



POLICY ON RISK AND FRAUD MANAGEMENT

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[Approved Risk and Fraud Management Policy_April 2023](#)

Policy against Fraud and other Corrupt Practices

Background

The Humsafar Trust (called as HST) is a community-based organization registered in 1994. Trust is engaging in undertaking activities addressing health and human rights of the community. The HIV interventions of HST are supported by various donor agencies and supported by National AIDS Control Organization (NACO). In the last two decades the outreach programme has reached out to many locations. Currently, HST is implementing its activities in the whole country and having offices in 3 locations in India.

The Board at HST 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.

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.

Any act of fraud and corruption in HST's activities depletes funds, assets, and other resources necessary to fulfil HST's vision and mission. Fraudulent and corrupt practices can also seriously damage HST's reputation and diminish donors' trust in its ability to deliver results in an accountable and transparent manner. Furthermore, it may affect staff and personnel effectiveness, motivation and morale, and impact on the Organization's ability to attract and retain a talented work force.

Policy Statement

HST has a zero-tolerance policy for fraud and corruption. Thus, HST requires employees, volunteers and third parties including grantees (collectively referred to as "designated stakeholders") to act honestly and with integrity, and to safeguard the assets for which they are responsible at all times. Fraud and corruption are ever-present threats to our assets and would undermine our credibility in the eyes of donors and other stakeholders and so must be a concern of all designated stakeholders of HST.

Purpose

- To ensure that HST continues to exhibit the highest standards of accountability, transparency and legal compliance, it is imperative that clear guidance is provided for addressing the risks of fraud and corruption.
- This policy sets out the specific responsibilities of HST employees regarding the risks of fraud, bribery, and corruption. It is also a clear demonstration of the commitment of senior leadership and our board members to promoting a culture of integrity and transparency throughout HST.

Scope and application

HST has zero tolerance for fraud and corruption, meaning that HST staff members, non-staff personnel, vendors, implementing partners and responsible parties are not to engage in fraud or corruption. All incidents of fraud and corruption are to be reported, will be assessed and, as appropriate, investigated in accordance with the Investigation HST will pursue rigorously disciplinary and other actions against perpetrators of fraud, including recovery of financial loss suffered by HST.

HST is committed to preventing, identifying and addressing all acts of fraud and corruption against HST, through raising awareness of fraud risks, implementing controls aimed at preventing and detecting fraud and corruption, and enforcing this Policy.

This Policy applies to all activities and operations of HST, including projects and programmes funded by donor agencies including direct implementation of activities by HST from the own funds. This Policy aims to prevent, detect and address acts of fraud and corruption involving:

- i) Staff members holding a letter of appointment (“staff members”);
- ii) Non-staff personnel, including full time consultants, consultants, Individual Contractors, Volunteers, and interns (collectively, “non-staff personnel”);
- iii) Vendors, Suppliers, Contractor or Provider of goods, services and/or works to HST (collectively, “vendors”); and
- iv) Implementing partners and responsible parties engaged/contracted by HST for a HST funded project (“implementing partners” and “responsible parties”, respectively).

Key definitions

1. **Assets:** includes physical property, intellectual property of HST or tangible assets such as equipment and machinery, systems, facilities, materials and resources, as well as intangible assets such as information technology and systems, proprietary information, intellectual property, and relationships with donors, grantees, sub-grantees and third parties, and all other proprietary and confidential information of HST.
2. **Designated stakeholders:** includes HST’s employees, volunteers and third parties including grantees.
3. **Code of conduct:** code of conduct is a set of rules outlining the responsibilities of, or proper practices for an individual, party, or organization.
4. **Gift:** A gift refers to anything of economic value given freely or at a reduced price from one person to another.
5. **Fraud:** fraud is civil or criminal deception, which includes but is not limited to, intent to gain unfair or unlawful financial or personal benefit or to cause loss to another party such as by misappropriation of assets, abuse of position, collusion, false representation, prejudicing someone's rights, abuse of position and/or obtaining services dishonestly
6. **Bribery:** The offer, promise or receipt of any gift, hospitality, loan, fee, reward or other advantage to induce or reward behaviour which is dishonest, illegal or a breach of trust, duty, good faith or impartiality in the performance of a person's functions or activities (including but not limited to, a person's public functions, activities in their employment or otherwise in connection with a business, influencing the Government official in the performance of their public function) Bribery includes not only direct exchanges, but also authorising or permitting an associate or third party to commit any of the acts or take any part in the actions identified
7. **Government Official:**
 - a. An officer or employee of any government.
 - b. An officer or employee of any international organization (e.g., the United Nations, World Bank)
 - c. An officer or employee of any department, agency, or instrumentality of any government or of any public international organization
 - d. An officer or employee of any government-owned or government-controlled company
 - e. A political party or political party official

- f. Anyone, whether a private person or otherwise, acting in an official capacity on behalf of any of the above or of any government entity
- g. **Investigator:** A person appointed by the board of directors in connection with conducting an investigation.

Obligations of HST

We are committed to preventing fraud and corruption and developing an anti-fraud and anti-corruption culture. To achieve this, we are required to:

- develop, maintain and consistently apply effective controls to prevent fraud and corruption at all levels; ensure that if fraud or corruption occurs, a vigorous and prompt investigation takes place, and that reports are shared with stakeholders as appropriate.
- take appropriate disciplinary and legal action in all cases.
- take all appropriate and reasonable steps to recover any financial losses.
- review systems and procedures to prevent similar acts of fraud or corruption.
- ensure fraud and corruption risks are taken into consideration in programme planning, and
- report incidents to donors as per the requirements set by donors.

HST employees are also encouraged to read Appendix A outlining the expected course of action when faced with various ethical catches.

Roles and Responsibilities

All designated stakeholders are responsible for:

- acting with propriety in the use of assets and resources of HST.
- conducting themselves in accordance with the principles set out in applicable codes of conduct or equivalent, including:
- declaring at the earliest opportunity any actual or apparent conflict of interest having a bearing on their responsibilities to the HR.
- seeking guidance from their line manager as needed to determine whether a contemplated interaction with a Public Official or Service Provider is appropriate and in compliance with this Policy and other applicable 3ie policies; or
- they can reach out to the counter fraud champions designated by the management.
- assisting in any investigations by making available all relevant information and

Role-specific responsibilities are outlined in Appendix B

Corrective Actions

The Chief Executive's office will be responsible for addressing all formal complaints not involving the Chief Executive. After appropriate investigation, corrective actions, which may include disciplinary or remedial actions, shall be taken against anyone who violates the policy, fails to report a known violation of this Policy, fails to implement the requirements of this Policy or retaliates against any person reporting, in good faith, an alleged violation of this Policy.

Failure to detect due to employee's negligence may result in disciplinary action and failure to detect due to process gap may result in remedial action for mitigating risk and making employee aware regarding fraud risk. If any individual representative of HST or third party fails to comply with this Policy, it may lead to fines, termination of employment/contractual agreements/other relationships/arrangements or criminal penalties and/or imprisonment as per the relevant laws and regulations of the respective jurisdiction. Further, in the case of third parties, corrective action may include

withholding future relationships, transactions or funding, reporting to primary donors, and if required, reporting to relevant enforcement authorities. All efforts will be made to recover funds in violation of such policy.

Fraud Risk Assessment

While the ultimate responsibility for effective fraud risk and control management rests with the Finance Director, every program head is responsible for identifying and mitigating the risks that might affect the operations under his or her responsibility. Periodic fraud risk assessments should be undertaken by the program lead, as well as the internal audit function, and such assessment should include known fraud risk factors, potential fraud schemes, control gaps, red flag identification and recommendation for remediation.

Fraud and corruption awareness programme

To ensure that the risk of fraud and corruption is effectively mitigated, periodic training no less than annually can be merged with Annual Review meeting, are conducted to raise awareness about fraudulent acts and their prevention. HST will promote an anti-fraud/ anti-corruption culture by fostering an organizational culture of integrity, transparency and accountability, providing confidential ethics advice to all staff, including managers, on appropriate standards of conduct and including fraud and corruption awareness across the year by one to one interaction.

Conflict of Interest

A Mandatory Disclosure Statement which is a part of HST HR Policy is required to be signed and submitted to HR annually from all individual representatives of HST including all employees (including new hires), third parties and partners. Individual who is involved in Procurement of goods or hiring of services need to inform HR about potential risk about conflicting interest in advance. In such cases, person having conflict of interest should not be a part of decision making process.

Gift Policy: HST staff should not normally accept gifts. All offers of gifts that might be perceived to compromise your personal judgment or integrity should be declined. However, HST recognises that in some cases non- acceptance may cause embarrassment to the provider. All staff must record and declare all gifts received or offered to team leaders or the CEO that are valued over INR 2,000.

Internal Control System

A strong internal control system, where policies and procedures are enforced, internal controls are appropriately implemented, and staff members, non-staff personnel, vendors, implementing partners and responsible parties are informed about fraud and corruption and its consequences, can curtail fraud and corruption.

Where managers have identified and assessed the risk of fraud and corruption, these risks can be managed by establishing practices and controls to mitigate the risks, by accepting the risks — but monitoring actual exposure — or by designing ongoing or specific fraud evaluation procedures to deal with individual fraud risks.

Reporting Fraud

HST has established a dedicated email ID to ensure that persons can report fraud. Anyone with information regarding fraud or other corrupt practices involving HST staff, non-staff personnel, vendors, implementing partners and responsible parties, is strongly encouraged to report this information through the Email ID provided on the website. The Email ID is managed by an independent internal auditor on behalf of HST to protect confidentiality, and can be directly accessed.

Details that should be included in a Report of Fraud

In order for investigations to be successful, complaints should be as specific as possible. To the extent possible, they should include details such as:

- i) The type of alleged wrongdoing;
- ii) When, where and how the wrongdoing occurred; and
- iii) Who was involved and may have knowledge of the matters being reported

Response & Investigation

Initial Fraud Response Plan

Where external auditors, internal auditors, regulatory bodies such as government organizations, discover some fraud during routine part of working, it should be reported to the Chief Executive's office. Any individual representing HST can report fraud related concerns at info@humsafar.org or in writing to the CEO.

In cases where the fraud is related to the actions/inactions of the Chief Executive Officer, then the same should be communicated to the Board of Directors immediately.

A record of such complaints will be maintained with the CEO's office or Board of Directors, as the case maybe. An initial review should be done of the complaint by the CEO's office or Board of Directors, as the case maybe; the facts presented should be confirmed by examining the validity of the allegation and defining the severity of the allegation. The initial action on a complaint should be taken preferably within 7 days of receipt of the information about fraud/suspected fraud and timelines for completion of investigation should be decided depending on the facts of the case.

Depending on the criticality and severity of the circumstances (based on likely financial impact, business continuity, operational and reputational risk, stakeholders involved, etc.), the Executive Director or Board of Directors shall decide whether to constitute an internal investigating team or appoint an independent external agency to conduct the investigation.

HST will give the power to Executive Committee to appoint an independent third party to conduct investigation.

The CEO's office or Board of Directors, as the case maybe, shall be responsible for overseeing the investigation and shall lay down the scope of the investigation and identify a team leader (herein referred as 'Investigator') for the purpose of the investigation.

Investigation

The investigation shall be conducted fairly, as a neutral fact finding process.

The investigation will consist of the following steps:

- i) identify all involved
- ii) interview all involved
- iii) find and review all relevant evidence and documentation
- iv) based on triangulation of evidence to the extent possible, arrive at a judgement;
- v) present the judgement and recommendations in an appropriate form for any subsequent disciplinary, civil and/or criminal proceedings, supported by all relevant evidence.

The investigation process will vary according to the circumstances of each case and will be

determined by the CEO's office or Board of Directors as the case maybe, which is responsible for setting out the terms of reference. It may for example be necessary to adjust the investigation procedure due to specific donor requirements.

Throughout any investigation, the investigator will keep the CEO or Board of Directors informed of progress and any developments.

Reporting

On completion of the investigation, the investigator will prepare a written report setting out:

- i) the background as to how the investigation arose;
- ii) what action was taken in response to the allegation;
- iii) the conduct of the investigation;
- iv) the facts that came to light and the evidence in support;
- v) the conclusions including a statement of whether or not the allegations or suspicions of fraud or corruption have been substantiated;
- vi) recommendations on actions to be taken against any responsible parties where the allegations or suspicions were substantiated;
- vii) recommendations to improve any identified weaknesses in internal controls to prevent reoccurrence; although a separate report may be necessary for this item;
- viii) recommendations, in consultation with appropriate officers, on the most appropriate method of recovery of any losses; and
- ix) an estimate of the cost of the investigation in number of employee days. The report shall document the decisions made by the CEO's office or Board of Director, as the case maybe, in response to the recommendations, and the facts and judgement on which this determination was made. The Finance Director in consultation with CEO will prepare an annual report each financial year of all the matters of fraud and submit it to the Board at the first board meetings of respective financial year.

Confidentiality

The CEO or Board of Directors, as the case may be, 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.

Details of any investigation are strictly confidential and must therefore not be discussed or conveyed to anyone other than relevant management representatives and the nominated investigation team.

Safeguarding of employees

HST will not tolerate any retaliation of any kind against anyone who, in good faith, reports a potential violation of any anti-corruption laws or any other aspect of this Policy.

HST takes all claims of retaliation seriously and investigates all allegations of retaliation, and will take appropriate disciplinary action to address any incidents of retaliation

Appendix A

“DOs”

It is important to be ethical in action, and in perception. Even the slightest perception of unethical behaviour may prove to be harmful for the organisation and individuals concerned. Therefore, when faced with such situations, act and report, as follows:

- i) reject any hints outright, which may be an actual act of fraud, corruption or perceived as such. In case of any doubt, connect with the line manager or Director Finance or CEO
- ii) maintain fair and accurate records, documenting the details of any requested, attempted or actual act of fraud or corruption, as soon as possible after the event;
- iii) be sensitive to and avoid interactions that may create even an appearance of impropriety;
- iv) conduct due diligence of all project partners and service providers as per the threshold limit decided in the policy before entering into an agreement with such entities.
- v) enter into written agreements with all project partners and service providers that contain anti-corruption and anti-fraud provisions, as well as any other provisions required by Donors

“DO NOT”

We prohibit improper payments made directly or indirectly to Government Officials No HST Representative, and no Third Party acting on HST’s behalf, may offer or give payments or anything of value, directly or indirectly, to any Government Official (including the spouse, relative, friend, or colleague of a Government official), or to any third party for payment to any Government Official, to improperly obtain, retain, or direct business or secure an improper advantage or take any other action, directly or indirectly, to violate any applicable laws and regulations prohibiting public or commercial bribery, extortion, kickbacks, fraud, money laundering, or other unlawful or improper means of conducting business.

Potential Areas where Fraud or Corruption risk can be mitigated

The following examples of general ‘red flags’ (which is not an exclusive list) may raise suspicion and be helpful indicators of fraud and corruption risk:

- Financial record-keeping and accounting discrepancies, such as:
 - absent, vague, inconsistent or false transaction descriptions or account allocations;
 - absent, false or unusual record of the identity of the payee/counterparty;
 - excessive or unusually high compensation without supporting detail;
 - unusual payment patterns or structures or other financial arrangements;
 - general purpose or miscellaneous accounts that can be used to hide improper payments;
 - over-invoicing; false or inaccurate invoices, travel and/or expense forms;
 - unrecorded accounts or transactions.
- A third party does not appear to be qualified to perform the duties for which it/he/she is engaged.
- A third party refuses to certify, or provide information about its/her/his governmental relationships to verify its compliance with anti-corruption requirements.
- Requests for commissions to be paid in a third party country, to a third party, or in cash or untraceable funds.
- Heavy reliance by a party on political or government contacts as opposed to knowledgeable staff and investment of time to promote our interests.
- A desire to keep third party representation secret.
- Lack of written agreements, anti-bribery policies, training or code of conduct at target company; or Misrepresentation or failure of the target company to cooperate in due diligence process.
- You are offered an unusually generous gift or lavish hospitality by a third party.

- Anonymous emails/letters/telephone calls.
- Emails sent at unusual times, with unnecessary attachments, or to unusual destinations.
- Discrepancy between earnings and lifestyle.
- Unusual, irrational, or inconsistent behaviour.
- Alteration of documents and records.
- Extensive use of correction fluid and unusual erasures.
- Photocopies of documents in place of originals.
- Rubber Stamp signatures instead of originals.
- Signature or handwriting discrepancies.
- Missing approvals or authorisation signatures.
- Transactions initiated without the appropriate authority.
- Unexplained fluctuations in stock account balances,
- Inventory variances and turnover rates.
- Inventory adjustments.
- Subsidiary ledgers, which do not reconcile with control accounts.
- Extensive use of 'suspense' accounts.
- Inappropriate or unusual journal entries.
- Confirmation letters not returned.
- Supplies purchased in excess of need.
- Higher than average number of failed login attempts.
- Systems being accessed outside of normal work hours or from outside the normal work area.
- Controls or audit logs being switched off

Actions Constituting Fraud and Corruption but are not limited to, the following actions.

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 HST.
- Forgery or alteration of a cheque, bank draft, account, or any other financial instrument
- Fraudulent financial reporting
- Mis-utilization of HST 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 and assets
- Making false written or oral statements or representation with respect to HST activity
- Impropriety in the handling or reporting of money or financial transactions
- 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 HST
- Wilful suppression of facts/deception in matters of appointment; placements; submission of reports
- Any other act that falls under the scope of fraudulent activity.
- Processing the cost of personal travel as part of an official travel.
- Accepting hospitality such as meals or entertainment from a vendor
- Using another's IT identity or password, or creating false identities/passwords, without consent or authority to manipulate HST processes or cause the approval or denial of actions
- Collusion or other anti-competitive scheme between suppliers during a procurement process
- Misrepresenting employment status to obtain a benefit from HST.

Appendix B

Role and Responsibilities in Prevention of Fraud and Corrupt Practices:

Program Leads

The day-to-day responsibility for the prevention and detection of fraud and corruption rests with the first layer of defence, which is the program leads/programme officers who are responsible for the following:

- identifying new risks to which systems, operations and procedures may be exposed;
- ensuring that controls are being implemented;
- responding to changes in fraud risks/risk appetite;
- implementing corrective action to address deficiencies;
- managing and supervising to ensure compliance and identify any breakdown in controls; and
- on a periodic basis, updating the fraud risks in the risk register.

Senior Management Team

The second line of defence sets the policy, procedures and guidance, and monitors compliance through constructive challenge. The second layer of defence, which rests with the Heads of Departments, are responsible for the following:

- ensuring the first line of defence is properly designed and operating as intended;
- developing and maintaining effective internal controls to prevent and detect fraud and corruption;
- ensuring compliance with various requirements stipulated in this Policy;
- devising a suitable risk-based sampling methodology for expense verification before disbursements of tranche payments;
- aligning strategic objectives with fraud risk assessment and related responses; and
- providing methods and tools to support management of fraud risk.

Independent reviewers

The third line of defence provides independent oversight and scrutiny ensuring that the Framework remains updated and is complied with. The third line consists of internal auditors, external auditors, and special reviewers who are responsible for the following:

- providing independent and objective assurance
- recommending improvements to the management of fraud risk and control activities, and
- independently investigating fraud and allegations of malpractice reported to the management.