

FRAUD PREVENTION POLICY OF FACT - 2012

BACKGROUND:

Over the years FACT has put in place various policies, procedures and systems to guide its employees. Most of these have been formalized in the form of Policy Documents or Manuals. These formalised systems have been designed to ensure that officials dealing with other Business Partners, Companies Dealers, Vendors etc. and undertaking various transactions with them, conduct the same in a transparent, fair and honest manner in the best interests of the Company. A few examples are the Delegation of Powers, Tender Guidelines, Procurement Manual, Accounting Manual, Conduct, Discipline and Appeal Rules, etc. Many of these Manuals are today being updated and republished by the Management.

Clause 49 of the Listing Agreement of SEBI, which deals with the Corporate Governance practices to be followed by Listed Companies, also describes certain specific requirements. These requirements, inter alia, include putting in place a mechanism for employees and other stakeholders to report to the Management about unethical behaviour, actual or suspected fraud or violation of conduct or ethics Policy.

Further, Statutory Auditors of the Company are required to comment on the Fraud Prevention Policy of the Company in their report to the Comptroller and Auditor General of India (C&AG) on the Annual Accounts of the Company, given in compliance of the provisions of Section 619(3) of the Companies Act, 1956.

A comprehensive set of Guidelines on Corporate Governance for Central Public Sector Undertakings was issued by DPE in 2007 which was further revised and amended in 2010. These Guidelines, vide Clause 7.3.2 calls for implementation of policies and procedures for:

- (a) Staff responsibilities in relation to Fraud prevention and identification
- (b) Responsibility of Fraud investigation once a fraud has been identified
- (c) Process of reporting on Fraud related matters to Management
- (d) Reporting and recording processes to be followed to record allegations of Fraud
- (e) Requirements of training to be conducted on Fraud prevention and identification.

In the light of the foregoing and keeping in view the approach of FACT in following Corporate Governance principles proactively, a Fraud Prevention Policy has been



formulated. The detailed Policy is reproduced below for approval by the Board of Directors of FACT.

FRAUD PREVENTION POLICY OF FACT - 2012

POLICY OBJECTIVES :

The 'Fraud Prevention Policy of FACT - 2012' has been framed to provide a system for detection and prevention of Fraud, reporting of any Fraud that is detected or suspected and effective dealing of matters pertaining to Fraud. The Policy will ensure and provide for the following:

- i. To ensure that all levels of the Management are aware of its responsibilities for detection and prevention of Fraud and for establishing procedures for preventing Fraud and/or detecting Fraud when it occurs.
- ii. To provide a clear guidance to employees and all outside agencies & individuals dealing with FACT, forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity.
- iii. To conduct investigations into fraudulent activities.
- iv. To provide assurances to all stakeholders (Employees, Customers, Vendors, Contractors, Dealers, GOI and the General Public) that any and all suspected fraudulent activity will be fully investigated and followed through to a logical conclusion.

SCOPE OF THE POLICY :

This policy applies to any Fraud, or suspected Fraud, involving employees of FACT (all full time, part time or employees appointed on adhoc/temporary/casual/contract basis, probationers and trainees) as well as Dealers, Vendors, Suppliers, Contractors, Consultants, Service Providers or any outside agency(ies) doing any type of business with FACT and their representatives; and any agency or individual not doing any business with FACT, but their acts causing monetary loss or adversely affects FACT business, damage of any sort or loss of reputation and good name of FACT.

DEFINITION OF FRAUD :

'**Fraud**' is not defined in the Indian Penal Code, but Section 17 of the Indian Contract Act defines 'Fraud' as an act committed by a person or party or by his agent with intent to deceive another party including suggestion of something (which is not true) as a fact, concealment of a fact, promising something without any intention of performing it and any act of commission or omission, for purpose of personal benefit or benefit of any other interested party. For the purpose of this following, we will define 'Fraud' as a



willful act or omission, intentionally committed by a person (including any legal entity) either acting individually or in group(s) - by deception, connivance, coercion, suppression, cheating or any other fraudulent or illegal means, thereby, causing wrongful gain(s) to self or any other entity(ies) and/or wrongful loss to FACT or to other (s). This also includes abetment of any act mentioned above. Other such acts are undertaken with a view to deceive/mislead other FACT employees, leading them to do or prohibiting them from doing a bonafide act or take bonafide decision, which would affect the interests of the Company in any manner.

ACTIONS CONSTITUTING FRAUD :

While fraudulent activity could have a very wide range of coverage, following are some of the act(s) which constitute Fraud.

The list given below is only illustrative and not exhaustive:

- i. Forgery or alteration of any document or account.
- ii. Forgery or alteration of Cheque, Bank Draft or any other financial instrument.
- iii. Misappropriation or embezzlement of funds, securities, products or materials of FACT, supplies or other assets by any means etc.
- iv. Falsifying records, removing the documents from files and/or replacing it by a fraudulent note etc.
- v. Making available Company documents/files/papers/email/communiqués for other parties outside FACT, to be used for their gain and/or against the interests of FACT.
- vi. Willful suppression, alteration or manipulation of facts or deception in matters of appointment, placements, submission of Reports, Tender Committee recommendations, sales records etc. including giving of incomplete or inaccurate Reports with intention to cause harm to the Company's interests.
- vii. Utilizing Company funds or assets for personal purposes.
- viii. Authorizing for payment to vendors or receiving payments from dealers for specified goods not supplied or services not rendered or for inferior goods and services which are not as per the specified quality or quantity.
- ix. Destruction, disposition, relocation, damage or removal of records, equipment, buildings, machinery or any other assets of the Company with an ulterior motive to manipulate and misrepresent the facts as a result of which



objective assessment/decision is hampered or company's interests are adversely affected.

- x. Manipulating making wrong or delayed entries causing damage, delaying or unauthorized interfering with Electronic records, or electronic data processing system in any way with malafide intent. This includes the SAP, the e-payment systems, the e-tendering, e-auction, the company websites or networks or Computers and emails.
- xi. Irregularity, delay or omission in recording and reporting financial transactions.
- xii. Irregularities or deliberate inaccuracies in any kind of report, which may lead to distortion of facts and adversely affect the process of decision-making.
- xiii. Conniving or colluding with outside elements including dealers, vendors, or any others to adversely affect tendering or purchase or operational processes so as to cause loss of income or reduction in earnings of FACT through cartel formations or deliberate under/over quoting of rates as applicable.
- xiv. Willfully causing loss of revenue or reputation of the Company in any manner, with or without getting any personal benefit in the process.
- xv. Conniving or colluding with external agencies including dealers, transporters, contractors or vendors in diverting/resale/sale at premium of FACT products in the market, thereby causing hardship to our customers and loss of good name for FACT.
- xvi. Any other act that falls under the gamut of anti-organizational fraud or corruption related activity and considered by the Management to be adverse to the interests of the Company.

REPORTING AND RECORDING PROCESSES

- i. Any employee (full time, part time or employees appointed on casual/adhoc/temporary/contract basis, probationers and trainees), dealers, vendors, suppliers, contractors, consultants, service providers or any other agency(ies) and their representatives doing any type of business with FACT, as soon as he/she comes to know of any fraud or suspected fraud or any other fraudulent activity must report such incident(s). Such reporting shall be made to the designated Nodal Officer(s). The Management shall appoint a Nodal Officer for each Division/dept., if, however, there is shortage of time such report should be made to the immediate Controlling Officer/Vigilance Dept., whose duty shall be to ensure that input received is immediately communicated to the Nodal Officer. The reporting of the fraud normally should be in writing. In case the reporter is not willing to furnish a written statement of fraud but is in a position to give sequential and specific



transaction of fraud/suspected fraud, then the Officer receiving the information/Nodal Officer should record such details in writing as narrated by the reporter and also maintain the details about the identity of the official/employee/ other person reporting such incident. Reports can be made in confidence and the person to whom the fraud or suspected fraud has been reported must maintain the confidentiality with respect to the reporter and such matter should, under no circumstances, be discussed with any unauthorized person.

- ii. All reports of fraud or suspected fraud shall be handled with utmost speed and shall be coordinated by Nodal Officer(s) to be nominated.
- iii. The Vigilance Department should get regular updates from the Nodal Officer.
- iv. Officer receiving input about any suspected fraud, Nodal Officer(s) shall ensure that all relevant records documents and any other evidence is immediately taken into custody and protected from being tampered with, destroyed or removed by suspected perpetrators of fraud or by any other official under his influence.

INVESTIGATION PROCEDURE :

- i. The 'Nodal Officer' shall, refer the details of the Fraud/suspected fraud to the Vigilance Department of FACT, for further appropriate investigation and needful action.
- ii. This input would be in addition to the intelligence, information and investigation of cases of fraud being investigated by the Vigilance Department of their own, as part of their day to day functioning.
- iii. After completion of the investigation, due & appropriate action (which could include administrative action, disciplinary action, civil or criminal action or closure of the matter if it is proved that fraud is not committed etc. depending upon the outcome of the investigation) shall be undertaken by the competent authority.
- iv. Vigilance Department shall appraise the Nodal Officer of the outcome of the investigation undertaken by them. There shall be constant coordination maintained between the two. The Vigilance Enquiry Reports will however, be routed through the normal channels.

RESPONSIBILITY FOR FRAUD PREVENTION:

- i. Every employee (full time, part time, adhoc, temporary, contract, casual, probationers and trainees), (representatives of) vendors, suppliers,



contractors, dealers, consultants, service providers or any other agency(ies) doing any type of business with FACT is expected and shall be responsible to ensure that there is no fraudulent act being committed in their areas of responsibility/control. As soon as it is learnt that a fraud or suspected fraud has taken place or is likely to take place they should immediately apprise the same to the concerned as per the procedure (ie. Nodal Officer of the Division/Dept. or Vigilance Dept.)

- ii. All Controlling Officers shall share the responsibility of prevention and detection of fraud and for implementing the Fraud Prevention Policy of the Company. A 'Controlling Officer' is any FACT employee in Layer II and above. It is the responsibility of all Controlling Officers to ensure that there are mechanisms in place within their area of control to:
 - a. Familiarize each employee under their control with the types of improprieties that might occur in their area of work and activity/business.
 - b. Educate employees about fraud prevention and detection and follow up action.
 - c. Create a culture whereby employees are encouraged to report any fraud or suspected fraud which comes to their knowledge, without any fear of victimization.
 - d. Promote amongst employees, awareness of ethical principles subscribed to by the Company.
 - e. Controlling Officers should evolve adequate mechanism to prevent fraud in their respective areas of operation. Adequate and timely action should be initiated if a fraud is likely to be committed or has already been committed.
 - f. It is the responsibility of each Controlling Officer to regularly monitor all systems and procedures in their respective areas of operation to ensure that the possibility of fraud is eliminated.
 - g. It is the responsibility of each Controlling Officer to immediately report to the Nodal Officer/Vigilance Department any fraud/possible fraud detected in his jurisdiction.
- iii. Due amendments shall be made in the general conditions of contracts of the organization wherein all bidders/service providers/vendors/consultants/dealers etc. shall be required to certify that they would adhere to the Fraud Prevention Policy of FACT and not indulge or allow anybody else working in their organization to indulge in fraudulent activities and would immediately



apprise the organization of the fraud/suspected fraud as soon as it comes to their notice.

These conditions shall form part of documents both at the time of submission of bid and agreement of execution of contract.

REQUIREMENTS OF TRAINING ON FRAUD PREVENTION

- (i) Management will be responsible for making out a suitable module for Ab Initio and periodic training of all employees and officers in this regard.
- (ii) Properly designed familiarization module will be put in place for all Management Trainees during their initial training period, including printed material and Manuals along with Class Room sessions not less than 2 hours.
- (iii) For casual/contract/temporary employees, the bare policy and related circulars must be available on the FACT website and this aspect duly mentioned in their contract/appointment letters instructing them to familiarize themselves with this policy before them start working.
- (iv) Adequate sets of the bare policy manual, and related circulars, orders etc must be available in hard copy with all Controlling Officers which they may also be printed out from the website whenever needed .
- (v) The on job/refresher training courses conducted periodically at FACT Training Center will include modules on this policy with all current/extant updates/orders and circulars.
- (vi) Management may decide to conduct/organize necessary training in this field to the employees with outside agencies/training institutes, from time to time as required.

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