



Larsen & Toubro Limited

**Corporate Policy on
Internal Controls**

Issued By

Corporate Risk Management & Internal Controls

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- 1. Introduction:** This policy has been formulated to provide a structured framework for the Internal Controls and facilitate ODs make business specific policies and procedures in line with the Corporate philosophy. It will help in preventing and detecting errors, irregularities and frauds thus protecting Company's assets and adding value to its operations.

- 2. Coverage:** This policy applies to all Divisions / Units of the Company with immediate effect.

- 3. Responsibilities:** Employees at all levels are responsible for implementing Internal Controls in their respective areas of responsibility. However, certain positions have been entrusted with specific responsibilities as follows:-

3.1 CEO and CFO

- Have overall responsibility for Internal Control System in the Company. They set the "tone at the top" that creates a positive control environment.

- As required under Clause 49 of the Stock Exchange Listing Agreement, CEO and CFO are required to certify that they accept responsibility for establishing and maintaining internal controls, have evaluated the effectiveness of the internal control systems in the Company and have disclosed to the Auditors and Audit Committee, deficiencies in the design or operations of Internal Controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

3.2 OD Heads:

- Have overall responsibility for Internal Control System in their respective ODs. They are expected to align the internal control

system in their ODs with that of the Internal Control Policy and philosophy at the corporate level. They provide overall guidance and create an environment for adequate Internal Controls for achievement of their business objectives.

- ODs will formulate their own Internal Control Policies within the boundaries of the Corporate Internal Control Policy, to address the specific needs of the ODs' businesses.
- OD Head will forward the quarterly Certificate received from his F&A Head to Corporate Accounts on the adequacy and effectiveness of the internal control systems within the ODs.

3.3 OD F&A Heads:

- To design and implement effective Internal Control procedures for Finance & Accounts in their respective OD.
- To co-ordinate, facilitate and ensure that respective business processes in their ODs have the appropriate Internal Controls.
- To certify on a quarterly basis effectiveness of internal controls in their OD as a support for CEO/CFO Certification as per SEBI clause 49 of listing agreement & report deficiency, if any. Duly signed Certificate will be sent by OD F&A Head to OD Head.

3.4 Verticals / SBUs /OD Service Departmental Heads:

- To ensure that their respective business processes and activities are mapped, control deficiencies are identified and adequate Internal Controls are put in place to keep the risks within the acceptable levels.
- To review the effectiveness of Internal Controls from time to time, ensure that these meet the changing business requirements and also assure that the controls continue to have the desired effect.

- To certify on a quarterly basis, the adequacy of the internal controls in their respective business areas, bringing out the instances of deficiencies and efforts for remedial measures. This certificate will be sent to the OD F&A Head.

3.5 IT Heads:

- IT Heads of all Units (Corporate as well as the ODs / other Departments) are responsible for implementing, maintaining and documenting Internal Controls in all the systems, which comply with the IT Policy of the Company.
- To certify on a quarterly basis effectiveness of such internal controls, including those in their respective areas, as a support for CEO/CFO Certification as per SEBI clause 49 of listing agreement & report deficiency, if any.
- OD IT Heads will send this Certificate to respective OD F&A Head. Corporate and HO IT Heads will send this Certificate to Corporate Accounts.

3.6 Corporate / HO Departments:

- Department Heads at Corporate / HO level should have stringent compliance with internal controls encompassing their own Departmental activities including the services they provide to internal customers.
- To certify on a quarterly basis effectiveness of internal controls in their respective departments as a support for CEO/CFO Certification as per SEBI clause 49 of listing agreement & report deficiency, if any. This Certificate will be sent to Corporate Accounts.

3.7 Corporate Accounts:

- To formulate and issue Guidelines to various Accounting Centers for uniform financial accounting & reporting.
- To design and implement effective Internal Control procedures for consolidation & fair presentation of Quarterly Financial Results and Annual Financial Reports of the Company.

3.8 Corporate Risk Mgmt. & Internal Control Dept. (CRM & IC) :

- CRM & IC has the responsibility of assisting the Corporate Management in formulation of Internal Control policies and reporting structure. It also facilitates implementation of these polices.
- To provide guidance to various departments to strengthen the weaknesses in Internal Controls as identified by the respective business / process owners themselves, by the management or identified during internal audits.

4 Documentation in support of implementation:

Implementation of Internal Controls must be documented in various forms including, but not limited to the following:

- Written policies and procedures.
- Standard Operating Procedures
- Formal authority and responsibility matrix, organization charts, job descriptions and/or narratives etc.
- Flowcharts of business processes with the identification of risks and controls.
- Action taken on the rectification of internal control weakness.

- Quarterly certification on the proper implementation by the entrusted persons as indicated in this policy

5 Process for CEO/CFO Certification on Internal Controls:

The Current SEBI Guidelines requires CEO / CFO certificate to be tabled at the Audit Committee / Board Meeting every quarter. To support this compliance, the flow of certification on internal controls by various Operating / Service areas to CEO / CFO is enumerated in the Annexure of the Policy.

6 Periodic Monitoring:

Corporate Audit Services (CAS) is responsible for auditing the business processes, systems and transactions in the organisation to review the adequacy of internal controls and reporting their findings to the Management and also bring to the Management's attention any deviations with respect to laid down policies and procedures or any vulnerable areas. This is done through regular Internal Audit Reports. CAS should ensure adequate coverage of all the processes across all the departments of the company at reasonable intervals.

CAS will also be responsible to follow up and ensure that the required action is taken by the business process owners to rectify the significant internal control weaknesses. CAS will make a quarterly report to CEO / CFO giving details of the action taken by the business process owners in this regard.

7 Distribution of this Policy:

This Policy is an internal confidential document of Larsen & Toubro Limited to be distributed to the Departmental Heads and above. Departmental Heads may inform employees in their respective departments on need-to-know basis. Copies of this document should not be shared externally.

Annexure

Flow of Certification

