

VASHISHTHA LUXURY FASHION LIMITED
INTERNAL FINANCIAL CONTROL POLICY

1. Introduction

Pursuant to Section 134(5) (e) of the Companies Act, 2013 (**“Act”**), this Internal Financial Control Policy (**“Policy”**) has been framed by Vashishtha Luxury Fashion Limited (**“Company”**). In case of Listed Companies, the Directors’ Responsibilities statement shall state that the Directors have laid down Internal Financial Controls to be followed by the Company and that such controls are adequate and operating effectively.

As per Section 177 of the Companies Act, 2013 and Regulation 18 of SEBI (LODR) Regulation, 2015 the Audit Committee shall review the Internal Financial Control 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)(i) of the Companies Act, 2013, the Statutory Auditors report shall state whether the Company has adequate Internal Financial Controls with reference to Financial Statements in place and the operating effectiveness of such controls.

The Policy has been approved by the Board of Directors of the Company at its meetings held on 1st July 2024. This Policy shall be effective from 1st July 2024.

2. Definitions

“Board” means the Board of Directors of the Company

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

“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.

3. Objective

Internal Financial Control is a system and process which 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 shall have reasonable Internal Financial Controls in place which facilitate and helps in achieving the following effectively:

- 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 in an efficient, effective and economical manner.
- Resources of the Company are adequately managed through effective internal controls.
- A framework for an effective internal control system which conveys to managers that they are responsible for ensuring that internal controls are established, documented, maintained and adhered to across the Company's and to all Employees that they are responsible for adhering to those internal controls.
- To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Company's objectives through operational efficiency.
- Assessing and containing the risks faced by the Company to acceptable level.
- Preventing and correcting irregularities.
- The actions of all Company officers including Directors, Key Managerial Personnel, Senior Management and Staff are in compliance with the Company's policies and procedures and also relevant laws and regulations.

4. Internal Financial Control Framework

Internal Financial Control is basically a process by which an organisation's resources are directed, monitored and measured. It plays an important role in detecting and preventing fraud and error and protecting organisations resources. It also comprises the plan of the Company and all the methods and measures adopted by the Company in order to safeguard its assets, accuracy and reliability of its accounting data, promote operational efficiency, prevention, accuracy and completeness of the accounting records and timely preparation of reliable financial information.

The framework of a good Internal Control System includes:

Control Environment -

A sound control environment is created by management through communication, attitude and example. This includes a focus on integrity, a commitment to investigating discrepancies, diligence in designing systems and assigning responsibilities.

Risk Assessment -

This involves identifying the areas in which the greatest threat or risk of inaccuracies or loss exist. To be most efficient, the greatest risks should receive the greatest amount of effort and level of control.

Monitoring and Reviewing -

The system of internal control should be periodically reviewed by management. By performing a periodic assessment, management assures that internal control activities have not become obsolete or lost due to turnover or other factors. They should also be enhanced to remain sufficient for the current state of risks.

Information and Communication -

The availability of information and a clear and evident plan for communicating responsibilities and expectations is paramount to a good internal control system.

5. Internal Financial Control Principles

Based on the framework on Internal Financial Control the company has set out the following principles for effective Internal control -

Separation of duties

- Duties are separated so that one person's work routinely serves as a check on another's work.
- No one person has complete control over more than one key function or activity (e.g., authorizing, approving, certifying, disbursing, receiving, or reconciling).

Authorization and approval

- Proposed transactions are authorized when proper and consistent with Company's policy and plans.
- Transactions are approved by the person who has been delegated approval authority, which is usually delegated on the basis of special competency or knowledge.

Custodial and security arrangements

- Responsibility for physical security/custody of Company's assets is separated from record keeping/accounting for those assets.
- Unauthorized access to Company's assets and accounting records is prevented.

Timely and accurate review and reconciliation

- Accounting records and documents are examined by employees who have sufficient understanding of the Company's accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with Company's policies and procedures.
- Accounting records and documentation are compared with Company's accounting system reports and financial statements to verify their reasonableness, accuracy and completeness.

Evaluation of systems and processes

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.

Information and communication

Information must be communicated in a timely manner which will enable people to carry out their responsibilities efficiently.

- 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.
- 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 setup, the Management 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.
- Employees must have a means of communicating significant information to the administration.
- The Board must communicate effectively with external parties, such as creditors, contractors, suppliers, regulators and other stakeholders.

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.

6. Keynotes on Internal Financial Control Policy

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

7. Disclosure

This Policy and any amendments thereto shall be uploaded on the Company's website i.e. www.vashishthaluxuryfashion.com

8. Review/Amendment of Policy

The decision of the Board of Directors of the Company with regard to any or all matters relating to this policy shall be binding on all concerned. The Board of the Company shall have the power to modify, amend or replace this policy in part or full, as may be thought fit from time to time in their absolute discretion.
