

# Fraud Prevention Policy

## Background

ONGC is a Maharatna Public Sector undertaking engaged in exploration and production of Oil & Gas. One of the Mission of ONGC is for Imbibing high standards of business ethics and organizational values.

As per Guidelines on Corporate Governance for Central Public Sector Enterprises (CPSE's) issued by Department of Public Enterprises (DPE):

*“The Board should implement policies and procedures which should 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 & recording processes to be followed to record allegations of fraud; and*
- (e) Requirements of training to be conducted on fraud prevention and identification.”*

Further, Section 177(9) of the Companies Act, 2013 requires that every listed company or such class or classes of companies, as may be prescribed, shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed. Besides, as per section 143(12) of the Act, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

As per Auditing and Assurance Standard (AAS) 4 issued by The Institute of Chartered Accountants of India (ICAI), “The Auditor’s Responsibility to Consider Fraud and Error in an Audit of Financial Statements” states “The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity.”

In line with the above, ONGC has designed the fraud risk management framework by development of Fraud Prevention Policy to convey the commitment of the board of directors, the audit committee, and senior management to assess, prevent and manage fraud risk. ONGC’s fraud risk management framework is intended to be integrated into ONGC’s philosophy, policies and business plans and be an integral part of the overall risk management. Accordingly, the Board approved Policy is as under:

## 1. Mission Statement of the Fraud Prevention Policy

“To protect ONGC from any kind of frauds resulting in loss and reputation damage by adopting integrated measures for effective and efficient fraud prevention, detection and remediation.”

## **2. Objectives of the policy**

The Fraud Prevention Policy shall help in strengthening the overall fraud risk management framework of ONGC and seeks to:

- Promote an ethical and fraud-free environment at ONGC.
- Create a culture at ONGC that promotes fraud prevention by all stakeholders; including senior management, employees, business associates, vendors, customers and others doing business or having dealings with ONGC.
- Create awareness among senior management, employees, business associates, vendors, customers and others doing business or having dealings with ONGC of their responsibilities for prevention, detection and reporting of fraud and for establishing controls and procedures for identification, prevention and detection of fraud.

## **3. Scope of the policy**

This policy applies to any suspected or detected fraud involving senior management and employees of ONGC. The policy would also apply to persons appointed on adhoc/temporary/contract basis, trainees, apprentices as well as representatives of business associates, vendors, customers, and others doing business or having dealings with ONGC.

The policy is intended to cover both internal and external fraud.

This “Fraud Prevention Policy” applies to all business units, corporate entities, departments and functions of ONGC including corporate and other offices, assets, basins, services, institutes and plants.

This policy is an integral part of ONGC’s overall Governance framework and should be read and applied in conjunction with other policies and procedures particularly, Code of Conduct for Board Members and Senior Management personnel, Whistle Blower policy and conduct of the employees which is regulated by the Employees’ (Conduct, Discipline and Appeal Rules - 'CDA'), Standing Orders, Risk Management Policy, Information Security Management policy. ONGC is also governed by the guidelines of DPE, Chief Vigilance Commission, Comptroller and Auditor General of India ('C&AG'), Administrative Ministries and other nodal Ministries.

## **4. Definition of Fraud**

The term fraud refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

As per section 447 of the Companies Act, 2013, “fraud” in relation to affairs of a company or anybody corporate, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.

“wrongful gain” means the gain by unlawful means of property to which the person gaining is not legally entitled;

“wrongful loss” means the loss by unlawful means of property to which the person losing is legally entitled.

## 5. Actions Constituting Fraud

The term fraud could have a wide range of coverage such as, but not limited to forgery, bribery, corruption, deception, embezzlement, misappropriation, false representation, concealment of material facts, theft and collusion. An illustrative list of actions constituting fraud is given below:

- Misappropriation of funds, securities, supplies or other assets
- Forgery or alteration of any document, record or account belonging to ONGC
- Forgery or alteration of a cheque, bank draft, account or any other financial instrument
- Fraudulent financial reporting
- Mis-utilization of ONGC funds for personal purposes
- Authorization or receipt of payments for goods not supplied or services not rendered
- Unauthorised destruction, removal or inappropriate use of records, furniture, fixtures, and equipment;
- Making false written or oral statements or representation with respect to Company activities
- Impropiety in the handling or reporting of money or financial transactions
- Profiteering as a result of insider knowledge of ONGC’s activities
- Disclosing confidential and proprietary information to unauthorised parties
- Bribery or kickbacks
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services/materials to the ONGC
- Wilful suppression of facts/deception in matters of appointment; placements; submission of reports
- Any other act that falls under the scope of fraudulent activity

## 6. Fraud Reporting & Investigation

ONGC shall have a defined response mechanism in case of suspected or identified fraud.

### 6.1 Fraud Reporting

Any employee, representative of vendors, contractors, or any other third party doing any type of business with ONGC as soon as he / she comes to know of any suspected fraud or fraudulent activity must report such incident(s). Such reporting will be through Nodal Officer(s) at Work Centre Level.

Anonymous / Pseudonymous Complaints will not be entertained for further action at any stage.

Whenever complaint of Fraud is received, report thereof shall be submitted by Nodal Officer to Fraud Risk Management Committee (**FRMC**) through the Fraud Control

Officer **(FCO)** for their review and further reporting the matter to the Audit & Ethics Committee and/or to Board, as deemed fit.

The Nodal Officer and other designated authorities 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 alleged the complaint.

ONGC will treat all information received as part of a complaint/an investigation confidentially. The existence and nature of a report or investigation details shall not be disclosed, other than to those who need to know for the purposes of investigating or dealing with the matter.

## 6.2 Investigation

Based on the merits of the complaint, FRMC shall nominate an investigator who will be responsible for investigation. The Investigator shall conduct an investigation in which the complainant and the Subject may be provided an opportunity to be heard. The investigation shall be conducted fairly, as a neutral fact finding process and without presumption of guilt. The Investigator nominated for the investigation will report to the FRMC through FCO. After completion of the investigation, due and appropriate action, which may 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 on the outcome of the investigation – shall be undertaken as per relevant rules of ONGC.

The findings of the investigation shall be evaluated by the FRMC and based on the materiality of the case, the same shall be reported to the Audit & Ethics Committee and the Board.

The FRMC shall also inform the external auditor(s) of any fraud of material nature that could affect the ONGC's financial statements.

## 7. Responsibility For Fraud Prevention

Every employee(full time, part time, adhoc, temporary, contract, ex-employee, advisor), representative of vendors, suppliers, contractors, consultants, service providers or any other agency(ies) doing any type of business with ONGC, is expected and shall be responsible to ensure that there is no fraudulent act committed by them while performing any business transaction(s) with ONGC. 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 as per the procedure.

## 8. Awareness / Integrity Pledge

Awareness about fraud prevention shall be disseminated through ONGC website and every employee shall give an undertaking and take "Fraud Prevention Pledge" to certify that he/she would adhere to the Fraud Prevention Policy of ONGC and shall not indulge or allow others to indulge in fraudulent activities and that he/she would immediately apprise ONGC of any fraud/suspected fraud as soon as it comes to notice. Chief-ER will take necessary action in this regard. **(Refer Annexure-1A).**

## 9. Incorporation Of Fraud Prevention Policy In Tenders /Contracts Etc.

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 ONGC and shall not indulge themselves or allow others to indulge in fraudulent activities and that they would immediately apprise the ONGC of the fraud/suspected fraud as soon as it comes to their notice. Similar clause regarding adherence to the Fraud Prevention Policy of ONGC will also be added in sales agreements, and other service agreement etc. with customers. Necessary changes in the tender documents and sales / service agreements shall be carried out by Chief MM and Chief Marketing respectively.

#### **10. Implementation and Administration of the Policy**

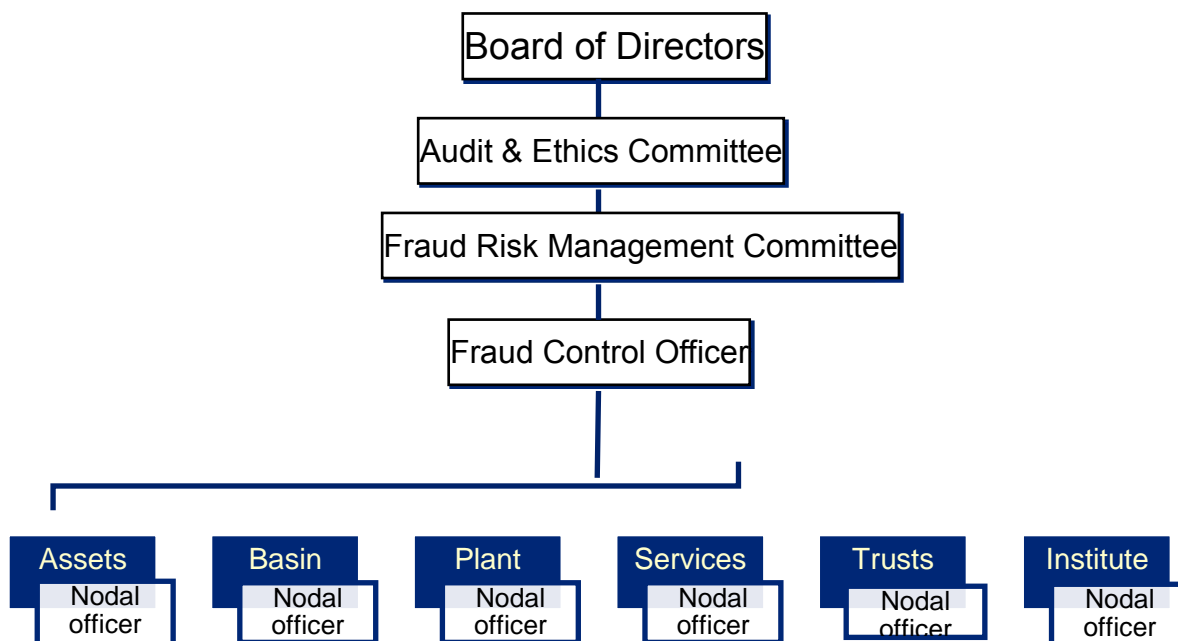
The Chairman & Managing Director (CMD) shall be responsible for administration, interpretation and implementation of the policy and shall be assisted by FRMC.

Any revision of the Policy shall be carried with the approval of Board through A&EC.

# Operating Procedure of Fraud Prevention Policy

## A. Fraud Risk Management Framework & Governance

The organizational structure for fraud risk management is as under:



The Board of Directors, Audit & Ethics Committee ('A&EC'), Fraud Risk Management Committee ('FRMC'), Fraud Control Officer ('FCO'), Nodal officers, Vigilance, Internal Audit, HR, Security, Management and Staff have roles to play in ONGC's fraud risk management program. To help ensure that ONGC's fraud management program is effective, it is important that personnel at all levels of the organization understand their roles and responsibilities.

### A.1 Board of Directors

The Board of Directors has overall responsibility of governance and to ensure that the management designs effective fraud risk management framework to encourage ethical behaviour by employees, customers, vendors, business associates, service providers and others doing business or having dealings with ONGC.

### A.2 Audit & Ethics Committee

The A&EC has responsibility of maintaining oversight on the fraud risk management processes and review of adequacy of fraud risk management framework. A&EC shall have the following responsibility:

- Review functioning and provide guidance to the FRMC
- Review of reports submitted by FRMC



### **A.3 Fraud Risk Management Committee**

Fraud Risk Management Committee (FRMC) shall be responsible for overseeing the fraud risk management at ONGC. FRMC shall comprise of:

- Chief Internal Audit as Fraud Control Officer
- Chief – Legal
- Chief – Material Management
- Chief – Corporate Finance
- Head – ICE
- Chief – ER

The management of the ONGC or FRMC members may nominate a chairman for the FRMC. The FRMC shall assist the Chairman and Managing Director ('CMD') in implementing the fraud prevention policy and work closely with the Executive Committee ('EC'). FRMC in consultation with the A&EC may recommend for induction of additional members to the FRMC as and when found necessary.

### **A.4 Role of Fraud Risk Management Committee**

- Review reports of the FCO and Nodal officers
- Nominate investigator for conducting investigations as required
- Ensure that vigorous and prompt investigations are carried out on suspected and detected cases of fraud
- Ascertain appropriate disciplinary and/or legal action is taken against the perpetrators and ensure that appropriate action is taken to recover assets
- Preparation of reports for the Board of Directors /Audit & Ethics Committee, as required

### **A.5 Fraud Control Officer**

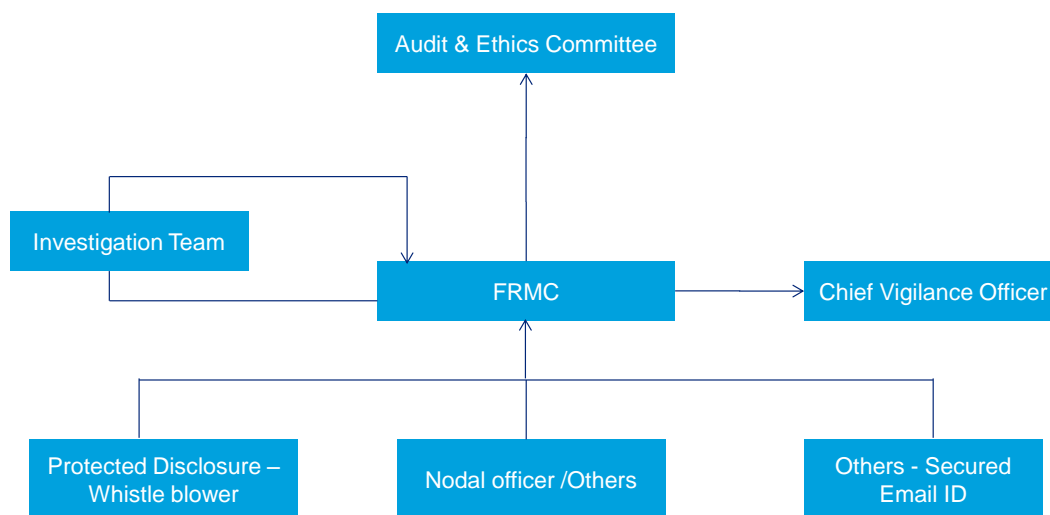
Chief Internal Audit shall assume the role of FCO who is also a member of the FRMC and responsible as convener and coordinator. Quarterly report shall be provided to Chief Vigilance Officer for appraisal / scrutiny.

### **A.6 Nodal Officer**

Nodal officer(s) (not below E-5 level) shall be nominated in each location/work centre by the Head of the location/work centre, i.e. corporate/asset/basin/plant/service/trust/institute to coordinate fraud prevention and detection activities as per the Policy. They shall be responsible for coordinating with the Fraud Control Officer/FRMC. The nodal officers at locations/work centre shall do the preliminary enquiry/investigation before forwarding the case to FRMC.

## **B. Response and Investigation of Fraud**

ONGC shall have the following response mechanism in case of suspected or identified fraud:



## B.1 Reporting Procedure

Any employee, representative of vendor, contractor, or any other third party doing any type of business with ONGC, as soon as he / she comes to know of any suspected fraud or fraudulent activity must report such incident(s). Such reporting will be through Nodal Officer(s) at Work Centre Level.

- The details of the fraud /suspected fraud shall be communicated by Nodal Officer to the FRMC after preliminary investigations.
- Anonymous / Pseudonymous Complaints will not be entertained for further action at any stage.
- The Nodal Officer and other designated authorities 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 alleged the complaint.

## B.2 Fraud Response Plan

- FRMC will comply with CVC guidelines and ensure that complaints having elements of corruption are forwarded to the CVO. Record will be maintained for all the complaints received and processed including the complaints referred to CVO, for periodic verification by CVO.
- Other reported fraud instances should be received by FRMC. An initial review should be done of the complaint; the facts presented should be confirmed by examining the validity of the allegation and defining the severity of the allegation. The severity would be based on identifying if the allegation is a potential violation of law, rules or ONGC policy. A record of the details received such as background, history of fraud, details of the subject, documentary evidence etc. will be maintained by FRMC.
- The FRMC shall endeavor to meet as early as possible, about fraud/suspected fraud and should agree on timelines for completion of investigation on case to case basis.
- If the allegation is genuine then it shall be forwarded to the Investigator(s) to be nominated by the FRMC.



- The Investigator(s) nominated by the “FRMC” shall be responsible for investigation. The FRMC shall lay down the scope of the investigation and identify a team leader for the purpose of the investigation.
- FRMC shall analyse the detected frauds to improve upon systems and procedures in order to avoid recurrence.

### **B.3 Investigation**

- The Investigator nominated shall conduct an investigation in which the complainant and the subject shall be provided an opportunity to be heard. The evidence provided by the parties shall be investigated thoroughly. The investigation shall be conducted fairly, as a neutral fact finding process and without presumption of guilt.
- If Investigator/ FRMC determine that a report is not credible or instance is not fraudulent in nature, the investigator shall document this determination along with facts based on which determination is made. Thereafter, the determination shall be concurred by FRMC.

### **B.4 Reporting**

- The Investigator nominated by FRMC for the investigation will report to the FRMC. The findings of the investigation shall be evaluated by the FRMC and based on the merits of the case, the same shall be reported to the Audit & Ethics Committee and/or the Board. The FRMC shall inform the external auditor of any fraud that could affect the ONGC’s financial statements.
- Complaint referred by FRMC will be dealt by Vigilance and the decision will be taken by CVO, as per CVC Manual.

### **B.5 Disciplinary Action**

- Failure to comply with this policy or an employee who is engaged in any form of fraud or an employee who suspects or discovers fraudulent activity and fails to report the same as required by this policy or an employee who intentionally reports false or misleading information is subject to disciplinary action and will be subject to appropriate action from Management.
- Depending upon the outcome of the investigation, due and appropriate action, which may include administrative action, disciplinary action, civil or criminal action or closure of the matter, shall be undertaken as per relevant rules of ONGC/CVC/ Government guidelines.
- Disciplinary actions and procedure to be followed by HR - Discipline & Appeals group subsequent to completion of an investigation by Investigation team will be taken as per the ONGC Rules.

### **B.6 Confidentiality**

ONGC will treat all information received as part of a complaint/an investigation confidentially. The existence and nature of a report or investigation details shall not be disclosed, other than to those who need to know for the purposes of investigating or dealing with the matter.

## **PLEDGE**

**I, \_\_\_\_\_ an employee of Oil and Natural Gas Corporation do hereby solemnly pledge that I will adhere to the Fraud Prevention Policy of ONGC and shall not indulge myself or allow others to indulge in fraudulent activities and that I will immediately apprise ONGC of the fraud/suspected fraud as soon as it comes to my notice.**