POLICY ON FRAUD RISK MANAGEMENT

Section 143 (12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014 inter alia provide for the Company’s Auditor to report fraud in the manner specified. Section 134(3)(ca) of the Companies Act also provide for inclusion of such frauds reported in the Report of Company’s Board of Directors. Fraud is also a risk requiring to be managed and hence, the Board of Directors in consultation with the Audit Committee has framed this Fraud Risk Management Policy also as an internal control measure commensurate with the size and nature of business carried on.

The term ‘Fraud’ includes activities such as theft, corruption, embezzlement, money laundering, bribery, extortion and improper use of confidential information essentially involving dishonesty for personal gain thereby directly or indirectly causing loss and/or damages to the Company. Fraud however excludes mistakes and/or acts of negligence devoid of intent to defraud.

Fraud is an internal risk requiring to be identified, monitored and mitigated on a perpetual basis. Organisations have been found to be losing substantial resources because of Fraud whereas small percentage of such losses could only be recovered. Greed is said to be one of the main factors for committing fraud. Few other factors leading to fraud are the following.

✓ Motivation ie need or greed
✓ Opportunities ie weak internal controls
✓ Rationalisation – self convincing justifications
✓ Non penal consequences

Following is a sample diagram of factors leading to frauds, whereby rationalization are challenged and fraud risks culminate.
Sources Of Fraud Risk

Factors Leading To Fraud

- Excessive Goals
- Management ego Or Incentives
- Undesirable Products
- Design Failure OR Competitor Innovation
- Dominant Managers Override Controls
- No Ethics Leadership By Senior Management
- No Ethics/Anti-Fraud Or Compliance program
- Excessive Cost base
- Legacy Resource
- Embezzlement Or Ego spending

Challenges to Integrity (Rationalization)

- Poor Risk Management
- Economic Recession
- Market Transformation
- Inefficiencies
- Un integrated Information systems
- Ineffective/Restricted Scope
- Insufficient Pressure to Improve

- Large Executive Incentives
- Dominant/Abusive Managers
- Accounting Staff timing
- Un integrated Information systems
- Ineffective/Restricted Scope
- Insufficient Pressure to Improve

- Personal Problem
- Pear Pressure For wealth
- Psychopathic Personality

Fraud Risks

Fraud Happen when Opportunity, Inceptive and Rationalization exist "The Fraud Theory/Fraud Triangle"
Consequences of fraud can be fatal as it may lead to total collapse of the organization with cascading affects.

**Types of frauds**
Frauds are of different types and following are some of the examples of internal frauds commonly perpetuated

a) Payroll fraud
b) Falsifying expense claim
c) Theft of cash, assets or intellectual properties
d) False accounting
e) Suppression, Concealment and misrepresentation
f) Falsifying statements/documents
g) Misuse of discretionary powers

**Limitations**
Frauds generally are deceptive difficult to identify. Believably, majority of frauds go undetected and even when found, may not be reported because of the risk of negative facets. Sometime also difficult to distinguish fraud from carelessness, negligence or victimless crime.

**Ways to prevent frauds**

- By adopting methods that will decrease motivation or opportunity or both of them.
- Ensuring that the organization has strong ethical culture and values thereby inculcate positive rationalization.

Following is the diagram for strategies to be followed for prevention of frauds
Prevention Strategy Components

Explicit Plan For
- Prevention
- Deterrence
- Detection
- Risk Assessment
- Risk Control
- Training (Technical & General)
- Anti Fraud Training
- Response
  - Investigation/Resolution
- Management Commitment

Prevention
- Policies and procedures
- Physical and IT Security
- Employee Vetting
- Risk Management
- Training & Tone at top

Response
- Investigation
- Improved Controls
- Disciplinary Action
- Civil Recovery
- Criminal
- Prosecution

- Oversight function
- The Creation of open and transparent culture led from the top
- Policies, Practices, Procedures, reports and other mechanisms to monitor activities and safeguard assets.
- Communication channels providing management right information.
- Enhance accountability stewardship and support an adequate internal environment within their organisations.

Healthy Anti-fraud Organisation
Fraud Investigation Methodologies

- Precise planning/ Meticulous Organization
- Painstaking Evidence Sourcing & data analysis
- Thorough interview / Coverts
- Investigative activity evidence Analysis, documentation and Reporting

- Planning and preparation
- Determine required personnel and resources
- Information gathering and preserving
- Document and Evidence gathering
- Document and Evidence preservation and Retention
- Interviewing and Discovery
- Requesting and examining other parties’ information
- Preparation of report and exhibits
- Fact finding
- Reports Preparation and Presentation
- Experts/Non-expert testimony
Deterrence to fraud

- Belief of the potential fraudster that rewards would be modest
- Fear of fraud getting detected
- Punishment unacceptably high.

Fraud Management

Fraud is one of the many risks managed through systems and processes the Organization has put in place, which are on an on-going surveillance through the process of risks identification, control, monitor and mitigation and also Internal, Statutory, Cost and Secretarial Auditors. Vigil Mechanism (Whistle Blower) Policy and also supplement Fraud Management.

Frauds will be reported by the aforesaid Auditors and the Company in the manner and following procedure prescribed therefor.

General

This Policy adopted by the Company’s Board of Directors in their meeting held on Saturday, 10th February 2018 is subject to review from time to time and may be varied, altered, modified or supplemented as and when necessary by executing a written addendum.

For and on behalf of the Board of Directors of IFGL Refractories Limited

Kolkata
10th February 2018

P Bajoria
Managing Director