

FRAUD PREVENTION POLICY

1. BACKGROUND:

Fraud is a broad legal concept. Unlike an error, fraud is intentional and usually involves deliberate concealment or misrepresentation of facts. It may involve management, employees, agents, intermediaries or third parties and may involve one individual or an act in collusion.

Fraud can occur in organizations of any size or type and almost any person may be capable of committing fraud given the right set of circumstances. Today's business environment is likely to increase vulnerability to fraud risk, due to technological advances, the growing cyber security threats, growing complexity of organizations, increasingly transient employees, amongst others. Fraud is a significant business risk that needs to be managed like all other business risks. The risk of fraud can be reduced through a combination of prevention, deterrence and detection measures.

Since fraud may be difficult to detect because it often involves concealment through falsification of documents, collusion among staff or third parties e-commerce and cyber frauds, it is important to place a strong emphasis on fraud prevention, which reduces opportunities for fraud to take place, and fraud deterrence, which persuades individuals that they should not commit fraud because of the likelihood of detection and punishment.

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/whistle blower policy for directors and employees to report genuine concerns in such manner as may be prescribed. Besides, as per section 143(12) of the Companies Act 2013, 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

2. POLICY OBJECTIVES:

The "Fraud Prevention Policy" has been framed to provide a system for detection and prevention of fraud, reporting of any fraud that is detected or suspected and fair dealing of matters pertaining to fraud. The policy will ensure and provide for the following:-



(i) 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.

(ii) To provide a clear guidance to employees and others dealing with Capillary Technologies India Limited forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity.

(iii) To conduct investigations into fraudulent activities.

(iv) To provide assurances that any and all suspected fraudulent activity will be fully investigated.

3. SCOPE OF POLICY:

The policy applies to any fraud, or suspected fraud involving employees of Capillary Technologies India Limited (all full time, part time or employees appointed on adhoc/temporary/contract basis) as well as representatives of vendors, suppliers, contractors, consultants, service providers or any outside agency(ies) doing any type of business with Capillary Technologies India Limited.

4. DEFINITION OF FRAUD:

As per Section 447 of the Companies Act, 2013, "Fraud" in relation to affairs of a company or any body 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:

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

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

(i) Forgery or alteration of any document or account belonging to the Company



- (ii) Forgery or alteration of cheque, bank draft or any other financial instrument etc.
- (iii) Misappropriation of funds, securities, supplies or others assets by fraudulent means etc.
- (iv) Falsifying records such as pay-rolls, removing the documents from files and /or replacing it by a fraudulent note etc.
- (v) Wilful suppression of facts/deception in matters of appointment, placements, submission of reports, committee recommendations etc. as a result of which a wrongful gain(s) is made to one and wrongful loss(s) is caused to the others.
- (vi) Utilizing Company funds for personal purposes.
- (vii) Authorizing or receiving payments for goods not supplied or services not rendered.
- (viii) 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.
- (ix) Any other act that falls under the gamut of fraudulent activity.

6. DETECTION AND INVESTIGATION OF FRAUD

The Head (Finance/Internal Audit) has the primary responsibility for the detection / investigation of all actual / suspected fraudulent acts as defined in the policy. However, the responsibility of reporting of any fraud shall not be limited to the Head of the Internal Audit Department, and any person/employee of the company who comes across any fraudulent activity shall promptly report the activity to the Finance Head/Internal Audit Department, to avoid occurrence of any fraud. The person detecting the fraud or the investigating team must ensure proper procedures so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. An employee who discovers or suspects fraudulent activity will inform the Finance Head/Audit Head immediately. The reporting individual will be advised:

- Not to contact the suspected individual directly, in an effort to determine facts.
- Not to discuss the case, facts, suspicions, or allegations with any other person

7. REPORTING OF FRAUD:

The frauds being detected and investigated by the internal auditors shall be covered in the scope of Executive Summary report of the Internal Audit Department and shall be placed before the Audit Committee of the Board. The recording of the fraud cases shall be made by the compliance team in the fraud register on the basis of report of internal auditor. The Internal Audit Department of the company shall, in its internal audit report, also comment upon the status of any update on recovery etc. on any



fraud. Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and senior management, as will final decisions on disposition of the case

8. INVESTIGATION PROCEDURE:

The Internal Audit Head shall, on the receipt of any complaint pertaining to fraud assess the facts reported (preliminary review) in order to understand the possible level (internal/external, level of the internal staff involvement, etc.) and the extent of any potential breach, as well as the severity of the case reported. He shall, on the basis of the primary enquiry decide the further course of action to be carried out and shall commence the investigation in consultation with the Executive Director/CEO/CFO and other related departments. During the course of Investigation the following procedure shall be adopted:

- Obtain copy of concern /complaint or reported breach;
- Identify, secure and gather data in whatever form, including the changing of locks and system access (where necessary and/or applicable);
- Obtain and analyse documents;
- Conduct initial validation of the information received to understand whether or not the claims are valid
- Perform data analytics on structured/unstructured data;
- Interview relevant internal and external individuals, document the interview and obtain their acknowledgement on the facts;
- Secure documents and relevant evidence related to the suspected Fraud, such as contents of the suspect's office or workstation, personal computer, diary and files including all personal documents, where possible/applicable;
- Securing / preserving the various related documents such as documents pertaining to testing procedures, financial data records, records of interviews and testimonies, consultation memo, related emails or other correspondences etc.
- Securing evidence – documents/evidence must be protected so that nothing is destroyed and so that they are admissible in legal proceedings.

9. RESPONSIBILITY FOR FRAUD PREVENTION:

Through this policy the company shall strive to adopt a preventive approach for identifying, analysing and managing the risk of Fraud. The company shall follow zero tolerance to Fraud, at all levels. The company shall take steps to prevent the occurrence of fraud by:



- Performing background checks, and verifying documents pertaining to borrowers, employees and others with whom Capillary Technologies India Limited has a business relationship
- Conducting regular meetings with the staff members
- Conducting surprise visits at branches to check the records and documents wherever applicable.
- Conducting exit interviews for all employees
- Conducting Training Programmes and Seminars on frauds for all employees on a regular basis.

10. ADMINISTRATION AND REVIEW OF THE POLICY:

The Chairperson/Executive Director/CEO/CFO/COO shall be responsible for the administration, interpretation, application and revision of this policy. The policy will be reviewed and revised as and when needed in consultation with Audit Committee.

The Audit Committee of Capillary Technologies India Limited at its meeting held on March 30, 2022 has approved and adopted the fraud prevention policy (“**Policy**”) of the Company. The Policy shall become effective from the date of its adoption by the Committee i.e. March 30, 2022.

