



FRAUD RISK MANAGEMENT POLICY

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1. **BACKGROUND**

RBI vide Circular dated July 15, 2024 issued Master Directions on Fraud Risk Management in Non- Banking Financial Companies (NBFCs) (including Housing Finance Companies) 2024. These Directions shall supersede the earlier RBI Directions on the subject.

These Directions are issued with a view to provide framework for prevention, early detection and timely reporting of incidents of fraud and the matters connected therewith or incidental thereto to the Management, Law Enforcement Agencies (LEAs) & RBI.

The provisions of these Directions are applicable to all NBFCs in the Upper layer, Middle Layer and in the Base Layer (with asset size of Rs.500 crore and above).

2. **OBJECTIVE**

The Fraud Risk Management Policy is framed to prevent, detect and monitor fraud risk in the Company. The Policy has been formulated in line with the aforesaid RBI Master Directions. Any subsequent amendments in these provisions would, ipso-facto, apply to this Policy.

3. **SCOPE OF POLICY**

The Policy approved by the Board shall delineate the roles and responsibilities of Board/ Board Committees & Senior Management and also incorporate measures for ensuring compliance with principles of natural justice in a time bound manner.

This Policy applies to any fraud or suspected fraud, involving employees (full time, part time, adhoc, temporary, contractual employees) as well as borrowers, consultants, vendors, suppliers, service providers, lenders, contractors, shareholders, outside agencies doing business with HUDCO, employees of such agencies, and/or any other parties in a business relationship with HUDCO.

The Policy will ensure and provide for the following: -

- i) To ensure that the Management is aware of its responsibilities for detection and prevention of fraud and for establishing procedures for preventing fraud and/or detecting fraud as and when it occurs.
- ii) To provide a clear guidance to employees and others dealing with HUDCO, forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity.
- iii) To provide a system for prevention and detection of fraud, reporting of any fraud/ suspected fraud and deal appropriately with issues relating to fraud and to take preventive measures for non-occurrence of the same in future.
- iv) To conduct investigation into fraudulent activities.
- v) To strengthen the monitoring system so that occurrence of fraud may be detected at initial stage and remedial/preventive measures can be taken to minimize the risk of subsequent losses.

- vi) To convey message to all the concerned parties including employees that the organization will not tolerate any kind of fraud or dishonesty.
- vii) To establish a suitable MIS and regulatory reporting system.

4. DEFINITION OF FRAUD

Fraud is a wilful act intentionally committed by an individual/ employee or by any other entity like borrower, supplier, contractor, consultant etc. by deception, suppression, omission, concealment, or any other fraudulent / illegal means.

5. ACTIONS CONSTITUTING FRAUD

The following are some of the acts which may constitute fraud. The list given below is only illustrative and not exhaustive:

- i) Forgery or alteration of any document, financial instruments or accounts belonging to the Company.
- ii) Misappropriation of funds, securities, or other assets by fraudulent means.
- iii) Falsification, destruction, disposition, removal of records or any other assets of the Company with an ulterior motive.
- iv) Hiding dispute on title of the collateral or charging same collateral to several lenders without approval of existing charge holders.
- v) Criminal breach of trust.
- vi) Wilful suppression of facts.
- vii) Fraudulent credit facilities extended for illegal gratification.
- viii) Fraudulent encashment through forged instruments.
- ix) Utilizing Company funds/brand name/goodwill etc. for personal/unauthorized purposes.
- x) Authorizing or receiving payment for goods not supplied or services not rendered.
- xi) Sale of mortgaged property without consent of the lender.
- xii) Any other act that falls under the gamut of fraudulent activity.

Suspected improprieties concerning an employee's moral, ethical, conduct & discipline as defined in HUDCO CDA rules or behavioral conduct shall be resolved by Human Resources Wing.

6. GOVERNANCE STRUCTURE FOR FRAUD RISK MANAGEMENT

To ensure institutionalization of fraud risk management, the Company shall have an appropriate organizational set up within the overall Risk Management Function. In order to incorporate measures for ensuring compliance with principles of natural justice in time bound manner, HUDCO shall have:

- A well laid out system for issuance of Show Cause Notice (SCN) and examination of the responses/submissions made by the Persons/Entities prior to declaring such Persons/Entities as fraudulent.
- A detailed SCN, issued to the Persons, Entities and its Promoters/ Whole Time Directors/ Executive Directors against whom allegation of fraud is being examined, providing complete details of transactions/actions/events.
- A reasonable time of not less than 21 days be provided to the Persons/ Entities on whom the SCN is served to respond.
- The concerned Nodal Officer shall be responsible for issuing SCN after seeking approval of the Functional Director through respective business unit head. However, at Corporate Office, the respective business unit head shall issue SCN post approval of the Functional Director.
- A reasoned Order be served by the concerned Nodal Officer on the Person(s)/ Entity(ies) conveying the decision of the Corporation regarding declaration/ classification of the account as fraud or otherwise with the approval of CMD. Such Order must contain relevant facts / circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise.

“Person” includes third party service providers and professionals such as architects, valuers, chartered accountants, advocates etc.

7. MONITORING & FOLLOW-UP OF FRAUD CASES

Special Committee of the Board for Monitoring & Follow-up of cases of Frauds (SCBMF) – As per RBI Master Directions, NBFCs shall constitute a Board level Committee for monitoring and follow-up of cases of fraud, with a minimum of three members one being CEO/CMD & two Independent Directors. NBFCs categorized as Middle Layer and Base Layer shall have the option to constitute a Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be a Whole-time Director for the purpose of performing the roles and responsibilities of SCBMF.

In compliance of RBI Directions, HUDCO being a Middle Layer NBFC shall constitute a Committee of Executives (CoE) headed by Functional Director with the approval of Board.

CoE shall oversee the effectiveness of fraud risk management in HUDCO and shall review and monitor cases of fraud, including root cause analysis and suggest mitigation measures for strengthening the internal controls, risk management framework and minimizing the incidents of fraud on quarterly basis.

A periodic review of incidents of fraud shall also be placed before the Audit Committee of Board (ACB) and Board on quarterly basis.

Whistle Blower Policy: HUDCO shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases/ suspicious activities are examined and concluded appropriately under its Whistle Blower Policy.

Financial Statements: HUDCO shall disclose the amount related to fraud reported in the Company for the year in its Financial Statements- Notes to Accounts.

8. NODAL OFFICER

Regional Chief shall be the designated “Nodal Officer” at Regional Office. At Corporate Office, Head of Department/ Business Unit shall be the “Nodal Officer”.

In case the suspected fraud is perpetrated by the Nodal Officer, the acting “Nodal Officer” shall be the Officer to whom such Officer is reporting to.

Nodal Officers/ Business Unit Heads shall familiarize all employees with the type of improprieties that might occur in their area of operation, educate employees about fraud prevention and detection.

The Nodal Officers/Business Unit Heads shall treat all information received as confidential.

The Head of Fraud Cell in Corporate Office shall receive, compile & put up the case to Standing Committee for investigating the fraud/suspected fraud cases. Further Head of Fraud Cell shall report to the Board, Audit Committee of Board (ACB), CoE, RBI, etc. ensuring regulatory compliances and maintaining MIS within the ambit of this Policy. Information relating to applicable fraud cases shall be provided to Vigilance Wing for onward submission to ABBFF. The Nodal Officers of ROs/Business Unit Heads shall periodically put up the status in this regard to Fraud Cell at Corporate Office.

9. Standing Committee for Investigation of fraud / suspected fraud cases: -

Management shall constitute a “Standing Committee for Investigation of Fraud Cases” comprising members of different disciplines where the Head of Fraud Cell shall be one of the members. Officer involved in sanction or release of the scheme under investigation shall not be a member of the Standing Committee.

10. REPORTING PROCEDURE FOR FRAUD

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 HUDCO, is/are expected and shall be responsible to ensure that there is no fraudulent act being committed in their areas of responsibility/control to the best of their knowledge. In case any fraud or suspected fraud is detected, it shall be reported to the concerned Nodal Officer in writing. However, at Corporate Office, the fraud or suspected fraud shall be reported to the departmental head. If an 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 the concerned Nodal Officer shall also immediately intimate such cases to Fraud Cell for informing the Management.

The Nodal Officer shall maintain confidentiality about the identity of the reporting individual and under no circumstances would discuss it with any unauthorized person. The Corporation will not tolerate any form of retaliation against individuals providing information concerning fraud or suspected fraud and 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 & documents and other evidences are taken into custody or protected from being tampered with, destroyed or removed by the suspected persons/ officials.

The reporting individual is advised not to investigate / interrogate / contact personally any person(s) related to the suspected fraud in an effort to determine facts or demand restitution. Further the reporting individual is advised to observe strict confidentiality about the case.

11. INVESTIGATION OF FRAUD / SUSPECTED FRAUD

a) Preliminary Investigation: - It will be the primary responsibility of the concerned Nodal Officer to notify the fraud/suspected fraud in the Regional Office and to carry out preliminary investigation. However, in case of fraud/suspected fraud at Corporate Office, Head of the respective business unit shall conduct preliminary investigation. The concerned Nodal Officer shall inform Fraud Cell along with supporting documents/information.

If the preliminary investigation substantiates that fraudulent activities have occurred, the concerned Nodal Officer/Departmental Head shall issue SCN with due approval of Competent Authority i.e. Functional Director and further pursue with the LEAs, if required.

b) Standing Committee Investigation (SCI): - Based on the preliminary investigation report and response to SCN, the fraud case(s) shall be further investigated by the Standing Committee.

During the preliminary investigation or investigation by the Standing Committee, if it is determined that a report is not credible or is not a report of fraud/suspected fraud, the Nodal Officer / Standing Committee shall document this determination with proper support. The Head of Fraud Cell shall seek approval of the Competent Authority i.e. CMD on the findings that there is no element of fraud and inform the concerned Nodal Officer to process the closure of the case.

If the investigation of the Standing Committee substantiates that fraudulent activities have occurred and prima facie staff accountability is involved / not involved, the Head of Fraud Cell, based on the report of the Standing Committee, shall seek approval of the Competent Authority i.e. CMD, through the concerned Functional Director on the findings of the Standing Committee and refer the details of the fraud/suspected fraud to Vigilance Department for information and to initiate examination of staff accountability in line with the CVC guidelines, if required.

The Nodal Officer shall be informed accordingly for taking further necessary action or issuance of reasoned order.

In case where the fraud is attributable to the person(s) / entity(ies) (other than staff), the Nodal Officer shall take necessary steps viz. filing complaint of fraud to the appropriate authority as deemed fit, stop disbursement as a precautionary measure, recall the loan etc. after taking due approval from CMD.

- c) Vigilance Department Investigation:** - On receipt of report of the Standing Committee, Vigilance Department shall conduct investigation from the perspective of staff accountability and on completion of the investigation, appropriate action against the concerned employee(s), which shall include administrative and disciplinary action depending upon the outcome of the investigation, shall be initiated with the approval of the Competent Authority i.e. CMD.

Vigilance Department shall also inform the outcome of the investigation undertaken by them to Fraud Cell.

No information concerning the status of an investigation shall be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputation of person(s) suspected but subsequently found innocent of wrongful conduct and to protect the Company from potential civil liability.

For the purpose of investigation, the services of any outside professional agency or any other party may be utilized with the approval of the Competent Authority.

12. TIME LINES FOR INVESTIGATION

The following are the time limits for completing the investigation of fraud/ suspected fraud:

Preliminary Investigation: - The concerned Nodal Officer shall conduct preliminary investigation based on available information & documents and shall issue SCN to the persons/entities against whom allegation of fraud is being examined with the approval of Competent Authority i.e. Functional Director through respective Business Unit Head at HO within 15 days of detection of fraud/suspected fraud.

Based on the response to SCN, the concerned Nodal Officer shall submit the preliminary investigation report along with the response to SCN to Fraud Cell with a request to conduct further investigation

Standing Committee Investigation: - The Standing Committee shall conduct further investigation and submit the report on fraud/ suspected fraud to CMD through Functional Director for approval within 30 days from the date of request from the Nodal Officer. In case the Standing Committee is not able to complete the investigation and submit the report within 30 days, it shall record the reasons for delay and seek extension from the CMD.

The investigation report of the Standing Committee, with due approval of CMD shall be forwarded to Vigilance Department for information and further investigation, if required.

Vigilance Department: - The Vigilance Department shall initiate and complete the examination of staff accountability in a time bound manner in accordance with the internal policy.

13. STAFF ACCOUNTABILITY

HUDCO is in the business of lending which involves risk. Therefore, it is important to protect those who are taking business decisions in a competitive environment. A loan can turn bad due to a number of reasons like change in market conditions, change in Law, Government Policy, natural calamities, security enforcement by Government agencies etc. At the same time there may be reasons attributable to fraud committed by the Borrower which could have happened due to negligence/commission/collusion of staff who failed to protect the interest of the organization.

While it is required to fix staff accountability against the officers having malafide intent/involvement, it is also essential to ensure that bonafide mistakes are dealt with empathy. Staff accountability framework is also required to identify and discipline only those employees who are prima facie responsible for the lapses of non-adherence with laid down systems & procedures. As long as the actions are within the framework of the laid down guidelines, rules, regulations and procedures and in the interest of the Corporation, they do not attract accountability.

The examination of staff accountability should be carried in light of the circumstances prevailing at the time of occurrence of events and not use the benefit of hindsight to question the technical merits of a managerial decision.

Failure to comply with the laid down Policy shall also attract disciplinary action in the following cases also:

- An employee who suspects or discovers fraudulent activity and fails to report the same as required by this Policy or intentionally reports false or misleading information.
- An employee of the department in which fraud is committed does not share with the Nodal Officer / Fraud Cell / Vigilance Department relevant documents of suspected fraud.

In fraud/suspected fraud cases where staff involvement is suspected, Vigilance Department shall initiate and complete the examination of staff accountability in time bound manner as per the laid down Policy. Examination of staff accountability shall be conducted in line with the CVC guidelines.

Fraud cases of amount involving Rs.3 crore and above shall also be referred for examining the role of all levels of officials/ Whole Time Directors (including ex-officials/ex WTDs) to the Advisory Board for Banking and Financial Frauds (ABBFF) constituted by the CVC.

In cases involving very senior Executives (CMD/CEO/ ED or Executives of equivalent rank) *, the ACB shall initiate examination of their accountability and place it before the Board. HUDCO shall also refer such cases to ABBFF.

*Such executive shall not participate in the meeting of the Board/ ACB/ SCBMF in which their accountability is to be considered.

14. MODALITIES OF REPORTING INCIDENTS OF FRAUD TO RBI

FMR – I (Report on Actual or Suspected Frauds): This return captures report on actual or suspected frauds. The fraud cases irrespective of amount involved shall be reported immediately but not later than 14 days from the date of classification of an incident/account as fraud.

FMR - III (Update of Form FMR-I): This return captures progress report on frauds and is to be filed as and when any development occurs in FMR I details.

FMR - IV: (Reporting Cases of Theft, Burglary, Dacoity and Robbery) A quarterly Return (RBR) on theft, burglary, dacoity and robbery shall be submitted on online portal of RBI within 15 days from the end of the quarter.

HUDCO shall report instances of theft /burglary/ dacoity/ robbery (including attempted cases) to Fraud Monitoring Group, Department of Supervision, Central Office, RBI immediately not later than 7 days from their occurrence.

Adherence to the prescribed time lines for reporting of fraud cases shall be ensured. In case of any lapses, the Management shall examine and fix staff accountability, if any.

Under exceptional circumstances, FMR may be withdrawn or names of perpetrators may be removed from FMR subject to due justifications and with the approval of Competent Authority at least in the rank of a director.

For FMR reporting: -

*The “**date of occurrence**” is the date when the actual misappropriation of funds has started taking place, or the event occurred, as evidenced/reported in the audit or other findings.*

*The “**date of detection**” is the actual date when the fraud came to light in the concerned branch/ audit/ department, as the case may be, and not the date of approval by the Competent Authority.*

*The “**date of classification**” is the date when due approval from the Competent Authority has been obtained for such a classification and the reasoned order is passed.*

15. FRAUD PREVENTION

Each Regional Head / Business Unit Head shall have the ownership for initiating necessary preventive/corrective steps in their respective areas based on the analysis/ remarks/observations during various audits in order to mitigate internal and external susceptibility to fraud.

The following measures may be ensured for prevention of fraud:

- i) Detailed due diligence at the time of sanction of loan as per guidelines.
- ii) At the time of project appraisal, all technical parameters of the project i.e. cost estimate, all statutory approvals required for taking up the project etc., financial parameters including financial ratios, assumptions considered for preparation of cash flow statement of the project, demand assessment etc. should be examined in detail.
- iii) Detailed legal due diligence at the time of sanction of loan and at the time of legal documentation be carried out strictly as per Law Master Circular.
- iv) Regular monitoring of the project during construction period.
- v) Regular site inspection be carried out to ensure physical and financial progress of the project.
- vi) Regular monitoring of escrow account to ensure that all the inflows and outflows from the project are being routed through the designated escrow account and to check the diversion of funds, if any.
- vii) Due amendments shall be made in the general conditions of contract agreement, sanction/loan documents/subsidy/grant agreements etc. wherein all bidders / service providers / vendors / lenders / borrowers / consultants etc. shall be required to certify that they would adhere to the Fraud Risk Management Policy of HUDCO 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.
- viii) These conditions shall form part of documents both at the time of submission of bid/loan/subsidy/grant application and agreement of execution of contract / loan / subsidy/ grant / reports etc. In case of failure to do so, the Corporation may debar them from current/ future transactions.
- ix) Periodic review of the borrower/ project account shall be done by the Internal Audit Wing and/or Project Monitoring Group and report major deviation (if any), from the agreed terms of contract so as to take appropriate action in time.
- x) The list of debarred organizations shall be published on HUDCO website and further necessary action, if any, shall be initiated by the concerned department.

16. FRAMEWORK FOR EARLY WARNING SIGNALS FOR DETECTION OF FRAUD

HUDCO shall have a framework for Early Warning Signals (EWS) for Fraud Risk. The Company shall identify appropriate early warning indicators for monitoring credit facilities/ loan accounts and other financial transactions under the overall Risk Management Function. EWS framework shall include the quantitative and qualitative indicators, market intelligence, conduct of borrowers etc. to make the framework robust and effective. Early warning indicators shall alert / trigger deeper investigation from potential fraud angle and initiate preventive measures. Template/Framework for reporting of Early Warning Signals is placed as **Annexure A**. The events leading to

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Early Warning Signals shall be immediately reported to Fraud Cell. The consolidated updated statement of the EWS shall be reported on quarterly basis to Fraud Cell for deliberation by CoE.

The EWS framework shall be subject to suitable validation in accordance with the directions of CoE to ensure its integrity, robustness, and consistency of the outcomes.

In case of suspicion/indication of wrong doing or fraudulent activity, services of Internal Audit may be availed. The Company may also refer such cases, if need be, to an external auditor for further investigation. The process of appointment of external auditor shall be as per the laid down Policy. The contractual agreement with the auditors shall contain suitable clauses for timelines for completion of the audit and submission of the audit report within a specified time limit. The loan agreement with the borrower shall contain clause for conducting of such audit at the behest of lender.

In cases where the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, the Company shall conclude on status of the account as fraud or otherwise based on the material available on record and internal investigation/assessment.

In case an account is identified as fraud, the borrowal accounts of other group companies, in which one or more promoter(s) / whole time director(s) are common, shall also be subjected to examination from fraud angle.

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

The Company may incorporate necessary Terms & Conditions in its agreements with third party service providers to hold them accountable in situations where wilful negligence/mal-practice by them is found to be a causative factor for fraud.

17. PENAL MEASURES

Persons/Entities classified and reported as fraud and Entities/Persons associated with such Entities shall be debarred from seeking fresh or additional credit facilities for a period of 5 years from the date of full repayment of the defrauded amount/ settlement amount agreed upon, in case of a compromise settlement.

The Management shall have the sole discretion to entertain or decline request for credit facilities from these persons/entities after the expiry of mandatory cooling period.

18. TREATMENT OF ACCOUNTS UNDER RESOLUTION

In case an entity classified as fraud has subsequently undergone a resolution either under IBC or under the Prudential Framework for Resolution of Stressed Assets issued by the RBI resulting in a change in the management and control of the entity/business enterprise, the concerned department dealing with Stressed Assets shall examine whether the entity continues to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan. This would, however, be without prejudice to the continuance of criminal action against erstwhile promoter(s)/

Director(s), persons who were in charge and responsible for the management of affairs of the entity.

The penal measures shall not be applicable to entities after implementation of the resolution plan under IBC or prudential framework whereas it shall continue to apply to the erstwhile promotor(s)/ Director (s), persons who were in charge and responsible for the management of the affairs of the entity.

19. REPORTING OF FRAUDS TO LAW ENFORCEMENT AGENCIES (LEAs)

If required, HUDCO shall report the incidents of fraud to appropriate LEAs, viz. State Police authorities, etc. subject to applicable laws. It shall be the responsibility of the concerned Nodal Officer to report the incidents of fraud to LEAs. At Corporate Office, the business unit head would report the incident to LEAs.

20. CLOSURE OF FRAUD CASES REPORTED TO RBI

Closure of fraud cases shall be initiated and reported to RBI as per applicable Master Directions of RBI. HUDCO shall close fraud cases using 'Closure Module' where the following actions as stated below are complete:

- i) The fraud cases pending with LEAs/Court are disposed of; and
- ii) The examination of staff accountability has been completed.

Further HUDCO may close those reported fraud cases involving amount up to ₹25 lakh, where examination of staff accountability and disciplinary action, if any, has been taken and:

- i) The investigation is going on or charge-sheet has not been filed in the Court by LEA for more than three years from the date of registration of First Information Report (FIR); or
- ii) The charge-sheet is filed by the LEAs in trial court and the trial in the court has not commenced or is pending before the court for more than three years from the date of registration of FIR.

Nodal Officer/Business Unit Head shall recommend the case to Fraud Cell for closure. The case shall be closed by Fraud Cell with the approval of Competent Authority i.e. CMD.

In all closure cases of reported frauds, HUDCO shall maintain details of such cases for examination by auditors.

21. LEGAL AUDIT

Title Deeds and other related title documents in respect of large value loan accounts i.e. credit facilities of ₹1 crore and above shall be subject to periodic legal audit and re-verification till the loan is fully repaid. The legal audit of large value loan accounts shall be done on annual basis.

22. ACCOUNTS CLASSIFIED AS FRAUD AND SOLD TO OTHER LENDERS/ ASSET RECONSTRUCTION COMPANIES [ARCs]

As per Master Direction - RBI (Transfer of Loan Exposures) Directions, 2021 as updated from time to time, HUDCO shall complete the investigation from fraud angle before transferring the loan account/credit facility to other lenders/ARCs. The Company shall report to RBI before selling such accounts to other lenders/ ARCs. In case where

accounts are sold to ARCs, HUDCO shall continue to report subsequent developments in such accounts to RBI, by obtaining requisite information periodically from the concerned ARCs.

23. ROLE OF AUDITORS

During the course of audit any instances where transactions in the account or the documents point to the possibility of fraudulent transactions, the auditor shall bring it to the notice of the Senior Management and /or to the Audit Committee of the Board.

Internal Audit shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes in the fraud risk management framework including delay in reporting, non-reporting, conduct of staff accountability examination, prudential provisioning, etc.

24. OTHER INSTRUCTIONS

- i) Fraud Risk Management Policy shall be approved by the Board.
- ii) All HoDs/RCs shall ensure prevention and detection of fraud and implementation of the Policy.
- iii) All HoDs/RCs shall create a culture whereby employees are encouraged to report any fraud or suspected fraud which comes to their knowledge, without any fear of victimization.
- iv) The Corporation shall organize seminars and workshops on detection and prevention of fraud from time to time.
- v) In case of any inconsistency between the provisions of this Policy and the applicable RBI Master Directions/Circulars, the relevant Master Directions/ Circular shall prevail.
- vi) The Chairman & Managing Director shall be the Competent Authority for interpretation and minor modification of this Policy in line with the applicable RBI Master Directions. However, modification(s), if any, shall be informed to the Board of Directors in the subsequent Board meeting.

- vii) The Policy shall be reviewed at least once in three years or more frequently as may be required.
- viii) The Policy shall be made available on the official website and Intranet of HUDCO.

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FRAMEWORK FOR EARLY WARNING SIGNALS

S.No.	Particulars	Brief description	Remarks
1	Forgery or alteration of any document / financial instruments / accounts belonging to the Company.		
2	Refusal or delay in submission of KYC documents/other necessary documents & information at the time of updation.		
3	Hiding dispute on title of the collateral or charging same collateral to several lenders without approval of existing charge holders.		
4	Frequent request from the borrower for postponement of inspection.		
5	Unwarranted related party transactions.		
6	Improper utilization of debt funds.		
7	Frequent change in Promoters /Management / key personnel / auditors.		
8	Adverse media reports about the promoter / borrower.		
9	Adverse remarks in the Audit Report of the borrower leading to any suspicion of fraud.		
10	Fraud committed by the borrower with other lenders / parties.		
11	Persistent delay in project milestones without valid reasons.		
12	Regulatory fines or legal notices issued to the borrower / promoter.		
13	Wilful suppression of facts/deception by the borrower.		
14	Authorizing payment for goods not supplied or services not rendered (fully or partially).		
15	Wilful non servicing of interest and / or principal when due.		

All of the above triggers of fraud in case of State Sector borrowers shall be dealt at their appropriate level as each State has its own vigilance mechanism in place.

Note: The above list is not exhaustive. Any other instances leading to fraud / suspected fraud may form part of Framework for Early Warning Signals and shall be reported.