INTERNAL FINANCIAL CONTROL POLICY

REQUIREMENT OF THE LAW

Section 134: Section 134(5)(e) of the Companies Act, 2013 requires, the Board of every listed Company to lay down Internal Financial Control Policy to be followed by the Company which helps in ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the Accounting records and timely preparation of reliable financial information. Also, the Directors' Responsibility states that directors, have to laid down Internal finance Control (IFC) to be followed by the company and that such controls are **adequate and operating effectively.** (Applicable from April 01, 2014)

Section 177: Audit committee may call for comments of auditors about internal control systems 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

As per section 177 (4) (vii) of the Companies Act, 2013, the Audit Committee require to evaluate the Internal Financial Control of the Company.

Audit committee should act in accordance with the terms of reference specified in writing by the board, which should, inter alia, include evaluation of IFC and risk management systems. (Applicable from April 01, 2014)

Section 143 (3) (i): The auditor's report should also state whether the company has adequate IFC system in place and the operating effectiveness of such controls. (It is applicable from April 01, 2015)

Schedule IV: The independent directors should satisfy themselves on the integrity of financial information and ensure that financial controls and systems of risk management are robust and defensible. (Applicable from April 01, 2014)

DEFINITIONS

"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 Cornpany. [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 "Books or Books of account 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, or in the case of a company carrying on any activity not for profit, an income and expenditure 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" 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, the safeguard of its assets, the prevention and detection of its frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information." & "Policy" means "Internal Financial Control Policy".

OBJECTIVES

Internal Financial Control is a System and Process which encompasses the Policies, System and procedures that protect the Company assets, ensure reliable financial reporting, correct disclosures and comply with all required rules and regulations applicable in the entire eco system in which Company is operating. Such system and Procedures are not only related to financial or non-financial accounting and reporting but also include company culture and best practices followed towards Social, Environmental and Governance. Internal Financial Control is also designed to facilitate effective risk management system of the company.

Company has reasonable Internal Financial Control in place which facilitate and helps in achieving the following effectively:

- To identify and mitigate risks
- To provide reasonable assurance that operations are efficient and effective
- To Safeguard Company assets (tangible & intangible Both)
- To ensure Financial reporting is accurate, reliable and on time
- To ensure Company's resources are used prudently and in an efficient, effective and economical manner
- To ensure effective internal control and Internal Audit System in place
- To design a framework through which Company's resources are Directed, Monitored and Measured
- To ensure that Company is in compliance with all law, rules and regulations
- To ensure Company policies and procedures are implemented effectively

Elements of Internal Financial Control Framework

The essential elements of an effective internal financial control framework are:

- Culture and environment of Organization - **Control Environment —** The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

- Delegation of Authority

- Company Policies and procedures - **Control Activities —**Control activities are the policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

- Trained and properly qualified staff

- Information Technology controls - **Information and Communication —**Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting.

- Internal audit system - **Monitoring Activities —**Internal control systems need to be monitored — a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.

- Senior Management compliance assurance

- Risk identification and assessment - **Risk Assessment —** Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

WHO ARE RESPONSIBLE FOR INTERNAL FINANCE CONTROL

1. **BOARD OF DIRECTORS:** The board of directors is the highest governing authority within the management structure at company. They are policy managers of the Company elected by the shareholders or members. The board in turn chooses the officers of the Company, sets basic policy and is responsible to the shareholders. The board is directly accountable to the shareholders, and each year the company will hold an annual general meeting (AGM) at which the directors must provide a report to shareholders on the performance of the company and what its plans and strategies are, and submit themselves for re-election to the board. Roles of board of directors include:

   - Determine the company's vision and mission to guide and set the pace for its current operations and future development.
   - Determine the values to be promoted throughout the company.
   - Determine and review company goals.
   - Determine company policies.
   - Review and evaluate present and future opportunities, threats and risks in the external environment and current and future strengths, weaknesses and risks relating to the company.
   - Determine strategic options, select those to be pursued, and decide the means to implement and support them.
   - Determine the business strategies and plans that underpin the corporate strategy.
   - Ensure that the company's organizational structure and capability are appropriate for implementing the chosen strategies.

2. **Audit Committee**: An operating committee of a company's board of directors that is in charge of overseeing financial reporting and disclosure. They are also responsible for overseeing all internal and external audit functions of a company.

   Audit Committee does play the following role:

   - The recommendation for appointment, remuneration and terms of appointment of auditors of the Company.
   - Review and monitor the auditor’s independence and performance, and effectiveness of audit process.
   - Examination of the financial statement and the auditor’s report thereon.
   - Approval or any subsequent modification of transaction of the company with the related parties.
   - Scrutiny of inter-corporate loans and investments.
   - Valuation of undertaking or assets of the company, wherever it is necessary.
   - Evaluation of internal financial controls and risk management systems.
   - Monitoring the end use funds raised through public offers and related matters ETC.

3. **Senior Management**: Senior management, executive management, or management team is generally a team of individuals at the highest level of organizational management who have the day-to-day responsibilities of managing a company. They hold specific executive powers conferred onto them with and by authority of the board of directors and/or the shareholders. The executive management typically consists of the heads of the firm's product and/or geographic units and of functional executives such as the chief financial officer, the chief operating officer, and the chief strategy officer. In Project Management, senior management is responsible for authorising the funding of projects.

   A. **CEO (Chief Executive Officer)** – As the top manager, the CEO is typically responsible for the entire operations of the corporation. It is the CEO's responsibility to implement board decisions and initiatives and to maintain the smooth operation of the firm, with the assistance of senior management.

   B. **CFO (Chief Financial Officer)** – Also reporting directly to the CEO, the CFO is responsible for analyzing and reviewing financial data, reporting financial performance, preparing budgets and monitoring expenditures and costs. The CFO is required to present this information to the board of directors at regular intervals and provide this information to shareholders and regulatory bodies such as the SEBI. These information must be given by functional heads to the CFO and compiled by finance team.

   C. **Functional Head:** These are the head of its own department i.e. Marketing, Purchase, Personal & Administration, Finance & IT, Production, PPC, Maintenance, Quality control etc.and are responsible for all the activities relating to his department. Concerned functional Head shall provide the work assigned to the concerned officer.

   D. **CS (Company Secretary)-**The CS is responsible to adhere the legal compliance of the Company. He reports to the Chairman, MD/CEO and Board of Directors.

Keynotes on Internal Financial Control Policy

Internal Financial Controls include reviews of the following areas:

- Audit Committee to evaluate the Internal Financial Controls of the Company through regular internal control & check assessment process

- Define the scope of Internal audit and have internal audit system in place, to ensure that independent assessments are made encompassing functioning of various compliances under various statues and Rules & Regulations framed there under, adequate systems and procedures are in place to safeguard the company assets, internal check & controls are in place to avoid error and frauds. Company transactions are checked, verified and documented and as per approving authorities and company policy. Periodic balance confirmation from debtors, creditors and other parties are obtained.

- Internal Audit, to review the operations to ascertain results are consistent in line with company's set goals, Identify the areas to further strengthening the internal controls in fast changing technology and environment change, review the reliability and integrity of financial and operating information and means used to identify measures, classify and report such information's.

- Risk Management and regular review of risk assessment process covering the major risk faced by the company and key controls to manage the same

This Policy will be communicated to all concerned persons of the Company and shall be placed on the website of the company at www.scansteels.com