

J. K. Cement LTD.

INTERNAL FINANCIAL CONTROL POLICY

INTRODUCTION

Section 134(5)(e) of the Companies Act, 2013 requires Directors of a listed company to state in their Directors' Responsibility Statement that they have laid down internal financial controls to be followed by the Company that is adequate and are operating efficiently.

The Company at present is adhering to internal Financial Control commensurate with its size and operation which is now reduced into writing in terms of the requirements of Companies Act, 2013 read with Rule 8(5)(viii) of Companies (Accounts) Rules, 2014 and Clause 49 of the Listing Agreement.

OTHER APPLICABLE PROVISIONS OF THE COMPANIES ACT 2013 AND RULES FRAMED THEREUNDER

Section 129 of Companies Act 2013.

- 1) The Accounting Standards specified under the Companies Act, 1956 (which are deemed to be applicable as per Section 133 of the 2013 Act, read with Rule 7 of Companies (Accounts) Rules, 2014) is one of the criteria constituting the financial reporting framework on which companies prepare and present their financial statements under the Act and against which the auditors evaluate if the financial statements present a true and fair view of the state of affairs and the results of operations of the company in an audit of the financial statements carried out under the Act.
- 2) Section 129(4) of the 2013 Act states that the provisions of the 2013 Act applicable to the preparation, adopting and audit of the financial statements of a holding company shall ,mutatis mutandis, apply to the consolidated financial statements.

Section 177 of the Companies Act, 2013

1. Clause (vii) of Sub-section 4 of Section 177 of the Act states that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, "evaluation of internal financial controls and risk management systems".
2. Sub-section 5 of Section 177 provides that the Audit Committee may call for the comments of the Auditors about internal control systems including the observations of the Auditors and may also discuss any related issues with the Internal Auditors and the Management of the Company.

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)]

DEFINITION

“**Audit Committee**” means Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013 and the Listing agreement.

“**Board of Directors**” or “**Board**” in relation to a Company, means the collective body of Directors of the Company. [Section 2(10) of the Companies Act, 2013]

“**Books or Books of Account**” as per sub-section (12A) of Section 2 of Income Tax Act, 1961 means and includes ledgers, day-books, cash books, account books and other books, whether kept in written form or as print-outs of data stored in floppy, disc, tape or any other form of electro-magnetic data storage device.

“**Financial Statement**” as per Section 2(40) of Companies Act, 2013 in relation to a Company means a Statement which includes-

- (i) A balance sheet as at the end of the financial year;
- (ii) A profit and loss account for the financial year;
- (iii) Cash flow statement for the financial year;
- (iv) A statement of changes in equity, if applicable; and
- (v) Any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv);

“**Internal Financial Control**” or ‘IFC’ as per Section 134(5)(e) of Companies Act, 2013 means the policies and procedures adopted by the Company for ensuring the orderly and efficient conduct of its business, including adherence to Company’s policies, safeguard of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records and the timely preparation of reliable financial information”.

“**Policy**” means *Internal Financial Control Policy*.

OBJECTIVES

The objectives of this Policy are:

- 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 managed in an efficient, effective and economical manner.
- IFC is a framework for an effective internal control system which conveys to Officials and the employees of the company that they are responsible for ensuring that the internal controls are established, documented, maintained and adhered to across the Company by all Employees
- To ensure the propriety of transactions, sources of information, accountability, ownership, integrity, compliance with regulations and achievement through operational efficiency.

ELEMENTS OF INTERNAL CONTROL FRAMEWORK

The essential elements of proper internal financial control framework are:

- Organizational Structure is well defined with culture, team spirit;
- Delegations of Authority is clearly spelt out

- Policies and procedures are clear and documented
- Transparency in recruitment of staffs is maintained and recruited staffs are properly Trained;
- Information Technology controls are advanced
- Review process besides statutory audit internal audit,,cost audit, are in place
- Liaison with auditors and legal advisors;
- Senior Management compliance assurance;
- Risk identification and assessment and mitigation process exist.

KEY NOTES ON INTERNAL CONTROL POLICY :

Internal Controls include reviews of the following areas:

- Senior management, to be responsible for establishment of overall policies and active oversight of parameters and controls.
- Internal audit, to ensure that proper systems and procedures are at place for internal control at various departments,
- independent assessments are made encompassing functioning of various compliances under various statues and Rules & Regulations framed there under,
- adequate systems and procedures are at place for physical verification of stocks (of raw materials, finished goods, stores and spare parts, work-in-progress) fixed assets and other assets,
- proper books of accounts vouchers along with supporting documents are maintained,
- confirmation of balances from debtors, creditors and other parties are obtained periodically/at year end
- Operational risks analysis, mitigation techniques
- There are adequate checks and balances, protection of customer funds and securities, operating systems, management information systems, management reporting, front and back office operations, contingency planning and disaster recovery.
- And finally, to ensure that products and activities are assimilated into the risk management system in a timely and appropriate manner.

For Effective Financial Control, the Board of Directors and Senior Management shall Ensure:

- Physical verification of inventories cash and all Fixed Assets are at reasonable intervals.
- Adequate Internal Control procedure is at place for maintaining proper records in respect of sale/purchase of goods.
- All undisputed statutory dues including provident fund, investor Education Protection Fund, Employee State Insurance, Income Tax, Value added Tax, Service Tax, Custom Duty, Excise Duty, Rates and Taxes and other Statutory dues are paid within the prescribed time.
- Funds availed on short term are not used for long term purposes investment.
- Cash and bank balances are monitored at regular intervals
- The funds raised through Public issue, Right issue, Preferential/Private placement shall be used for the purposes as stated in Prospectus/Offer letter.
- The Company shall comply with all applicable Statutory Laws, Rules and Regulations.
- No loan or deposits exceeding Rs. 20,000/- or more are taken or accepted and/or repaid from/to any person excepting through an account payee cheque or bank draft (Section 269SS and 269T of Income Tax Act, 1961).
- **No cash transaction exceeding Rs 20000/.**

ACCOUNTING POLICIES

The Financial Statement will be prepared in accordance with Indian Generally Accepted Accounting Principles (“GAP”) under the historical cost convention followed on the accounting (except for certain revalued fixed assets) and recognizes income and expenditure on accrual basis except those with significant uncertainties.

The Company may adopt Accounting Policies to provide for:

- Methods of depreciation, depletion and amortization.
- Valuation of inventories, investments and Fixed Assets.
- Treatment of goodwill, government subsidies
- Treatment of retirement benefits
- Recognition of profit on long term contracts
- Treatment of contingent liabilities
- Recording of foreign transactions and fluctuations in Transaction currency.
- Recognition of revenue and estimation of expenditure for current and future period.
- Tax and Government levies.

ANNUAL/HALF YEARLY ACCOUNTS

The Balance sheet and Statement of Profit and Loss of the Company shall be in accordance with schedule III of Companies Act, 2013.

1. Policies and Procedures are in place and adhered to for ensuring the orderly and efficient conduct of business.

Efficient conduct of business is essential to keep pace with the competitive world and to ensure that the Company is working at peak efficiency. Following are some of the components for efficient conduct of business:

Customer Satisfaction

Policy

The Company recognizes that effective resolution of customer complaints and proper feedback is crucial for good customer relations and hence it has a policy to satisfy the existing customer's without delay simultaneously exploring new customer continuously in domestic as well as international market ..

Procedure

The Company has therefore laid down measures for timely delivery and satisfactory after sales service/complaint resolution.

Employee Satisfaction

Policy

The Company considers employees as valuable resources to the organization and recognizes that employee satisfaction is priority area to ensure their optimum productivity. The Company has various policies for transparent recruitment of qualified staff together with good training policies for benefit of employees.

Procedure

For the above it has various policies e.g. for Leave,, leave travel , Vehicle mediclaim,, sexual harassment whistle blower etc. The Company conducts various training programs to enhance the skills of its employees.

Technology

Policy

The Company has a policy for continuous technology up-gradation through training and R & D. SAP has been implemented across the organization.

Procedure

The Company uses secure and reliable technology. The Company also have its own CTS Department.

Communication

Policy

The Company places top priority on effective communication. It has an open door policy for its stakeholders, employees as well as customers so that they can communicate with ease. All policies are expressly communicated to the concerned and also hosted on the website www.jkcement.com

Procedure

The Company has a streamlined customer / stake holders communications system in place, which includes Corporate presentation, catalogues, email correspondence after sales visits and service etc.

Adherence to Company's policies

The Company has been disseminating all its policies to the concerned/affected persons and whenever possible, acknowledgements are taken to the effect that they have understood the policies and will abide by the same in letter and spirit. The Company also periodically reviews the policies and update them.

Safeguarding of Its Assets

The Company has to safeguard its moveable and immovable assets against accidental losses, corruption, misuse or theft.

Company's assets include:

- Tangible & Intangible Assets
- Property with third parties
- Funds, securities and negotiable instruments
- Employees
- Leases and copy rights used

Tangible & Intangible Assets

All Building, Plant & Machinery, Furniture, Office Equipment, Stock etc. are adequately protected under Insurance Policy with Insurance Company approved by IRDA.

Property Entrusted to Third Parties

Only the person properly Authorized may keep the assets of the Company in his custody and entrust the same for safekeeping to third parties.

Use of Company's Property off Premises

Equipment, files or other information, property or assets of the Company are, if required, may be removed from the Company's premises with proper authorization. Where

permission is given for Company property or assets to be used off-site, as part of an approved arrangement, the employees are expected to keep those assets safe and confidential by following proper safety procedures.

Company's Registered, Corporate and other Offices

The Company has its manufacturing facilities situated in the State of Rajasthan, Karnataka, Haryana and Madhya Pradesh, Corporate and Registered office at Kanpur, Central Marketing Office at New Delhi and Marketing/Sales Offices/Dumps spread all over India. Adequate Care is taken to protect it apart from taking insurance policy. By constant vigilance on electrical, plumbing, heating, air conditioning system etc.

Computer Systems and Electronic Technology

Computer systems, programme and information required to be protected from theft or misuse. It is the employee's responsibility to safeguard any information which they have in their custody and control This is the case even when the employees are disposing any unwanted material; they must comply at all times with the Company's security processes and protection requirements, including any specific requirements applicable to a system or programme, which they use. The Company has been availing the services of cyber-security expert to protect the company's electronic data, including customer information, passwords, financial accounts and work product. Employees are advised to regularly change their passwords to sensitive areas of business.

Employee Retention

The Company attaches high importance to transparent recruitment of qualified persons and effective training to retain talented employees and continuously upgrade their skill and knowledge . They are allowed to take vacations, get annual medical tests and annual reviews to gauge their satisfaction and interest in working for the company.

Cash

The Company has adequate system in place to protect its cash and bank balance which is managed at optimum level, under the supervision of a senior official of the Company.

Credit

Efforts are made to make collections on time with constant follow up on aging analysis

Audits and Internal Checks

The Company apart from statutory audit has an internal audit mechanism cost audit, secretarial audit, which is being modified/upgraded as per the requirements.

2. Prevention and detection of frauds and errors

The Company has put in place 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 delegation and adherence to Company's HR Policies, Code of Business Ethics, and covenants mentioned in the appointment letter.

Fraud

Company believes in prevention rather than cure and has developed system of identifying possible risk/fraud areas. This will be further upgraded regularly

- I. Forgery or unauthorized alteration of any documents or account including cheque, bank draft, E-banking transaction(s) or any other financial instrument etc. of the Company.
- II. Falsifying record such as pay-rolls, removing the documents from files and/or replacing it by a fraudulent note etc.
- III. 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.
- IV. Utilizing Company funds for personal or other than official purposes.
- V. Authorizing or releasing payments for goods not supplied or services not rendered.
- VI. 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.
- VII. 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, adoptable 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 External Independent Agency
- ✓ Statutory Audit carried through out the year to review and reporting.
- ✓ Bill watch system
- ✓ File management system
- ✓ Mechanism of authorization
- ✓ Centralised fund routing through Registered & Corporate office at Kanpur
- ✓ Reconciliation of all bank accounts regularly.

There is frequent supervision of all employees and reviews 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.

3. Accuracy and completeness of the accounting records

The Company needs to prepare its accounts as per the provisions of Companies Act 2013. The Company has comprehensive software which is capable of recording all accounting entries in a proper manner. Further, Company has to maintain complete accounting records in order to finalize the same so that final accounts can be drawn as per the prevailing provisions of Companies Act and Accounting Standards. Company has successfully implemented "SAP" package at all its locations across India for accounts and commercial department.

4 Timely preparation of reliable financial information.

Under the existing listing agreement with the stock exchange, the Company is required to publish unaudited quarterly/yearly financial results and also audited financial results at the end of the year within the time frame prescribed under the listing agreement.

The said information is also uploaded on the Company's website. In case of approved quarterly results, the same are intimated to the Stock Exchanges within 15 minutes from the conclusion of the meeting of Board of Directors and also published in leading newspapers within 48 hours.

The Company has inbuilt mechanism for timely preparation of reliable financial information within given time and the Company has a track records of doing the same without undue delay.

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. and will, be further amended/modified proactively from time to time

RISK MANAGEMENT

Risk Management to control risk through a properly defined risk management framework.

RELATED PARTY TRANSACTION

A Policy has been formulated to examine, approve and recommend to the Board materiality of related party transactions and also on dealing with related party transaction.

