No.001/MISC(V-3)/002
Government of India
CENTRAL VIGILANCE COMMISSION

Satarkta Bhawan,
Block A, I.N.A.,
New Delhi-110023.

Dated: 05 APR 2002

To

The Chief Vigilance Officers/
CMDs of all Banks,
Secretary, IBA,
CVO/RBI, Banking Division,
Director, CBI

Subject: Disciplinary action in Banking Fraud cases.

Sir,

The Commission has been concerned over the inordinate delays occurring in completion of departmental proceedings in Banking Fraud cases. In September, 2001, it constituted, in consultation with the Reserve Bank of India, a high level group to study the problem in all its ramifications and suggest suitable solutions. On careful consideration of the Group's recommendations, the Commission has now decided to take fraud cases out of Vigilance 'A' category and reclassify them as Vigilance 'F'. This is to ensure speedy completion of departmental proceedings in such cases. Para 10.5 of the Special Chapter on Vigilance Management in Public Sector Banks would thus stand amended to the extent indicated in this Circular.

2. Category 'F' frauds may be defined as frauds of Rs.1 crore and above, perpetrated with a criminal intention by any bank official, either alone, or in collusion with insiders/outsiders, including:

i. Misappropriation and criminal breach of trust.
ii. Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.

iii. Unauthorised credit facilities extended for reward or for illegal gratification.
iv. Negligence and cash shortages.
v. Cheating and forgery.
vi. Irregularities in foreign exchange transactions.
vii. Any other type of fraud not coming under the specific heads as above.

3. The CVO would personally monitor the above cases and ensure that departmental action is disposed of within a period of **4 months** from the date of issue of the charge-sheet. He should submit a monthly report to the Central Vigilance Commission in the attached proforma in respect of each such case. This category will comprise those officials who are directly involved in the commission of a fraud. In all such cases, documents and witnesses relied upon by the disciplinary authority should be supplied alongwith the charge sheet. These lists should form Annexures III and IV of the latter, Annexures I and II being the Articles of charge and Statement of Imputations respectively. The oral inquiry should be conducted on day-to-day basis and no adjournment should be granted except on emergent grounds. The inquiry shall be completed within a period of two months of the appointment of the Inquiry Officer and the disciplinary authority should pass appropriate order within a month of the receipt of the inquiry report. Any laxity/delay in meeting with this time limitation should be viewed extremely seriously. In the event of any time overrun, the CVO shall obtain the explanation from the Presenting Officer/Inquiry Officer/Disciplinary Authority, as the case may be.

4. The time limits laid down in para 18 of the Special Chapter on Vigilance Management in Banks would in Category 'F' cases thus stand modified in the manner indicated below:

Item	Time Limit
Issue of charge-sheet	15 days from the date of the Commission's advice or one month from the date of receipt of the investigation report.
Time for submission of Defence Statement	Ten days
Consideration of defence statement	One Week

Appointment of IO/PO in major penalty cases	Immediately after receipt of consideration of defence statement.
Conduct of departmental inquiry and submission of report	Two months from the date of appointment of IO/PO
Sending of a copy of the IO's report to the CO for his representation	i.Within one week of receipt of IO's report if any article of charge has been held as 'Proved'; ii.15 days if any of the charges is held as 'Not Proved' (Reasons for disagreement of IO's findings to be communicated.)
Consideration of CO's representation and forwarding IO's report to the Commission for forwarding second-stage advice.	15 days from the date of receipt of representation
Issuance of orders on inquiry report	Within one month from the date of receipt of IO's report.

5. All Category 'F' cases should be marked as such in red ink at the very outset of the reference made to the Commission in this regard. The Commission would endeavour to ensure that all such cases are dealt with within ten days of their receipt in the Commission's office.

6. This issues with the approval of Central Vigilance Commissioner.

Yours faithfully,

Sd-

(Suman Nayar)
Director

FRAUDS IN BANKS

STRENGTHENING OF VIGILANCE MECHANISMS FOR SPEEDY DISPOSAL

1. Introduction

In September, 2001, the Central Vigilance Commission, in consultation with Reserve Bank of India, constituted a high level group to examine the reasons for and find solutions to problems of inordinate delays in proceedings against officials involved in bank frauds.

The Group comprised the following:

Shri S.N.P.N. Sinha, Secretary,
Central Vigilance Commission

Shri J.C. Dabas, Joint Director,
Central Bureau of Investigation

Shri M.R. Srinivasan, C.G.M.,
Reserve Bank of India

Shri K.C. Chowdhary, Chief Executive,
Indian Bank's Association

Shri Hardayal Singh, Additional Secretary,
Central Vigilance Commission - Convenor.

2. Terms of Reference

The specific terms of reference given to the Group were as follows:

"(a) To study the reasons for the inordinate delay occurring in taking suitable penal action against the Bank officials involved in fraud cases.

"(b) To recommend clear set of guidelines which with the directive of Government/RBI may be adopted by all the public sector Banks so that a uniform system is evolved to tackle the Bank frauds."

3. Meetings

The Group met on 28.11.2001 and 14.1.2002. In its very first meeting, it also constituted a sub-group consisting of:

Shri V.K. Chopra, Executive Director,
Oriental Bank of Commerce;

Shri S.R. Singh, Chief Vigilance Officer, Punjab National Bank; and

Shri P.C. Srivastava, Chief Vigilance Officer, Union Bank of India.

The specific terms of reference given to the sub-Group were as follows:

(a) To study the existing internal control mechanism in the Banks and make specific recommendations for its strengthening; and

(b) To study the existing procedures for completion of staff side action and suggest suitable reforms in the existing procedures for uniform follow up with a view to eliminate avoidable delay in taking necessary penal action in fraud cases.

4. Materials Utilised

The Group had the occasion to study the following documents:

1. The Master Circular of RBI, Deptt. of Banking Supervision dated 22.3.2001 on "Fraud - Classification and Reporting";
2. The report of Dr. N.L. Mitra on "Legal aspects of Bank Frauds 2001";
3. the information note on "Frauds of Rs.1 crore and above reported by Commercial Banks during the quarter ended Sept.30, 2001" prepared by Shri M.R. Srinivasan, CGM, RBI;
4. the "Special Chapter on Vigilance Management in Public Sector Banks" issued by the Central Vigilance Commission
5. India Fraud Survey Report 2001 - KPMG; and
6. Economic Crime Survey 2001 - European Report - Price Waterhouse Coopers.

5. Recommendations

5.1 Currently, fraud cases do not receive any special priority as compared to other categories of vigilance cases.

Para 10.5 of the Special Chapter on Vigilance Management in Public Sector Banks provides for two categories:

i. "Vigilance 'A' cases where prima facie the misconduct is substantive and warrants initiation of major penalty proceedings; and
ii. "Vigilance 'B' cases where lapses are procedural and do not reflect adversely on the integrity of the officer concerned.

Some difference in treatment has been indicated in the Special Chapter with regard to these two categories of cases in that the disabilities with regard to foreign training, placements etc. normally associated with Vigilance 'A' cases have been sought to be removed in respect of minor lapses categorised as Vigilance 'B'.

5.2 It is felt that this classification does not completely fulfil current requirements and needs to be further fine-tuned. There is a need for a third category of cases involving banking frauds. These may be categorised as **Vigilance 'F'** and should be prioritised for fast track processing.

5.3 Currently, the Special Chapter on Vigilance Management in Public Sector Banks does not define a fraud. It is felt that in view of the current requirement for fast track processing, an operational definition has become a sine qua non. The Group would suggest that the following definition be adopted for the purpose:

5.4 Category 'F' frauds may be defined as frauds of Rs.1 crore and above, perpetrated with a criminal intention by any bank official, either alone, or in collusion with outsiders, including:

i. Misappropriation and criminal breach of trust.
ii. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
iii. Unauthorised credit facilities extended for reward or for illegal gratification.
iv. Negligence and cash shortages.
v. Cheating and forgery.
vi. Irregularities in foreign exchange transactions.
vii. Any other type of fraud not coming under the specific heads as above.

5.5 The CVO would personally monitor the above cases and ensure that departmental action is disposed of within a period of **4 months** from the date of issue of the charge-sheet. He should submit a monthly report to the Central Vigilance Commission in the prescribed proforma in respect of each such case. This category will comprise those officials who are directly involved in the commission of a fraud. In all such cases, documents and witnesses relied upon by the disciplinary authority should be supplied alongwith the charge sheet. These lists should form Annexures III and IV of the latter, Annexures I and II being the Articles of charge and Statement of Imputations respectively. The oral inquiry should be conducted on day-to-day basis and no adjournment should be granted except on medical grounds. The inquiry shall be completed within a period of two months of the appointment of the Inquiry Officer and the disciplinary authority should pass appropriate order within a month of the receipt of the inquiry report. Any laxity/delay in meeting with this time limitation should be viewed extremely seriously. In the event of any time overrun, the CVO shall obtain the explanation from the Presenting Officer/Inquiry Officer/Disciplinary Authority, as the case may be.

5.6 The time limits laid down in para 18 of the Special Chapter on Vigilance Management in Banks would in Category 'F' cases thus stand modified in the manner indicated below:

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CO for his representation	of charge has been held as 'Proved'; ii.15 days if any of the charges is held as 'Not Proved' (Reasons for disagreement of IO's findings to be communicated.)
Consideration of CO's representation and forwarding IO's report to the Commission for forwarding second-stage advice.	15 days from the date of receipt of representation
Issuance of orders on inquiry report	Within one month from the date of receipt of IO's report.

5.7 All Category 'F' cases should be marked as such in red ink at the very outset of the reference made to the Commission in this regard. The Commission would endeavour to ensure that all such cases are dealt with within ten days of their receipt in the Commission's office.

6. **Reporting to RBI**

The existing instructions require all fraud cases to be reported to RBI within 7 days and to the local police/CBI within two days of detection. The RBI's recent study shows that the Banks are not adhering to these deadlines. The Group would recommend that the existing instructions may be reiterated with a slight modification to the effect that the reports to the RBI and CBI should ordinarily be made simultaneously and in all circumstances within 21 days of detection. The report to the CBI/local police may be made even earlier if it is apprehended that the suspected official/party might try to abscond or escape. Also, the existing requirement of submitting the existing requirement of submitting a preliminary report to the RBI through a d.o. letter would continue. The R.B.I. may issue a clear warning to all Banks that in case of non-reporting of frauds within the stipulated time-frame, it would impose suitable penalties. The first report may be interim in nature and may focus on communicating factual details of the fraud. A detailed report can be sent subsequently when full ramifications are clear and the matter has been fully investigated.

7. **Prioritisation of Cases by C.B.I.**

7.1 The CBI does not currently possess any well defined criteria for prioritisation of cases. As a result, in some important cases investigations go on for years together. The CBI have indicated that it is not possible for them to fix any time frame for investigation of bank fraud cases. The actual time taken would depend on many factors, such as the workload of the Branch, availability of investigating officers, previous pendency with the Branch and the nature of investigational requirements, etc. The CBI, however, have always tried to complete their investigations in the minimum possible time frame. Investigations in sensitive cases are given priority.

7.2 The Group would recommend to the Commission that it may take up the matter of formalising of criteria for prioritisation of cases with the Director, CBI. Some factors CBI may like to take into account, might be:

- i. the sensitivity of the case,
- ii. the quantum of the loss involved,
- iii. the nature of the fraud, and
- iv. its inter-State or international ramifications.

7.3 The CBI would be competent to draw up the technical expertise of the RBI for the investigation of any case.

8. **Delays in Internal Investigation and Issue of Charge-sheet**

The Group also examined certain other issues: It would recommend that departmental action should invariably be initiated simultaneously with criminal action. The practice of this salutary principle - approved by the Supreme Court itself - would ensure that internal fraudsters are immediately punished departmentally, even if the criminal case against them drags on. The successful application of this principle in practice may require some change of existing instructions relating to the Award staff. All Banks may be advised to introduce necessary amendments in their staff regulations. This principle may also be kept in view when the next Bipartite agreement comes up for review. In the meantime, all Banks may be advised to adhere to the provisions of the Special Chapter even if these conflict with the existing Bipartite agreement. Banks may also be advised to ensure that their own internal investigations into all fraud cases for the purpose of regular departmental action are completed within two months of their first being taken up.

9. Strengthening Internal Control Mechanisms

9.1 The role of internal control in detection and prevention of frauds has been highlighted in a number of recent reports. Economic Crime Survey 2001 - European report brought out by Price Waterhouse Coopers, and the India Fraud Survey Report 2001, brought out by KPMG, have both emphasised the importance of internal controls. CBI's paper on Large Value Frauds in Banks (Central Bureau of Investigation July, 1999) has quoted extensively from Principle 3 laid down by Bank of International Settlement, Basle, Switzerland. In view of its importance, this is reproduced below:

9.2 "Principle 3: The board of directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organisation that emphasises and demonstrates to all levels of personnel the importance of internal controls. All personnel at a banking organisation need to understand their role in the internal controls process and be fully engaged in the process.

" An essential element of an effective system of internal control is a strong control culture. It is the responsibility of the Board of Directors and senior management to emphasise the importance of internal control through their actions and words. This includes the ethical values that management displays in their business dealings, both inside and outside the organisation. The words, attitudes and actions of the Board of Directors and senior management affect the integrity, ethics and other aspects of the bank's control culture. In varying degrees, internal control is the responsibility of everyone in a bank. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with the code of conduct, or other policy violations or illegal actions that are noticed. This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel. It is essential that all personnel within the bank understand the importance of internal control and are actively engaged in the process. In reinforcing ethical values, banking organisations should avoid policies and practices that may inadvertently provide incentives or temptations for inappropriate activities. Examples of such policies and practices include undue emphasis on performance targets or other operational results, particularly short-term ones that ignore longer-term risks; compensation schemes that overly depend on short-term performance; ineffective segregation of duties or other controls that could allow the misuse of resources or concealment of poor performance; and insignificant or overly onerous penalties for improper behaviours. While having a strong internal control culture does not guarantee that an organisation will reach its goals, the lack of such a culture provides greater opportunities for errors to go undetected or for improprieties to occur.

"Control activities are most effective when they are viewed by management and all other personnel as an integral part of, rather than an addition to, the daily activities of the bank. When controls are viewed as an addition to the day-to-day activities, they are often seen as less important and may not be performed in situations where individuals feel pressured to complete activities in a limited amount of time. In addition, controls that are an integral part of the daily activities enable quick responses to changing conditions and avoid unnecessary costs. Often Senior management may weaken the control culture by promoting and rewarding managers who are successful in generating profits but fail to implement internal control policies or address problems identified by internal audit. Such actions send a message to others in the organisation that internal control is considered secondary to other goals in the organisation, and thus diminish the commitment to and quality of the control culture."

9.3 In view of the importance of these observations, the Group constituted a sub-Group to study internal control mechanisms in banks and make recommendations for their strengthening. The intention was to minimise reliance on the factor of chance or luck in the detection of frauds. The sub-Group submitted its report on 4.1.2002. This report was adopted by the Group in its meeting held in Mumbai on 19.1.2002, a copy of the recommendations of the sub-Group may be seen at Annexe-1. The Group would recommend to the Reserve Bank of India that the recommendations made by the sub-Group with regard to strengthening internal control mechanisms may be examined in detail and appropriate instructions issued to all the public sector banks. The other recommendations of the Sub Group in para 12 of their report at Annexe-I have already been considered and duly incorporated in the present report.

9.4 **Acknowledgements**

The Group would like to take this opportunity to thank the Central Vigilance Commission, the Reserve Bank of India, the Indian Banks Association and the Central Bureau of Investigation for their invaluable support and guidance.

REPORT OF THE SUB GROUP

CONSTITUTED BY HIGH LEVEL

GROUP

ON

FRAUDS IN BANKING SECTOR

REPORT OF THE SUB GROUP CONSTITUTED BY HIGH LEVEL GROUP ON FRAUDS IN BANKING SECTOR

A meeting of the Sub Group comprising the following officials was held at Oriental Bank of Commerce, Head Office, New Delhi on 14th December 2001 at 11 A.M. This was followed by another meeting on 3.1.2002:

Shri V.K. Chopra, Executive Director
Convenor
Oriental Bank of Commerce

Shri S.R. Singh, Chief Vigilance Officer
Member
Punjab National Bank

Shri P.C. Srivastava, Chief Vigilance Officer
Member
Union Bank of India

Shri A.K. Mishra, Chief Vigilance Officer
Member
Oriental Bank of Commerce (co-opted)

2. TERMS OF REFERENCE

I. To study the existing internal control mechanism in the Banks and make specific recommendations for its strengthening.

II. To study the existing procedures for completion of staff side action and suggest suitable reforms in the existing procedures for uniform follow up with a view to eliminate avoidable delay in taking necessary penal action in fraud cases.

3. INTERNAL CONTROL MECHANISM

3.1 The Sub Group deliberated on the internal control mechanism prevalent in Public Sector Banks. In order to minimise incidences of frauds, the internal control mechanism needs to be strengthened. It would help in early detection of frauds and increased chances of recovery.

3.2 The suggestions are as follows:-

3.2.1 There is need for periodical review of systems and procedures at certain intervals say once a year. The basic systems may not be disturbed frequently but the procedural steps may have to be reviewed at periodic intervals. At the same time, cases of frauds of large magnitude having wide ramifications should be subjected to urgent review.

3.2.2 Inspection and Audit is in itself a tool for prevention of frauds. An annual review of frauds and serious irregularities pointed out in audit reports could also become a basis for review of the basic accounting systems as well as the procedural guidelines.

3.2.3 Generally, the main threat to the health of the Public Sector Banks comes from high value frauds which relate mainly to advances and foreign exchange operations as also on account of delayed reconciliation of high value inter branch transactions/nominal/ suspense accounts. As such it requires special attention of Top Management.

3.2.4 In case of computerised branches since the arithmetical accuracy is automatically ensured, the supervising officials have become casual in checking of books of accounts and authentication of hard copies of Long Books, Clean Cash Books (Day Books) etc. with relative vouchers. As a result the double checking system is not adhered to, enabling the primary worker to manipulate and fudge bank books and perpetrate financial irregularities/frauds. This calls for strict adherence to double checking system.

3.2.5 Further, at lower rung the involvement of staff is not at desired level. To this end, the implementation of agreements with Award Staff needs to be ensured so as to bring clarity in the role. And once the role is defined and understood by the staff and played by them, due respect for systems and procedures would be revived.

4. INSPECTION & AUDIT

4.1.1 Though the banks have a system of internal inspection, concurrent audit, verification audit, snap audits etc., these have not proved to be as effective as expected for early detection of frauds. By the time it is detected, substantial loss might have already been caused. This seems to be result of an increasing number of cases in which connivance of staff is seen, including supervising staff and even Branch Managers. It almost amounts to "the fence eating the crop".

4.1.2 Dilution in the inspection machinery could partly be attributed to engagement of outside firms of Chartered Accountants for concurrent audit, as also, ineffective internal inspection by Bank auditors. It is observed that the firms of Chartered Accountants usually depute junior articles who may not be familiar with the Bank's systems and procedures and depend upon guidance/clarifications from the branch staff only.

4.1.3 As a remedy, the group felt that the Banks should have a competent cadre of inspecting officials from within the Bank, who should conduct concurrent audit and also internal inspection of branches. The role of Chartered Accountants as Concurrent Auditors should only supplement and not supplant the regular internal checks.

In case serious irregularities due to continued violation of system are detected at later stages, the inspecting officials may also be held accountable.

4.2. Branch visit

4.2.1 While the role of Regional Manager is essentially a developmental one for healthy development of business, it is necessary that the systems are put in place and followed by the branches. To ensure this, it may be advisable that the visits by Regional Manager and other officials focus on an overall review of the systems, especially relating to activities like promotion of new schemes and review of sensitive and high value banking transaction areas, besides internal house keeping. The controllers and other functionaries should visit sensitive and complex branches more frequently. The control returns may not be sufficient to provide correct feedback as it may be subjected to manipulations which can be detected only through an on the spot inspection. Sensitive symptoms like sudden spurt in advances, deposits and expenses need closer scrutiny, through personal visits by the controlling office functionaries.

5. Rationalisation of Control Returns

Over a period, there has been proliferation of returns and statements as a result their purpose and importance are often lost sight of. It would be desirable to reduce its number and revise control formats to make them more comprehensive and meaningful for scrutiny and monitoring with focus on large value transactions and advances.

6. Internal House Keeping

6.1 There are chances of frauds remaining undetected due to arrears in balancing of books and non-reconciliation of inter-branch/inter-bank entries and wrong reporting about balancing position at branches.

6.2 The Group suggests that Banks should gear up their machineries, particularly at branch levels so that the books of accounts are balanced at prescribed intervals and any wrong report coming to their notice should be dealt with seriously. The Reconciliation Deptt. at the Head Office should also ensure that reconciliation is up-to-date.

7. Delegation of Powers

7.1 It is observed that over a period of time and due to increased volume of business there has been higher delegation of discretionary powers at various levels of managerial cadre without commensurate upgradation in skills leading to injudicious exercise of powers.

7.2 The Group feels that higher delegation calls for closer scrutiny and supervision over the exercise of delegated powers. Further, each Bank should keep on reviewing the position with regard to discretionary powers vested in their officials depending on the need, experience and hierarchy.

7.3 All exercise of discretionary powers should be reported immediately to the next higher authority, say within a week/fortnight for control purposes. Non-submission or late submission of control returns should be viewed seriously. The Control Returns should be obtained and properly scrutinised by Regional Offices and any laxity in ensuring implementation of such control systems should be viewed seriously and as a supervisory lapse.

8. Credit Related Frauds

8.1 A majority of large value frauds taking place in Banks are in credit areas on account of the following reasons:-

- Lack of pre-sanction survey including improper identification of borrowers.
- Physical Verification of collateral security offered not done.
- Appraisal not done properly and undue dependence on the borrowers' financial statements inter alia projected sales turnover which are at times manipulated by some hired professionals.
- Disbursements are made without completion of all terms and conditions of sanction.
- Proper post-disbursement monitoring not done to ensure end use of funds.
- Undue haste shown in case of take over of borrowal accounts from other Banks

8.2 To minimise the incidence of credit related frauds the Group suggests the following measures:

- Maintenance and recording of pre-sanction visit including verification of antecedents of prospective borrowers/guarantors.
- Physical verification of collateral securities inter alia confirmation of validity of title, marketability, realistic valuation.
- Due training to be imparted to personnel handling credit portfolio.
- Disbursement to be made only after completion of all sanction stipulations and any relaxation therein to be permitted only with prior permission of the sanctioning authority.
- Effective post disbursement monitoring to ensure end use of funds/prevent diversion of funds

- Periodical Review/Renewal of credit limits as stipulated
- Strict adherence to RBI guidelines in case of take over of borrowal accounts from other Banks/FIs

9. Mobility of Staff

It is observed that non transfer of staff for a long period and absence of periodical rotation of duties have resulted in perpetration of frauds by staff. Banks must have a transfer policy for periodical rotation of staff so that no vested interests develop. Even provision for compulsory leave for one week during a year could be considered.

10. General Observations

10.1 The picture emerging indicates that the problem is more with non-adherence to the system rather than with the system itself. There is a need for revival of the Banker's traditional respect for the laid down systems and procedures, its periodical review and updation. This spirit needs to be extended to computerised Banking as well. Bankers' traditional obsession with repayment of loans and advances is also essential to avoid lending in haste or being victims of misplaced trusts and bypassing of laid down procedures. While there is need for a very high degree of care and alertness in advances, the traditional core ethics of ensuring accuracy in accounting needs to be reinvented by employees in general, and the controllers in particular.

10.2 Some specific recommendations in a few critical areas are given below:-

Critical Areas	Control Measures

a. D.D.s issued	- DDs should be punched, pasted (Cellotape) and perforated to avoid chemical alteration - DDs issued should invariably be made payable in favour of Bank A/c, Beneficiary and A/c No., at least in cases of DDs above Rs. 10,000/- - Different Draft books to be used for different denominations - Authorised signatories should affix their rubber stamps
b. Collection instruments	- Date of the instrument should normally not be prior to the date of opening of the A/c - In newly opened A/cs laid down procedures have to be strictly followed viz., obtaining photographs, proper introduction, sending letter of thanks to both, monitoring of account for at least six months, precautions while permitting large credits/debits etc. specially cash withdrawals - All cheques/DDs presented for collection must be crossed and accepted at the counter by a supervisory staff - No third party cheques/DDs should be collected unless the customer is of good standing, integrity, and the account is properly introduced and maintained.
Critical Areas	**Control Measures**
c. Deposit A/cs particularly SB A/cs	- As above - Besides, no duplicate Pass Book, Cheque Book or loose cheque leaf should be issued except to the customer personally and that too after identifying him - The first ledger folio of accounts of new customers should be affixed with a label/rubber stamp to read “New Account-Caution”. This will help the ledger keeper to report any unusual/suspicious transactions. Such precaution to be recorded in computerised working as well.
d. Advances including Exports/Large Scale Advances/ SSI/Trade	- Substantial diversion of funds should be treated as a financial crime under the definition of frauds. - Restriction on cash disbursement - Check on transactions- Cash Payment, cheque payment. These should be related to the trade/ business in which the party is engaged. - Antecedents of borrower and promoters should be verified properly during presanction exercise

	- Coordination with various other agencies viz.Custom Deptt., RBI, ECGC etc. - Avoid double financing - In case of mortgage of immovable property care to be exercised about legal title, valuation and realisation - Excessive dependence on Chartered Accountants to be avoided. - Acceptance of unrealistic projection to be avoided (sales/turnover projection)
Agriculture	- Middlemen to be eliminated - Check/strict vigil on subsidy oriented schemes
e. Lost/Stolen/ Missing Stationery/ Security Items like DD books, cheque books, deposit Receipts etc.	- Scrutinize all the security items received from printers and confirm its correctness, proper recording of such items in the relevant registers/books, authentication by the authorised officials and in case of any discrepancy in the indent placed and quantity supplied, the same should be brought to the notice of Branch Manager/ Controlling Office - All security items like cheque books/Demand Draft Books/Deposit Receipts Books/Mail Transfer Books/Cash Vouchers/Withdrawals etc. should remain under lock and key, under dual control of authorised officials - Whenever any item is taken out for day-to-day use, the date when such item is issued out for use, the quantity issued should be recorded in the relevant registers/books. Acknowledgement of the official to whom the item is delivered is to be obtained. The security items issued for day to day use should be under the control of the Officer-in-Charge of the Department. Opening stock, instruments utilised during the day and closing stock of security items should be ensured daily. Under no circumstances the security items should be left open at the counters unattended. - The Branches should undertake physical verification of stock of security items on quarterly basis and send the certificate to the immediate controlling office. Controlling head should ensure that these certificates are obtained from all the branches under their jurisdiction.

11. Reporting of fraud to RBI, Police and CBI

11.1 The delay in reporting the cases of fraud to RBI is primarily on account of time taken in preliminary investigation depending on the nature and complexities of the fraud. Banks should set a time limit not exceeding 15 days for completion of preliminary investigation and reporting the case to RBI. It will facilitate the RBI to take corrective measures, if any, and to circulate the modus operandi adopted in fraud cases, amongst all the banks to minimise the occurrence of similar instances of frauds in future.

11.2 The Sub Group, however, felt that a distinction should be made for reporting the cases to police and the CBI and the time limit should be different for the two. Normally the simple cases of frauds not exceeding Rs. 25 lacs are reported to the police by the concerned Branch Manager as per CVC guidelines irrespective of the involvement of a Public Servant

11.3 The cases to be filed with CBI require approval of the Managing Director of the respective Bank and also calls for detailed investigation of the case by the bank's own officials to prima facie determine the criminal intent either on the part of outsiders or internal staff. In some of the cases where records are destroyed and evidences tampered with it takes some time to reconstruct records to quantify the loss and to identify the persons who might have committed the fraud.

11.4 The Group accordingly suggests that the cases of fraud should be reported to CBI within a maximum period of 30 days on the basis of preliminary investigation report to be followed by a detailed report after due investigation. Lodgement of FIR with the local police should be done within 2/3 days from date of detection of the fraud.

12. Disciplinary Action –Delays : Causes and Suggestions

The delay in staff action is attributed to the following reasons:-

12.1 Investigation

- Delay in conducting investigation
- Vague investigation report not helping the Disciplinary Authority to crystalise his further course of action
- Names, designation and period of stay at the unit of the staff/official concerned not mentioned properly
- The extenuating circumstances prevalent at the branch not properly incorporated
- Inadequate job knowledge with the Investigating Officer
- Thorough and prompt scrutiny of Investigation Report not done at the level of Disciplinary Authority
- Undue delay in calling for explanation and submission of explanation by the suspected employees/officials.
- Delay in seeking first stage advice, framing of charge sheet, appointment of Inquiry Officer/Presenting Officer, conduct of enquiry and submission of enquiry report
- Delay in scrutiny of enquiry report and seeking of second stage advice
- Delay in passing speaking order

12.2 Suggestions

- There is need for a separate Disciplinary Cell under the Disciplinary Authority for due scrutiny of various reports, framing of charges and follow up of progress of cases.
- Each bank to have an adequate number of full time Investigating Officers/Presenting

Officers/Inquiring Authorities depending upon their requirements and due training to be imparted to them. This may include using the services of retired officers of other banks.

- Once a disciplinary action is initiated by a particular disciplinary Authority, even if a charged officer is transferred to the jurisdiction of other Disciplinary Authority, the former should be empowered to continue as Disciplinary Authority till conclusion of disciplinary proceedings.

- It is considered essential to meet the requirement of the CVC relating to time norms stipulated in the Special Chapter. Undue delay in completion of enquiry proceedings should be looked into for fixation of accountability.
- During investigation itself all incriminating documents must be seized and segregated and kept under the charge of the competent authority for presentation before the enquiry.
- At the time of drafting the charge sheet only substantive charges with oral or documentary evidence should be incorporated in the charge sheet. All allegations/lapses that are not deemed to be punishable and can be condoned by the Disciplinary Authority need not be included in the charge sheet. Also, allegation for which no credible evidence is available can be avoided.

13. General Observations

The follow up of disciplinary cases right from the stage of investigation till the conclusion of the case after imposition of punishment has to be supervised by the Disciplinary Authority and the Chief Vigilance Officer. The whole process involves a number of stages and any delay at any stage would ultimately benefit the delinquent and harm the interests of the innocent and the one whose lapses are not serious enough to call for any stiff or harsh penalty. Also, many a time proceedings are delayed unusually due to non-availability of evidences on account of the time lag between the occurrence and initiation of exercise for fixation of accountability. It is therefore suggested that in cases other than those of frauds/criminal acts, a reasonable period of 4 to 5 years or two consecutive inspections may be deemed to be the outer limit for fixation of accountability. In case serious irregularities due to continued violation of system are detected at later stages, the inspecting officials may also be held accountable.

14. Acknowledgements

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