

Fraud Prevention and Staff Accountability Policy

Approved by
Board of Directors in their meeting held on February 05, 2024

Effective Date
February 05, 2024
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A. Introduction:

As per RBI Master Circular No. RBI/DOS/2024-25/120DOS.CO.FMG.SEC.No.7/23.04.001/2024-25 dated July 15, 2024 on “**Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies)**” (“RBI Master Direction”), a reporting system for frauds is required to be adopted by all NBFCs (including Housing Finance Companies) in the Upper Layer, Middle Layer and in the Base Layer (with asset size of ₹500 crore and above). Delay in reporting of frauds to the Reserve Bank would be liable for penal action as prescribed under provisions of Chapter V of the RBI act, 1994.

Bharti Telecom Limited (‘BTL’ or ‘the Company’) is a non-banking financial institution regulated by the Reserve Bank of India (‘RBI’). The Company is classified as a Core-Investment Company – Non-Deposit Taking Systemically Important (CIC-ND-SI) by RBI vide its certificate dated January 15, 2019. Activities undertaken by the Company are governed by the Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016 (“CIC Directions”) as amended from time to time. The Company operates as an investment holding company and is not in active lending business. Hence, primarily all investments made by the Company are into equity shares of Bharti Airtel Limited, subsidiary of the Company.

B. Objective:

The main objective of Policy is to make supervision and internal control mechanism more focused and effective for better Frauds risk controls & management and also address the regulatory requirements and to fix staff accountability in respect of reporting of fraud cases.

C. Scope:

The Scope of this Policy covers aspects such as norms for classification of frauds, mechanism of Internal reporting of frauds, requirements of reporting to RBI, requirements for review & reporting of frauds to Board, guidelines for frauds reporting to police, staff accountability etc.

D. Definition of Fraud:

Fraud is defined as an intentional act by one or more individuals among Management, employee, those charged with governance, or third parties including customers of the Company, involving the use of deception to obtain unjust or illegal advantage. A fraud could take form of misstatement of an information (financial or otherwise) or misappropriation of the assets of the entity.

The main features/characteristics of a fraud as per the above definition are:

- It’s a deliberate act of omission, misstatement known the statement to be untrue, concealment or abuse of any information and/or position
- Carried out by any person
- Resulting in wrongful gain to any person for a temporary period or otherwise
- Irrespective of any monetary loss to the company or not

E. Classification of Frauds:

As per RBI Master Direction, Frauds have been classified as under:

- a. Misappropriation of funds and criminal breach of trust;
- b. Fraudulent encashment through forged instruments;
- c. Manipulation of books of accounts or through fictitious accounts, and conversion of property;
- d. Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation;
- e. Forgery with the intention to commit fraud by making any false documents/electronic records;
- f. Wilful falsification, destruction, alteration, mutilation of any book, electronic record, paper, writing, valuable security or account with intent to defraud;
- g. Fraudulent credit facilities extended for illegal gratification;
- h. Cash shortages on account of frauds;
- i. Fraudulent transactions involving foreign exchange;
- j. Fraudulent electronic banking / digital payment related transactions committed on NBFCs; and
- k. Other type of fraudulent activity not covered under any of the above.

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. Case of cash shortages more than Rs. 10,000/- and
- b. Cases of cash shortages more than Rs.5,000/- if detected by management / auditor/ inspecting officer and not reported on the occurrences by the person handling cash.

F. Fraud Risk Control Measures:

Measures to be taken to control fraud risk:

- a. Segregation of duties at various level
- b. Implementation of maker – checker concept
- c. Strengthening of internal controls across the Organization
- d. Implementation of an effective internal audit mechanism
- e. Implementation of Know your customer policy
- f. Installation of an effective complaint resolution mechanism
- g. Awareness of fraud risk is created through frequent communication or training etc.
- h. All new credit proposals received should be properly scrutinised, especially in relation to:
 - Market Report
 - Means and creditworthiness report
 - Purpose for which credit facilities are required
 - The applicant account is not classified as fraud with any bank/ financial institution in any other associated / sister concerns etc.
- i. Strict adherence to the delegation of authorities
- j. Examining of all property documents thoroughly by the law officer or appointed advocate regarding marketability and legal validity for the charge creation
- k. Strict monitoring or supervision of borrowers' accounts, especially big borrowers accounts or accounts causing concern
- l. Alert monitoring system implemented to throw up early warning signals to the branches and escalate the critical ones to the top management

G. Constitution of Committee for Fraud Monitoring

A Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be a Whole-time director or equivalent rank Official, shall be constituted to monitor and follow up cases of fraud. COE shall oversee the effectiveness of the fraud risk management. COE shall review and monitor cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of frauds.

H. Early Warning Signals (“EWS”) for Detection of Frauds

Head of Internal Audit (“HIA”) will periodically identify and update appropriate early warning indicators for monitoring credit facilities / loan accounts and other financial transactions. The design and specification of EWS system shall be robust and resilient to ensure that integrity of the system is maintained, personal and financial data of customers are secure and transaction monitoring for prevention / detection of potential fraud is on real-time basis.

Appointment of External Auditors: In case where there is a suspicion / indication of wrongdoing or fraudulent activity and it is considered to be fit and proper case, COE may use an internal audit or external audit for further investigation. COE may engage any external auditors for the purpose who shall have at least 5 years of experience in areas of forensic audit/investigation and has a turnover of at least Rs. 1 cr in last 2 years.

I. Classification of Borrower account as Fraud

- It shall be ensured that the principles of natural justice²⁰ are strictly adhered to before classifying / declaring an account as fraud which will include the following:
 - Issuance of a detailed Show Cause Notice (SCN) to the Persons, Entities and its Promoters / whole-time and Executive Directors against whom allegation of fraud shall be examined and approved by COE.
 - The SCN shall provide complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated.
 - A reasonable time of not less than 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond to the said SCN.
 - The response/submission received by the Company shall be placed before COE for review. COE will analyse and examine the response/submission and if required may ask further clarification from concerned Persons / Entities.
 - After examining the response/submission, an opportunity of personal hearing shall be provided to concerned Persons / Entities.
 - COE shall forward it's recommendation to the Board of Directors for classifying the account as Fraud for approval.
 - If the Board of Directors approves the recommendation of COE, a reasoned Order shall be served on the Persons / Entities conveying the decision regarding declaration / classification of the account as fraud or otherwise. Such Order(s) must contain relevant facts / circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise.
- In case an account is identified as a fraud, the borrowal accounts of other group companies, in which one or more promoter(s) / whole-time director(s) are common, shall also be reviewed by COE from fraud angle.

- In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, the Company shall follow the process of classification of account as fraud as this Policy.

J. Internal reporting of any Fraud Events:

The following procedures shall be adopted at the various levels in case of fraud/attempted fraud is being discovered or suspected:

- Employee, representative of vendors / service providers / lenders, borrowers consultants, or any other agency doing any type of business with the Company as soon as he / she comes to know of any fraud or any other fraudulent activity, shall report the same to Chairperson of Audit Committee at e-mail id Compliance.officer@bharti.in. Same shall be forwarded to, Head of Internal Audit (“HIA”)
- The respective person shall carry out the preliminary investigation before reporting. However, the Fraud Report should be submitted within five working days to the Audit Committee from the date of detection, while continuing the investigation.
- In case in-depth investigation is required to be carried out the assistance of the external agencies shall be sought. The internal investigation should be concluded within 1 Month time unless extension of time is sought from Managing Director (MD) /Executive Director (ED).
- Fraud reporting shall be done even for attempted fraud events (even if there are no losses to the Company).
- The prime responsibility for timely reporting of frauds is of HIA. The timely reporting from date of detection is critical as there are timelines set for onwards reporting to RBI and Senior Management & Board.
- For the purpose of determining whether an unusual item constitutes fraud or not, the persons authorised under Whistle Blower Policy of the Company will have the power to decide on the matter.
- HIA shall send update on critical fraud events as part of Senior Management escalation within two working days from date of reporting.
- The fraud review report shall be presented to the Board / ACB by HIA to handle reported frauds.
- The Audit Committee shall be authorized to take final decision and disciplinary or legal action against the accountable employee involved in the report event
- The Audit Committee and the management will ensure to maintain the anonymity and prevent the harassment or discrimination of the people communicating these frauds/suspected frauds
- All the complaints received should be treated confidentially

K. Reporting of Frauds to RBI

Incidence of frauds shall be reported to RBI in such formats and at such intervals as prescribed in RBI Master Directions.

Fraud returns and progress reports shall also be filed as per provisions of RBI Master Directions.

However, NBFCs are not required to submit 'Nil' reports to Frauds Monitoring Cell/Regional Offices of Department of Non-Banking Supervision.

L. Reporting of Fraud Events to Board:

a. Reporting of Frauds:

All frauds of Rs.1 lakh and above are required to be reported to Audit Committee promptly on their detection and then to the Board. Such reports should, among other things, take note of the failure on the part of the concerned officials, and consider initiation of appropriate action against the officials responsible for the fraud. All individual cases of attempted frauds involving Rs. 25 lakh, or more should be continued to be placed before the Audit Committee till final conclusion has been reached in the said matters.

b. Quarterly Review of Frauds:

Information relating to frauds for the quarters ending June, September and December shall be placed before the Board of Directors within 45 days from the end of quarter to which it pertains.

These should be accompanied by supplementary material analysing statistical information and details of each fraud so that the Board would have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.

All the frauds involving an amount of Rs 1.00 Cr. and above should be monitored and reviewed by the Audit Committee of the Board. The periodicity of the meetings of the Committee shall be decided according to the number of cases involved. However, the Committee shall meet and review within 7 working days a fraud involving an amount of Rs 1.00 Cr. and above comes to light.

c. Annual Review of Frauds:

An annual review of the frauds should be conducted and place a note before the Board of Directors for information. The reviews for the year-ended March may be put up to the Board before the end of May of the following year. Such reviews are not required to be sent to RBI. These may be preserved for verification by the Reserve Bank's inspecting officers.

The main aspects which may be taken into account while making such a review may include the following:

- i. Whether the systems in the company are adequate to detect frauds, once they have taken place, within the shortest possible time.
- ii. Whether frauds are examined from staff angle
- iii. Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible.
- iv. 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 by the staff concerned.

- v. Whether frauds are reported to local Police, as the case may be, for investigation.

M. Guidelines for reporting Frauds to Law Enforcement Agencies(LEA):

The Company shall immediately report the incidents of fraud to appropriate LEAs, viz. State Police authorities, etc., subject to applicable laws. The following guidelines shall be followed for reporting of frauds such as unauthorized credit facilities extended for illegal gratification, negligence and cash shortages, cheating, forgery etc. to the State Police authorities. As a general rule, the following cases should invariably be referred to the State Police:

- a. Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of staff/officers.
- b. Cases of fraud committed by employees, when it involves funds exceeding Rs. 10,000/-

N. Penal Measures

Persons / Entities classified and reported as fraud by the Company and also Entities and Persons associated with such Entities, shall be debarred from raising of funds and / or seeking additional credit facilities from financial entities regulated by RBI, for a period of five years from the date of full repayment of the defrauded amount / settlement amount agreed upon in case of a compromise settlement.

The Company may extend credit facilities to such Persons / Entities after the expiry of the above mandatory cooling period.

O. Closure of frauds:

As per RBI Guidelines, NBFCs are permitted to close the fraud cases only where the actions as stated below are complete and prior approval is obtained from the respective Regional Offices of RBI.

- a. The fraud cases pending with CBI / Police / Court are finally disposed of.
- b. The examination of staff accountability has been completed
- c. The amount of fraud has been recovered or written off.
- d. Insurance claim wherever applicable has been settled.
- e. The systems and procedures are reviewed, identified as the causative factors and plugged the lacunae and the fact of which has been certified by the appropriate authority (Board / Audit Committee of the Board)
- f. Company should also pursue vigorously with CBI for final disposal of pending fraud cases especially where they have completed staff side action. Similarly, company may vigorously follow up with the police authorities and / or court for final disposal of fraud cases.

The Company can, for limited statistical / reporting purposes, close those fraud cases involving amounts up to Rs.25.00 lakh, where:

- a. The investigation is on or challan / charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the CBI / Police., or
- b. The trial in the courts, after filing of charge sheet / challan by CBI / Police, has not started, or is in progress.

P. Reporting Cases of Theft, Burglary, Dacoity and Robbery

- a. The Company shall report instances of theft, burglary, dacoity and robbery (including attempted cases), to Fraud Monitoring Group (FMG), Department of Supervision, Central Office, Reserve Bank of India, immediately (not later than seven days) from their occurrence.
- b. The Company shall also submit a quarterly Return (RBR) on theft, burglary, dacoity and robbery to RBI using online portal, covering all such cases during the quarter. This shall be submitted within 15 days from the end of the quarter to which it relates.

A. Disciplinary action/Staff Accountability:

In an organization, the business is based on taking various risks across departments. At the same time, it needs to keep a check on the decisions taken in the interest of the company. Hence, it is required to separate a business loss which has arisen as a consequence of bonafide commercial decisions and loss which has occurred due to motivated, reckless or negligent performance of duties.

Every employee is duty bound to discharge work in accordance with

- a) Systems and procedures laid down,
- b) Rules and Regulations in force,
- c) Guidelines, whether general or specific and Policies, and
- d) The authority delegated or when such authority is exceeded, with the approval of appropriate authority and to take decisions on purely commercial considerations and in good faith after following due procedures.

Due diligence must be seen to have been exercised in one's discharge of duty at the originating level where the responsibility cast is direct or at the supervisory / controlling level where the responsibility, though indirect, becomes constructive or constitutional to bear.

In all cases of fraud, staff accountability would be examined. In case of any staff involvement in frauds / attempted frauds, disciplinary action shall be initiated. Also, Staff accountability would be examined in all cases of delayed reporting of detection of frauds.

All investigations shall be completed in 60 days and for any further extension in the investigation period, approval shall be taken from the MD/CEO in a timely manner i.e. before the completion of the defined TAT.

HR department shall examine the report and evaluate the severity of violations and accordingly present the final recommendations to Audit Committee for final decision in this regard.

HR department will maintain the repository of all the staff accountability cases.

Before initiating the final action on the employee, HR department will have discussions with the supervisor and HOD of the employee before case is presented to Audit Committee for final decision.

In cases involving very senior executives i.e MD & CEO / Executive Director / Executives of equivalent rank, the Audit Committee shall initiate examination of their accountability and place it before the Board of Directors of the Company for approval.

Disciplinary Actions

Depending upon the nature and seriousness of non-compliant behaviour, the Company may take corrective action against the erring employees. The Company may also prefer civil or criminal actions against such errant employees. Such action may also include financial and other disciplinary penalties

as deemed appropriate considering the nature of violation and its implications on the company. These actions could be - Cautionary, Deterrent and Capital Action.

If there is an instance which confirms fraud involvement and amount involved is > Rs. 10,000, then HR team will inform Legal team for reporting as per Master Direction on Fraud Detection.

B. Effective Date of the Policy and Amendments

This Policy will come into effect from the date of approval of the same by the Board of Directors of Company. This Policy shall be reviewed by the Audit Committee atleast once in three years. Any changes or modification on the Policy would be presented for approval of the Board on recommendation of the Audit Committee.

SD/-
Rohit Krishan Puri
Company Secretary & Chief Compliance Officer

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