



## 9. Fraud Policy:

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### 9.1 Objectives

This policy has been framed by the organisation to provide a system for detection and prevention of fraud, reporting frauds without any delay and fair dealing of matters pertaining to fraud. The organisation fixes staff accountability in respect of delays in reporting of fraud cases to the Reserve Bank.

The policy will ensure and provide the following:

- a) To ensure that management is aware of its responsibilities for detection and prevention of fraud and for establishing procedures and systems for preventing fraud and detecting fraud when it occurs.
- b) To provide a clear guidance to employees and others dealing with the organisation forbidding them from involvement in any fraudulent activity and the action to be taken where any fraudulent activity is suspected.



- c) To conduct investigations into fraudulent activities.
- d) To provide assurances that any and all suspected fraudulent activity will be fully investigated.

## **9.2 Scope of Policy**

The policy applies to any fraud, or suspected fraud involving employees of the organization as well as representatives of vendors, suppliers, contractors, consultants, service providers or any outside agencies doing any type of business with the organisation.

## **9.3 Definition of Fraud**

"Fraud" is a wilful act intentionally committed by an individual(s) - by deception, suppression, cheating or any other fraudulent or any other illegal means, thereby, causing wrongful gain(s) to self or any other individual(s) and wrongful loss to other(s). Many a times such acts are undertaken with a view to deceive/mislead others leading them to do or prohibiting them from doing a bonafide act or take bonafide decision which is not based on material facts."

## **9.4 Classification of Frauds**

In order to have uniformity in reporting, frauds have been classified as under based mainly on the provisions of the Indian Penal Code:

- a) Misappropriation and criminal breach of trust, Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property, Unauthorised credit facilities extended for reward or for illegal gratification, Negligence and cash shortages, Cheating and forgery, Irregularities in foreign exchange transactions
- b) Any other type of fraud not coming under the specific heads as above.

Cases of '**negligence and cash shortages**' and '**irregularities in foreign exchange transactions**' referred to above are to be reported as fraud if the intention to cheat / defraud is suspected/proved. However, the following cases where fraudulent intention is not suspected / proved at the time of detection, will be treated as fraud and reported accordingly:

- (a) Cases of cash shortages more than Rs.10,000/- if reported by the persons handling cash and



(b) Cases of cash shortages more than Rs.5,000/- if detected by management / auditor / inspecting officer and not reported on the occurrence by the persons handling cash.

### **9.5 Responsibility for Fraud Prevention**

All officers shall share the responsibility of prevention and detection of fraud and for implementing the Fraud Prevention Policy of the Company. It is the responsibility of all officers to ensure that there are mechanisms in place within their area of control to prevent fraud.

The General Manager (P&A) shall be designated as the Fraud Risk Officer.

### **9.6 Reporting of Cases and Turnaround Time**

Any person with an allegation of fraud may approach Fraud risk officer who shall institute an investigation on the allegation.

The Fraud Risk Officer shall provide to the Audit Committee a list of unresolved allegations along with status, new allegations reported during the period, the cases on which the investigation was completed and the logical conclusions arrived on the investigation and cases on which investigation is in progress.

The Fraud Risk Officer shall complete the investigation within a period of 3 months. Extensions may be sought from the audit committee on a case-to-case basis.

### **9.7 Closing of Fraud Cases**

The cases shall be reviewed and closed by the Audit committee after taking into consideration the nature of fraud, action taken, recovery of fraud amount and action on employees based on the investigation report.

### **9.8 Cases of Attempted Fraud**

Individual cases involving Rs. 15,000 or more are placed before the Audit Committee of the Organisation's Board.

The report should cover the following viz.

- The modus operandi of the attempted fraud.
- How the attempt did not materialize into fraud or how the attempt failed/ was foiled.



- The measures taken by TIDCO to strengthen the existing systems and controls.
- New systems and controls put in place in the area where fraud was attempted.

## **9.9 Annual Review of Frauds**

An annual review of the frauds is conducted by the Fraud Risk Officer and intimated to the Board of Directors for information. The main aspects which are taken into account while making such a review include the following:

- a) Whether the systems in the organisation are adequate to detect frauds within the shortest possible time
- b) Whether frauds are examined, wherever necessary, the cases are reported to the vigilance and RBI.
- c) Whether deterrent punishment is meted out, wherever warranted to the persons found responsible
- d) Whether frauds have taken place because of laxity in following the systems and procedures and if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed.
- e) Whether frauds are reported to appropriate law enforcement and investigating authority.
- f) Estimated loss to the organisation during the year on account of frauds, amount recovered and provisions made
- g) Preventive steps taken by the organisation

The annual reviews should also include the following details:

- a. Total number of frauds detected during the year and the amount involved as compared to the previous two years.
- b. Analysis of frauds according to different categories as explained in this policy and also the different business areas indicated in the Quarterly Report on Frauds Outstanding (vide FMR 2).
- c. Modus operandi of major frauds reported during the year along with their present position.
- d. Detailed analysis of frauds of ₹1 lakh and above.
- e. Estimated loss to the bank during the year on account of frauds, amount recovered and provisions made.



- f. Number of cases (with amounts) where staff are involved and the action taken against staff.
- g. Time taken to detect frauds (number of cases detected within three months, six months and one year of their taking place).
- h. Position with regard to frauds reported to CBI/Police.
- i. Number of frauds where final action has been taken by TIDCO and cases disposed of.
- j. Preventive/punitive steps taken by TIDCO during the year to reduce/minimize the incidence of frauds.

### **9.10 Special committee of the Board**

Audit Committee of the Board (ACB) shall monitor all the cases of frauds. TIDCO shall constitute a Special Committee of the Board headed by CMD for monitoring and follow up of cases of frauds (SCBF) involving amounts of ₹1 crore and above exclusively.

- **Members of the Committee**– Chairperson & Managing Director, 2 Director, 2 Independent Directors, 1 RBI Nominee.
- **Fraud Risk Officer** – GM(P&A)
- **Convener**– Assistant Company Secretary
- **Periodicity of Convening**– According to the cases involved.
- **Responsibility/Role of the Committee:**

The major functions of the Special Committee would be to monitor and review all the frauds of ₹1 crore and above so as to:

- Identify the systemic lacunae if any that facilitated perpetration of the fraud and put in place measures to plug the same.
- Identify the reasons for delay in detection, if any, reporting to top management of TIDCO and RBI.
- Monitor progress of CBI/Police investigation and recovery position.
- Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time.
- Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls.

### **9.11 Reporting of Frauds to Reserve Bank of India**

Reporting in respective forms shall be by the General Manager (P&A). The forms prescribed by RBI are mentioned below:



<b>Reporting of Frauds to RBI</b>				
<b>Particulars</b>	<b>Reporting to</b>	<b>Form</b>	<b>Time-line</b>	<b>Additional Requirements</b>
Amount involved above Rs. 1 lakh and below Rs 1 Crore	Regional Office, DNBS, RBI	<u>FMR - 1</u>	Within three weeks from the date of detection	
Amount involved Rs. 1 Crore and above	(i) Regional Office, DNBS, RBI and (ii) Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	<u>FMR - 1</u>	Within three weeks from the date of detection	
Quarterly reports on frauds outstanding (All amounts)	Regional Office, DNBS, RBI	<u>FMR - 2</u>	Within 15 days of the end of the quarter	Certificate as part of the FMR-2 report that all individual fraud cases of Rs. 1 lakh and above reported to RBI in FMR-1 during the quarter have also been put up to the Board and have been incorporated in Part- A (columns 4 and 5) and Parts B and C of FMR- 2.
Case wise quarterly progress report on frauds Involving Rs.1 Crore and above	Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	<u>FMR - 3</u>	Within 15 days of the end of the quarter	



Case wise quarterly progress report of frauds involved less than Rs 1 Crore	Regional Office, DNBS, RBI	<u>FMR – 3</u>	Within 15 days of the end of the quarter	
D.O. letter on frauds of Rs. 1 Crore and above	CGM-Incharge, DBS, FMC, Central Office, RBI and <u>copy to:</u> (i) CGM – In Charge, DNBS, Central Office, RBI (ii) Regional Office, DNBS, RBI	It should be a D.O. letter, however no format prescribed	Within a week of fraud coming to the notice	

*(The policy will be reviewed every three years or as and when there are changes in RBI guidelines, whichever is earlier.)*