FRAUD PREVENTION POLICY OF CMRL

INTRODUCTION

1.1 The Government of Tamil Nadu created a Special Purpose Vehicle (SPV), named as "Chennai Metro Rail Limited" (CMRL) for implementing the Chennai Metro Rail Project which was incorporated on 03.12.2007 under the Companies Act. It is a Joint Venture of Government of India and Government of Tamil Nadu with equal equity holding which aims to provide a safe, fast, reliable, accessible, convenient, comfortable, efficient and affordable public transport system preferred by all in a sustainable manner.

1.2 CMRL has put in place various policies, systems and procedures to guide employees for undertaking various transaction(s) within and outside organisation to conduct the same in a transparent and uniform manner. The policies which are already put in place are HR Manual, Tender Procedure Manual, Schedule of Powers (SOP), CMRL Accounts Manual, Code of Business conduct and Ethics for Board Members & Senior Management Team and Code & Ethics for Employees of CMRL etc.

1.3 Department of Public Enterprises (DPE) issued revised guidelines on Corporate Governance for Central Public Sector Enterprises on 14.05.20120. These guidelines being mandatory in nature, inter alia, stipulate that Board should implement policies and procedures to include:

   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 process to be followed to record allegation of fraud; and
   e) Requirement of training to be conducted on fraud prevention and identification.

1.4 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.

1.5 In the light of the foregoing and keeping in view the approach of CMRL in following Corporate Governance principles proactively, it is appropriate that a Fraud Prevention Policy is formulated and implemented. This policy envisages the company to put in place a mechanism for employees to report to the management about unethical behaviours, actual or suspected fraud or violation of conduct.
1.6 Fraud prevention involves not only compiling anti-fraud policies but also involves putting in place effective accounting and operational controls and the maintenance of an ethical environment that encourages employees at all levels to actively participate in protecting company's money & property. Creating an anti-fraud culture involves:

- Having a clear statement of ethical values as enunciated.
- Establishing a clear anti-fraud policy and fraud response plans.
- Promoting staff awareness of fraud.
- Recruiting honest staff (Checking with references on antecedents etc.)
- Maintaining good staff morale.

1.7 The policy statement is given below for implementation with immediate effect.

2.0 POLICY OBJECTIVES

2.1 Objective of the Policy is to provide a system for detection, prevention and reporting of a fraud detected or suspected; and handling of such matters pertaining to fraud.

2.2 The Policy guidelines as enumerated below stipulate as under:

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 CMRL forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity;
c) To conduct investigations into fraudulent or suspected fraudulent activities;
d) To provide assurance that any and all suspected fraudulent activity/activities will be fully investigated and
e) To provide training on fraud prevention and identification

2.3 The above guidelines will not be in conflict with the guidelines issued by the Central Government/Department of Public Enterprises and Central Vigilance Commission as amended from time to time.
2.4 The Policy is expected to ensure and provide for the following:

a) The “Fraud Prevention” is the responsibility of all – a ‘culture’ is to be created.

b) That the management is fully aware of its responsibilities for detection and prevention of fraud and also for:

c) Establishing procedures for preventing frauds and/or Detecting fraud when it occurs.

d) Policy is expected to provide clear guidance to ever one dealing with CMRL:
   i) Forbidding them from involvement in any fraudulent activity and
   ii) The action to be taken by them–where any fraudulent activity is suspected

e) Guidance as to how to conduct investigations in fraudulent activities

f) To provide assurances to one and all, that any and all suspected fraudulent activity / activities will not be allowed and will be fully investigated.

3.0 SCOPE OF POLICY

3.1 The policy applies to any fraud, or suspected fraud involving employees of CMRL (all full time, part time or employees appointed on adhoc/temporary/deputation/contract basis) as well as representatives of vendors, suppliers, contractors, lenders, consultants, advisors, service providers or any outside agency(ies) with a business relationship with CMRL.

4.0 DEFINITION

4.1 “Fraud” is a wilful act committed by an Individual(s)/Entity(ies) – 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 CMRL. 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.
5.0 ACTIONS CONSTITUTING FRAUD

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

5.2 The list given below is only illustrative and not exhaustive:

a) Forgery or unauthorised alteration of any document or account belonging to the Company
b) Forgery or unauthorised alteration of cheque, bank draft, e-banking transaction(s) or any other financial instrument etc.
c) Misappropriation of funds, securities, supplies or others assets by fraudulent means etc.
d) Falsifying records such as pay-rolls, removing the documents from files and/or replacing it by a fraudulent note etc.
e) Wilful suppression of facts/deception in matters of appointment, placements, submission of reports, tender committee recommendations, claiming of benefits / perks etc., as a result of which a wrongful gain(s) is/are made to one and wrongful loss(s) to the others or CMRL.
f) Utilising Company funds or equipment or materials for personal or other than official purposes.
g) Influencing in the employees in the matters of recruitment, tender finalisation and payments to Vendors and Contractors.
h) Authorising, effecting or receiving payments for goods not supplied or services not rendered.
i) Destruction, disposition, removal of records or any other assets of the Company with an ulterior motive to manipulate and misrepresent the facts so as to create suspicion/suppression/cheating as a result of which objective assessment/decision would not be arrived at.
j) Cyber frauds and any other act that falls under the gamut of fraudulent activity.
k) Manipulating or recording false data in test reports of materials or constructed works.
l) Using or permitting use of unapproved/substandard materials or unapproved construction methods in deviation from approved designs that are likely to affect durability of structures.

6.0 VIGILANCE DEPARTMENT IN CHENNAI METRO RAIL LIMITED

6.1 CMRL has created a separate Vigilance Department which is being headed by a Chief Vigilance Officer (CVO) to oversee the vigilance functions in CMRL.

6.2 Chief Vigilance Officer (CVO) is the “Nodal Officer” to oversee the vigilance functions in CMRL.
6.3 Chief Vigilance Officer (CVO) will directly report to Managing Director and to the Board of CMRL as & when necessary.

6.4 The Vigilance Department will be provided with the required Officers and Staff with other necessary infrastructural facilities for assisting Chief Vigilance Officer (CVO) to discharge the duties and responsibilities of “Chief Vigilance Officer”. The Officers and staff will be posted to Vigilance Department on tenure basis from technical divisions of CMRL who will have tenure of 3 years and extendable for a further period of 2 years. Officers on deputation from TN Government or Government of India may also be considered for posting in the Vigilance Department to work under CVO who will also have a tenure of 3 years and extendable for a further period of 2 years.

6.5 Managing Director of CMRL is the Competent Authority for appointing the Officers and staff in Vigilance Department. The appointment will be done in consultation with CVO.

6.6 The Board of CMRL is the Competent Authority to notify the name and designation of officer who will discharge the duties and responsibilities of “Chief Vigilance Officer” during his/her leave.

7.0 REPORTING OF FRAUD:

a) Any employee (full time, part time or employees appointed on adhoc/temporary/deputation/contract basis), representative of vendors, suppliers, contractors, consultants, advisors, service providers or any other agency(ies) doing any type of business with CMRL as soon as he/she comes to know of any fraud or suspected fraud or any other fraudulent activity must report such incident(s) irrespective of the division in CMRL in which he/she works. Such reporting shall be made to the Vigilance office. If, however, there is shortage of time or urgent nature such report should be made to the immediate controlling officer whose duty shall be to ensure that input received is immediately communicated to the Vigilance department.

b) 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/controlling 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 or disclosed with any unauthorized person.
c) As soon as it is learnt that a fraud or suspected fraud has taken or is likely to take place, same should immediately be apprised to Vigilance Department as per the procedure.

d) All reports of fraud or suspected fraud shall be handled with utmost speed and shall be coordinated by Vigilance Department.

e) Officer receiving input about any suspected fraud/vigilance officer or controlling officer shall ensure that all relevant records documents and other evidence is being immediately taken into custody and being protected from being tampered with, destroyed or removed by suspected perpetrators of fraud or by any other official under his influence.

8.0 INVESTIGATION PROCEDURE:

a) The "controlling Officer" shall, refer the details of the Fraud/suspected fraud to the Vigilance Department of CMRL, for further appropriate investigation and needful action.

b) The 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.

c) After completing 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.

d) If after preliminary enquiry, a case is established for further detailed investigation and the CVO considers the nature of act is a criminal misconduct, action should be taken with the approval of M.D. to file an FIR. Domestic enquiry can progress in parallel.

e) Vigilance Department will receive all the complaints and maintain a register with date-wise receipts of complaints. CVO will brief the Managing Director regarding the complaints received and will initiate further necessary action.

f) Anonymous complaints received will not be entertained as a general rule. However, if the complaint is supported by any verifiable facts/evidence, the same may be acted upon by CVO with approval of Managing Director.
g) Pseudonymous complaints received will not be entertained as a general rule. However, if the complaint is supported by any verifiable facts/evidence, the same may be acted upon by CVO with the Managing Director.

9.0 RESPONSIBILITY FOR FRAUD PREVENTION

A: CONTROLLING OFFICERS

9.1 All the controlling Officers shall share the responsibility of prevention and detection of fraud and for implementing the “Fraud Prevention Policy” of CMRL for the department under his/her area of control. It is the responsibility of all the controlling to ensure that there are mechanisms in place within their area of control to:

a) Familiarise each employee with the types of improprieties that might occur in their area.
b) Educate employees regarding the measures to be taken for prevention and detection of fraud.
c) Create a culture whereby employees are encouraged to report any fraud or suspected fraud which comes to their knowledge, without any fear of victimisation.
d) Promote awareness among the employees of ethical principles subscribed to by CMRL through Rules/Standing orders.
e) Developing a fraud risk profile and undertaking a regular review of the fraud risk associated with each of the key organizational objectives in order to keep the profile current.
f) Designing an effective control environment of checks and balance to prevent fraud.
g) Devise response plan commensurate to the level of fraud risk identified in the fraud risk profile.
h) Making sure that all staffs are aware of the organisation's fraud policy and know what their responsibilities are in relation to combating fraud.
i) Ensuring that vigorous and prompt investigations are carried out if fraud occurs or is suspected.
j) Taking appropriate legal and / or disciplinary action against perpetrators of fraud.
k) Taking appropriate action to recover assets.
l) Ensuring that appropriate action to minimise the risk of similar frauds occurring in future..

B: ALL EMPLOYEES

9.2 Every employee (full time, part time, adhoc, temporary, deputation, contract), representative of vendors, suppliers, contractors, consultants, service providers or any other agency(ies) doing any type of business with CMRL, 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 or is likely to take place they should immediately apprise the same to the concerned verbally or in writing.

Every member of staff is responsible for:

- Acting with propriety in the use of official resources and the handling and use of public funds.
- This may include but not to be limited to cash, payments systems, receipts, supplies, dealing with suppliers, the use of IT equipment and placing orders and contracts.
- Preventing and detecting fraud.
- Being alert to the possibility that unusual events or transactions could be indicators of fraud.
- Reporting details immediately through the appropriate channel if they suspect that a fraud has been committed or see any suspicious acts or events.
- Cooperating fully with whoever is conducting internal checks or reviews or fraud investigations.

C: PHYSICAL SECURITY

9.3 a) This is a preventive measure which controls or monitors access to assets, documentation or IT systems to ensure that there is no unauthorized use, loss or damage.

b) Assets can range from computer terminal that sits on the desk, software or documents in servers or to the cheques sent out to pay suppliers. As a general principle assets should be held securely and access to them restricted as appropriate. The control should apply not only to the premises but also to computers, databases, documents and any other area that is critical to the operation of the individual organization. It may even be appropriate to restrict knowledge of the existence of some assets.

c) Access to computer systems is an important area that should be very tightly controlled, not only to prevent unauthorised access and use, but also to protect the integrity of the data. The threat to computers can come from both inside and outside the organization. Computers are also vulnerable to theft, both in terms of hardware and software. Information Security Management System (ISMS) with periodic Information Security Audit will be put in place.
D: TRAINING

9.4 Training on fraud prevention and identification shall be included in the training calendar every year and will be imparted to Officers and employees.

9.5 Special training to Top and Senior Management for implementation of Fraud Prevention Policy in CMRL would be imparted.

E: AUDIT TRAIL

9.6 Audit trail is largely a detective control, although its presence may have deterrent effect and thus prevent a fraud. An audit trail enables all transactions to be traced through a system from start to finish.

F: STAKE HOLDERS

9.7 Due amendments shall be made in the General Conditions of Contracts wherein all the Bidders/Service providers/Vendors/Consultants etc., shall be required to certify that they would adhere to the Fraud Prevention Policy of CMRL and shall not indulge themselves or allow others (working in CMRL) to indulge in fraudulent activities and that they would immediately apprise the organisation of the fraud/suspected fraud as soon as it comes to their notice.

9.8 Concealment of facts regarding their involvement in fraudulent activities in connection with the business transactions(s) of CMRL is liable to be treated as crime and dealt with by the procedures of CMRL as applicable from time to time.

9.9 Similar clause regarding adherence to the Fraud Prevention Policy of CMRL will be added to the Agreements entered into by CMRL with contractors, consultants, customers etc.

9.10 In respect of existing Purchase Orders / Work Orders / Service Contracts / Agreements with contractors etc., the said exercise would be completed within three months (03 months) time from the implementation of this policy.

9.11 A clause would be included in the Tender documents/other Agreements etc., which will indicate the stake holders to refer CMRL website for the requisite information and also to see the detailed Fraud Prevention Policy.
10.0 FRAUD PREVENTION & DETECTION MECHANISM

10.1 Fraud Prevention

Prevention encompasses an ethical environment, periodic fraud risk assessment and preventive internal control such as authority limits, policies and procedures. A strong tone at the top supported with preventive controls along with effectively implemented process serve as strong and effective deterrents for fraud.

A. Culture of Honesty and Ethics:

The most effective method of preventive fraud is creation of an ethical and transparent environment that promotes all employees to actively participate in protecting CMRL’s reputation, resources and promoting stakeholder confidence in CMRL. This involves:

a) Prior disclosure of conflict of interest & voluntary refusal from handling cases where there is conflict of interest.
b) Enforcement of Conduct, Discipline & Appeal Rules of CMRL.
c) Compliance with code of conduct of CMRL
d) Compliance with code of Internal Procedures and conduct in dealing with securities of CMRL
e) Vendors/bidders signing Integrity Pact in bidding for contract with CMRL.
f) Fraud awareness and training
g) Continuous Fraud risk monitoring and control

B. Fraud Prevention Mechanism:

Following are fraud preventive mechanism in CMRL:

a) Respective CGMs/GMs will prepare all fraud risk assessment report on quarterly basis and forward the same to Director concerned, Chief Vigilance Officer and Managing Director of CMRL.

b) Fraud Risk Assessment Report will be reviewed by a Committee to be constituted on half yearly basis and put up their recommendation to Audit Committee.

c) Promotion of Whistle Blower Policy and other fraud prevention and detection mechanism in CMRL.

d) Promotion of Monitoring systems such as Bill Watch System, File Management System, Tender Monitoring System, e-banking payments/receipts, e-tendering and Reverse Auctions etc.
10.2 Fraud Detection Controls:

a) Detective controls are designed to detect fraudulent activity, as well as errors in various business processes in SAP System implemented in the CMRL. A lack of, or weaknesses, preventive controls increases the risk of fraud and in such cases there is greater burden on detective controls. Some examples of the detective controls are, segregation of duties, reconciliation, audits, independent reviews, physical inspection, periodic counts, surprise checks and periodical evaluations system control and surveillance system etc.

b) Detective controls are designed considering the fraud risk as such they may need to be flexible, adaptable and continuously changing to meet the various changes in fraud risk.


11.0 NOTIFICATION OF CHIEF VIGILANCE OFFICER (CVO):

11.1 The name Chief Vigilance Officer (CVO) will be displayed in the CMRL website, intranet and in prominent places of corporate office & worksites.

12.0 INFORMATION TO AUDIT COMMITTEE

12.1 CMRL Vigilance Department will forward a quarterly report on status of action taken on fraud(s) for investigation along with action taken thereof to Internal Audit Department for information to Audit Committee through Managing Director.

13.0 ADMINISTRATION AND REVIEW OF THE POLICY

13.1 The Managing Director, CMRL in consultation with Chief Vigilance Officer shall be the Appropriate Authority for revision of this policy as and when needed.

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