

**GOVERNMENT OF INDIA
CORPORATE AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:3339

ANSWERED ON:12.12.2014

VIGILANCE SYSTEM TO PREVENT CORPORATE FRAUD

Dhurve Smt. Jyoti; Tumane Shri Krupal Balaji

Will the Minister of CORPORATE AFFAIRS be pleased to state:

- (a) whether the Government has taken note of increasing incidents of financial frauds in the Corporate sector;
- (b) if so, the details thereof indicating the number of such cases reported/taken note of during each of the last three years and the current year, State/UT-wise;
- (c) whether the Government has conducted any study to ascertain the causes/reasons for such incidences, if so, the details and the findings thereof;
- (d) whether the Government has devised/implemented a new vigilance system 'Early Warning System' for early detection and prevention of potential Corporate frauds;
- (e) if so, the details thereof and the time by which the said system is likely to be fully operationalized; and
- (f) whether Regional Directorates and Registrar of Companies have also created separate cells for monitoring the potential fraud companies, if so, the details thereof and the other steps being taken by the Government in this regard?

Answer

THE MINISTER OF CORPORATE AFFAIRS (SHRI ARUN JAITLEY)

(a) & (b) During the last three years and in the current year from 01.04.2014 to 30.11.2014 the Ministry, has ordered investigations (through SFIO) in respect of 167 companies for alleged corporate frauds. Investigation reports in respect of 81 companies have been received in the Ministry. State-wise details of investigations assigned to SFIO during the said period are as under:

SI No Name of the State No of Cases

1	Andhra Pradesh	1
2	Gujarat	1
3	Assam	1
4	Not registered in India	1
5	Maharashtra	4
6	Tamil Nadu	5
7	Uttar Pradesh	6
8	Delhi	66
9	West Bengal	82
	Total	167

(c) No such study has been conducted by the Government.

(d) & (e) The Ministry is in the process of developing an Early Warning System (EWS) aimed at generating alerts for detecting cases of potential fraud and malfeasance. A pilot test was carried out during 2013-14. The results are being analyzed and the system requires to be further fine-tuned. In the meanwhile, SFIO has been tasked with the examination of complaints of investors logged on the MCA 21 Portal, for which a dump of complaints received will be shared with SFIO online. This may help in identifying "Red Flags" or early warnings of potential frauds by companies that can be taken up later for detailed inspection / investigation.

(f) Regional Directors/Registrars of Companies have not created separate cells for monitoring the potential fraud companies. However, Government has taken a number of measures to curb and prevent corporate frauds, including;

(i) 'Fraud' as a substantive offence has been introduced in the Companies Act, 2013.

(ii) Statutory status to the Serious Fraud Investigation Office has been granted under the said Act.

(iii) Stricter norms of Corporate Governance and their implementation under the Companies Act, 2013.

(iv) It has been made mandatory for every existing or prospective directors to obtain a "Directors Identification Number" (DIN). This

process requires detailed verification of particulars of a person along with a photograph, identity proof, residence proof etc. so that traceability of the directors ensured. Requirement of DIN, therefore, makes it difficult for individuals promoting dubious companies to defraud investors by hiding or misrepresenting their identity.

(v) In case of incorporation of a new company or change of address of an existing company, the Ministry has made it mandatory for professionals to verify details of the company and to personally visit their premises and certify that the premises are at the disposal of the company. In such cases, proof of registered address has been made mandatory to be furnished at the time of Incorporation or change of registered office address.

(vi) Instructions have also been issued to the Registrar of Companies to scrutinize the Balance Sheet and other records of the company who raise money through public issue and monitor the utilization of such funds.

(vii) The Ministry has also undertaken pre-emptive measures aimed at sensitizing people through investors awareness programmes. These programmes are organized regularly in association with the three professional institute-Institute of Chartered Accountants of India (ICAI), Institute of Cost Accountants of India (ICAI) and Institute of Company Secretaries of India (ICSI) in various cities. Since 2012-13, MCA has also started organizing such programmes in rural areas through CSC e-Governance Services India Ltd, an entity under Department of Electronics and Information Technology. 2897 such programmes were conducted during 2013-2014.