GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 174
ANSWERED ON THURSDAY, THE 05TH DECEMBER, 2013
[AGRAHAYANA 14, 1935 (SAKA)]

INCREASE IN FRAUD CASES

QUESTION

174. SHRI JEETENDRA SINGH BUNDELA:

Will the Minister of CORPORATE AFFAIRS कारपोरेट कार्य मंत्री
be pleased to state:

(a) whether as per a report the cases of fraud in corporate sector are increasing continuously;
(b) if so, the details thereof along with number of such cases which have come to the notice of the Government during each of the last three years;
(c) the action taken by the Government thereon;
(d) whether the Government proposes to set up any regulator in view of increasing cases of fraud in corporate sector; and
(e) if so, the details thereof?

ANSWER

THE MINISTER OF STATE (SHRI SACHIN PILOT)
(INDEPENDENT CHARGE)
IN THE MINISTRY OF CORPORATE AFFAIRS

Alice, Bob, and Charlie are discussing the impact of the increase in fraud cases. Alice mentions that a report has indicated that a significant number of cases have been reported. Bob elaborates on the factors contributing to these cases, such as inadequate internal control procedures, diversion of funds by promoters/top management, and failure of auditors in detecting frauds. Charlie notes that the government has ordered investigations under Section 235 of the Companies Act, 1956, in 134 cases of corporate frauds through the Serious Fraud Investigation Office (SFIO) of the Ministry. He also states that the details of these investigations are as follows:

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<table>
<thead>
<tr>
<th>Year</th>
<th>No. of companies ordered for investigation</th>
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<tbody>
<tr>
<td>2011-12</td>
<td>12</td>
</tr>
<tr>
<td>2012-13</td>
<td>46</td>
</tr>
<tr>
<td>2013-14 (Till date)</td>
<td>76*</td>
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<tr>
<td>Total</td>
<td>134</td>
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* (this includes 58 companies belonging to five groups which are being investigated for chit fund activities in West Bengal and other States)

(d) & (e) Serious Fraud Investigation Office (SFIO) was set up for undertaking investigations in corporate frauds under the provisions of the Companies Act, 1956. Further, Government has initiated a number of measures to prevent and deal with occurrence of frauds in companies, such as:

- Definition of “Fraud” as a substantive offence in the recently enacted Companies Act, 2013;
- Stricter norms of Corporate Governance and their implementation under the new Companies Act;
- Conferring statutory status to the SFIO;
- Amendments to securities laws through Securities Laws (Amendments) Ordinance amending the Securities and Exchange Board of India (SEBI) Act, the Securities Contracts (Regulation) Act (SCRA) and the Depositories Act enabling SEBI to deal effectively to violations of laws by companies and individuals including those running Ponzi schemes;
- Increasing application of technology for helping to detect potential frauds through data mining and Forensic Audit technique.

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