

**ROLE OF FORENSIC ACCOUNTING IN CORPORATE  
SCAMS**  
**(WITH SPECIAL REFERENCE TO SATYAM CASE)**

**Tabassum Patel\***

**Dr. J.C. Porwal\*\***

**Abstract**

In recent times, series of frauds have been committed in corporate sectors of the economy. This study intends to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement. The main objective of this paper is to gauge white collar crimes, financial through forensic accounting and complexities of the corporate environment. Forensic Accounting is a combination of accounting, auditing and investigative skills to conduct an examination of company's financial statements . This paper seeks to examine the role of Forensic Accounting in solving corporate scams. Forensic accounting seems to provide the needed solution to the problem of fraud and financial mismanagement in corporate organizations. This article discusses the concept of forensic accounting, the need for it and its role in providing solution to the problem of fraud in corporate organizations.

**Keywords— Forensic Accounting, Corporate Scams, Satyam**

\* **Asst. Professor, SYSITS Ratlam-457001**

\*\* **Retired. Principal, Govt College, Mandleshwar-451221**

## INTRODUCTION

It is necessary to audit the corporate financial report regularly due to growth of the Public Limited Liability companies and large increase in the number of investors owing shares. Despite of this, in recent years, accounting frauds has occurred widely throught out the globalised business sectors. Due to increasing corporate frauds, significance of Forensic Accounting has to come to limelight. "Forensic accounting is the use of accounting skills to investigate fraud or embezzlement and to analyze financial information for use in legal proceeding." As forensic accounting is getting popular in these recent years.

It is a perfect tool in fraudulent cases. Forensic accountants draws conclusions and calculate values and identify regular patterns or suspicious transactions by critically analyzing the financial data. It provides an accounting analysis to the court for dispute resolution in certain cases and it also provides the court with explanation to fraud that has been committed. That is why Forensic accounting may play a vital role in detecting and reducing accounting frauds in the business sectors.

The increasing rate of white-collar crimes demands stiff penalties, exemplary punishments, and effective enforcement of law with the right spirit. An attempt is made to examine and analyze in-depth the Satyam Computer's "creative-accounting" scandal, which brought to limelight the importance of "ethics and corporate governance" (CG). The fraud committed by the founders of Satyam in 2009, is a testament to the fact that "the science of conduct is swayed in large by human greed, ambition, and hunger for power, money, fame and glory". Unlike Enron, which sank due to "agency" problem, Satyam was brought to its knee due to 'tunneling' effect. The Satyam scandal highlights the importance of securities laws and CG in 'emerging' markets. Indeed, Satyam fraud "spurred the government of India to tighten the CG norms to prevent recurrence of similar frauds in future". Thus, major financial reporting frauds need to be studied for "lessons-learned" and "strategies-to-follow" to reduce the incidents of such frauds in the future.

## LITERATURE REVIEW

**Zysman (2001):** He explained Forensic Accounting as the composition of accounting, auditing and investigative skills to assist in legal matter.

**Joshi (2003):** Has done study on the Forensic Accounting as the application of specialized knowledge and specific skill to almost fall upon the evidence of economic transactions.

**Crumbley (2003):** He said Forensic Accounting is accounting science as it is related with the examination and interpretation of economic information.

**Coenen (2005):** He stated that Forensic Accounting involves the application of accounting concepts and techniques to legal problem. Accounting techniques will be used to solve legal issues.

**Crumbley (2006):** He said that Forensic Accounting is suitable for legal review as it offer the highest level of assurance.

**Hopwood, Leiner & Young (2008):** Forensic Accounting is the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that it should meet standards and requirements as per court.

**Singleton & Singleton (2010):** Forensic Accounting comprehensively involves fraud investigation, prevention of fraud and analyzing antifraud controls.

## NEED OF THE STUDY

Forensic accounting is required to minimize the financial frauds in order to improve the image of corporate sectors. Forensic accounting ensures that accounting policies and systems are followed to the book -- and that any unusual items introduced in such a system are detected. This study intends to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement.

**OBJECTIVES OF THE STUDY:**

- To examine the possibility of reducing the occurrence of fraud cases using Forensic Accounting.
- To study issues involved in Satyam Computers.

**RESEARCH METHODOLOGY**

For this purpose data will be collected through the secondary source like website, periodicals, journals, annual reports of various reputed organizations and SEBI guidelines.

**CORPORATE ACCOUNTING SCANDAL AT SATYAM COMPUTER SERVICES LIMITED:****Journey of Satyam computer:**

Satyam computer services were formed in 1987 in Hyderabad by Mr. Ramlinga Raju. It began with 20 employees and grew rapidly as a global business. It offered IT and business outsourcing services to various services to various sectors. It won many awards for innovation, corporate accountability and governance.

Satyam was as an example of “India’s growing success”. Satyam won numerous awards for innovation, governance, and corporate accountability. “In 2007, Ernst & Young awarded Mr. Raju with the ‘Entrepreneur of the Year’ award. On April 14, 2008, Satyam won awards from MZ Consult’s for being a ‘leader in India in CG and accountability’. In September 2008, the World Council for Corporate Governance awarded Satyam with the ‘Global Peacock Award’ for global excellence in corporate accountability”. Unfortunately, less than five months after winning the Global Peacock Award, Satyam became the centerpiece of a “massive” accounting fraud.

By 2003, Satyam’s IT services businesses included 13,120 technical associates servicing over 300 customers worldwide. At that time, the world-wide IT services market was estimated at nearly \$400 billion, with an estimated annual compound growth rate of 6.4%. “The markets major drivers at that point in time were the in- creased importance of IT services to businesses

world- wide; the impact of the Internet on e-Business; the emergence of a high-quality IT services industry in India and their methodologies; and, the growing need of IT services providers who could provide a range of services”. To effectively compete, both against domestic and global competitors, the company embarked on a variety of multi-pronged business growth strategies.

From 2003-2008, in nearly all financial metrics of interest to investors, the company grew measurably. Satyam generated USD \$467 million in total sales. By March 2008, the company had grown to USD \$2.1 billion. The company demonstrated “an annual compound growth rate of 35% over that period”. Operating profits averaged 21%. Earnings per share similarly grew, from \$0.12 to \$0.62, at a compound annual growth rate of 40%. Over the same period (2003-2009), the company was trading at an average trailing EBITDA multiple of 15.36. Finally, beginning in January 2003, at a share price of 138.08 INR, Satyam’s stock would peak at 526.25 INR—a 300% improvement in share price after nearly five years.

### **Turning point of Satyam:-**

On January 7, 2009, Mr. Raju disclosed in a letter to Satyam Computers Limited Board of Directors that “he had been manipulating the company’s accounts from numbers of years”. Mr. Raju claimed that he overstated assets on Satyam’s balance sheet by \$1.47 billion. Nearly \$1.04 billion in bank loans and cash that the company claimed to own was non-existent. Satyam also underreported liabilities on its balance sheet. Satyam overstated income nearly every quarter over the course of several years in order to meet analyst expectations. For example, the results announced on October 17, 2009 overstated quarterly revenues by 75 percent and profits by 97 percent. Mr. Raju and the company’s global head of internal audit used a number of different techniques to perpetrate the fraud. “Using his personal computer, Mr. Raju created numerous bank statements to advance the fraud. Mr. Raju falsified the bank accounts to inflate the balance sheet with balances that did not exist. He inflated the income statement by claiming interest income from the fake bank accounts. Mr. Raju also revealed that he created 6000 fake salary accounts over the past few years and appropriated the money after the company deposited it. The company’s global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue. The global head of internal audit also forged

board resolutions and illegally obtained loans for the company”. It also appeared that the cash that the company raised through American Depository Receipts in the United States never made it to the balance sheets.

### **The way fraud happened:-**

Director of Satyam Mr. Raju had been manipulating the company’s accounting numbers for years. He did the following things:

- Overstated assets in Balance sheet by \$1.47 billion.
- Non-existing loans and cash upto \$1.04 billions.
- Understated liabilities.
- Overstated incomes (quarterly)
- Mr. Raju and company’s Global Head of Internal Audit, used the following techniques to commit the frauds:
  - They created various bank statements to advance the frauds.
  - They falsified the bank account to inflate the balance sheet with balances that did not exist.
  - They inflated the income statement by incoming by claiming interest income from the fake bank accounts.
  - They created 6000 fake salary accounts.
  - They created fake customer identities and generated fake invoices against their names to inflate revenue.

### **Forensic Accounting can prevent frauds:**

#### **Assist Audit Committee Members:**

Forensic accountants assist audit committee members in carrying out oversight functions by providing better tools that ensures that quality assurance audit report have been produced by the external auditor.

**Helping in Detecting Fraud:**

With the use of analytical and technological skills, a forensic accountant can easily detect financial fraud perpetrated by management thereby preventing corporate failure.

**Strengthen Auditors Independence:**

Most times external auditors are afraid to report cases of fraud committed by management to the stakeholder even when such frauds are obvious. This impairs the independence of the auditor who is afraid to lose his job since most times they are appointed by management who prepares accounts that is being audited (Albrecht and Denn, 2001). According to Albrecht (2001), improving financial reporting system with expertise knowledge and skill in both financial matters, the forensic financial reporting system through use of proactive method of fraud detection have strengthened external auditors independence.

**Improve Management Accountability**

Ramaswamy (2009) states that failure of corporate communication structure has made the financial community realize that there is a great need for skilled professionals that can identify, expose and prevent weaknesses in three key areas: poor corporate governance, flawed internal controls, and fraudulent financial statement. Forensic accounting skills are becoming increasingly relied upon within a corporate reporting system that emphasizes its accountability to stakeholders. From the above statement, a forensic accountant with his expert knowledge in crime will help to improve corporate reporting system designed by management which will expose and prevent poor governance, flawed internal control and fraudulent financial statement.

**Use of Forensic Accounting can detect frauds like Satyam:**

The government and SEBI have to take preventive actions to stop these kind of frauds and Forensic accounting is very important tool. If they used Forensic accounting for keeping watch on Satyam then by following means they can stop it.

The instance of forensic investigation was able to provide an accounting analysis that revealed the whole extent to which fraudulent activities in the buying division affected the company's fortunes over the stated period.

Gradual increase in share price overnight is a high red sign for SEBI to watch the company. If Forensic Accounting is used that time to check the inflation of share prices it might be possible to control the fraud.

If SEBI made compulsion for the company to make their accounts audited by Forensic Accountant it would be possible to check the frauds.

Satyam accounting fraud has comprehensively exposed the failure of the regulatory oversight mechanism in India. No doubt, to design better accounting systems, we need to understand how accounting systems operate in their social, political and economic contexts. This is done through forensic accounting.

## CONCLUSION

The role of a forensic accountant under contemporary conditions no doubt is very important because they help lawyers, courts, the police, regulatory bodies and other institutions in investigating and documenting frauds. The increasing occurrence of fraud in modern day business environment requires the services of forensic accountants to unearth fraudulent activities within and outside an organization. Also, continued audit failures over the last five decades have prompted a paradigm shift in accounting. It is generally accepted that an auditor has the duty to perform tests to detect material defalcation and errors if they exist. However, fraud detection experts called forensic accountants are now been hired in developed economies to investigate cases of fraud.

## RECOMMENDATION

It is recommended that professional bodies like the Institute of Chartered Accountants, Association of National Accountants, and the National Universities Commission should encourage formalization and specialization in the field of forensic accounting. In addition, government should develop more interest in forensic accounting for monitoring and investigating suspected culprits in fraud cases as evidenced in the examples earlier cited. Also, our laws should be up to date with latest advancement in technology to ensure admissibility of evidence in a law court for successful prosecution of criminal and civic cases. Government should have an effective plan with other countries in extraditing run away fraudsters from anywhere around the



globe. Finally, it is also recommended that government should ameliorate the expenses involved in engaging the services of a forensic accountant.

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