

LOK SABHA
UNSTARRED QUESTION NO 3968

TO BE ANSWERED ON THE 10TH AUGUST, 2018(FRIDAY) / SHRAVANA 19, 1940 (SAKA)

Forensic Auditing of Loan Accounts

3968. **DR. P. VENUGOPAL**

Will the Minister of FINANCE be pleased to state:

- (a) whether the Public Sector Banks (PSBs), have started conducting forensic audits on all loan accounts above Rs. 50 crore for any possible fraud;
- (b) if so, the details thereof;
- (c) whether the banks under such audits are planning to make available the details of accounts that could potentially turn into Non Performing Assets (NPA) which can be shared with the Government and investigative agencies for further action; and
- (d) if so, the details thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI SHIV PRATAP SHUKLA)

(a) to (d): The Government has asked all Public Sector Banks (PSBs) to be prompt in identification of frauds and, inter-alia, take following actions:

- (i) All accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets(NPAs), should be examined by banks from the angle of possible fraud.
- (ii) Complaints to be lodged with Central Bureau of Investigation (CBI) in accordance with prescribed checklist.
- (iii) Once fraud is reported, the banks should immediately initiate examination of the issue of wilful default.
- (iv) Banks at the time of lodging a complaint with the CBI would also lodge a complaint with the Enforcement Directorate in those accounts where money laundering and FEMA violations also appear to be there. Similarly, where the fraud also appears to involve violations in the export and / or import of goods and services, a report will also be lodged with Directorate of Revenue Intelligence.

A report in this regard would also be placed before the Bank's Committee for review of NPAs on the findings of this investigation.

Reserve Bank of India, in May 2015, has issued the framework for dealing with loan frauds of Rs50 crore and above. Under the framework, banks were advised to classify the potential fraud account as Red Flagged Accounts (RFA) based on observation/evaluation of Early Warning Signals (EWS) noticed. The framework has stipulated time lines with the action incumbent on a bank. The time lines / stage wise actions in the loan life-cycle are expected to compress the total time taken by a bank to identify a fraud and aid more effective action by the law enforcement agencies. Considering the need for pro-active action in fraud detection, diagnostics, mitigation and prevention, a Quick Response Team has also been constituted.

A Central Fraud Registry (CFR), a web based searchable database of frauds reported by the banks and five FIs/NBFCs (NHB, NABARD, SIDBI, Exim Bank and IFCI), containing the data for the last 13 years has been made operational by RBI with effect from January 20, 2016. The Registry is shared with the reporting entities and intended to serve as a tool for timely identification, control and mitigate fraud risk and also for carrying out due diligence during credit decision process.