

**All Companies, whether Listed or not vulnerable and susceptible to frauds: S K Mohanty, SEBI**

**SEBI taking multiple measures to curb frauds and strengthening enforcement**

**Diversion of funds leads to erosion of wealth for shareholders and leads to ethical crisis and reputational risk: SEBI**

**Mr S. K. Mohanty, Whole Time Member, Securities and Exchange Board of India (SEBI)** emphasized that frauds are neutral and can take place in any company irrespective of whether it is listed or not, more so, in the wake of instances of digital data thefts and technological risks. He expressed concern on eroding trust of retail investors against the backdrop of an increasing capital markets investor base. He was delivering the Keynote Address at the Conference on “Corporate Frauds: Governance and Risk Management” organized by Confederation of Indian Industry (CII). Mr Mohanty observed that the rate of corporate frauds is increasing at a high pace.

Tracing the evolution of the regulatory landscape of corporate governance which started with CII Voluntary Corporate Governance Code, 1998 to the Uday Kotak Committee, he informed that SEBI has been constantly upgrading surveillance and technology. In addition, SEBI has been regularly updating regulations to strengthen vigilance and alertness. He asserted the role of the Board and independent directors in evolving corporate culture. He shared that diversion of funds/ assets not only leads to erosion of wealth for shareholders, create anarchy and financial crisis but also lead to ethical crisis and reputational risk. In his address, Mr Mohanty elaborated upon SEBI’s expanded framework of regulating Related Party Transactions and role of risk management committees in the companies. Principle and rule-based regulations are not a remedy for frauds since corporate frauds are inevitable and to address this issue, preventive measures need to be taken, he concluded.

**Mr B Thiagarajan, Immediate Past Chairman, CII (WR) & Managing Director, Blue Star Limited** appreciated the initiatives being taken by SEBI in making the corporate governance and risk management framework streamlined and simplified. He emphasized that fraud risk assessment must be regularly undertaken by companies and internal control systems must be improvised to make their systems resilient to minimize occurrence of any fraud. He stressed upon the need for adoption of multipronged approach wherein each stakeholder need to play a key role in making the entire business ecosystem failsafe from these risks and make it stable and secure so that businesses can perform optimally. Besides corporates, the role of regulators, risk management

professionals, internal auditors, whistle-blowers, forensic and fraud examination experts, investigative agencies and board members in preventing, detecting and mitigating fraud risks and instances of corporate fraud, and white-collar crimes, are all very important and cannot be underestimated, he added.

**Mr Robin Banerjee, Vice Chairman, CII Maharashtra State Council & President and CEO, Caprihans India Ltd.** stated that Corporate Governance implies production goods and services of consistent quality at appropriate price. Delving upon the need for monitoring businesses and importance of laws and regulations in corporate governance, he highlighted that lack of governance principles for regulating industry and complete reliance on self-governance and self-monitoring, can lead to frauds.

While discussing the attributes of corporate frauds, **Mr Rajesh Narain Gupta, Managing Partner, SNG & Partners** said that as businesses grow the expectations on compliance and risk management by the stakeholders also becomes very high. He also mentioned that with the advent of ESG and global compliances the stakeholders are not restricted to only shareholders but also include employees, vendors, customers, service providers, society, the government, investors, lenders and general public. He emphasized that in addition to accountability of the Board there is a strong need for the government to raise the bar on the accountability.

Speaking at the Conference, **Mr Tarun Bhatia, Managing Director and Head of Forensic Investigations & Intelligence, South Asia, Kroll** stated that the risk of fraud has been ever-present for businesses worldwide, but during the pandemic, they evolved in scale and nature. While reliance on technology increased efficiency and flexibility, it also added new risks. A recent cyber security survey by Kroll showed a sharp disconnect between the confidence companies have in their organizations' cyber security abilities and the actual significant damage that cyber incidents are inflicting. This has put increased pressure on companies to be vigilant and also educate and involve themselves in cyber risk and mitigation discussions. There is also greater accountability on the senior management and the board who need to be more aware of their responsibility and lead the implementation of more robust compliance programs. Further, the human element remains central to all forms of fraud and hence there has to be a sincere effort by the leadership to invest in training the employees and also lead by example. Also, their actions against frauds need to be swift and relevant else illicit behaviour will continue to prevail and go undetected."

On the occasion, **CII and Kroll compiled a publication titled "Fraud Risk Management in India Post the Pandemic – Increased Accountability on Boards and Independent Directors"** which gives insights into enhanced

accountability of boards and independent directors and the growing interlinkage between businesses and society. The publication elaborates upon bribery and corruption risk, change in approach to risk management and rising cost of investigations.

Speakers at the conference commended CII for its sustained efforts in providing a platform for deliberations on topical issues of concern to industry. The day long Conference deliberated on vital topics including Fraud Risk Management - impact of global disruptions on board agility; role of Boards in improving the culture and accountability; increasing expectations from governance professionals - audit committee and independent directors; changing dynamics of due diligence White Collar Crime, whistle blowing and Anti-bribery/ Corruption/ Sanctions.

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