

POLICY ON PREVENTION OF FRAUD

KAJARIA CERAMICS LIMITED

BACKGROUND

With a view to promote transparency in managing the affairs of the Company and as a good Corporate Governance measure, the Company need to have a mechanism in place to report to the management about the unethical behavior and actual or suspected fraud.

In the light of the foregoing and in view of the approach of Kajaria Ceramics Limited in following Corporate Governance principles proactively, it is appropriate that a Fraud Prevention Policy is formulated and implemented.

The policy statement is for the implementation with an immediate effect.

OBJECTIVES

The 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:

- 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.
- To provide a clear guidance to employees and others dealing with the company forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity.
- To conduct investigations into fraudulent activities.
- To provide assurances that any and all suspected fraudulent activity will be fully investigated.

DEFINITION OF FRAUD

“Fraud” is a willful act intentionally committed by an individual(s) – by deception, suppression, cheating or any other fraudulent or any other illegal means, thereby, causing wrongful gain(s) to self or any other individual(s) and wrongful loss to other(s).

A fraud is a false representation of a matter of fact whether by words or by conduct, by false or misleading allegations, or by concealment of what should have been

disclosed that deceives and is intended to deceive another so that the individual will act upon it to her or his legal injury.

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:

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

FRAUD PREVENTION MECHANISM

Fraud prevention involves creating an environment which inhibits fraud. Taking immediate and vigorous action if fraud is detected is not only necessary to prevent fraud losses but also helps deter other frauds.

Prevention is always preferable to detection. Strong prevention controls should therefore be applied wherever possible. Detecting fraud is usually more difficult and less certain. Detection measures are established to detect errors, omissions and fraud after the events have taken place. The following controls are as exercised:

1. Physical security / Verification of Assets

Assets registers used for accounting purposes help detect losses which may be caused by fraud

The management get the assets physically verified from time to time. This is a preventive measure to control or monitors access to assets to ensure that there is no unauthorized use, loss or damage to Assets like plant & machinery, inventory, computer terminal / Laptops, , furniture and Fixtures, equipment, vehicles etc.

2. Accounting Software Package

Company maintains the accounts in SAP –ERP Package. All the process (sales, purchase, production, accounts, finance and HR) are integrated through SAP system. In SAP, the limited access to system is provided to an employee only on the basis of job profile. This helps in monitoring and checking the whole process which results in reducing the fraud.

3. Allocation of Responsibilities

Responsibilities are allocated to the individuals or groups so that they work together to achieve counter-fraud objectives in the most efficient manner. The major principles in allocation of responsibilities are:

- i. There is clear definition of the responsibilities of individuals for resources, activities, objectives and targets. This includes defining levels of authority. This is a preventive measure which sets a limit on the amounts which may be authorized by individual officers.
- ii. Separate duties are assigned to avoid opportunities for abuse.

4. Supervision

Supervision is the function by which Seniors / HODs scrutinizes the work and performance of their subordinates. Supervision is the prevention and detection measure and involves monitoring the working methods. These controls are most effectively exercised specially in finance and accounts departments where staff is dealing with finance, cash and accounting records. Random spot checks are also conducted.

5. Financial controls

Use of budgets and delegated limits for some categories of expenditure and other accounting controls ensures that expenditure is properly approved and is properly accounted for by the responsible manager.

It is ensured that all the cheques are to be signed jointly. This limits the scope for fraud.

6. Internal audit

This is a detection measure, although its presence has a deterrent effect and thus prevents a fraud. An internal audit ensures that all transaction can be traced through the system from start to finish. In addition to allowing detection of fraud it enables the controls to be reviewed.

7. Corporate Policies

The Company has various policies in place like Code of Business Conducts and Ethics, Code of Conduct for Prevention of Insider Trading, Risk Management Policy, Related Party Transaction Policy etc. this helps in proper disclosure of the facts to the management and public at large, if required and thus help in prevention of fraud.

REPORTING OF FRAUD

Fraud, when detected, would be immediately reported by the Head of the Department to the Head –HR and to the Joint Managing Director.

INVESTIGATION OF FRAUD

1. Fraud is investigated by the Department head in consultation with HR-Department.
2. Management can either instruct the internal auditor to investigate the fraud or/ and can also take the help of outside professional/ agency if required.
3. Result of investigation will be reported to Joint Managing Director to take necessary action in this regard.

DISCLOSURE

This policy shall be posted on the Company's website (www.kajariaceramics.com).

REVIEW OF THE PROGRAM

The policy will be reviewed and revised as and when needed with the approval of Board of Directors.