:

1) Separation of duties
   a) Duties are separated so that one person's work routinely serves as a check on another's work.
   b) 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
   a) Proposed transactions are authorized when proper and consistent with Company’s policy and plans.
   b) Transactions are approved by the person who has 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 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. 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 timely and communicated in a manner that enables people to carry out their responsibilities.

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 set up, the Controller 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 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 non-compliance, loss of assets, or unreliable reporting while accomplishing the mission of the company.

Review of the policy by Audit Committee

The above policy has been reviewed by the Audit Committee in terms Section 177 of the Companies Act, 2013.