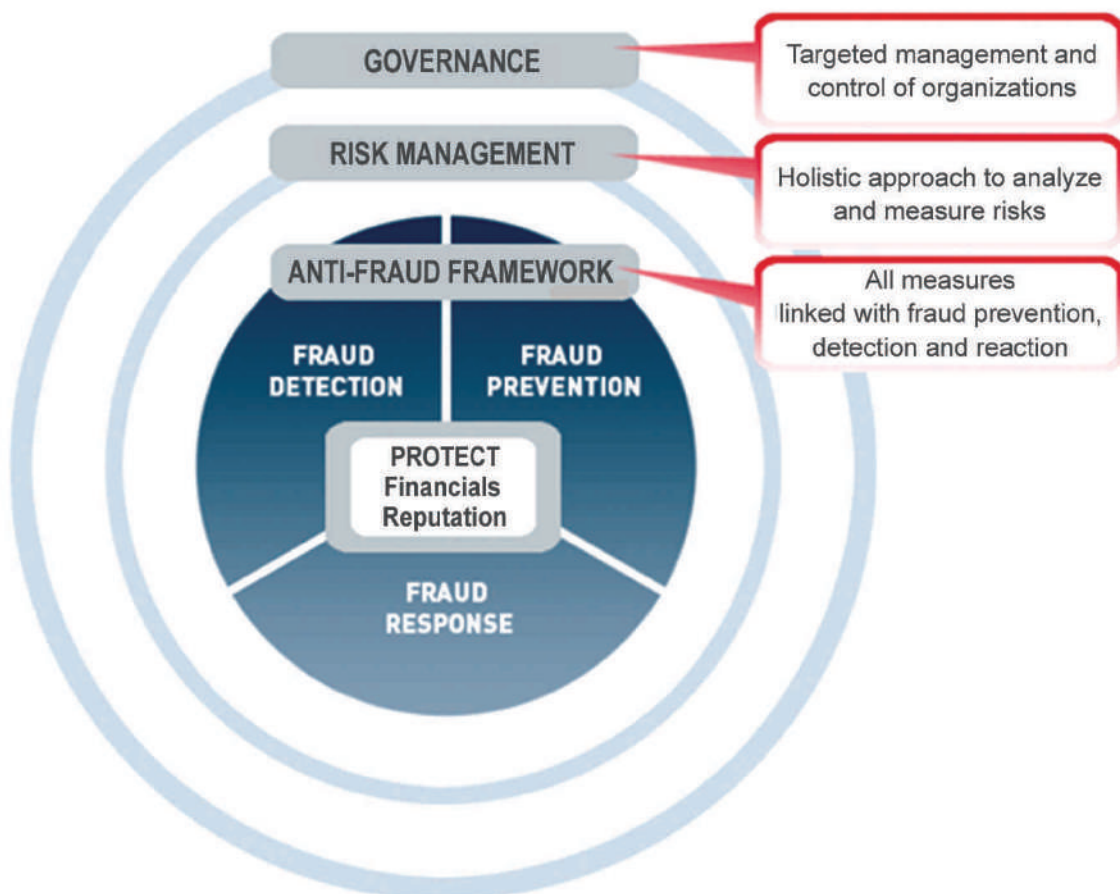




ANTI-FRAUD POLICY OF COAL INDIA LIMITED



Coal India Limited

(A Govt. of India Enterprise)

कोल इण्डिया लिमिटेड

(भारत सरकार का उपक्रम)

CIN.L23109WB1973GOI028844
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A Maharatna Company

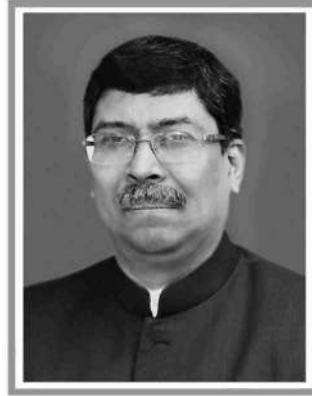
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PREFACE

Every organization faces certain fraud risk of different kinds, which has to be mitigated through a robust and structured response system. Coal India has a "Zero Tolerance" approach to all forms of fraudulent acts and through this policy we wish to reiterate this very clearly. The Anti-Fraud policy is aimed at laying down a clear management strategy to deal with any act or attempt of fraud and suspicion thereof. Objective of the policy is to provide a system for prevention, detection, investigation and reporting of a fraud detected or suspected; and, handling of such matters pertaining to fraud. The various fraudulent acts including misappropriation of company funds & assets, forgery, falsification of accounts, false claims of expenditure, job etc. are proposed to be tackled through the policy. An effective strategy to mitigate fraud risk consisting of Risk Identification, Prevention, Detection, Reporting and Recording Management Information, Fixing Roles and Responsibilities has been thought of. Three layered defence system has been conceptualized. For this purpose, Nodal officers are proposed to be appointed in every unit /division supported by Risk and Compliance Teams. Risk Control Units are proposed at corporate level. Effective co-ordination mechanism between the Nodal Officers and CVOs has been provided for. Deterrent action mechanism against employees, vendors and customers found indulging in fraud has been provided for. We hope to tackle the issue of any act of fraud effectively with this clearly enunciated policy.

(Sutirtha Bhattacharya)

Chairman-cum-Managing Director

ANTI FRAUD POLICY

1. BACKGROUND

- 1.1 Coal India Limited (CIL) and its Subsidiaries (herein referred to as company) are committed to protecting CIL / Subsidiaries reputation, revenues, assets and information from any attempts of fraud, deceit or other improper conduct by employees as well as third parties.
- 1.2 This document sets forth an anti-fraud policy to enforce controls and to aid in prevention and detection of fraud in the company. The intent of the policy is to promote consistent legal and ethical organizational behavior by assigning responsibility for the development of controls, and providing guidelines for reporting and conduct of investigations of suspected fraudulent behavior.

2. INTRODUCTION

Coal India Limited has a "Zero Tolerance" approach to all forms of fraudulent acts. Coal India Limited strives to maintain the highest standards of governance, personal and corporate ethics and compliance with all laws and regulations. It values integrity and honesty while dealing with all employees, customers, suppliers and other stakeholders. It is committed to support government, law enforcement and international bodies to combat any financial crime.

3. SCOPE OF POLICY

- 3.1 The policy applies to any fraud, or suspected fraud involving employees of CIL / Subsidiary Companies (all full time, part time or employees appointed on adhoc / temporary / contract basis) as well as vendors, suppliers, contractors, consultants, service providers or any outside agency and their representatives conducting any type of business with CIL / Subsidiary Companies.
- 3.2 The investigative activity will be undertaken without regard to the suspected wrongdoer's length of service, position/ title, or relationship with the Company.

4. POLICY OBJECTIVES

- 4.1 Objective of the policy is to provide a system for prevention, detection, investigation and reporting of a fraud detected or

suspected; and, handling of such matters pertaining to fraud. In order to adequately protect the organisation from the financial and reputational risks posed by any frauds, framework has been put in place to identify, measure, manage, monitor and report occurrence of frauds in the company. The policy will ensure and provide for the following:-

- i. To ensure that Management is aware of its responsibilities for prevention and detection of fraud and for establishing procedures for preventing fraud and / or detecting fraud when it occurs.
- ii. To provide a clear guidance to employees and others dealing with Company forbidding them from involvement in any fraudulent activity and the action to be taken by them where they come across or suspect any fraudulent activity;
- iii. To conduct investigations into fraudulent or suspected activities
- iv. To provide assurances that all suspected fraudulent activity / activities will be fully and objectively investigated.
- v. To provide training on fraud prevention and identification.

Note: 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.

5. DEFINITION OF FRAUD

"Fraud" is a willful act intentionally committed by an individual/Entity by deception, suppression, cheating or any other fraudulent or any other illegal means, thereby, causing wrongful gain to self or any other individual and wrongful loss to others. Such acts include those undertaken with a view to deceiving or misleading others leading them to do or prohibiting them from doing a bonafide act or take bonafide decision that is not based on material facts.

6. ACTIONS CONSTITUTING FRAUD

The terms fraud or suspected fraud refers to, but not limited to:-

- a. Forgery or unauthorized alteration of any document or account belonging to the Company;
- b. Forgery or unauthorized alteration of cheque, bank draft, E-banking transactions 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 one etc.;
- e. Willful suppression of facts / deception in matters of appointment, placements, submission of reports, tender committee recommendations, departmental promotion committee etc. as a result of which a wrongful gain is made to one or wrongful loss is caused to the others;
- f. Utilizing Company funds for personal or other than official purposes;
- g. Authorizing or receiving payments for goods not supplied or services not rendered;
- h. 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;
- i. Deliberately misrepresenting, concealing, suppressing or not disclosing one or more material facts relevant to the financial decision, transaction or perception of the decision maker;
- j. Abusing authority, position of trust or fiduciary relationship;
- k. Fraudulent alteration, addition or removal of information on the Company's Management information systems;
- l. Impropriety in the handling or reporting of money or financial transactions;
- m. Disclosing confidential and proprietary information to outside parties;
- n. Inflating expenses claims / over billing;
- o. Paying false (or inflated) invoices, either self-prepared or obtained through collusion with suppliers;
- p. Permitting favours or privileges to customers, or granting business to favoured suppliers, vendors or service providers for kickbacks / favours;
- q. Forging signatures;
- r. Medical claims fraud;
- s. Fraudulent job Claims & settlement;
- t. Any other act or attempts that falls under the gamut of fraudulent activity;

7. FRAUD CATEGORIES

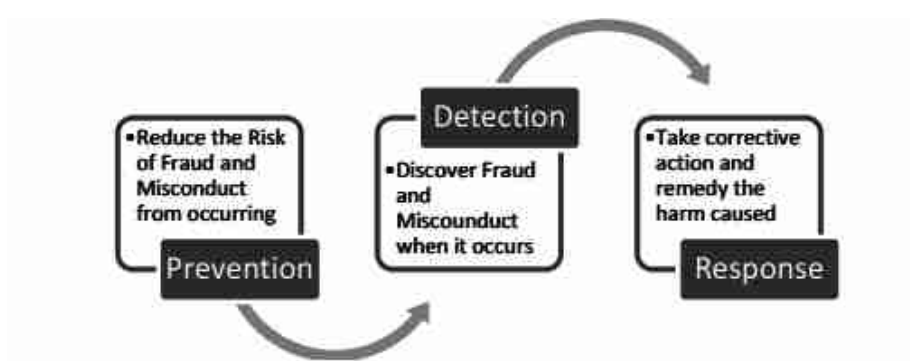
Broadly, frauds can be categorized into following:

- a) Internal Fraud - Fraud / mis-appropriation against the company or any stake holder by its Management and employees eg. Director, Manager and / or any other or staff member (by whatever name called).
- b) Vendor Fraud - Fraud committed by vendors, suppliers or service providers against the Company, which primarily includes activities such as supply of inferior product or service, making false or inflated bills etc.
- c) Customer Fraud- Fraud committed by customers against the Company, which primarily includes activities such as connivance with third party agency for sampling & grading, diverting coal received with end use condition to market etc.

8. FRAUD RISK MANAGEMENT FRAMEWORK

Coal India's fraud risk Management framework will include identifying, measuring, managing, monitoring, and reporting of fraud risks.

Fig: Fraud Risk Management Framework



9. FRAUD MANAGEMENT STRATEGY

Fraud Management Strategy will focus on fraud prevention, detection and proactive approach towards mitigating fraud risk. Key components of an effective strategy to mitigate fraud risk are set out below -

o Risk Identification

Execution of a fraud risk assessment to understand Coal India's inherent fraud risks.

- o **Prevention**
Implementation of risk based, proportionate fraud prevention controls.
- o **Detection**
Implementation of risk based, proportionate fraud detection controls
- o **Investigation**
Design and implementation of a Fraud Response Plan (FRP) which sets out amongst other things responsibility for different types of fraud investigations.
- o **Reporting and Recording**
Implementation of documented fraud reporting requirements which are transparent and accurately reflect fraud data in Coal India.
- o **Management Information**
Production of relevant management information to enable effective understanding and oversight.
- o **Roles and Responsibilities**
Documentation and implementation of a Fraud Target Operating Model in order to have clear roles and responsibilities related to a fraud risk Management.

9.1 **Fraud Prevention**

Fraud prevention involves identifying the root cause of an inherent fraud risk through risk assessment and implementing effective controls to stop fraud before it happens. Following will form the basis for a proactive fraud prevention strategy:

- o **Risk Assessment**
The completion of a comprehensive risk assessment to initially identify the inherent fraud risks in Coal India. Risk assessment in Coal India will be carried out by a Risk Control Self-Assessment (RCSA) framework with the help of Risk Control Units. Continuous monitoring of identified risks will be carried out as per the prescribed methodology.
- o **Risk Based Approach**
Implement risk based approach to fraud prevention.
- o **Application of Controls**
Where inherent fraud risks have been identified, Coal India

will assess whether mechanisms are sufficient to tackle them and implemented controls are effective in preventing fraud or whether residual risks are present and require additional or more enhanced controls to achieve a robust control environment.

- o **Training and Awareness**

Financial crime training and assessment to be conducted for all employees as per stipulated timelines. Awareness amongst employees to be created through regular mailers, e-education series, messages from the leadership, etc.

- o **Deterrence**

Framework and action grids will be created and communicated to employees through a formal channel to create awareness on Coal India's response to fraud. Identified instances will be used as deterrent. 'Tone from the top' clearly states that Coal India has a zero tolerance approach to fraud and those found to have engaged in fraud will be disciplined and may be referred for prosecution.

- o **Management Information**

Management information will be used as a fraud prevention tool e.g. training completion rates, high percentage of fraud in a particular category, region etc.

- o **Independent Review of Control Effectiveness**

Independent audits will be carried out by second line and third line of defense to provide an assessment of design and control effectiveness both as annual review plan and adhoc review.

- o **Due diligence / Pre-employment Screening and Vetting**

A transparent screening process will be brought in place for employees and third party which will be carried out before concluding the relationship.

- o **Implementation of a Whistle Blower policy**

A Whistle blower policy is in place to enable confidential reporting of fraud suspicions.

9.1.1 In the light of the above, Prevention encompasses an ethical environment, periodic fraud risk assessment and preventive internal control such as authority limits, policies and procedures. A strong voice from 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 Company's reputation, resources and promoting stakeholder confidence in CIL and its subsidiaries. This involves:

- a. Disclosure of conflict of interest
- b. Enforcement of CDA Rules
- c. Compliance with code of conduct of CIL
- d. Compliance with code of Internal procedures and conduct in dealing with securities of the company
- e. Vendor / bidders signing Integrity pact in bidding for contract with CIL.
- f. Fraud awareness and training
- g. Continuous Fraud risk monitoring and control

B. Fraud Prevention Mechanism:

- a. "Nodal Officers" will be nominated in every Area / Branch Office / Corporate Office / Divisions with the help of Ethics and Integrity Clubs. The Nodal Officer will collect and collate all information relating to fraud risk arising in their unit. He will also prepare all fraud risk assessment of their area and forward the same to their corporate nodal officer on quarterly basis. Respective corporate nodal officer will consolidate fraud risk assessment reports received from area / corporate office and in consultation with respective departmental heads prepare a fraud risk assessment report on quarterly basis & forward the same to Risk Control Units, CVO & HoD (Internal Audit) of CIL / subsidiaries.
- b. Incorporation of fraud prevention policy in tender / FSA (Fuel Supply Agreement) etc.
- c. Promotion of whistle blower policy and other fraud prevention and detection mechanism in the company.
- d. Bill tracking system, file tracking system, E-tendering & reverse auctions etc.

9.2 Fraud Detection

9.2.1 Detection is the proactive and reactive identification of fraud. Coal India will have a detection programme to monitor activities where fraud risk has been identified through the risk assessment process or through Risk Control Unit (RCU) to be set up by CMDs with the help of CVOs functioning at corporate level.

9.2.2 Detective controls are designed to detect fraudulent activity in the company. A lack or weaknesses of 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 measurements / counts, surprise checks and periodical evaluations system control and surveillance system etc.

9.2.3 Detective controls will be finalized considering the fraud risk as such they may need to be flexible, adaptable and continuously changing to meet the various changes in fraud risk. Whistle Blower Policy, Bill Tracking System, File Tracking System, E-tendering, E-banking payments / Receipts, Reverse Auction, Surveillance System & Complaint Handling Mechanism are other essential elements of Fraud detection process in the company.

9.2.4 Fraud detection will be carried out through data mining, document scrutiny, screening of employees, due diligence of vendor / third party / advisors, exception reporting, red flag monitoring, quality assurance, internal audit, risk monitoring, training and awareness, transaction monitoring, information sharing.

9.3 Fraud Response Plan

Coal India will have a documented Fraud Response Plan (FRP). FRP sets out a detailed plan and investigation procedure which covers internal reporting process, investigation responsibilities, whistle blowing charter, feedback mechanism, disciplinary actions, reporting and recording etc.

9.4 Reporting and Recording

A. Internal Reporting and Recording

9.4.1 Coal India will have defined internal reporting and recording procedures. Employees are expected to report known or

suspected violations of policies through Right Call / Whistle blowing. Right Call is completely independent malpractice reporting service that allows reporting concerns confidentially via email, internet or telephone. Right Call will be available seven days a week, twenty four hours a day. This will be a free 24 hour service which operates 7 days a week offering the facility to report in the local language. Fraud events will be reported and presented at Board Audit Committee / Risk Management Committee. The report will detail statistics of fraud cases, summary on key cases identified, loss amount, resolution and action etc.

- 9.4.2 Any employee (full time, part time or employees appointed on adhoc / temporary / contract basis), vendors, suppliers, contractors, consultants, service providers or any other agency or their representative doing any type of business with CIL / subsidiaries as soon as he / she comes to know of any fraud or suspected fraud or any other fraudulent activity must report such incident. Such reporting shall be made to the designated Nodal Officers, nominated in every Area / Branch office / Corporate office. If, however, there is shortage of time such report should be made to the immediate controlling officer whose duty shall be to ensure that input received is immediately communicated to the Nodal Officer.
- 9.4.3 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 / Nodal 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.
- 9.4.4 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 with any unauthorized person.
- 9.4.5 All reports of fraud or suspected fraud shall be handled with utmost speed and shall be coordinated by Nodal Officers to be nominated.

9.4.6 Officer receiving input about any suspected fraud / nodal officer(s) 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.

B. External Reporting

The Company will provide information to CAG and any other agency as required under law.

9.5 **Internal Accountability, Responsibility and Resourcing**

Coal India will have a defined three lines of defence fraud risk management programme clear lines of internal accountability and responsibility. The 'three lines of defence model' is structured as follows.

o **First Line of Defence**

Primary responsibility for the implementation and practice of fraud risk management, including core risk management principles of risk identification, assessment, management, monitoring & reporting rests with 1st line of defence.

o **Second line of Defence**

The Compliance and Risk function are second line of defence who are responsible for reviewing and challenging the completeness and accuracy of the first line's risk identification, measurement, management, monitoring and reporting.

o **Third line of Defence**

Internal Audit (IA) is the 3rd line of defence. IA is responsible for independent assessment on the effectiveness of the fraud controls framework design and operation is also responsible for reporting findings and concerns to group and Coal India's audit and risk committees.

9.6 **Information sharing and Co-ordination with Law Enforcement Agencies**

Coal India is committed to provide the necessary support & information on fraud as required and co-ordinate with law enforcement agencies for exchange of information. Requirements of dealing with law enforcement agencies have been broadly categorized in following two categories:

- o Coordination for frauds detected by the Company and frauds reported to the Company Board by Authority.
- o Coordination for fraud related information sought by a Statutory Authority like CBI / Income Tax etc.

9.7 **Fraud Monitoring Functions**

Activities for fraud monitoring are collectively held by second and third line of defence with clear set out responsibilities. Fraud prevention and detection will be carried out by the Nodal Officer with the help of a Risk and Compliance team to be formed by Nodal Officers. Investigations and reporting undertaken by the Internal Audit team. Nodal Officer of every department needs to interact directly with the CVOs and report suspicious activities within their departments or identified during their anti-fraud procedures. Any employee, customer or supplier can whistle blow to the Nodal Officer. The CVOs are committed to independently investigate such allegations in confidentiality.

9.8 **Investigation of Fraud/Suspected Fraud**

9.8.1 The "Nodal Officer" shall, conduct preliminary verification of any suspected activity and refer the details of the Fraud / suspected fraud to the Vigilance Department of CIL / Subsidiary Company, for further appropriate investigation and needful action. This 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.

9.8.2 After completion 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.

9.8.3 Vigilance Department shall apprise "Nodal Officer" of the results of the investigation undertaken by them. There shall be constant coordination maintained between the two. There will be periodical review meetings of CVO with Nodal Officers individually or in groups.

9.9 **Training and Awareness**

Financial crime training to all employees will be provided at the time of joining through induction programme. All employees will need to undergo and ensure timely completion of training on Financial Crime which includes components, such as Anti Money

Laundering (AML), Anti-Bribery and Corruption (ABC), Corporate Governance, Gift & Hospitality (G&H) and Anti Competition Law. To ascertain the successful training completion, assessment will be conducted. In addition, role specific training will include:

- o Providing enhanced training to employees with specific roles which may present a higher risk or hold the responsibility of ensuring implementation and effectiveness of financial crime controls.
- o Tailored to higher risk roles held by employees.
- o Including red flags for potential indicators of financial crime.
- o Key components of financial crime laws and regulations e.g. Elements of financial crimes, requirement for the company to implement financial crime prevention programmes consistent with applicable local laws, Politically Exposed Persons ("PEPs") and other higher risk financial crime issues.
- o Applicable local legal and regulatory requirements for the recognition and reporting of suspicious transactions, cash transactions exceeding local thresholds and sanctions reporting; and
- o Escalation protocols. Awareness amongst employees may be created through regular mailers, e-education series, messages from the leadership etc.
- o Training on fraud prevention and identification shall be included in the training calendar every year and will be imparted to employees and Nodal Officers.

10. DISCIPLINARY ACTION PLAN

Failure to comply with this policy would attract the disciplinary action in the following may:

- (i) An employee who will found to be engaged in any form of fraud will be subjected to disciplinary action.
- (ii) 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 will be liable to be subjected to disciplinary action.
- (iii) If an employee of the Division / Branch in which fraud is committed does not pass to the Nodal Officer or immediate controlling officer

a report of suspected fraud by another employee or any other person, he / she will be subject to disciplinary action.

- (iv) All stake holders of Coal India whether active or not can attract an action against any fraud event. There will be a defined action grid on the basis of which action will be taken on them which may include blacklisting, fine & penalty.

11. RESPONSIBILITY FOR FRAUD PREVENTION

- 11.1 Every employee (full time, part time, adhoc, temporary, contract), representative of vendors, suppliers, contractors, consultants, service providers or any other agency(is) doing any type of business with CIL / Subsidiary Company, 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 officer as per the procedure.
- 11.2 All controlling officers shall share the responsibility of prevention and detection of fraud and for implementing the Fraud Prevention Policy of the Company. It is the responsibility of all controlling officers to ensure that there are mechanisms in place within their area of control to:-
 - a. Familiarize each employee with the types of improprieties that might occur in their area.
 - b. Educate employees about fraud prevention and detection.
 - c. Create a culture whereby employees are encouraged to report any fraud or suspected fraud which comes to their knowledge, without any fear of victimization.
 - d. Promote employee awareness of ethical principles subscribed to by the Company through CDA Rules / Standing Orders;
- 11.3 Due amendments shall be made in the General Terms & Conditions of contracts of the organization, wherein all bidders / service providers / vendors / consultants etc., shall be required to certify that they would adhere to the Fraud Prevention Policy of CIL and not indulge or allow anybody else working in their organization or representing them to indulge in fraudulent activities and would immediately apprise the organization of the fraud / suspected fraud as soon as it comes to their notice. These conditions shall form part of documents both at the time of submission of bid and

agreement of execution of contract. Similar clauses regarding adherence to the fraud prevention policy of CIL will be added in FSA with customers etc.

12. RECOVERY OF FRAUD LOSS

Upon detection of a fraud, the Division or Branch Offices concerned should make every effort possible to recover the loss amount involved. Loss mitigation action will include recovery from concerned employee/customer / outsider and initiating legal action like filing of recovery suits, wherever feasible.

13. ADMINISTRATION AND REVIEW OF THE POLICY

The Chairman and Managing Director CIL in consultation with CVO, CIL shall be responsible for the administration, interpretation, application and revision of this policy. The policy will be reviewed and revised as and when needed.

पर्यावरण की सुरक्षा का संकल्प

इस संकल्प ने हमारे मन-मानस
में गहरी जड़ पकड़ ली है।



कोल इण्डिया लिमिटेड

विश्व की बृहत्तम कोयला उत्पादक संस्था
A Maharatna Company

प्रकृति के अस्तित्व में ही हमारा अस्तित्व है