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Corporate fraud in India zoomed in last 15 years: Report

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New Delhi : The scale and size of corporate frauds in India have zoomed in the last 15 years with over half the cases of fraud dealing with siphoning of funds by promoters/top management and defrauding the lenders, says the latest study report by Thought Arbitrage Research Institute (TARI), in partnership with UN Global Compact India.

This is the first report in India which analyses with quantitative data of over 15 years frauds committed by management and owners of private sector companies based on information available in public domain. The report was released on Monday in India though it was presented in St Petersburg, Russia, at the B20 meeting on June 20 by UN Global Compact, USA.Business 20 or B20 is an informal network of business associations, collaborating in order to maintain a continuous dialogue between the business community, G20 governments, and relevant international institutions.

According to TARI report, prior to 2009, the average size of frauds was about R 282 crores. This has significantly increased since then due to a number of high profile and large frauds detected in the period 2009 to 2012, TARI report said. ‘‘The average size of frauds since 2009 is R 502 crores, an increase of almost 80% from the average of the past 15 years which was R 381 crores,’’ the report said.

However, the report noted that one of the reasons of increase in frauds could be linked to the low rate of prosecution. According to the analysis of cases filed by the market regulator Sebi, the report said in nearly 80% of the criminal prosecution cases, there was no sentencing. ‘‘Further 18% of such cases resulted in a sentencing of less than six months. And for every four people convicted by the court, there is at least one person is a proclaimed offender i.e. a person on whom the notices or the Court’s order cannot be served as his whereabouts are unknown. Out of 540 accused convicted by the Courts, there were 133 proclaimed offenders in our sample size,’’ the report said.

The report is based on the analysis of data of companies involved in fraud since 1997 till 2012. The report found that a significant motivator for fraud by the promoters and management was a personal enrichment at the cost of all other stakeholders. ‘‘However more research is warranted to understand the behavioural aspects of individuals committing such fraud,’’ it said.

According to the report, committing fraud does not pay as majority of the companies involved in fraud have either been liquidated or business discontinued or is continuing at reduced levels with market valuations drastically reduced.‘‘Our data analysis shows that in 43% of the cases, the business or the company ceased to exist. The companies have either been liquidated or currently in the process of liquidation or their operations may have been discontinued,’’ the report said. However, some companies were completely untraceable with no credible information available about their existence or operations, it said. In other instances, 30% of the cases the companies are continuing their business but at reduced levels. In some of the listed companies, market valuations have significantly fallen with little or no trading in their stock, the TARI report said.