

Bank frauds

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Bank frauds and its detection through government proactive measures

Syllabus: Banking in India

There is an increase in detection and reporting of bank frauds due to government's proactive measures. RBI data on frauds reported to it by banks has been cited in sections of the media to paint a picture of rising frauds in banks in recent years. The fact is that this data is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, Letter of Undertaking etc., which in many cases is of an earlier period. Occurrence of frauds was enabled by laxity in the financial system which has been systematically dealt with through comprehensive banking reforms instituted by the Government to address underlying causes and provide for proactive checking for and detection of fraud.

Key steps taken in this regard include:

- Government has issued an instruction that all accounts exceeding Rs. 50 crore, if classified as NPAs, be examined by banks from the angle of possible fraud. In addition, Public Sector Banks (PSBs) have also been advised to seek a report on the borrower from the Central Economic Intelligence Bureau, in case an account turns NPA.
- Proactive action has been taken against wilful defaulters, with FIRs being registered by PSBs against 2,881 wilful defaulters.
- For enforcement of auditing standards and ensuring the quality of audits, Government has established National Financial Reporting Authority as an independent regulator.

- Fugitive Economic Offenders Act, 2018 has been enacted in order to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts.
- Pursuant to the Government's advice to PSBs, they have been obtaining certified copy of passport of the promoters/directors and other authorised signatories of companies availing loan facilities of more than Rs. 50 crore, and are ensuring rotational transfer of officials/employees on sensitive posts.

About National Financial Reporting Authority(NFRA) (Society: Health)

- The NFRA is to be an independent regulator overseeing the auditing profession, and its creation was first recommended by the Standing Committee on Finance in its 21st report.

Role of the NFRA

The NFRA has the following responsibilities:

- Make recommendations on the foundation and laying down of accounting and auditing policies and standards.
- Monitor and enforce the compliance of the accounting standards and auditing standards.
- Oversee the quality of service of the professionals (such as auditors, CFOs, etc) and suggest measures required for improvement in the quality of service.
- Perform such other functions related to the above.