NCL ALLTEK & SECCOLOR LIMITED

RISK MANAGEMENT POLICY

1. BACKGROUND

Every business organization is subjected to certain risks – both external and internal. Recognition of the existence of such risks, preparing a constant strategy for dealing with the risks, and the manner of responding to risks is an important function of corporate governance which impacts the stakeholder value. This is particularly so in listed corporate entities, where the ownership of the company is widely dispersed, and is distinct from the management.

A business risk is the threat that an event or action will adversely affect an organization's ability to achieve its business objectives/targets.

A. Management's Responsibility

The 2013 Act has significantly expanded the scope of internal controls to be considered by the management of companies to cover all aspects of the operations of the company. Clause (e) of Sub-section 5 of Section 134 to the Act requires the directors' responsibility statement to state that the directors, **in the case of a listed company**, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

Clause (e) of Sub-section 5 of Section 134 explains the meaning of the term, "internal financial controls" as "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 safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information."

Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the **Board of Directors' report of all companies to state the details in respect of adequacy of internal financial controls with reference to the financial statements.**

The inclusion of the matters relating to internal financial controls in the directors' responsibility statement is in addition to the requirement for the directors to state that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 2013 Act, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

B. Auditor's Responsibility

Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the 2013 Act" or "theAct") requires the auditors' report to state whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

C. Applicability of reporting in the case of unlisted companies

Clause (e) of Sub-section 5 of Section 134 of the 2013 Act has prescribed the Directors' Statement of Responsibility over establishing adequate internal financial controls and asserting operating effectiveness of such controls of the company only in case of listed companies. It may however be noted that Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the Board of Directors' report of **all** companies to state the details in respect of adequacy of internal financial controls with reference to the "financial statements". Also, section 143(3) applies to the statutory auditors of all the companies. Hence, it appears that the auditors of even unlisted companies are required to report on the adequacy and operating effectiveness of the internal financial controls over financial reporting.

D. Auditors' responsibility for reporting on internal financial controls over financial reporting in case of consolidated financial statements

Section 129(4) of the 2013 Act states that the provisions of the 2013 Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, *mutatis mutandis*, apply to the consolidated financial statements.
As such, on a strict reading of the aforesaid provision in the 2013 Act, it appears that the auditor will be required to report under Section 143(3)(i) of the 2013 Act on the adequacy and operating effectiveness of the internal financial controls over financial reporting, even in the case of consolidated financial statements. In the case of components included in the consolidated financial statements of the parent company, reporting on the adequacy and operating effectiveness of internal financial controls over financial reporting would apply for the respective components only if it is a company under the 2013 Act.

Considerable emphasis has come to be placed on Risk Management in the Statute in recent times. Both the Companies Act, 2013 (Section 234) and the SEBI (LODR) 2015 require the Board of Directors to pay attention to risk assessment and minimization procedures.
Regulation 4 and 17 of the Listing Regulations makes the board of directors responsible for framing, implementing and monitoring the risk management plan, and to review the Risk Policy.

It is in this Background that the Board of Directors of NCL Alltek &Seccolor Ltd. constituted a Risk Management Committee to formulate Risk Management Policy for the Company.

This Policy Document has been prepared against this back-drop.

2. GUIDING PRINCIPLES OF THE POLICY

"Prepare & Prevent rather than Repair &Repent" is the guiding philosophy influencing this Policy Document.

This Policy also recognizes that Risk Management is not a function of the top management alone. Sensitization to the Risks, and active participation across the board at all levels is a pre-requisite for the Policy to be effective in implementation.

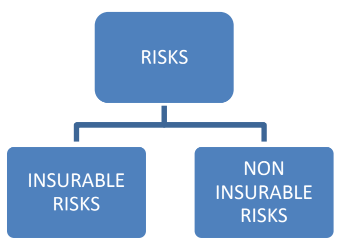
The Company therefore will adopt a "Bottom-up, Recommendatory" rather than "Top-down, Prescriptive" Approach. Personnel at the Plant, Division and Department levels will be actively involved in identification of various risks that the company is exposed to, and evolve solutions for their prevention, pre-emption and mitigation. Their suggestions and recommendations will be progressively carried to more senior levels for consideration, acceptance and adoption. Appropriate incentives will be offered for significant contributions.

3. COMPANY'S POLICY ON RISKS

The approach and strategy of the company shall be based on whether the risks concerned are

i. Insurable Risks; or

ii. Non - insurable Risks.



3.1 Insurable Risks

Insurable Risks are those types of risks against which it is possible to take a conventional insurance cover from the insurance companies.
Competing insurance companies offer different insurance packages with varying rates of premium.
The Policy of the Company to cover the insurable risks would be to

i. Review on an annual basis the existing insurance policies, and the type of risks covered by the policies;
ii. List out the risks for which coverage is available, but not opted for by the company.
iii. Analyze whether any events not covered by the Policies have occurred, resulting in the loss to the company due to absence of coverage;
iv. Examine claims if any made against existing policies and re-assess the Insurance Policies from the perspectives of adequacy of coverage.

Prudent commercial principles shall be adopted in the decisions on coverage of insurable risks. It is to be clarified however, that all statutory requirements where a particular type of insurance is made mandatory, 100% compliance will be ensured, without any exception.

List of identified Risks covered under Insurance are given in Annexure I

3.2 Non insurable Risks

Non insurable risks are the type of risks for which conventional insurance products are not available in the market. There may be tailor-made, innovative insurance policies to cover some specific risks. For the purpose of this Risk Management Policy these are also considered non insurable risks.

The Company will adopt a conscious Policy of identification, assessment and reporting of risks, and formulation of procedures for mitigation of such risks

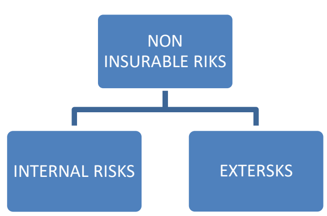
The above exercise will be carried out at the Plant, Division and Departmental levels, and their reports recommendations will be consolidated.

An illustrative list of the various identified risks, and the various departments / functionaries assigned to the risk analysis and mitigation exercise is attached as Annexure A to this Document. Functionaries in different departments are encouraged to supplement and update the list as an ongoing exercise.

On approval of the Company's Risk policy by the Board/ Audit Committee. A systematic review of Risk Profile of the Company will be made on a half yearly basis by Risk Management Committee.

Wherever possible, monetary values shall be assigned to individual risks. Contingency Plans shall be formulated, so that the company's personnel are well prepared with appropriate responses when the events of risk occur.

An important feature of the Risk Management Strategy is an ongoing exercise to take a fresh look at the events of adversity, identifying the shortcomings in the responses offered, and preparing guideline for a more effective response in the event of recurrence of such event.
Organization face a wide range of uncertain internal and external factors that may affect achievement of their objectives – whether they are strategic, operational or financial.



4.1 Internal Risks:

Risks which arises during course of operations of the organisation. Internal Risk share reduced, minimised and prevented with adoption and implementation of Internal controls. For this purpose main business processes are divided as follows:

1 .Order to Cash (Accounts Receivables)

2. Procure to Pay (Accounts Payables)

3. Fixed Assets

4. Treasury Management

5. Payroll Management

6. Manufacturing/Production and Inventory Management

7. Taxation

8. General Ledger, Reconciliations, Financial Reporting and Closing

Some of risks which are internal and activity level can be eliminated by initiating preventive and detective measures. For this we require to have internal financial Controls which helps in prevention of Risks. Activity level controls are given in Annexure II to this document

4.2 External Risks

Risks which are arise from external factors and beyond the control of the organisation. In such a case Management focuses on identifying threats and opportunities .It also identify the options which minimise the risks. Different types of external risks are as follows.

1. Political Risks:

These risks relate to political uncertainties namely, Elections, war risks, country/area risks.

2. Fiscal/ Monetary risks:

   Government has liberty to frame different policies in the public interest. These policies effect either in positively or negatively on the business. Ex. change in taxation rules and regulation risks.

3. Legal risks :

   These risks relate to contract risks, contractual liability, and judicial risks.

4. Market risks:

These risks are related to Changes in the customer trends, Availability of alternative products

Annexure I

List of Identified Risks Covered under Insurance

<table>
<tr><th rowspan="2">Identified Risk</th><th rowspan="2">Nature of Risks</th><th colspan="2">Risk Analysis Exercise</th></tr>
<tr><th>Places covered</th><th>Value of coverage</th></tr>
<tr><td>Stocks at storage points - Units / factories</td><td>Loss/Damage/Destruction of stocks by
• Fire
• Earth quake (Alltek)
• AOG/Non AOG perils
• Explosion / Implosion
• Riot, Strike, Malicious damage (hereinafter called RSMD Perils)
• Storm, Tempest, Flood, Inundation, Hurricane, Cyclone, Typhoon and Tornado.
• Impact by any Rail/ Road vehicle or animal
.Bursting and / or overflowing of water tanks, apparatus.
• <u>Not covered</u>
• Earth quake for Seccolor stocks
• Terrorism</td><td>1.Ratnapuri
2.Mattapalli
3.Chopanki
4.Kavulru
5.Hosur
6.Tirupati
7.Ghzaiabad
8.Pune
9.Jeedmitla
10.Kompally stores
11. Kolhapur
12. Vizag
13.Petbasheerabad godown
14.Vijayawada
15. Bangalore
16. Coimbatore</td><td>Highest value of monthly stock in the previous year is the basis for the current year insurance
a) Fly ash division's stocks – 91.65 lakhs
b) Alltek division's stocks - 614.00 lakhs
c) Seccolor Division's stock - 1200.00 lakhs</td></tr>
<tr><td>Assets /Properties - Factories, HO, Branches</td><td>Loss/Damage/Destruction/Theft of Assets by
• Fire
• AOG/ Non AOG perils
• Explosion / Implosion
• Riot, Strike, Malicious damage (hereinafter called RSMD Perils)
• Storm, Tempest, Flood, Inundation, Hurricane, Cyclone, Typhoon and Tornado.
• Impact by any Rail/ Road vehicle or animal
• Subsidence / Landslide /.
• Bursting and / or overflowing of water tanks, apparatus</td><td>1.Ratnapuri
2.Mattapalli
3.Chopanki
4.Kavulru
5.Hosur
6.Tirupati
7.Ghzaiabad
8.Pune
9.Jeedmitla
10.Kompally Office & stores
11.Bangalore
12. RR Towers
13. Kompally – HO
14.Chennai
15. Trichy
16. Delhi</td><td>Buildings -
Plant & M/c,
Furniture , Office Equipment

a)Alltek division 822.72 lakhs
b)Fly ash Bricks division –2754.52 lakhs
c)Seccolor division – 2533.19 lakhs</td></tr>
</table>

Identified Risk	Nature of Risks	Risk Analysis Exercise	
		Places covered	**Value of coverage**
	• Earth quake • **Not covered risks** • Terrorism		
Money	**Theft/ loss of money at storage place and in Transit by** • **Theft** • **Fire** • **Lost** • **RSMD clause**	1.Ratnapuri 2.Hosur 3.Tirupati 4.Ghzaiabad 5.Pune 6.Kompally HO Alltek division's units are to be covered	Money in transit Rs.125.00 lakhs Storage loss – Rs.7.50 lakhs
Vehicles	**Loss / damage by** • Accident • Fire • All risks including Terrorism and earthquake	All vehicles are insured	Standard norms of Insurance companies
Imported goods	Loss / Damage / Destruction by • Accident • Strom/ thunder • Burglary • Riots etc	Insured as and when imports taken place	100% cost of imports

Statement showing Insurance coverage of the Company

Particulars	Buildings	Other Fixed Assets	Total assets (exclduing vehicles , software & land)	Stocks	Grand total (Rs. In lakhs)
1	2	3	4=2+3	5	6=4+5
Alltek's Insured value	1,142.77	2,434.58	3,577.35	705.66	4,283.00
Gross value (31.3.16)	1,308.46	2,961.34	4,269.80	698.01	4,967.81
Seccolor Insured value	807.00	1,726.19	2,533.19	1,200.00	3,733.19
Gross value (31.3.16)	809.74	1,717.26	2,527.01	864.58	3,391.59
Grand total of insured value	**1,949.77**	**4,160.77**	**6,110.54**	**1,905.66**	**8,016.19**
Grand total of Cost Value	**2,118.21**	**4,678.60**	**6,796.80**	**1,562.60**	**8,359.40**

Summary of Insurance Coverage

1. Buildings are insured with a clause of Reinstatement Value
2. Fixed Assets other than building are insured with clause of Market value
3. Stocks are insured with clause of Market value

All policies are due for renewal in the month of March except Money in Transit Policy which is in Jan.

Till now, we have maintaining the division wise policies for stocks and fixed assets. It is proposed to be combined for the company as a whole

Annexure II

List of Internal Risks and Internal Control Mechanisms

1. Order to Cash (Accounts Receivables)

Transaction Type	**Risks of Material Misstatement ("What Could Go Wrong")**	**Internal Control(s)**
Acceptance of orders from Customers	Under declaration of order value	Seccolor Division:The sales order received by sales officer is sent to Customer Service department for processing in the FOD format. This FOD is signed by the sales officer and counter signed by Area Manager who will verify the same with order value accepted by the customer. Alltek Division: The Purchase Order (PO) received by Sales Officer is sent to Commercial Dept. for processing. The Commercial Dept. presents the PO with details of outstandings , if any and takes approval of GM-Mktg. before sending Order Acceptance (OA) to factory. If the PO is from dealers, the indent directly goes to godown where from the concerned Area Head is contacted for dispatch clearance.
Discounts	Discrimination in discounts offered to customers	Seccolor Division: The Marketing Head lays down the marketing policy with approval of ED for each year, which contains Scheme of incentive to sales team, dealers and discounts offered to customers According to that every order with discount should be authorised by the officials who have vested with powers given in authorisation Matrix. Upto -10% - SD & SSO 11 – 20 – AM 21-30 – MM/AGM/GM Above 30% - VP &ED Alltek Division: Will have a standard written annual incentive schemes differently for different areas and different products. In addition to annual schemes, there may be monthly and quarterly schemes etc. The schemes are decided by ED in consultation with Zonal Heads.
Processing of order for production	Processing of order for production not in sequence	Seccolor Division:The sales order received by sales officer is sent to Customer Service department for processing in the FOD format.

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
		This FOD is signed by the sales officer and counter signed by Area Manager who will verify the same with order value accepted by the customer. Alltek Division: The Purchase Order (PO) received by Sales Officer is sent to Commercial Dept. for processing. The Commercial Dept. presents the PO with details of outstandings , if any and takes approval of GM-Mktg. before sending Order Acceptance (OA) to factory. If the PO is from dealers, the indent directly goes to godown where from the concerned Area Head is contacted for dispatch clearance.
Recording of Sales	Sales and Accounts receivables are recorded: • That do not relate to valid sales/shipments • At the incorrect amount • In the incorrect period.	Seccolor Division: Invoices are generated only upon matching the sales order, completing a 2-way match. The 2-way match process is performed within an ERP system that identifies the purchase order and generates a DC cum invoice within established limits. Alltek Division: Invoices are generated as per Order Acceptance. Proof of delivery is provided by third-party shippers for all shipments made. Seccolor Division: Invoice copy is submitted to customer by the sales officer and get acknowledgement for the same. Alltek Division: Third party shippers will handover one copy of Invoice to customer at site.
Recording of sales in customer's ledger	Goods are shipped to customers and no invoice is generated and recorded.	After shipment of material every DC is sent for invoicing through ERP. DC and Invoice are linked so that every invoice is accounted by Accounts Department
Reconciliation of customer's ledger	Accounts receivables stated in the general ledger does not reconcile to the Accounts receivables records and/or the reconciliation contains invalid items.	Accounts department sends area wise customers accounts statement to Area Head on quarterly basis. Reconciliation is performed between Accounts receivables and customer books are reviewed by the marketing department from time to time. Confirmations of balances are collected from dealers on quarterly basis. Representations are received on a quarterly basis from sales personnel and management regarding the existence of customer side agreements or credit/debit memos not yet communicated for accounting.

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Depositing of Collections	Non deposit of collections with accounts department	We inform to customers to make payment by cheque/NEFT/RTGS. In case of cash collection, same will be deposited with accounts department and cash receipt is issued for the same. The Area head monitor and review the customer accounts under his control on monthly basis including collections. He interact with customers from time to time. On reconciliation of customer records with our books will reveal the variance.
Collections follow-up mechanism	Non following of customers for collection	Accounts department sends Area wise ageing analysis of each customer to area head on monthly basis who in turn confirms the balance of provide expected date of collection. The zonal heads of marketing with ED monitor and review the same on monthly basis and issues necessary instructions for faster collection.
Collection of long pending dues	Non monitoring of long pending dues	<u>Seccolor Division</u>: In case of failure to collect dues by marketing department, same are given to Recovery team constituted. This team follows up with customers for collection. The zonal head has power to transfer accounts to recovery team. Collections and performance of recovery team are reviewed by zonal head under guidance of ED <u>Alltek Division</u>: In case of failure of marketing dept. to collect dues, the General Manager will follow-up by sending written reminders.
Write off /Provision for doubtful Accounts receivables	Bad debts	The ERP system ages the Accounts receivables based on the parameters established within the ERP system and this computer-generated information is used in the calculation of the provision for doubtful Accounts receivables Management reviews the provision for doubtful Accounts receivables methodology, assumptions, and underlying calculation for appropriateness on a periodic basis. The area head proposes writeoff, the zonal head reviews and recommend the same to ED for approval. On proper approval the same was accounted as bad / doubtful debts.

2. Procure to Pay (Accounts Payables)

Transaction Type	Risks of Material Misstatement (“What Could Go Wrong”)	Internal Control(s)
Placing of Indent (Revenue nature)	Indenting for excess or short quantity or wrong product	Material Requesting department places the indent basing on availability of product with the approval of head of the unit through ERP Indent is verified by head of the unit or department
Placing of order (Revenue nature)	Ordering for excess price	On receipt of indent, the purchase department call for quotation and place order for best price without comprising quality and credit period In case of regular /die based products - prices are decided on periodical basis after calling quotations and negotiations by the purchase head. These prices comes into force after approval of ED. Order is placed and linked with Indent in ERP
Receipt and recording of material	Receipt of material for short quantity or defect products	On receipt of material at stores, the same is verified for quantity and quality with DC/ invoice of supplier. Received quantity with any variation or returns is updated in MRV by store keeper. The same is counter checked by stores in charge/ unit head and sent HO for further processing
Recording Payables	Goods received by, or services rendered to, the entity are: not recorded in trade payables or other expenses Recorded at the incorrect amount.	Trade payables and other expenses are recorded by the Accounts department through ERP system upon matching the purchase order and MRV On a periodic basis, purchase personnel review open purchase orders and record other expenses and accrued payables for goods received or services rendered for which a completed service order or vendor invoice has not been received. The journal entry and supporting documentation are reviewed and approved by purchase manager before the journal entry is recorded.
Recording Payables	The reconciliation between the trade payables invalid reconciling items, which may result in a misstatement of trade payables.	On a periodic basis, finance executive perform a reconciliation of the trade with supplier’s books. and reconciling items are reviewed and addressed on a timely basis Confirmations of balance are obtained from major suppliers at the end of the year

Transaction Type	Risks of Material Misstatement (“What Could Go Wrong”)	Internal Control(s)
Recording Payables (Capital nature)	Acquisitions of fixed assets are not recorded.	A 3-way match process is performed for fixed assets purchases that utilize the purchase order, MRV, and vendor invoice. Once the 3-way match process is performed and the key terms of the purchase are agreed to supporting documentation, a transaction is posted in the fixed assets ledger to record the addition. Periodic counts of fixed assets are performed. Selections are made from the floor and reconciled to the fixed assets register, and any differences are investigated and resolve
Recording Debit Memos	Inventory returned to suppliers is: Not removed from the inventory and trade payables records Recorded at the incorrect amount.	The ERP system automatically records entries of returned material to reduce inventory .Trade payables per the sub-ledgers upon matching the goods return note, shipping document, and debit memo is issued, completing a 3-way match. In case of items on which cenvat is claimed - Inventory returned to suppliers is separately logged. On a periodic basis, the return log is utilised to verify inventory is removed and trade payables is reduced for inventory returned to suppliers
Recording of Disbursements	disbursements are: • Not recorded • Recorded in the general ledger when no cash disbursement has been made • Recorded at the incorrect amount.	Payments are made through account payee cheques and are generated through the ERP system. The ERP system automatically updates the records through journal entry / BP All ERP generated cheques, including supporting documentation and the related journal entry, are reviewed and approved by Asst.Manager before the cheque is issued to supplier Bank statements are reconciled to the general ledger regularly, and differences are investigated and resolved on a timely basis by cashier

3. Fixed Assets

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Disposal of Fixed Assets	The sale, disposal, or theft of fixed assets, including assets held for sale, has not been recorded.	Periodic counts of fixed assets are performed. Selections made from the property, plant, and equipment register are verified for existence, and agreed to supporting documentation that legal title and rights to the asset are sold
Acquisition of Fixed Assets	Additions are recorded: • For fixed assets that do not exist • When the entity does not have legal title to the fixed assets • At the incorrect amount.	A 3-way match process is performed for fixed assets purchases that utilise the purchase order, receiving document, and vendor invoice. Once the 3-way match process is performed and the key terms of the purchase are verified, a transaction is posted in the fixed assets to record the addition on receipt of MRV
Acquisition of Fixed assets	Expenditures of a non-capital nature (e.g., repairs and maintenance) have been incorrectly capitalised.	Expenditures of a non-capital nature are reviewed and approved by finance executive with knowledge of the entity's capitalization policy. Journal entry and supporting documentation for expenditures of a non-capital nature are reviewed prior to the journal entry being posted.
Acquisition of Fixed assets	Capital Work in progress (CWIP) is not transferred to fixed assets when the asset is placed into service.	Purchase Manger periodically reviews the listing of CWIP and communicates to accounting management any CWIP assets that have been put into service.
Acquisition of Fixed assets	Capitalised interest is: • Inappropriately recorded for assets directly purchased and put into service • Not recorded for assets constructed • Recorded at the incorrect amount.	CWIP is reviewed by finance manager and consider whether the assets constructed qualify for capitalised interest based on nature of the asset, and amount of interest incurred in the period, and calculate the amount of interest to be capitalised [As per Accounting Standard 16 – Borrowing Costs"]. The journal entry and supporting documentation for capitalised interest are reviewed by the finance head prior to the journal entry being posted.
Disposal of Fixed assets	The entity incorrectly records the disposal of fixed assets for assets still owned by the entity.	All fixed assets disposals and supporting documentation are reviewed and approved by ED prior to the journal entry being recorded.
		Periodic counts of fixed assets are performed. Selections made from the floor are reconciled to the fixed assets register, and differences are investigated and resolved.

4. Treasury Management

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Recording of Cash and bank	Bank / Cash receipts: • Have been recorded (when there are non-existent cash receipts), or have been improperly recorded • Have not been recorded/applied • Are not accurately recorded.	On a daily basis, cash and bank receipts recorded to the general ledger are agreed to bank deposit slips by accounting personnel. Discrepancies are investigated and resolved. Bank statements are reconciled to the general ledger regularly and differences are investigated and resolved on a timely basis.
Recording of Cash and bank	Cash exists in bank accounts that have not been recorded in the general ledger.	Cashier records bank account transactions to the general ledger on a daily basis, Accounts Manager reviews recorded transactions and cash position regularly for unusual activity and investigates and resolves issues on a timely basis. Bank statements are reconciled to the Bank Book ledger regularly and differences are investigated and resolved on a timely basis.
Recording of Cash and bank	Not all bank accounts have been recorded in the general ledger.	New bank accounts are only opened through the direction and approval of Board of Directors. When new bank accounts are approved and opened, finance personnel create the general ledger account and prepare the entry to record the initial balance in the account. Management reviews and approves the new general ledger account and journal entry, including supporting documentation, before the entry is recorded.
		Finance Manager with knowledge of existing and terminated bank accounts reviews the listing of bank accounts recorded in the general ledger and the related account transactions. Any unusual or omitted accounts are investigated and resolved on a timely basis.

Recording of Cash and bank	Cash stated in the general ledger does not reconcile to the cash records/bank statement, and/or the reconciliation contains invalid items.	Bank statements are reconciled to the Bank/ cash book regularly and differences are investigated and resolved on a timely basis. Finance Manager analyses amounts recorded to cash suspense accounts and prepare journal entries to correct any unusual items if necessary.
Cash and cheque Disbursements	Cash/Bank payments are: • Not recorded • Recorded in the general ledger when no cash disbursement has been made • Recorded at the incorrect amount.	Cash/bank payments are generated through the ERP system. The ERP system automatically records the entry for cash/bank payments to the trade payables and cash/bank sub-ledgers. All system generated cheques, including supporting documentation and the related journal entry, are reviewed and approved by finance manager and authorized signatories before the disbursement. Bank statements are reconciled to the general ledger regularly and differences are investigated and resolved on a timely basis.

Loan repayments	Loan re- payments have been: • Made but are not recorded • Recorded but have not been paid • Recorded at an amount that differs from the actual amount paid.	Finance Manager with knowledge of loan obligation, payment schedules, and other terms and conditions, periodically reviews the transactions within the loan register. Discrepancies are investigated and resolved on a timely basis. Loan statements are reconciled to the general ledger regularly and differences are investigated and resolved on a timely basis.
Foreign Exchange transactions	Cash/bank balance denominated in foreign currencies is translated at the incorrect foreign exchange rate.	Cash/bank balance foreign currency translations are prepared by finance personnel and reviewed and approved by finance manager, who also reviews supporting documentation for the conversion rate calculation.
Recording of Cash	Non-existent cash on hand has been recorded.	Daily bank deposits are made for additional cash on hand (i.e., cash on hand that exceeds the pre-determined limit). On a periodic basis (and without forewarning) an employee independent of the employee(s) who handle cash performs a count of cash on hand.
Recording of Cash	Cash on hand is not accurately recorded.	On a periodic basis (and without forewarning) an employee independent of the employee(s) who handle cash performs a count of cash on hand.
Cash Disbursements	Electronic fund transfers and bank charges incurred are not recorded in the general ledger.	The cashier record bank account transactions to the general ledger on a daily basis, finance manager reviews recorded entries and cash position regularly for unusual activity and investigates and resolves issues on a timely basis. Bank statements are reconciled to the general ledger regularly and differences are investigated and resolved on a timely basis.
Cash Disbursements	Loan re- payments are auto-deducted from the entity's bank account (or otherwise made) and not recorded in the general ledger.	Bank statements are reconciled to the general ledger regularly and differences are investigated and resolved on a timely basis. On a periodic basis, cashier perform a reconciliation of the loan statement to the general ledger. Finance Manager reviews and approves the reconciliation on a timely basis.

5. Payroll Management

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Computation of earnings of employees	Incorrect computations on account of • Improper record of Attendance • Non recording of Leaves • LOP	Branch/Factory Head sends Attendance report of employees on monthly basis after verification with attendance register maintained with them.HR department update the attendance and leave records and prepare pay sheet after verifying with tour period and leaves of the employees. The same is updated in financials. The head of the unit will verify attendance on daily basis
Measurement of Benefit Obligation	In determining the employee benefit obligation: • The methodology used to calculate the employee benefit obligation is inappropriate under the circumstances. • The underlying significant assumptions] are inappropriate, lack sufficient basis, or lack sufficient support.	The calculation of the employee benefit obligation is performed by a qualified actuary. The methodology, significant assumptions, and underlying data used are reviewed, evaluated, and approved by management with appropriate knowledge of benefit plan accounting and the actuarial calculation. The HR Department sends the data to actuary valuation of gratuity and leave encashment on yearly basis after verification of employee records
Recording Benefit Cost	Employee Benefit obligation adjustments, including unrecognized service cost or actuarial gains and losses, are: • Inaccurately recorded • Not recorded for all benefit plans • Recorded for benefit plans that are not the obligation of the entity.	Finance personnel prepare journal entries to record benefit obligation adjustments, including obtaining supporting documentation (ex. the actuarial report). Management reviews and approves the journal entry and supporting documentation before the entry is recorded.

Claim of employee benefits	In appropriate claim / reimbursement of expenses Not recorded through the benefit obligation account.	Employee claims and benefits are verified by the HR executive and further sent to Accounts department for further verification and obtain the approvals of management. Thus, the benefits are checked at three levels. The ERP system records the journal entry for payment to the benefit obligation account
		All system generated cheques, including the related journal entry and supporting documentation, are reviewed and approved by management before the disbursement to employees
Deduction of TDS	Non / improper deduction of TDS on earnings	Every employee earnings who having income above threshold limits of income tax are computed as per provisions of income tax basing on savings and other information furnished by the employee The finance head verifies the same and remit the TDS from time to time. Necessary forms are issued to employees for the amount deducted

Inventory Management

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Recording Inventory	Inventory and trade payables are recorded prior to receipt and/or title transfer of the inventory.	Inventory and trade payables entries are recorded in the ERP system upon matching the purchase order and Material receipt voucher (MRV)
		Finance manager reviews with purchase department for advance paid but material not received from time to time. Take corrective action if necessary
		Physical inventory is counted periodically and discrepancies are investigated and corrected within the inventory records. Inventory records based on the physical inventory are reconciled at unit level on periodical basis by unit head
		On a periodic basis, finance personnel review open purchase orders and record inventory and accrued payables for goods received or for goods not yet received where title has transferred to the entity. The journal entry and supporting documentation is reviewed and approved by finance manager before the journal entry is recorded
Recording Inventory	Inventory and trade payables are recorded at the incorrect amount.	Inventory and trade payables entries are recorded in the ERP system upon matching the purchase order and MRV
Recording removal of Inventory	Inventory may be removed from inventory records and recorded as a cost of sales upon shipment prior to transfer of ownership.	Material is dispatched at unit level after updating the same in ERP system. This is updated on matching of order acceptance (OA) which is updated in the ERP DC is linked with OA No. DC is raised without OA
Recording removal of Inventory	Inventory has been sold that is removed from the accounts at incorrect amounts.	On a periodic basis, accounts executive reconcile sales with Excise reports on monthly basis. Any variance reconciled and corrected
Physical Inventory	Physical inventory counts are not performed on a periodic basis, potentially resulting in	Physical inventory is counted periodically and discrepancies are investigated and corrected within the inventory records. Inventory records based on the physical inventory are reconciled and cost of sales is arrived. At the end of the year, external (other than home unit) team

<table>
<tr><td></td><td>inaccurate inventory records.</td><td>physically verify the stocks and any variance that is updated and corrective action will be taken if necessary</td></tr>
<tr><td>Physical Inventory</td><td>Physical inventory counts:
• Count inventory that does not exist
• Do not include counts of all inventory
• Do not include consideration of movement of inventory during the physical inventory
• Are not valued at the appropriate cost
• Book to physical adjustments are not recorded or recorded at the incorrect amount.</td><td>Physical inventory is counted periodically, and discrepancies are investigated and corrected within the inventory records. Inventory records based on the physical inventory with any differences being recorded as a book-to-physical inventory adjustment.</td></tr>
<tr><td>Inventory Valuation</td><td>The entity uses inappropriate standard costs in valuing its inventory, including incorrectly calculating the allocation of labour and overhead.</td><td>Finance manager reviews the standard cost analysis and supporting documentation and approves changes to standard costs, including labour and overhead allocation assumptions for valuation of inventory as per applicable accounting standards</td></tr>
<tr><td rowspan="2">Inventory Valuation</td><td rowspan="2">Obsolete, slow moving, or excess inventory exists but no adjustment is recorded against inventory and as a component of cost of sales.</td><td>ED reviews and approves the excess and obsolete adjustment calculation prepared by the unit head</td></tr>
<tr><td>Physical inventory is counted periodically and discrepancies are investigated and corrected within the inventory records. Inventory records based on the physical inventory are reconciled and necessary entries are passed</td></tr>
<tr><td rowspan="2">Inventory Returns</td><td rowspan="2">Inventory returned to suppliers is:
• Not removed from the inventory and trade payables records
• Recorded at the incorrect amount</td><td>The ERP system automatically records entries to reduce inventory Debit note is raised and returned the material to suppliers account</td></tr>
<tr><td>Inventory returned to suppliers is separately logged. On a periodic basis, the return log is utilised to verify inventory is relieved and trade payables is reduced for inventory returned to suppliers.</td></tr>
</table>

7.Taxation

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Indirect Taxes	Recording of transactions for incorrect amount and wrong head.	Origination of indirect taxes is from customer order. Applicable taxes are linked with OA. Taxes are accounted from DC after two way verification with OA and DC. The ledgers pertaining to taxes are reconciled with sales register and excise records.
Filing of returns and payment of taxes	Filing of returns and remittance of taxes with incorrect values.	Returns are reconciled with Trial balance from time to time. Any variation that immediately rectified from time to time
Filing of returns	Filing of return beyond due date	Returns are filed from time to time. Finance Head assures to file the returns on time without delay.
Assessment and audits	Data compilation and furnishing of information	Every assessment/ audit is taken care by finance department. It furnishes necessary information to statutory authorities. Audit

8 General Ledger, Reconciliations, Financial Reporting and Closing

Transaction Type	Risks of Material Misstatement ("What Could Go Wrong")	Internal Control(s)
Vouching and updation of ledgers	Recording of transactions for incorrect amount and wrong head.	Ledgers scrutiny is carried on monthly basis prior to monthly MIS preparation by finance department. Any variance in the ratios are evident for misstatement of account. The same are corrected if necessary
Reconciliation	Variance in accounting of interdivision transactions	Inter division transactions are reconciled on monthly basis. Variance is resolved immediately and accounted
Reconciliation	Variance in accounting sister concern transactions	Sister concern accounts are reconciled on monthly/ quarterly basis depending upon the size of transactions. Corrective action is taken up by finance executive in case of variance Related party transactions are summarized and reported for finalization purpose
Closing of books	Non accounting of material received on or before closure of accounts	Before closing accounts, finance department inform the closure period and interact with concern department for non-accounted bills and provisions from time to time
Internal audit	Noncompliance of action taken report	Internal audit is carried continuously and audit observations furnished on quarterly / half yearly basis. Internal audit is carried as per the audit scope approved by the audit committee at the beginning of the financial year. The same are reviewed by ED/JMD and furnish action taken report to the audit committee.
Statutory audit	Non furnishing clarifications for statutory audit	Statutory audit is carried from time to time. Observations are informed to finance manager. Finance manager furnishes necessary clarifications and take corrective action if necessary
Finalisation of books	Noncompliance of accounting standards and companies act	Books are closed and final accounts are prepared at the end of years in complying with Provisions of Companies Act and Accounting standards. Noncompliance are reported in statutory audit

Annexure A
Illustrative List of Identified Risks

Identified Risk	Nature of Risks	Risk Analysis Exercise	
		Originator	Reviewer
Operations Risks:	**Plant Stoppage** • Shortage of Raw Material • Power Supply • Plant Breakdown • Accidents • Strikes and non-co-operation from workers • Inferior Quality of product • Product Improvement/ New Product	In charge of stores In charge of Electrical Plant/Process in charge In charge of HR In-charge of factory In-charge of R & D	Factory In-charge And Executive director
Financial Risks	**Default and Delay in** • Payment of Statutory Dues • Interest Payment on Term Loans • Public Deposits • Repayment of Principal **Delays in Payment to** • Raw Material Suppliers • Power Bills • Transporters • Service Providers	**Incharge of Finance**	**Executive Director**
Commodity risks:	• Short supply of Material • Price Fluctuation • Inferior quality of Material • Delay in Procurement	In-charge of purchase	Executive Director
Technology and Technical Risk	• Redundancy of Technology • Break down of ERP software • Fall in operating efficiencies	In-charge of software maintenance	In-charge of Finance and Executive director

Identified Risk	Nature of Risks	Risk Analysis Exercise	
		Originator	Reviewer
Marketing Risks	• Competitive Pricing by Rivals • Market Penetration by Rivals • Poaching of Dealers/Customers • Payment Defaults by customers • K.Y.C of debtors • Policy on discounts to debtors • Follow up and Collections from accounts receivables • Correspondence with customers for recovery • Policy and procedures for write offs • Approving authority for write offs Decrease of Market acquisition of product	Area Manager In-charge of Marketing Area managers Sales Officers Executive Director Area Manager Dy. Managers marketing In-charge of Marketing Executive Director In-charge of Marketing	JMD & ED
Legal and Compliance Risks	• Cases initiated against the company • Claims by Statutory Authorities • Claims initiated by the company	Claims/disputes are segregated as given below 1.Sales tax/Excise/service Tax/ income tax claims – in-charge of finance 2.PF/ESI/Factories Act/Employee benefits – In-charge of HR 3.ROC/Shareholders/ Investors - Company secretary 4. Cheque bounce / Debt Recovery case etc - Manager Legal	JMD & ED

Identified Risk	Nature of Risks	Risk Analysis Exercise	
		Originator	Reviewer
Project Implementation Risks	• Delay in permission • Delay in arrival of equipment • Deficiency in equipment • Delay in construction • Teething troubles in trial runs	In-charge of Projects	JMD & Managing Director
Personnel Misdemeanor Risk	• Fraudulent collections from Debtors • Fraudulent behaviour of workers • Fraudulent behaviour of employees	In-charge of Marketing In-charge of Factory In-charge of HR	ED & JMD