

Indian banking saw frauds worth ₹18,170 cr in FY17: IiAS

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The standard procedure is that once a bank reports a company as 'fraud' to the RBI, the central bank immediately circulates the information to all banks, calling for their attention istock Kritchanut

MUMBAI, MARCH 29

The domestic banking sector reported 12,533 frauds, aggregating to ₹18,170 crore in FY17, proxy advisory firm IiAS has said.

“Such high quantum of frauds can be attributed to weak internal controls, which are capable of leaving an indelible dent on the balance sheet of the bank. Though the banks are paying high audit fees, it is not necessarily resulting in lower frauds, which means that the overall audit quality needs to be improved,” the shareholder advisory firm said.

Bank of Maharashtra reported the highest number of frauds (3,893), followed by ICICI Bank (3,359) and HDFC Bank (2,319). In terms of quantum, PNB (₹2810 crore) Bank of India (₹2770 crore) and SBI (₹2420 crore) fared the worst.

In some banks, while the aggregate quantum is low, the average fraud size is high. This indicates that the sector needs to urgently revisit and strengthen its internal financial controls.

The inability to contain frauds has financial implications. For example, in Bank of Maharashtra, the fraud amount as a percentage of total assets was 1.02 per cent. Added to a gross NPA of about 19 per cent, this means that more than one-fifth of the asset size is at risk every year due to weak controls and lack of adequate due diligence.

High audit fees signal more audit checks. Yet, despite paying high audit fees, the quantum of fraud in PSBs tend to be much higher.

High audit fees

The high audit fees in PSBs are a function of larger number of branches, multiple auditors, higher number of physical audits and RBI prescribed rates. But this has failed to improve audit quality. The focus now needs to shift towards strengthening the audit quality by plugging process gaps and streamlining the checks and balances.

While these frauds are an issue of concern across the banking sector, there are a few banks which stand out for being able to control the fraud losses, said IiAS.

For example, in some private sector banks like IDFC Bank, Dhanlaxmi Bank and DCB Bank, the total quantum of fraud was less than 0.01 per cent of their assets.



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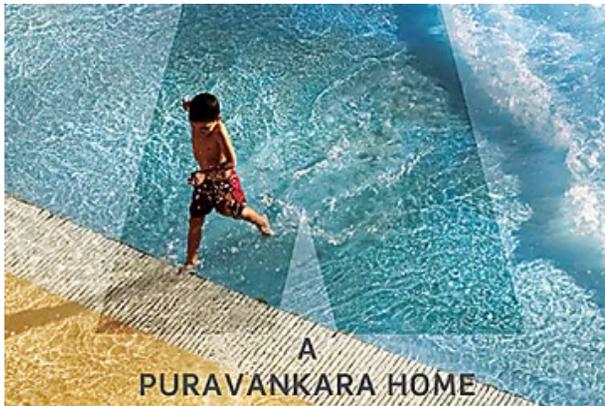
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