

Wider corporate e-surveillance on cards

16 Nov 2009, Souvik Sanyal, ET Bureau

NEW DELHI: The government is planning to expand its electronic surveillance to include more listed and big unlisted companies to detect quickly any fraud or malafide action, a government official told ET. The wider surveillance is aimed at protecting the interests of minority shareholders in listed companies and to check if the unlisted ones are creating risks for others such as banks or creditors.

The government is currently running the electronic surveillance on 50 companies on a pilot basis. Satisfied with the outcome, the government is now planning to run the electronic check on more companies well before the fourth quarter results fall due in end-April 2010.

The electronic surveillance is carried out through a scan of data submitted to the Registrar of Companies (RoC). The system is designed to create alerts on unusually high jump in profits, suspect related-party transactions and huge amounts of unutilized cash and bank balance.

The need for an early warning system has become even more acute after the accounting fraud at Satyam Computer came to light.

The government official said bringing listed companies under a formal surveillance system may also require discussions with the Securities & Exchange Board of India (SEBI) on the parameters for selecting listed companies.

Even though the firms being targeted include listed as well as unlisted entities, the ministry is specifically looking into the operations of unlisted companies as they often go untracked, the official said.

The government has already identified 15 parameters to keep track of companies. The government also plans to involve the regional directorates and the Registrar of Companies in the exercise after computer-generated alerts on suspect companies through the e-surveillance network.

While the financial data and other benchmarks used in the process will be useful for the government in forming an opinion, the evidence needed to nail a culprit will have to be gathered through subsequent investigations, said a city-based corporate lawyer.

An equivalent to this early warning system is already available in the developed economies, such as the United States. Most banks also use these systems that generate alerts, such as for unusual transactions.