

Indian Renewable Energy Development Agency Limited

Policy for Prevention of Frauds

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Fraud Policy

I. Background

RBI vide their circular DNBS(PD)CC No.59/03.10.42/2005-06 dated October 26, 2005, has issued guidelines on Classification of frauds, approach towards monitoring of and system for frauds for deposit taking NBFCs.

RBI vide circular no. DNBC.PD.CC. No.256/03.10.042/2011-12 dated March 2, 2012, have extended the same guidelines to NBFC-ND-SI also with immediate effect which have been updated vide Circular RBI/DNBS/2016-17/49 Master Direction DNBS. PPD.01/66.15.001/2016-17 September 29, 2016. In view of the foregoing, IREDA is required to follow the said guidelines.

This document sets forth Policy for Prevention of Frauds to enforce controls and to aid in prevention and detection of fraud at IREDA. The intent of the policy is to promote consistent legal and ethical organizational behavior by assigning responsibility for the development of controls and providing guidelines for reporting and conduct of investigations of suspected fraudulent behavior.

II. Scope of Policy

This policy applies to any fraud or suspected fraud in **Indian Renewable Energy Development Agency Limited** (also called the Company), involving employees (including contractual employees) as well as shareholders, consultants, vendors, suppliers, service providers, contractors, lenders, borrowers, outside agencies and/or any other parties with a business relationship with **Indian Renewable Energy Development Agency Limited**.

III. Objectives of the Policy

The policy has been framed to provide a system for detection and prevention of fraud, reporting of any fraud that is detected or suspected and fair dealing of matters pertaining to fraud.

The policy will ensure and provide for the following: -

- a. To ensure that management is aware of its responsibilities for detection and prevention of fraud and for establishing procedures for preventing fraud and/or detecting fraud when it occurs.
- b. To provide a clear guidance to employees and others dealing with IREDA Limited forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity has taken place.
- c. To provide timeline and details to Nodal Officer for reporting fraud once detected or suspected.
- d. To conduct investigations into fraudulent activities.
- e. To provide assurances that all suspected activity(ies) will be fully investigated.
 - Fraud in any form against IREDA will not be tolerated.

IV. Definition of Fraud

Fraud is a false representation or concealment of a material fact, or any other illegal act committed intentionally to cause wrongful gains to self or others and/or wrongful loss to others.

V. Definition of Nodal Officer

All the Group Heads of the Concerned Divisions/Camp Offices/Branch Offices/Concerned Departments will be designated as “Nodal Officers for investigation” for the purpose of reporting and investigation of fraud/suspected fraud pertaining to the Concerned Division/Camp Offices/Branch Offices.

In case the suspected fraud is perpetuated by the GM/Additional GM of the Division/Camp Offices/Branch Offices, the “Nodal Officer for investigation” shall be the Officer to which such GM/Additional GM is reporting to.

However, the Nodal Officer for the purpose of reporting within the ambit of this policy (including the reporting and compliance requirement under the applicable RBI Master Direction/Circulars) will be Additional GM(F&A).

VI. Actions Constituting Fraud

While fraudulent activity could have a very wide range of coverages, the following are some of the acts which constitutes fraud:

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

VII. Other Inappropriate Conduct

Suspected behavior concerning an employee’s moral, ethical, or behavioral conduct **and discipline as defined in IREDA CDA Rule**, should be resolved by the Human Resources Unit.

If there is any question as to whether an action constitutes fraud or not, the Nodal Officer **may refer the guidelines of RBI in this regard.**

VIII. Classification of Frauds: Frauds are mainly classified as

- (i) Internal frauds:** where the frauds have been committed in connivance with some internal staff or systems and process have been mis-utilized by internal staff with the intention to

defraud the company e.g.

- fraud committed by internal staff in connivance with external source,
- misuse of systems and process like wrong debit to expenditure/ impersonal accounts and, fictitious purchases/ forged bills and excess payment to vendors
- Any other not included above, such as Fabricating of documents, IT related, etc.

(ii) External frauds (Frauds committed by unscrupulous Borrowers and or their directors/Investors/ vendors and other stakeholders) like

- Fraudulent discount of instruments.
- Fraudulent removal of pledged stocks/disposing of hypothecated stocks without the NBFC's knowledge/inflating the value of stocks in the stock statement and drawing excess finance.
- Diversion of funds outside the borrowing units, lack of interest or criminal neglect on the part of borrowers, their partners, etc. and also due to managerial failure leading to the unit becoming sick and due to laxity in effective supervision over the operations in borrowal accounts on the part of the NBFC functionaries rendering the advance difficult of recovery
- Fictitious purchases by the borrower out of the disbursed loan by submitting fake bills and non-creation of assets
- Over invoicing of purchases by borrowers
- Falsification of financial statements and fake ITRs by the borrower

IX. Fraud Prevention

- Every employee (full time, part time, adhoc, temporary, contract), representative of vendors, suppliers, contractors, consultants, lenders, borrowers, service providers or any other agency(ies) doing any type of business with IREDA Limited, are 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 or is likely to take place, they should immediately apprise the same as per the procedure.
- Nodal Officer(s) shall ensure prevention and detection of fraud and implementation of the policy for prevention of frauds of the Company. Nodal Officer(s) shall ensure that there are mechanisms in place within their area of control to: -
 - Familiarize each employee with the types of improprieties that might occur in the area.
 - Educate employees about fraud prevention and detection.
 - 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 employee awareness of ethical principles subscribed to by the Company through CDA Rules.

Due amendments shall be made in the general conditions of contracts, sanctions, loan/subsidy/grant agreements of the organization wherein all bidders/service providers/vendors/lenders/borrowers/consultants etc. shall be required to certify that they would adhere to the policy for prevention of frauds in **IREDA Limited** 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. In case of failure to do so, the Company may debar them from current/future transactions. These conditions shall form a part of documents both at the time of submission of bid/loan/subsidy/grant application and agreement of execution of contract/loan/grant application and agreement of execution of contract/loan/subsidy/grant. The list of debarred organizations to be published in IREDA website and reported to concerned authorities.

X. Reporting Procedure

An employee, vendor, contractor, borrower, lender, or other person having business relationship with the company, on discovery of fraud or suspected fraud must report to the designated Nodal Officer/Concerned Group Heads. The matter may be reported in writing. If any employee or other person is not willing to report it in writing, he or she may get his/her statement recorded before the Nodal Officer. The Nodal Officer shall maintain the details of identity of the official/employee/other person reporting such fraud.

Further, any suspected fraud, as intimated by a vendor, contractor, borrower, lender or other person having business relationship with the Corporation on discovery of fraud or suspected fraud, shall be referred to the Designated Nodal Officer for further investigation in this regard.

The Nodal Officer shall maintain the confidentiality about the identity of the reporting individual and under no circumstances would discuss it with any unauthorized person. The Company will not tolerate any form of retaliation against individuals providing information concerning fraud or suspected fraud. The company shall provide protection to the complainant/individual providing information concerning fraud or suspected fraud against victimization.

The Nodal Officer will act expeditiously upon such reporting and ensure that all relevant records and documents and other evidence are taken into custody or protected from being tampered with, destroyed, or removed by the suspected persons/officials.

On receipt of the report, the reporting individual would be informed of the following by the Nodal Officer: -

- i. Do not contact the suspected individual in an effort to determine facts or demand restitution.
- ii. Observe strict confidentiality. Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the Nodal Officer.

Concerned Nodal Officer shall report the fraud/suspected fraud within 7 days from the date of report of fraud/suspected fraud to him/her, through Functional Director/CMD to Additional GM(F&A) and Information Officer for further reporting to Board and RBI respectively. If no frauds is reported, it will be assumed that no fraud is committed/detected.

XI. Investigation of Fraud/Suspected Fraud

It will be the primary responsibility of Nodal Officer to conduct the preliminary investigation. The employee who reports the suspected fraud should not attempt to conduct investigation personally. He or she should not interview or interrogate any person related to the suspected fraud.

The Nodal Officer or any other employee involved in the investigations of suspected fraud shall keep the content of investigative activity strictly confidential. Investigation results shall not be disclosed to or discussed with anyone other than those who have a legitimate need to know this.

The Nodal Officer shall make every effort to protect the rights and the reputations of everyone involved in a report of suspected fraud, including the individual who in good faith alleges perceived misconduct, as well as the alleged violators.

If Nodal Officer determines that a report is not credible or is not a report of fraud, he/she shall document this determination. The Nodal Officer's documentation shall include support for the determination.

If the preliminary investigation of the Nodal Officer substantiates that fraudulent activities have occurred, the Nodal Officer shall seek approval of the competent authority i.e. CMD and, refer the details of the Fraud/Suspected fraud to the Vigilance Department of IREDA Ltd for further appropriate investigation and needful action. 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.

After completion of the investigation by the Vigilance Department, due & appropriate action which could include administration action, disciplinary action, reporting to the Board/Audit Committee, civil or criminal action upon the outcome of the investigation shall be undertaken with the approval of the competent authority i.e., **CMD**.

Vigilance Department shall apprise "Nodal Officer" of the results of the investigation undertaken by them. There shall be constant coordination maintained between the two.

XII. Time Limits for the Preliminary and Final Investigation

The following are the time limits for completing the preliminary and final investigation of report of fraud/suspected fraud: -

i. Preliminary Investigation

The Nodal Officer will complete the Preliminary Investigation and submit the investigation report to competent authority i.e., CMD not later than 30 days from the report of

fraud/suspected fraud. In case Nodal Officer is not able to complete and submit the investigation report in 30 days, he has to record the reasons for delay and may seek an extension for 10 days from the CMD. However, under the exceptional circumstances the extension beyond forty days for a period as may be permitted by CMD.

ii. Approval of Functional Director

The Functional Director will record the approval for final investigation by Vigilance Unit normally in 10 days from the date of receipt of preliminary investigation report.

iii. Final Investigation

The Vigilance Unit will complete the final investigation and submit investigation report within two months from the date of submission of Preliminary Report to the Vigilance Unit or such extended period as CMD may permit.

XIII. Disciplinary Action

Failure to comply with this policy would attract the disciplinary action in the following cases:

- a) An employee who is engaged in any form of fraud.
- b) An employee who suspects or discovers fraudulent activity and fails to report the same as required by this policy.
- c) An employee who intentionally reports false or misleading information.

XIV. Reporting to the Audit Committee/Board of Directors

- a. It is to be ensured that all frauds involving amounts of Rs. 1.00 lakh and above are reported to the Audit Committee and Board promptly after the same are proved in the preliminary investigation of the Nodal Officer.
- b. Information relating to all the attempted frauds involving Rs. 25 lakhs or more shall be placed before the Audit Committee of the Board of Directors containing attempted frauds which is to be placed before the Audit Committee of the Board
- c. All the frauds involving an amount of Rs. 1 crore and above should be monitored and reviewed by the Audit Committee of the Board. The periodicity of the meetings of the Committee may be decided according to the number of cases involved.

XV. Quarterly review of frauds

Information relating to frauds for the quarters ending March, June and September shall be placed before the Board of Directors during the month following the quarter to which it pertains.

Frauds involving amount of Rs. 1 crore and above shall be monitored and reviewed by the Audit Committee of the Board. The committee should meet and review as and when a fraud involving an amount of Rs. 1 crore and above comes to light.

An annual review of the frauds shall be conducted and placed before the Board of Directors for information. The reviews for year ended December should be put up to the Board before the end of March the following year.

XVI. Reporting of Frauds to Reserve Bank of India

Frauds should be submitted in all cases of fraud of Rs. 1 lakh and above perpetrated through any of the frauds mentioned in the policy for prevention of frauds. Information Officer is responsible for reporting of frauds to RBI.

Reporting of Frauds (FMR-1)

Where amount involved in fraud is Rs. 1 crore and above, the reports in the prescribed format shall be sent within three weeks from the date of detection of the fraud to address mentioned in the RBI master directions on frauds and also to the regional office of the department of non-Banking supervision of the bank under whose jurisdiction the registered office IREDA Limited falls.

Where amount involved is less than Rs. 1 crore reports in the prescribed format shall be sent to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered office of IREDA Limited falls within three weeks from the date of detection of fraud.

In respect of frauds, in borrower accounts, additional information as prescribed under part B of FMR-1 should be furnished.

Reporting of Frauds outstanding (FMR-2)

Quarterly reports on the frauds outstanding in the prescribed format shall be sent to the Regional Office of the bank, Department of Non-Banking Supervision under whose jurisdiction the Registered office of IREDA Limited falls irrespective of amount within 15 days of the end of the quarter to which it relates.

Progress report on frauds (FMR-3)

Case-wise quarterly progress reports on frauds involving Rs. 1 lakh and above in the prescribed format shall be sent only to the Regional Office of the Bank, Department of Non-Banking Supervision of the Bank, Fraud Monitoring Cell, Bengaluru and to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered office of IREDA Limited falls, within 15 days of the end of the quarter to which it relates.

Information Officer shall report the matter to RBI in line with the RBI requirements. The timelines for reporting are at Annexure-A.

XVII. Compliance on Master Directions on Monitoring of Frauds by NBFC's issued by RBI

In case of any inconsistencies between the provisions of this policy and the applicable RBI Master Directions/Circulars, the relevant Master Directions/Circular will prevail with respect to such provisions.

XVIII. Administration of the Policy

The Chairman and Managing Director shall be the Competent Authority for the interpretation and revision of this policy. This policy will be reviewed and revised as and when needed.

Note:

1. Reporting to Police, CBI, etc. w.r.t. Frauds by the Nodal officer at IREDA shall be in consultation with Legal Department and with the approval of Competent Authority.
2. In case of any further clarifications on the Policy, latest RBI Master Circulars/notifications are to be referred for any amendment by RBI from time to time.

Annexure-A				
Reporting of Frauds to RBI				
Particulars	Reporting to	Form	Time-Line	Additional Requirements
Amount involved above Rs. 1 lakh and below Rs. 1 Crore	Regional Office, DNBS, RBI	FMR – 1	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	FMR – 1	Within three weeks from the date of detection.	Fraud in borrower account involving an amount of Rs 1 Lakh and above additional information in Part B of FMR-1 to be provided
Quarterly reports on frauds outstanding (All amounts)	Regional Office, DNBS, RBI	FMR - 2	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	FMR – 3	Within 15 days of the end of the quarter	
Case wise quarterly progress report on frauds involved less than Rs 1 Crore	Regional Office, DNBS, RBI	FMR – 3	Within 15 days of the end of the quarter	

D.O. letter on frauds of Rs. 1 Crore and above	CGM - In Charge, DBS, FMC, Central Office, RBI and copy to: 1. (i) CGM - In Charge, DNBS, Central Office, RBI 2. (ii) Regional Office, DNBS, RBI	It should be a D.O. letter with details	Within a week of fraud coming to the notice	
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