
Creative Accounting Practices at Satyam: The Fraud Methodology Revealed

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Creative accounting (CA) involves the 'manipulation' of company financial records towards a 'pre-determined' target. Unfortunately, few 'loopholes' exists in the accounting standards, which provide 'enough-rooms' for the use of CA practices. In fact, Satyam example has been widely regarded as the debacle of the Indian financial system, which is very often referred to by the media as India's 'Enron'. Unlike Enron, which sank due to 'agency' problem, Satyam was brought to its knee due to 'tunneling' effect. Keen to project a perpetually rosy picture of the Satyam to the investors, employees and analysts, Mr. Raju (CEO and Chairman) manipulated the account books so that it appeared to be a far bigger enterprise than it actually was. The Satyam fraud has shattered the dreams of different categories of investors, shocked the government and regulators alike, and led to questioning of the accounting practices of statutory auditors and CG norms in India.

The present study of Satyam provides a 'snapshot' of how Mr. Raju 'master-minded' this maze of CA practices? Undoubtedly, the Satyam scam is clearly a glaring real-life corporate example of abuse of CA, in which the account books were cleverly manipulated by following the modus-operandi of creating fake invoices, inflating revenues, falsifying the cash and bank balances, showing non-existent interest earned on fixed deposits, showing ghost employees, and so on. This type of CA is both illegal and unethical. In its recent indictment of the former promoters and top managers of Satyam, various investigative agencies (viz., SEBI, CBI, CID, SFIO, etc.) in India had finally provided minute and fascinating details about how India's largest corporate scam at Satyam was committed. An attempt has been made by the author, based on the media reports, to provide a description about the CA methodology used by the Satyam to commit the accounting fraud duly supported by evidence, wherever possible.

An attempt has been made to provide an explanation for various 'intriguing' questions about Satyam scam, such as: What was the need to commit a fraud on such a large scale?, How Raju managed to cooked up books?, What was Raju's real modus operandi to manipulate the accounts for eight years?, Why was Raju forced to blow his own whistle?, Why was not there a stricter punitive action against the auditors of Satyam PwC, etc.?" Now, after thorough investigations done by the CBI and SEBI, they have unveiled the methodology by which Satyam fraud was engineered. Finally, we recommend that "CA practices should be considered as a serious crime, and as such, accounting bodies, law courts and other regulatory authorities in India need to adopt very strict punitive measures to stop such unethical CA practices."

Keywords: Creative accounting, Satyam computer services limited, modus operandi unveiled, financial statements, corporate governance, auditors, forensic accounting, SEBI, SFIO, CID, India.

INTRODUCTION

In the modern globalized and liberalized era, the corporate-sector across the globe is facing stiff competition and therefore, they are under acute pressure to show good financial results in their financial reports. Under such an environment, corporate firms are motivated to start using the "Creative Accounting" (henceforth, CA) practices (especially in an unsuitable situation) to boost up the profit (or manipulate the assets and liabilities) in order to report to the stakeholders' the image that is far better than the actual image. Thus, corporate scams (or frauds) are the result of 'manipulation' of books of accounts and doing accounting 'jugglery' designed to deceive others for 'wrongful-gains'. In fact, such CA practices, by 'fudging' (or window-dressing) the accounts, are very often attributed to the 'flexibility' provided by the 'accounting' system. After reviewing the narrow and wide definitions of CA, Jones (2011) ended up with the definition of CA as follows: "Using the flexibility in accounting within the regulatory framework to manage the measurement and presentation of the accounts, so that they give privacy to the interest of the preparers, not the users." Thus, CA uses the various 'loopholes' in accounting principles, as described in standards to show the 'desired' results to the stakeholders. Recently, Bhasin (2016a) commented, "The CA is the transformation of financial accounting figures from what they actually are to what the preparer of financial reports desires by taking advantage of the existing rules and/or ignoring some or all of them." However, Jawad and Xia (2015) have emphasized

“the 'innovative' aspects of CA in maneuvering accounting numbers and argued that innovation is an essential part of CA practices in accounting practices.” Indeed, CA is like a double-edged weapon, which can be used or abused by the management. If it is abused, then the sole fault is of the management and not of CA itself. For example, the Satyam Computer Services Limited (henceforth, Satyam) accounting scam, a glaring example of India's Enron, was “clearly a case of abuse of CA. Here, it is worthwhile to quote Bhasin (2016c) as, “The Satyam CA fraud started by showing 13,000 'ghost' (or fictitious) employees, and by creating over 7,500 fake invoices (worth Rs. 5,117 crores) for services not provided. From time to time, these fake invoices were entered into the company's financial statements from the fiscal 2004 to the second quarter of fiscal 2009. After creating fake invoices and thereby generating false revenues, the next step was to show these as cash receipts in account books. Therefore, the senior management falsified the bank statements that showed the higher bank balances than what was actually. The next level of fraud was to falsify interest on fixed deposit receipts to show that fictitious bank balances were earning interest income, and so on.” The 'abuse' of the CA, in the case of Satyam, was made possible due to audit failure and total failure of the company Corporate Governance (henceforth, CG) system. These CA practices in financial reporting have been termed by Tassadaq and Malik (2015) as “the art of faking or calculating or presenting the balance sheet, and the art of saving money.” Thus, CA is a starting point of number of accounting scandals, which collapsed during the last decade, applied CA techniques and manipulated financial record. No doubt, these accounting scandals have diminished the confidence of stakeholders in financial reporting all over the world.

Indeed, Creative Accounting (henceforth, CA) involves the 'manipulation' of company financial records towards a 'pre-determined' target. To get benefits from top management, managers are

frequently tempted to show higher profits, which lead to adopting CA tactics (Vyas et al., 2015). This target can be motivated by a preference for more stable earnings. Even if there exists strong accounting standards to guide financial accounting activities, sometimes it becomes impossible to prevent the manipulative behavior of Financial Statement (FS) preparers', who wants to affect the decisions of the users' in favor of their companies. These manipulative behaviors are often called “Creative Accounting” (CA) and/or “Earnings Management” (EM). The 'CA' is the more preferred term in Europe, whereas it is more common to use 'EM' in the USA. Bhasin (2015) stated that “there exists strong evidence that the emergence of 'Forensic Accounting' has restored confidence in the credibility of corporate firms and their financial reports.” Very often, a question that arises is: whether CA is good or bad? The answer to this question lies in the purpose for which it is used and whether it is in conformity with the existing accounting principles or standards. It is legal and ethical if it is done using the discretion in the accounting principles or standards with the objective of saving the company in hard times without any intention of making the private gains by the management. However, it is unethical and illegal if it does not follow any rule, principle, or standard and it is used by the management to make private gains at the cost of other stakeholders. While on one hand, the CA practices helps in reducing the risk of a company by increasing the share price and, on the other hand, it helps to boost a profit trend for the company. Various benefits, like ease of raising capital by issue of shares, defy takeover bids by other companies, and offering its own shares in takeover bids, etc. all go in favor of the CA practices. Moreover, the CA practice also helps to reduce the fluctuations of income/profit of the company, which helps it to gain a good image in the market (Nag, 2015). Moreover, CA practices should be considered as a serious crime and as such accounting bodies, law courts and other regulatory authorities need to adopt strict measures to stop this unethical practice.

At present, there are 32 Accounting Standards in India, which have been issued by the Accounting Standard Board of the Institute of Chartered Accountants of India (ICAI).

Creative Accounting Practices Scenario in the Indian Corporate Sector

India is a 'developing' economy, where the corporate-sector is contributing a major part in national income. Bhasin (2013) remarked, “Most of the Indian corporations are spreading their wings all over the world, where they get lots of opportunities to go for 'creative' accounting (CA) since all countries have different accounting systems, which creates ambiguity in investor's mind.” Thus, the number and magnitude of accounting scandals have also increased in India. Over recent years, India has developed its corporate-sector, stock-markets and the accounting profession. The growing importance of the corporate-sector calls for its 'efficient' working and 'greater' transparency. However, the prevalence of creative (or fudging) accounting, and various fraudulent practices followed by some of the Indian companies hinders this. In spite of the large number of checks and balances required by the multiple regulatory agencies, there have been growing numbers of accounting scandals since the 1980s. Firms adopt accounting procedures that minimizes unfavorable economic effects and enhance favorable ones. As Bhasin (2012) stated, “Corporate frauds are the results of manipulation of accounts and accounting 'jugglery' designed to deceive others for wrongful gains. Such CA by 'fudging' the accounts is attributed to the 'flexibility' provided by the 'accounting' system.” In India, the Companies Act requires that accounts must be “true-and-fair”. Sometimes, however, management 'abuses' the freedom of choice in the accounting systems. Methods are adopted to 'hide' the true-picture, and show an 'improved' performance of the firm. In fact, the company management may adopt various methods to dress up financial statements to show improved performance. In respect of profit and loss account (or income statement), the accounting risk is

usually the overstatement of income or understatement of expenses. For the balance sheet, it may exist in three areas: the correct valuation of company's assets, accounting for all liabilities and over or understatement of net worth. The effect of CA has defeated the 'fundamental' purpose of presentation of “true and fair” FS, as required by Section 211 of the Indian Companies Act. Table 1 shows some examples of Indian companies, who have practiced CA from 1996-97 to 2008-09.

Recently, Bhasin (2016) concluded that “Satyam Computers Services Limited inflated cash and bank balances of more than \$1.5 billion (Rs. 7,000 crore), overstated debtors position of \$100 million and understated liability of \$250 million under the directive of CEO Raju.” Even though Satyam is not only the first major accounting scandal that India has seen, one of the release by the India Credit Rating Agency “CRISIL” seems to have sounded an alarm signal. This study is based on the analysis of 639 companies. Of these, as many as 226 companies (forming 33.33%) of the universe were found to be inflated their profit and 21.91% deflated their position through clever, though legal accounting practices. Even though banks and financial institutions are unhappy with the existing accounting practices followed by their corporate borrowers, they are helpless in taking any legal action.

Most of the examples cited above are from the “cream of Indian companies”. And even they hide expenses and prop-up incomes with a view to posting better profits and inflating their “profitability”, without violating accounting rules and conventions. Management of the firms could “indulge in the above-mentioned practices because of the flexibility in accounting standards and other regulatory provisions, thus, leading to CA and fraudulent accounting practices.” The best thing about the Satyam episode, as far as investors are concerned, is that it forced more companies to clean up their account books and governance practices. As

Table 1: Creative Accounting and Fraudulent Practices followed by the Indian Companies

Company Name	Year(s)	Nature of CA Practices Followed
WIPRO Ltd.	1996-97 to 1999-2000	Transfer of land to stock creating capital reserve with the fair value and using it to neutralize the effect on profit of reduction of land value.
Bombay Dyeing & Manufacturing Company Limited	2003-04 and 2004-05	Creating provisions for possible loss on firm purchase contract and subsequent write-back of such provision thereby converting operating losses into operating profit.
Larsen & Toubro Limited	1999-2000 and 2001-02	Income recognition through transfer of loan liabilities at a lower consideration.
Apollo Tyres Ltd.	2004-05	Debiting profit and loss account with additional excise duty payable to the government and transferring equivalent amount from general reserve to neutralize the effect.
Asian Electronics Ltd.	2004-05	Impairment of assets: treatment of deferred tax.
Oil and Natural Gas Commission, Mukund Ltd., Torrent Power ACE Ltd. and Tata Motors Ltd.	2004-05	Capitalization of interest as well as other intangible assets to show fixed assets value upward and understating revenue expenses.
Hindustan Zinc Limited	2003-04 and 2004-05	Reclassifying assets in the balance sheet.
Tata Motors, Bombay Dyeing, Mahindra and Himachal Futuristic		2001-02 Direct write-offs from reserves.
Satyam Computers Services Limited	2008-09	Fraudulently incorporated a non-existent cash component by inflating the bank balances, fudging bills, accounts receivables, interest and liabilities.

(Source: Compiled by author from Jones, M. (2011) 'Creative accounting, Fraud and International Accounting Standards,' John Wiley & Sons, London, page 235)

Mampatta and Shrivastava (2010) remarked, "The year after the Satyam Computer Services fiasco came to light, corporations were less inclined to indulge in "CA." With the stocks of companies perceived to be flouting prudent CG practices—particularly real-estate companies—taking a beating, India Inc. had little choice but to take notice. In a report, Noble Group (a UK-based investment bank) has evaluated the accounting practices for 313 BSE 500 companies. In fact, 63 BSE 500 financial services sector companies were excluded because they do not lend themselves to the 'forensic accounting' techniques used and 124 companies were excluded because their 'consolidated' financial statements for the past two financial years were not available.

A July 2014 report, prepared by India Ratings (a credit assessor), points to the poor quality of FS(s) prepared by the publicly-listed companies in India, with "significant likelihood that companies in the

top-100 of BSE 500 companies could be involved in Creative Accounting (CA) practices (Livemint, 2015). The figure comes from the study of the financial data of 421 companies over 12 years." Among all, the pharmaceutical, automobile and packaged consumer goods sectors remain most prone to the malice of accounting gimmickry. Under-reporting tax liabilities, depreciation and other costs (such as, interest, selling & distribution expenses) are some of the techniques used to misreport actual costs; while channel pushing is a favorite tool to create illusory sales that boost revenue. Bhasin (2016 f) pointed out, "The urge for companies to meet street expectations is a crucial factor driving the adoption of CA practices, especially during economic downturns, when the pressure on earnings increases considerably. If the current accounting framework is restructured and strict adherence to CG guidelines is ensured, then practices of CA can be curbed."

REVIEW OF LITERATURE

Shah (1998) tried to explore the environment of CA in the UK, focusing on the motivations and constraints on such practices, by examining the accounting practices of two UK companies which issued creative financing instruments. He found that CA is influenced by two key motivators: stakeholder contracts and performance indicators. However, Amat et al., (1999) have reported on surveys of auditors' perceptions of CA in the UK, Spain and New Zealand to investigate the ethical issues raised by CA. It was revealed in their studies that the aggregate impact of CA practices on earnings amounted 20% of total reported earnings. They found that New Zealand offered an example of a country where a well-designed framework of accounting regulation has curbed CA. Similarly, Baralexis (2004) investigated "why, how, to what extent, and in what direction, the CA was practiced in Greece. Knezevic et al., (2012) used a questionnaire to conduct a study of companies in Serbia. A study by Momani and Obeidat (2013) investigated the effect of audit ethics on auditors' ability to detect the practices of CA in Jordan.

Osazevaru (2012) investigated the effect of CA on firm value in Nigeria, and the findings of the study revealed that it can positively affect firm's value. Similarly, Sansusi and Izedonmi (2014) made an empirical investigation on the opinions of experienced staff of commercial banks on CA practices in Nigerian commercial banks. They recommended that "CA should be considered as a serious crime and as such accounting bodies, law courts and other regulatory authorities need to adopt strict measures to stop the practice." Moreover, Micah and Chinwe (2014) have used survey data and financial reports on 14 manufacturing firms over 5 year period to "examine whether CA and organizational effectiveness has any significant relationship." Besides, a study by Blessing (2015) evaluated the use of forensic accounting techniques in curbing CA.

As per a study conducted by Bhasin (2015a), the questionnaire-based survey methodology was used, 14 specific research questions were asked, and 120 questionnaires were distributed to the preparers' and users' of the company FS(s). The study revealed that "the practice of CA is always a deliberate attempt to gain undue advantage for accountants, managers and companies. Strong punitive measures should be promptly taken against all those found culpable in the act of CA." We recommend that effective rules and regulation of accounting, audit and CG practices should be put in places, within the corporate-sector, to forestall the negative incidence of CA practices in India. Similarly, Patnaik et al., (2014) made an empirical analysis by undertaking a survey in some selected private sector undertakings in Kolkata, Bhubaneswar and Cuttack. They used questionnaire and Likert scale method and concluded that "window dressing practices are prevalent in majority of corporations and external auditors encourage such practices for their own interest." In addition, Tassadaq and Malik (2015) in their empirical study collected the data through structured questionnaire from industrial sector of Pakistan. They concluded that "a company is involved in frauds or scandals because of several factors like unethical behaviors, agency problem and non-professional attitude."

The above highlighted reviewed studies are focusing on different dimensions of the CA. However, Bhasin (2013a) conducted a qualitative, descriptive and exploratory study of Satyam. The main objectives of this study was "to highlight the accounting scandal by portraying the sequence of events, the aftermath of events, the key parties involved, and major follow-up actions undertaken in India; and lessons to be learnt from Satyam scam." So far, unfortunately, no detailed and in-depth research study has been undertaken to find out the actual modus operandi followed by Satyam, specifically in light of the recent legal investigations carried out by the Indian authorities. Hence, the present study seeks to fill this gap and contributes to the literature.

MATERIAL AND METHODS

The present study is primarily based on “secondary” sources of data, gathered from the related literature published in the journals, media reports in newspaper, websites, and latest reports of the various investigation authorities in India. However, the nature of the study is “primarily exploratory, qualitative, descriptive and analytical.” Best possible efforts have been made by the authors to provide the latest evidence supporting the case.

The main objective of this study is “to highlight in-depth the Satyam Computer Services Limited's Creative Accounting practices, as used by the senior management, to commit scandal by portraying the emergence of Satyam, sequence of events, key players involved in the scam process, modus operandi of fraud, the aftermath of events, auditors role, major follow-up actions, regulatory reforms undertaken in India, etc.” We recommend that “CA practices should be considered as a serious crime, and as such, accounting bodies, law courts and other regulatory authorities need to adopt very strict punitive measures to stop unethical CA practices.”

CREATIVE ACCOUNTING PRACTICES AT SATYAM COMPUTER SERVICES LIMITED: A CASE STUDY

The Satyam Computer Services Limited (hereinafter, 'Satyam'), a global IT company based in India, has just been added to a notorious list of companies involved in fraudulent financial activities. Satyam's CEO, Mr. B. Ramalingam Raju (hereinafter, 'Raju'), took responsibility for all the accounting improprieties that overstated the company's revenues and profits, and reported a cash holding of approximately \$1.04 billion that simply did not exist. “This leads one to ask a simple question: How does this keep on happening for five years, without any suspicions?” asked Bhasin (2016b). So, while Raju ran his fraud, the auditor

slept, the analysts slept, and so did the media. To be fair, the media and a whistle-blower did an excellent job of exposing Raju and his many other “shenanigans” after he had confessed (Kaul, 2015; Miller 2006). In his letter (of Jan.7, 2009) addressed to board of directors of Satyam, Raju showed the markers of this fraud 'pathology'. Now, more than six years later, the final decision in the Satyam scam has been made and all accused charge-sheeted in the case have been awarded punishment by the Court.

Satyam was a 'rising-star' in the Indian 'outsourced' IT-services industry (Fernando, 2010). The company was formed in 1987 in Hyderabad (India) by Mr. Ramalinga Raju. The firm began with 20 employees, grew rapidly as a 'global' business, which operated in 65 countries around the world. Satyam was the first Indian company to be registered with three International Exchanges (NYSE, DOW Jones and Euronext). Satyam was as an example of India's growing success; it won numerous awards for innovation, governance, and corporate accountability (Agrawal and Sharma, 2009). As Bhasin (2013, 2013a) commented, “From 2003-2008, in nearly all financial metrics of interest to investors, the company grew measurably, as summarized in Table 2. Satyam generated Rs. 25,415.4 million in total sales in 2003-04. By March 2008, the company sales revenue had grown by over three times. The company demonstrated an annual compound growth rate of 38% over that period. Similarly, operating profits, net profit and operating cash flows growth averaged 28, 33 and 35%, respectively.” Thus, Satyam generated significant corporate growth and shareholder value too. The company was a leading star (and a recognizable name) in a global IT marketplace.

Unfortunately, less than five months after winning the Global Peacock Award, Satyam became the center-piece of a 'massive' accounting fraud. Satyam's top management simply cooked the company's books by overstating its revenues, profit margins, and profits for every single quarter over a period of 5-years, from 2003 to 2008. Shockingly, on

January 7, 2009, Mr. Raju disclosed in a letter (see Exhibit-1), “He had been manipulating the company's accounting numbers for years. He overstated assets on Satyam's balance sheet by \$1.47 billion, and nearly \$1.04 billion in bank loans and cash that the company claimed to own was non-existent. Satyam also under-reported liabilities on its balance sheet and overstated its 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% and profits by 97%. Mr. Raju and the company's global head of internal audit used a number of different techniques to perpetrate the fraud (Willison, 2006). As Ramachandran (2009) pointed out, “Using his personal computer, Mr. Raju

created numerous bank statements to advance the fraud. He falsified the bank accounts to inflate the balance sheet with balances that did not exist. He also inflated the income statement by claiming interest income from the fake bank accounts. Mr. Raju also revealed that He created 6,000 fake salary accounts over the past few years and appropriated the money after the company deposited it.” As Bhasin (2016d) pointed out, “The Satyam'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 (Wharton, 2009).

Table 2: Operating Performance of Satyam (Rs. in millions)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	Average Growth Rate (%)
Net Sales	25,415.4	34,642.2	46,343.1	62,284.7	81,372.8	38
Operating Profit	7,743	9,717	15,714.2	17,107.3	20,857.4	28
Net Profit	5,557.9	7,502.6	12,397.5	14,232.3	17,157.4	33
Operating Cash Flow	4,165.5	6,386.6	7,868.1	10,390.6	13,708.7	35
ROCE (%)	27.95	29.85	31.34	31.18	29.57	30
ROE (%)	23.57	25.88	26.85	28.14	26.12	26

Source: www.geogit.com)

Exhibit-1: Satyam's Founder, Chairman and CEO, Mr. Raju's Letter to his Board of Directors

To

The Board of Directors,
7 January, 2009
Satyam Computer Services Ltd.

From: B. Ramalinga Raju
Chairman, Satyam Computer Services Ltd.

Dear Board Members,

It is with deep regret, and tremendous burden that I am carrying on my conscience, that I would like to bring the following facts to your notice:

- The Balance Sheet carries as of September 30, 2008:
(a) Inflated (non-existent) cash and bank balances of Rs. 5,040 crore (as against Rs. 5,361 crore reflected in the books); (b) An accrued interest of Rs. 376 crore which is non-existent; (c) An understated liability of Rs. 1,230 crore on account of funds arranged by me; and (d) An over stated debtors position of Rs. 490 crore (as against Rs. 2,651 reflected in the books).
- For the September quarter (Q2), we reported a revenue of Rs. 2,700 crore and an operating margin of Rs. 649 crore (24% of revenues) as

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against the actual revenues of Rs. 2,112 crore and an actual operating margin of Rs. 61 Crore (3% of revenues). This has resulted in artificial cash and bank balances going up by Rs. 588 crore in Q2 alone.

The gap in the Balance Sheet has arisen purely on account of inflated profits over a period of last several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance). What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly (annualized revenue run rate of Rs. 11,276 crore in the September quarter, 2008 and official reserves of Rs. 8,392 crore). The differential in the real profits and the one reflected in the books was further accentuated by the fact that the company had to carry additional resources and assets to justify higher level of operations —thereby significantly increasing the costs.

Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.

The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. Maytas' investors were convinced that this is a good divestment opportunity and a strategic fit. Once Satyam's problem was solved, it was hoped that Maytas' payments can be delayed. But that was not to be. What followed in the last several days is common knowledge.

I would like the Board to know:

1. That neither myself, nor the Managing Director (including our spouses) sold any shares in the last eight years—excepting for a small proportion declared and sold for philanthropic purposes.
2. That in the last two years a net amount of Rs. 1,230 crore was arranged to Satyam (not reflected in the books of Satyam) to keep the operations going by resorting to pledging all the promoter shares and raising funds from known sources by giving all kinds of assurances (Statement enclosed, only to the members of the board). Significant dividend payments, acquisitions, capital expenditure to provide for growth did not help matters. Every attempt was made to keep the wheel moving and to ensure prompt payment of salaries to the associates. The last straw was the selling of most of the pledged share by the lenders on account of margin triggers.
3. That neither me, nor the Managing Director took even one rupee/dollar from the company and have not benefitted in financial terms on account of the inflated results.
4. None of the board members, past or present, had any knowledge of the situation in which the company is placed. Even business leaders and senior executives in the company, such as, Ram Mynampati, Subu D, T.R. Anand, Keshab Panda, Virender Agarwal, A.S. Murthy, Hari T, SV Krishnan, Vijay Prasad, Manish Mehta, Murali V, SriramPapani, Kiran Kavale, Joe Lagioia, RavindraPenumetsa, Jayaraman and Prabhakar Gupta are unaware of the real situation as against the books of accounts. None of my or Managing Director's immediate or extended family members has any idea about these issues.

Having put these facts before you, I leave it to the wisdom of the board to take the matters forward. However, I am also taking the liberty to recommend the following steps:

1. A Task Force has been formed in the last few days to address the situation arising out of the failed Maytas acquisition attempt. This consists of some of the most accomplished leaders of Satyam: Subu D, T.R. Anand, Keshab Panda and Virender Agarwal, representing business functions, and A.S. Murthy, Hari T and Murali V representing support functions. I suggest that Ram Mynampati be made the Chairman of this Task Force to immediately address some of the operational matters on hand. Ram can also act as an interim CEO reporting to the board.
2. Merrill Lynch can be entrusted with the task of quickly exploring some Merger opportunities.
3. You may have a 'restatement of accounts' prepared by the auditors in light of the facts that I have placed before you. I have promoted and have been associated with Satyam for well over twenty years now. I have seen it grow from few people to 53,000 people, with 185 Fortune 500 companies as customers and operations in 66 countries. Satyam has established an excellent leadership and competency base at all levels. I sincerely apologize to all Satyamites and stakeholders, who have made Satyam a special organization, for the current situation. I am confident they will stand by the company in this hour of crisis. In light of the above, I fervently appeal to the board to hold together to take some important steps. Mr. T.R. Prasad is well placed to mobilize support from the government at this crucial time. With the hope that members of the Task Force and the financial advisor, Merrill Lynch (now Bank of America) will stand by the company at this crucial hour, I am marking copies of this statement to them as well.

Under the circumstances, I am tendering my resignation as the chairman of Satyam and shall continue in this position only till such time the current board is expanded. My continuance is just to ensure enhancement of the board over the next several days or as early as possible.

I am now prepared to subject myself to the laws of the land and face consequences thereof.

Signature

(B. Ramalinga Raju)

(Source: Letter distributed by the Bombay Stock Exchange and Security Exchange Board of India.Available at www.sebi.gov.in)

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Indeed, the Satyam fraud activity dates back from April 1999, when the company embarked on a road to double-digit annual growth. As of December 2008, Satyam had a total market capitalization of \$3.2 billion dollars (Dixit, 2009).The fraud took place to divert company funds into real-estate investment, keep high earnings per share, raise executive compensation, and make huge profits by selling stake at inflated price. In this context, Kripalani (2009) stated, “The gap in the balance sheet had arisen purely on account of inflated profits over a period that lasted several years starting in April 1999.” This gap reached unmanageable proportions as company operations grew significantly. Every attempt to eliminate the gap failed, and the aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones.” But the investors thought it was a brazen attempt to siphon cash out of Satyam, in which the Raju family held a small stake, into firms the family held tightly (D'Monte, 2008). Fortunately, the Satyam deal with Maytas was 'salvageable'. It could have been saved only if “the deal had been allowed to go through, as Satyam would have been able to use Maytas' assets to shore up its own books.” Raju, who showed 'artificial' cash on his books, had planned to use this 'non-existent' cash to acquire the two Maytas companies (Ahmad et al., 2010). “The greed for money, power, competition, success, prestige etc. compelled Raju to “ride the tiger,” which led to violation of all duties imposed on him as fiduciaries: the duty of care, the duty of negligence, the duty of loyalty, and the duty of disclosure towards the stakeholders, says Bhasin(2010b).

The Indian government immediately started an investigation, while at the same time limiting its direct participation. The government appointed a 'new' board of directors for Satyam to try to save the company: goal was to sell the company within 100 days. On 7 Jan. 2009, the Securities andExchange Board of India (SEBI) commenced investigations under the various SEBI regulations. The Ministry of Corporate Affairs (MCA) of the Central Government

separately initiated a fraud investigation through its Serious Fraud Investigation Office (SFIO). In addition, the MCA filed a petition before the Company Law Board (CLB) to prevent the existing directors from acting on the Board and to appoint new directors. On 9 Jan. 2009, the CLB suspended the current directors of Satyam and allowed the Government to appoint up to 10 new “nominee” directors. Subsequently, the new, six-member Board had appointed a chief executive officer and external advisors, including the accounting firms KPMG and Deloitte to restate the accounts of Satyam.

FINDINGS AND ANALYSIS OF RESULTS

The unfolding of Satyam sage has been a watershed event in the Indian corporate history. According to the founder's own public confession, Satyam had inflated its reported revenues by 25%, its operating margins by over 10 times, and its cash and bank balance by over 1 billion dollars. The magnitude of this fraud makes it by far the biggest accounting scandal in India's history (Ingram, 2015). Now, it is good to see that the Satyam case is different at least in one respect—we now have all the details about the modus operandi of the fraud. In its recent indictment of the former promoters and top managers of Satyam, the various investigating agencies in India, such as, Securities and Exchange Board of India (SEBI), Special Fraud Investigation Office (SFIO), Crime Investigation Department(CID) and Central Bureau of Investigation (CBI) and so on have provided minute and fascinating details about how India's largest corporate scam was committed. But SEBI's account also reveals how stupendously easy it is to pull off financial fraud on a grand scale, even in publicly listed companies. Perpetrators often manage to evade the long-arm of the law. When they are brought to book, the actual details of the crime get lost in legal technicalities. And untangling the mess usually takes such a long time that, by the time the wrongdoer is hauled up, most people have forgotten what the crime was all about.

SATYAM FRAUD METHODOLOGY UNVEILED

Shockingly, how did Raju mastermind this maze of Creative Accounting (CA) practices at Satyam? Keen to project a perpetually rosy picture of the company to the investors, employees and analysts, Raju manipulated the account books so that it appeared a far bigger enterprise than it actually was. Here, Bhasin (2015, 2016) remarked, “The Satyam scam is clearly a case of abuse of creative accounting, in which the accounts were 'cooked-up' by creating fake invoices for the services not rendered, recognizing revenue on these fake receipts, falsifying the bank balances and interest on fixed deposits to show these fake invoices are converted into cash receipts and are earning interest, and so on.” This type of CA is both illegal and unethical. In its recent indictment of the former promoters and top managers of Satyam, the SEBI and other investigative agencies in India had finally provided minute and fascinating details about how India's largest corporate scam was committed. An attempt has been made by the author to provide a brief description about the methodology used by the Satyam to commit the accounting fraud. An attempt has been made by the author(s), based on the media reports, to provide a description about the CA methodology used by the Satyam to commit the accounting fraud duly supported by evidence, wherever possible.

WEB OF COMPANIES

A web of 356 investment companies was used to allegedly divert funds from Satyam. Under Ramalinga Raju, Satyam floated 327 companies and published inflated financials. These front companies purchased 6,000 acres of land, taken loans of Rs. 1,230 crore from these companies, which were not even accounted in books. The CID investigation also revealed that Satyam had executed projects in the name of 7 non-existent companies: Mobitel, Cellnet, E Care, Synony, Northsea, Autotech and Hargreaves. All these companies had several

transactions in the form of inter-corporate investments, advances and loans within and among them. One such 'sister' company, with a paid-up capital of Rs. 5 lakh, had made an investment of Rs. 90.25 crore, and received unsecured loans of Rs. 600 crore.

Bhasin (2016a) remarked, “About Rs. 1,425 crore, out of Rs 1,744 crore loans obtained from non-banking finance companies were transferred to the bank accounts of Satyam by 37 entities as loans between November 17, 2006, and October 30, 2008, to meet the expenses of the company. Of this amount Rs. 194 crore was returned by the company between October and November 2008 to 15 out of the 37 companies. That left an outstanding liability of Rs. 1,231 crore – the sum Raju says He infused into the company.” The key puzzle the CBI was trying to solve was also about the claims of Raju, as per Jan. 7, 2009 letter, infusing Rs. 1,230 crore into the company.

COOKED UP BOOKS OF ACCOUNTS

Raju maintained thorough details of the Satyam's cooked-up accounts and minutes of meetings since 2002. He stored records of accounts for the latest year (2008-09) in a computer server called “My Home Hub.” Details of accounts from 2002 till January 7, 2009 (the day Mr. Raju came out with his dramatic 5-page confession) were stored in two separate Internet Protocol (IP) addresses. Keeping in view the media reports, Bhasin (2016f) is of firm opinion that “Satyam's top management simply cooked the company's books by overstating its revenues, profit margins, profits, ghost employees etc. for every single quarter over a period of 5-years, from 2003 to 2008. In his letter, Raju admitted to inflating the cash and bank balances of the company by Rs. 5,040 crore. The company's total assets as on Sept. 30, 2008, stood at Rs. 8,795 crore. Of this cash and bank balances stood at Rs. 5,313 crore (which was nearly 60% of the total assets). This was overstated by Rs. 5,040 crore. The company basically had cash and bank balances of less than Rs. 300 crore.”

Raju also admitted to fudging the last financial result that the company had declared, for the period of three months ending Sept. 30, 2008. The company had reported revenues of Rs. 2,700 crore, with an operating margin of 24% of revenues (or Rs. 649 crore). According to Bhasin (2016b), “In fact, these numbers were made-up. The actual revenues were Rs. 2,112 crore, with an operating margin of Rs. 61 crore (or 3% of the total revenues). So, Satyam had made a profit of Rs. 61 crore but was declaring a profit of Rs. 649 crore. The difference was Rs. 588 crore. The operating profit for the quarter was added to the cash and bank balances on the balance sheet. Hence, cash and bank balances went up by an “artificial” Rs. 588 crore, just for the three month period ending Sept. 30, 2008. This was a formula that Raju had been using for a while.” First, Satyam over-declared its operating profit. Once this fudged amount of operating profit was moved to the balance sheet, it ended-up over-declaring its cash and bank balances. And this led to a substantially bigger balance sheet than was actually the case. The company had total assets of Rs. 8,795 crore, as on September 30, 2008. Once the Rs. 5,040 crore of cash and bank balances that were simply not there were removed from this, the “real” total assets fell to a significantly lower Rs. 3,755 crore.

So, how did Raju managed to boost revenues? Here, Bhasin (2016a) provides an explanation as: “In order to do this, Raju created fictitious clients (to boot sales revenue) with whom Satyam had entered into business deals. In order to record the fake sales, Raju introduced 7,000 fake invoices into the computer system of the company. Since the clients were fictitious, they could not make any real cash payments. Therefore, the company kept on inflating the money due from its fictitious clients (or what Raju called debtors position in his letter). Further, once fake sales had been recorded fake profits were also made and reported in accounts. Ultimately, the fake profits brought in fake cash, which therefore, needed to be invested somewhere. This led Raju to

creating fake bank statements (showing forged fixed deposit receipts), where all the fake (or non-existent) cash that the company was throwing up was being invested. Finally, Raju tried his best to use this “fake cash” to buy out two real-estate companies, called Maytas Properties and Maytras Infra (both promoted by the family members) for a total value of \$1.6 billion. The idea was to introduce in company accounts some “real” assets against all the “fake” cash that the company had managed to accumulate, so far. Unfortunately, that did not happen, and after this, Raju had no other way out but to come clean. So, Raju finally confessed about fudging the accounts in his Letter.” While the Satyam accounting scam, which involved unethical and illegal CA tactics, was to the tune of Rs. 8,000 crore. Shockingly, the scam had caused an estimated notional loss of Rs. 14,000 crore to investors and unlawful gains of Rs. 1,900 crore to Ramalinga Raju and others.

The balance sheet of Satyam (as on September 30, 2008) carried an inflated (non-existent) cash and bank balances of Rs. 5,040 crore, non-existent interest of Rs. 376 crore, and understated liability of Rs. 1,230 crore. In fact, the balance sheet carried an accrued interest of Rs. 376 crore, which was non-existent. Table 3 depicts some parts of the Satyam's fabricated 'Balance Sheet and Income Statement' and shows the 'difference' between 'actual' and 'reported' finances. Keeping in view the modus operandi successfully used by Satyam, Bhasin (2015b) remarked: “To show excess cash, several banks have to be 'fooled' (or asked to look the other way). They probably were. To show huge fake revenues, everyone, from sales teams to MIS managers to accountants, had to be kept in the 'dark' (or conscripted into the conspiracy). Some probably were. To hide it all from investors and analysts, auditors had to be 'fooled' (or roped in as co-conspirators). Some surely were. It is frightening that such large-scale fraud, which is precisely the kind of thing our various 'watchdogs' are meant to prevent, can be perpetrated so casually by just a few people at the top!”

Table3: Fabricated Parts of Balance Sheet and Income Statement of Satyam

	Actual (Rs.)	Reported (Rs.)	Difference (Rs.)
Cash and Bank Balances	321	5,361	5,040
Accrued Interest on bank FDs	Nil	376.5	376
Understated Liability	1,230	None	1,230
Overstated Debtors	2,161	2,651	490
Total	Nil	Nil	7,136
Revenues (Q2 FY 2009)	2,112	2,700	588
Operating Profits	61	649	588

FALSIFICATION OF BANK'S FIXED DEPOSITS ACCOUNTS

The promoters of Satyam regularly used to generate monthly bank statements to be fed into the bankbooks. Similarly, they also used to generate confirmations of bank balances, at the end of every quarter, against non-existent fixed deposit receipt (FDRs) and interest earned/due thereon. As Bhasin (2013b) commented, "From the records of Satyam, as well as, the books held with the auditors, it was noted that two sets of letters of confirmation of balances of FDRs were available with the auditors. These two sets included confirmations actually sent by banks directly to the auditors (the genuine ones) in the prescribed format, and confirmations through forged letters purportedly sent from various bank branches, but forged." Thus, as on 30 Sept. 2008, while the actual FDs balances with various banks was just under Rs. 10 crore, fake FD receipts shown to the auditors totaled over Rs. 3,300 crore. At HDFC Bank, for example, Satyam claimed Rs. 704 crore in deposits without having a single rupee parked with the bank branch concerned. With Citi Bank, it reported Rs. 613.32 crore of FDs when it actually had just Rs. 1.32 crore. And so on. Providing an explanation, Bhasin (2016c), described the motto and rationale for the process as, "Fake FDs had to be generated since fake business had to be shown to the

stock markets, which meant the creation of fake customers and fake invoices from these businesses. Fake businesses generated fake revenues which, in turn, created the illusion of fake profit margins, and, finally, fake cash in the bank. Satyam apparently was very poor on its business fundamentals—with margins being low in many quarters, including negative margins in some quarters."

Indeed, falsification with regards to fixed deposit have been done since 2001-02 till 2007-08 and also for the quarter ended June 2008 and Sept. 2008. Further, Bhasin (2016f) observed, "All the misleading actions of window dressing and camouflaging created a larger than life picturesque image year-after-year in the minds of millions of gullible investors whose fate underwent a depressive spin." Satyam's balance sheet (as on Sept. 7, 2008) carried an accrued interest of Rs. 376 crore, which was non-existent. These figures of accrued interest were shown in balance sheets in order to suppress the detection of such non-existent fixed deposits on account of inflated profits. As shown above in Table 4, the company had created a false impression about its fixed deposits summing to be about Rs. 3,318.37 crores, while they actually held FDRs of just about Rs. 9.96 crores. Many experts cast partial blame for the scandal on Satyam's auditor Price Waterhouse (PwC) India, because the fraud went undetected for so many years.

Table 4: Falsification of Fixed Deposits Accounts (Rs. in Crores)

Financial Year	Amount as per Balance Sheet/Trial Balance	Amount as per Bank Confirmation	Amount Falsified
2001-02	1243.15	5.43	7,000.00
2002-03	1252.37	0.00	1252.37
2003-04	1465.33	1.89	1446.46
2004-05	1801.47	5.97	1795.50
2005-06	1906.47	1.11	1795.50
2006-07	3364.94	5.65	3308.41
2007-08	3316.93	8.53	3308.41
Sept. 2008	3318.37	9.96	3308.41

(Source: SFIO Report published in the Pioneer (New Delhi), May 4, 2009, p 10)

FAKE INVOICES AND BILING SYSTEM

By using the IT skills in-house and tampering with the invoice management system (IMS) of the company, a software module that was internally developed (Bhasin, 2008).The Central Bureau of Investigation (CBI) has revealed details of the fake invoicing system used by Satyam. Documents released by media reports(for example, Verma and Ramana, 2009) to the general public in India showed how the company's standard billing systems were subverted to generate 'false' invoices to show 'inflated' sales, before its former boss, Ramalinga Raju, admitted to his role in the India's largest-ever corporate scandal. The investigators had used cyber forensics to uncover how in-house computer systems were exploited to generate fake invoices. Regular Satyam bills were created by a computer application called 'Operational Real Time Management (OPTIMA)', which created and maintained information on all company projects.The 'Satyam Project Repository (SRP)' system then generated project IDs; there is also an 'Ontime' application for entering the hours worked by Satyam employees; and a 'Project Bill Management System (PBMS)' for billing. An 'Invoice Management System (IMS)' generated the final invoices.

From the above, an intriguing question that arises here is:"how were the fake invoices created by subverting the IMS?" In the IMS system, there is a mandatory field earmarked 'Invoice Field Status'.

Unless this is filled, processing of the order does not go ahead. So, what Raju & Company did was to use two alphabets 'H' (Home) or 'S' (Super) in the Invoice Field Status to process the entry. The invoices, thus created were 'hidden' from the view of those who ran the finance units. There were about 74,625 invoices generated in the IMS between April 2003 and December 2008. About 7,561 invoices out of 74,625 had 'S' marked in their invoice field status. Out of this, 6,603 were also found on the company's Oracle Financials software system, to make it seem like these were actual sales. Entries into this system get reflected straight in the Profit and Loss Statement. The balance of 958 invoices remained in the invoice state, and therefore, within the IMS system—they were not keyed into the Oracle enterprise-ware. The total revenues shown against these 7,561 fake invoices were Rs. 5,117 crore.Of this, sales through the 'reconciled' 6,603 invoices were about Rs. 4,746 crore. The CBI has also found that "sales were inflated every quarter and the average inflation in sales was about 18%.After generating fake invoices in IMS, a senior manager of the finance department (named Srisailam), entered the 6,603 fake invoices into Oracle Financials with the objective of inflating sales by Rs. 4,746 crore. By reconciling the receipts of these invoices, the cash balances in the company's account were shown at Rs. 3,983 crore."

The CBI officers have concluded that "the scandal involved this system structure being bypassed by the abuse of an emergency 'Excel Porting System',

which allows invoices to be generated directly in IMS...by porting the data into the IMS.” This system was subverted by the creation of a user ID called 'Super User' with “the power to hide/unhide the invoices generated in IMS.” By logging in, as Super User, the accused were hiding some of the invoices that were generated through Excel Porting. Once an invoice is hidden the same will not be visible to the other divisions within the company but will only be visible to the company's finance division sales team. As a result, concerned business circles would not be aware of the invoices, which were also not dispatched to the customers. Investigation revealed that all the invoices that were hidden using the Super User ID in the IMS server were found to be false and fabricated. The face values of these fake invoices were shown as receivables in the books of accounts of Satyam, thereby dishonestly inflating the total revenues of the company.

SHOWING FAKE AND UNDERUTILIZED EMPLOYEES

To quote Bhasin (2012a), “One of the biggest sources of defalcation at Satyam was the inflation of the number of employees. Founder chairman of Satyam, Raju claimed that the company had 53,000 employees on its payroll. But according to investigators, the real number was around 43,000. The fictitious/ghost number of employees could be fabricated because payment to the remaining 13,000 employees was faked year-after-year: an operation that evidently involved the creation of bogus companies with a large number of employees.” The money, in the form of salaries paid to ghost employees, came to around \$4 million a month, which was diverted through front companies and through accounts belonging to one of Mr. Raju's brothers and his mother to buy thousands of acres of land. Making up ghost employees might sound complicated, but investigators said it was not that difficult. “Employees are just code numbers in your system; you can create any amount of them by creating bogus employee IDs with false address, time-sheets, opening salary accounts with banks, and collecting payments through an accomplice.”

Interestingly, the charge-sheet filed by the investigators is of the view that Satyam employees remained underutilized. For instance, the utilization level shown in the latest investor update by the company is about 74.88% for offshore employees. However, the actual utilization was 62.02%. This clearly shows that the bench strength was as high as 40% in the offshore category. Further, as a result of underutilization, the company was forced to pay salaries to associates without jobs on hand, which increased the burden on company's finances. Even in the onshore category, the bench strength was around 5% (of total staff).

WHY DID RAJU (CHAIRMAN) NEED THE MONEY?

Indeed, it started with Raju's love for land and that unquenchable thirst to own more and more of it. Satyam planned to acquire a 51% stake in Maytas Infrastructure Limited for \$300 million. The cash so raised was used to purchase several thousands of acres of land, across Andhra Pradesh, to ride a booming realty market. It presented a growing problem as facts had to be doctored illegally to keep showing healthy profits for Satyam that was growing rapidly, both in size and scale. Unfortunately, every attempt made by Raju to eliminate the gap ultimately failed. Cashing out by selling Maytas Infrastructure and Maytas Properties to Satyam for an estimated price of Rs. 7,800 crore was the last straw.

Satyam had tried to buy two infrastructure company run by his sons, including Maytas, in December 2008. However, on Dec. 16, Satyam's board cleared the investment, sparking a negative reaction by investors, which pummeled its stock on the New York Stock Exchange and Nasdaq. The board hurriedly reconvened the same day a meeting and called off the proposed investment. Unfortunately, the matter did not die there, as Raju may have hoped. In the next 48 hours, resignations streamed in from Satyam's non-executive director, Krishna Palepu, and three independent directors. As Bhasin(2016c) reported, “The effort failed and in Jan. 2009 Raju

confessed to irregularity on his own, and was arrested two days later. This was followed by the law-suits filed in the U.S. contesting Maytas deal.” Four independent directors quit the Satyam board and SEBI ordered promoters to disclose pledged shares to stock exchanges. The trigger was obviously the failed attempt to merge Maytas with Satyam.

LAX BOARD OF DIRECTORS

The Satyam Board was composed of “chairman-friendly” directors, who failed to question the management's strategy and use of leverage in recasting the company. Moreover, they were also extremely slow to act when it was already clear that the company was in financial distress. Here, Bhasin (2011) observed, “The directors acted as mere rubber stamps and the promoters were always present to influence the decision. The glue that held the board members together was Mr. Ramalinga Raju (Chairman). Each of the board members were there on his personal invitation and that made them ineffective. The Board ignored, or failed to act on, critical information related to financial wrongdoings before the company ultimately collapsed.” It was only when Raju in the Dec. 2008 announced a \$1.6 billion bid for two Maytas companies (Maytas Infra and Maytas Properties) and while the share market reacted very strongly against the bid and prices plunged by 55% on concerns about Satyam's CG, that some of the independent directors came into action by announcing their withdrawal from the Board, by then it was too late.

Satyam board's investment decision to invest 1.6

billion dollars to acquire a 100% stake in Maytas Properties and in 51% stake in Maytas Infrastructure (the two real estate firms promoted by Raju's sons) was in gross violation of the Companies Act 1956, under which no company is allowed, without shareholder's approval to acquire directly or indirectly any other corporate entity that is valued at over 60% of its paid-up capital. “Yet, Satyam's directors went along with the decision, raising only technical and procedural questions about SEBI's guidelines and the valuation of the Maytas companies. They did not even refer to the conflict of interest in buying companies in a completely unrelated business, floated by the chairman's relatives,” remarked Bhasin(2016f). Indeed, one of the independent directors, Krishna Palepu, praised the merits of real-estate investment on Satyam's part.

UNCONVINCING ROLE OF INDEPENDENT DIRECTORS

With regard to the role of the 'independent' directors (IDs) at Satyam, we should understand: how 'independent' they actually were? It was seen that all the non-executive directors (NEDs) at Satyam have been allotted significant stock options at an unbelievable low strike price of Rs. 2 per share, and apart from this, all the NEDs have also earned handsome commissions during 2007-08, as reflected by Satyam's audited results. Table 5 shows the details of number of Stock options and commission given to different NEDs, as per Satyam's audited results for 2007-08.

Table 5: Satyam's Sumptuous Gift to its Non-Executive Directors		
	No. of Options	Commission (in Rs.)
Krishna Palepu	10,000	1.2 million
Mangalam Srinivasan	10,000	1.2 million
T R Prasad	10,000	1.13 million
V P Rama Rao	10,000	0.1 million
M Ram Mohan Rao	10,000	1.2 million
V S Raju	10,000	1.13 million
Vinod Dham	10,000	1.2 million

(Source: Satyam's Balance Sheet for 2007-08, Satyam Computer Services Limited, Hyderabad).

Naturally, a basic question that arises here is: “how can directors who had enjoyed such a huge largesse from the Company's promoters, had been beneficiaries of stock options given at an unbelievable strike price of Rs. 2 per share (against the ruling price of Rs. 500 per share in 2007- 08) and who had received such high commissions could be expected to be 'independent'? According to Hasan and Bhasin (2016), “The idea of giving stock options to the independent directors, was perhaps, an intelligent ploy by Raju to successfully implement his plot at Satyam, with little resistance from the so-called independent directors, to whom, he was supposed to report to. It sounds ridiculous to listen to some of the independent directors at the Press interviews post-scandal that they were not aware of what was going on at Satyam.” Furthermore, it is very disturbing that highly respected persons like T. R. Prasad and Dr. Rammohan Rao, both received stock options and commissions from Satyam, without wondering how this was acceptable to their status of independent directors. Take the case of another independent director, the well-known Prof. Krishna Palepu. Prof. Palepu accepted more than \$200,000 in total compensation along with 10,000 stocks (equivalent to 5000 ADR) and getting paid a fabulous fee of Rs. 9.2 million for conducting training programs for Satyam employees on CG principles and their compliance, even if not expressly forbidden statutorily, will still place him as one having a vested interest in accepting the unethical policy of the management as a quid pro quo. As an 'independent' director, he should not have accepted any consulting assignment from Satyam. “Satyam scam is one more proof that the mere compliance of SEBI's rule of the minimum number of independent directors does not guarantee ethical practices. Corporate history of the past decade has more than clearly shown that independent directors havenot served their purpose,” stated Bhasin (2013, a).

Notwithstanding Raju's confession, the Satyam

episode has brought into sharp focus the role and efficacy of “independent” directors. The SEBI requires the Indian publicly held companies to ensure that independent directors make up at least half of their board strength. The knowledge available to independent directors and even audit committee members was inherently limited to prevent willful withholding of crucial information. The reality was, at the end of the day, even as an audit committee member or as an independent director, I would have to rely on what the management was presenting to me, drawing upon his experience as an independent director and audit committee member. As Bhasin (2010) pointed out, “It is the auditors' job to see if the numbers presented are accurate. That is what the directors should have been asking... Like the dog that didnot bark in the Sherlock Holmes story, the matter was allowed to slide. Even if outside directors were unaware of the true state of Satyam's finances, some 'red' flags should have been obvious.” The closely-held structure of many Indian companies suggests a need for improved transparency and accountability for independent directors. Apart from improving disclosure standards, re-auditing norms, and greater shareholder activism, there is also a need to counter corruption.

TUNNELING STRATEGY USED BY SATYAM

As part of their “tunneling” strategy, the Satyam promoters had substantially reduced their holdings in company from 25.6% (in March 2001) to 8.74% (in March 2008). Furthermore, as the promoters held a very small percentage of equity (mere 2.18%) on December 2008, as shown in Table 6, the concern was that poor performance would result in a takeover bid, thereby exposing the gap. The aborted Maytas acquisition deal was the final, desperate effort to cover up the accounting fraud by bringing in some real assets into the business. When that failed, Raju confessed the fraud. Given the stake the Raju's held in Matyas, pursuing the deal would not have been

terribly difficult from the perspective of the Raju family.

As pointed out by Shirur (2011), “Unlike Enron, which sank due to agency problem, Satyam was brought to its knee due to tunneling. The company with a huge cash pile, with promoters still controlling it with a small per cent of shares (less than 3%), and trying to absorb a real-estate company in which they have a majority stake is a deadly combination pointing prima facie to tunneling.” The reason why Ramalinga Raju claims that he did it was because every year he was fudging revenue figures and since expenditure figures could not be fudged so easily, the gap between 'actual' profit and 'book' profit got widened every year. In order to close this gap, he had to buy Maytas Infrastructure and Maytas Properties. In this way, 'fictitious' profits could be absorbed through a 'self-dealing' process. Bhasin (2013a) concludes, “The auditors, bankers, and SEBI, the market watchdog, were all blamed for their role in the accounting fraud.”

INSIDER TRADING ACTIVITIES AT SATYAM

Investigations into Satyam scam by the CID of the State Police and Central agencies have established that “the promoters indulged in nastiest kind of insider trading of the company's shares to raise money for building a large land bank.” According to the SFIO Report (2009) findings, “promoters of Satyam and their family members during April 2000 to January 7, 2009 sold almost 3.9 crore number of shares thereby collecting in Rs. 3029.67 crore. During this course, the founder ex-chairman Ramalinga Raju sold 98 lakh shares collecting in Rs. 773.42 crores, whereas, his brother Rama Raju, sold 1.1

crore shares pocketing Rs. 894.32 crores.” Please note that Table 7 (given above) provides details of sale of shares by the promoters and their family. Finding these top managers guilty of unfair manipulation of stock prices and insider trading, SEBI has asked them to deposit their 'unlawful gains' of Rs. 1850 crore, with 12% interest, with the regulator within 45 days. They have also been barred from associating with the securities markets in any manner for the next 14 years.

GAPS IN SATYAM'S EARNINGS AND CASH FLOWS

Through long and bitter past experience, some investors have developed a set of early warning signs of financial reporting fraud. Bhasin (2007) described it as: “One of the strongest is “the difference between income and cash flow. Because overstated revenues cannot be collected and understated expenses still must be paid, companies that misreport income often show a much stronger trend in earnings than they do in cash flow from operations.” But now, we can see there is no real difference in the trends in Satyam's net income and its cash flow from operations during 2004 and 2005, as shown in Figure 1 below. Both net income and cash flow lines were almost overlapping each other for 2004 and 2005. That is not because the earnings were genuine; it is because the cash flows were manipulated too. To do that, Raju had to forge several big amount accounts receivables, and simultaneously falsify about their cash collections. Thus, the fake cash flows had led to the bogus bank balances. If cash flow from operating activities of a company is consistently less than the reported net income, it is a warning sign. The investor must ask

Table 6: Promoter's Shareholding pattern in Satyam

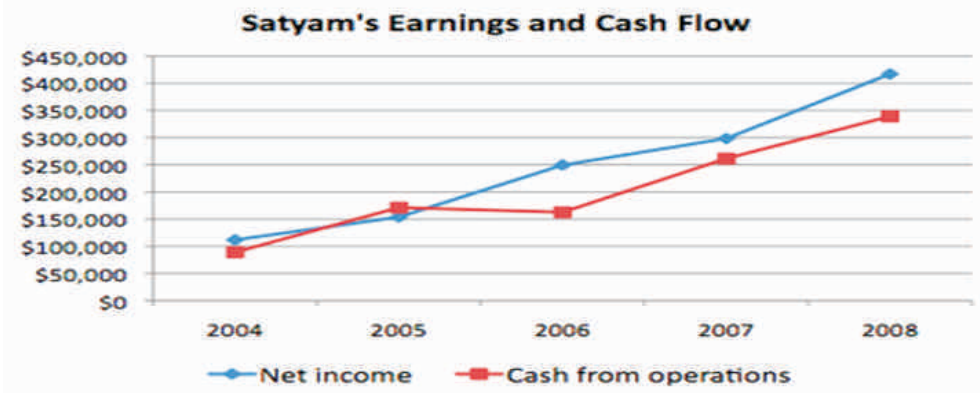
Particulars	March 2001	March 2002	March 2003	March 2004	March 2005	March 2006	March 2007	March 2008	Dec. 2008
Promoter's holding (in %-age)	25.6	22.26	20.74	17.35	15.67	14.02	8.79	8.74	2.18

why operating earnings are not turning into cash. To keep from tripping the income-cash flow alarms, Raju had to manipulate almost every account related to operations. However, wide gaps can be noticed in net income and cash flow from operation during 2006, 2007 and 2008, respectively. “During 2006 to 2008, cash flows were far less than net income due to accounting manipulations. Indeed, Satyam fraud was a stunningly and very cleverly articulated

comprehensive fraud, likely to be far more extensive than what happened at Enron,” (Bhasin, 2015a). The independent board members of Satyam, the institutional investor community, the SEBI, retail investors, and the external auditor—none of them, including professional investors with detailed information and models available to them, detected the malfeasance.

Table7: Stake Sold by the Promoters of Satyam Computers Limited

Name of Promoter	No. of Shares Sold	Money Earned Rs. in Crore
B. Ramalinga Raju	98,25,000	773.42
B. Rama Raju	1,13,18,500	894.32
B. Suryanarayana Raju	1,11,000	12.81
B. Nandini Raju	40,47,000	327.59
B. Radha	38,73,500	313.55
B. Jhansi Rani	1,00,000	11.25
B. PritamTeja	9,42,250	49.01
B. Rama Raju (Jr.)	9,34,250	48.59
Maytas Infra Ltd (Satyam Construction Ltd.)	0	0.00
B. Satyanarayana Raju	0	0.00
B. AppalAnarsamma	0	0.00
Elem Investments Pvt. Ltd.	25,47,708	181.29
Fincity Investments Pvt. Ltd.	25,30,400	180.41
Highgrace Investments Pvt. Ltd.	25,30,332	170.83
Veeyes Investments Pvt. Ltd.	57,500	71.79
Other Individuals connected to investment co's	68,000	515.58
Off-market transfers by investment co's in the year 2001 (value estimated)	1,90,000	78.29
Promoters Group Total	3,90,75,440	3,029.67



FAKE AUDIT AND DUBIOUS ROLE PLAYED BY THE AUDITORS

Many experts cast partial blame for the CA scandal on Satyam's auditor 'Price Waterhouse (PwC)' India, because the fraud went undetected for so many years. In fact, global auditing firm used Lovelock and Lewis as their agent, who audited the Satyam's books of accounts from June 2000 until the discovery of the fraud in 2009. Several commentators criticized PwC harshly for failing to detect the fraud (Winkler, 2010). As Bhasin (2012a) stated, “The PwC India signed Satyam's financial statements and hence it, was responsible for the numbers under the Indian law. The fraudulent role played by thePwC in the failure of Satyam matches the role played by ArthurAnderson in the collapse of Enron.” However,Mr. S.Goplakrishnan and Mr. S.Talluri, partners of PwC had admitted they did not come across any case or instance of fraud by the company.However, Raju's admission of having fudged the accounts for several years put the role ofthese statutory auditors on the dock.

The SFIO Report (2009) stated that “the statutory auditors instead of using an independent testing mechanism used Satyam's investigative tools and thereby compromised on reporting standards.” PwC did not check even 1% of the invoices; neither did they pay enough attention to verification of sundry debtors, which (according to Raju's confession) was overstated by 23% (SFIO report says it was overstated by almost 50%). The Statutory auditors also failed in discharging their duty when it came to independently verifying cash and bank balances, both current account and fixed deposits. Hence, it was required that the auditors (PwC) independently checked with the banks on the existence of fixed deposits, but this was not done for as large as a sum of Rs. 5,040 crore. “The statutory auditors on whom the general public relied on for accurate information not only failed in their job but themselves played a part in perpetrating fraud by preparing a clean audit report for fudged,

manipulated and cooked books,” concluded Bhasin (2012a).It is shocking to know that “PwC outsourced the audit function to some audit firm, Lovelock and Lewis, without the approval of Satyam.”

To be fair, there were probably thousands of Satyam cash accounts that had to be confirmed by the auditor, as the outsourcer has nearly 700 customers (including 185 Fortune 500 companies) in 65 countries. The audits for a company of that size would have been staggered, with millions of dollars of outstanding receivables pouring in to different locations at any given time. As Veena et al., (2014) commented, “The Satyam case focuses on auditors' responsibilities related to obtaining and evaluating audit evidence, particularly as it relates to confirming cash and receivables. It also explores the quality control responsibilities related to audit procedures performed by foreign affiliates of a large international audit firm.”One particularly troubling item concerned the \$1.04 billion that Satyam claimed to have on its balance sheet in “non-interest-bearing” deposits.Bhasin (2016d) pointed out,“The large amount of cash should have been a 'red-flag' for the auditors that further verification and testing were necessary. While verifying bank balances, they relied wholly on the (forged) fixed deposit receipts and bank statements provided by the 'Chairman's office'. As to the external auditors, who are supposed to look out for investors, they seem to have been quite a trusting lot.”The forensic audit reveals differences running into hundreds of crores of Rs. between the fake and real statements, as captured by the computerized accounting systems. But for some strange reason, everyone, from the internal auditor to the statutory auditors, chose to place their faith in the 'Chairman's office' rather than the company's information systems, stated (Bhasin, 2015). Furthermore, it appears that the auditors did not independently verify with the banks in which Satyam claimed to have deposits” (Kahn, 2009). Unfortunately, the PwC audited the company for nearly 9 years and did not uncover the fraud, whereas Merrill Lynch discovered the fraud as part

of its due diligence in merely 10 days. Missing these “red-flags” implied either that the auditors were grossly inept or in collusion with the company in committing the fraud.

When scams break out in the private sector auditors too end up on the firing line. The CBI, which investigated the Satyam fraud case, also charged the two auditors with complicity in the commission of the fraud by consciously overlooking the accounting irregularities. On April 22, 2014 “The Institute of Chartered Accountants of India (ICAI)” has imposed a life-time ban on four auditors (Mr. S.Gopalakrishna, Mr. Talluri Srinivas, Mr. V. Srinivasa and Mr. V.S. Prabhakara Rao) involved in the Satyam CA fraud. All of them had been found guilty of gross negligence in discharge of their duties by the Disciplinary Committee of ICAI and they were barred from practicing as a Chartered Accountant. A penalty of Rs. 5 lakh each was also levied on them. Strangely, Satyam's auditor, PwC, got away with a rap on its knuckles.

ABNORMAL AUDIT FEES PAID TO PwC INDIA AGENT

A point has also been raised about the unjustified increase in audit fees. A reference to the figures of audit fee in comparison with total income over a period of time may be pertinent. Table 8 shows that over a period of four years, 2004-05 to 2007-08, the audit fee increased by 5.7 times, whereas total income increased by 2.47 times during the same period. Here, Bhasin (2013) remarked, “Nevertheless, it is difficult to draw any conclusion

as to whether the increase in audit fee was justified or not. Suspiciously, Satyam also paid PwC twice what other firms would charge for the audit, which raises questions about whether PwC was complicit in the fraud.” Another development that came under investigators lens was that between 2003- 2008, audit fee from Satyam had increased three times. For instance, Satyam's auditor's fee jumped from Rs. 92 lakhs in 2004-05 fiscal to Rs. 1.69 crore the next year. But it was the financial year 2006-07 when PwC's auditing fees shot phenomenally to Rs. 4.31 crores. The Chairman of the AC's in the relevant years should have been interrogated by the investigators as to what justification did the AC have for recommending such a hike?

The Price Waterhouse received an annual fee of Rs. 37.3 million (or Rs. 4.31 crore) for financial year 2007-2008, which is almost twice, as what Satyam peers (i.e., TCS, Infosys, Wipro), on an average, pay their auditors. Bhasin (2015) stated, “This shows that the auditors were being lured by the monetary incentive to certify the cooked and manipulated financial statements. Events of such nature raise doubts about statutory auditors' discharging their duty independently.” Consequently, on 24th Jan. 2009, two senior partners of PwC, Mr. S. Gopalakrishna (was due for retirement by March 09) and Mr. Srinivas Talluri were booked by Andhra Pradesh CID police on charges of fraud and criminal conspiracy. The PwC has suspended the two partners, who signed on Satyam's balance sheet and are currently in prison. The SFIO report also states that PwC outsourced the audit function to some audit firm, “Lovellock and Lewis,” without the approval of Satyam.

Table 8: Satyam's Total Income and Audit Fees (Rs. in Millions)

Year	2004-05	2005-06	2006-07	2007-08
Total Income (A)	35,468	50,122.2	64,100.8	83,944.8
Audit Fees (B)	6.537	11.5	36.7	37.3
% of B to A	0.0184	0.0229	0.0573	0.0444

(Source: Annual Reports of Satyam, Percentage computed)

QUESTIONABLE ROLE OF THE AUDIT COMMITTEE

As Bhasin (2016d) strongly observed, “Surprisingly, the failure to detect the Satyam fraud is 'unimaginable' because it involves violating basic audit procedures. Auditing cash is so basic that people do not think twice about accepting the number, never thinking to ask questions about it.” Still, a basic question arises: “Where was the Audit Committee (AC)?” As an AC member, we understand that board members are not responsible for re-auditing financial statements. However, the directors have access to the auditors and the right and responsibility to question the audit. For instance, in the case of seeing an accumulated \$1 billion on the books, the AC should have raised questions about what the company planned to do with the cash, or how much it was earning on the money, and so on. It also has been suggested that the Public Committee on Accounting Oversight Board (PCAOB)—the U.S. entity charged with auditing firm oversight—bears some responsibility for the alleged poor performance of Price Waterhouse India. Unfortunately, one possible culprit that escaped blame for the Satyam scandal is the accounting rules used by the company. Satyam used both U.S. GAAP and IFRS to report its financial results, which means that one set of accounting standards did not trump the other with respect to shedding light on the fraud. The realization that accounting rules neither helped nor hindered the fraud should help to quell some of the fierce debate regarding which accounting standards are more transparent and therefore better for investors: U.S. GAAP or IFRS.

Moreover, Bhasin (2016f) observed that “the timely action on the information supplied by a whistleblower to the chairman and members of the AC (an e-mail dated December 18, 2008 by Jose Abraham), could serve as an SOS to the company, but, they chose to keep silent and did not report the matter to the shareholders or the regulatory

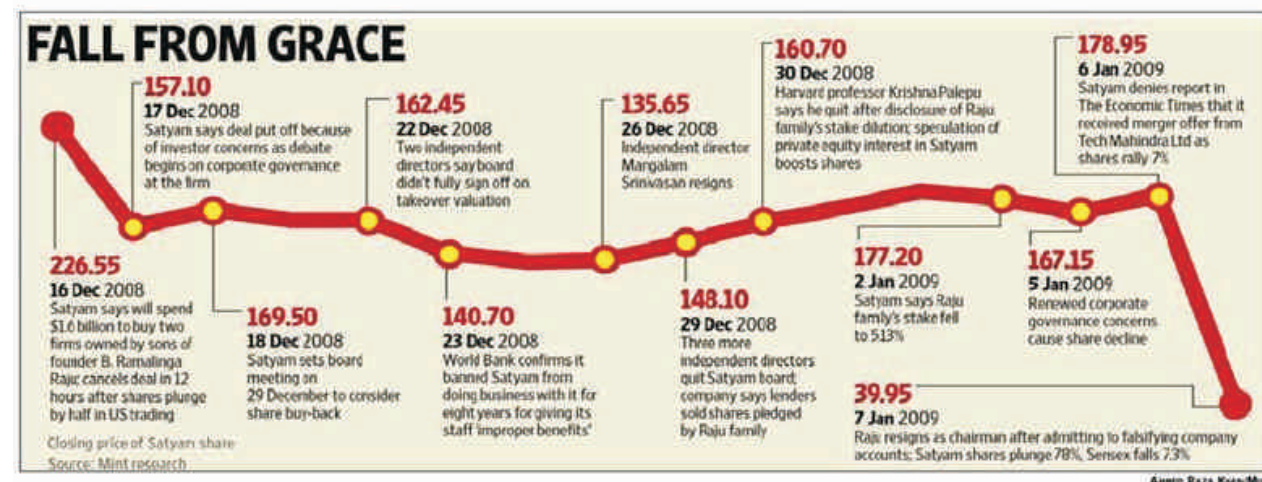
authorities.” The Board member on AC, who failed to perform their duties alertly be therefore tried out under the provisions of the Securities Contracts (Regulation) Act, 1956 (an unimaginable fine extendable to Rs. 25 crore but also including imprisonment for a term, which may extend to 10 years).

THE AFTERMATH OF SATYAM SCANDAL

At its 'peak' market-capitalization, Satyam was valued at Rs. 36,600 crore in 2008. Following the shocking disclosure, the traders counter saw frantic selling on the bourses and nearly 143 million shares (or a quarter of the total 575 million shares) had changed hands and finally, the shares closed down 77.69% at Rs. 39.95 at the Bombay Stock Exchange (BSE), wiping out Rs. 139.15 per share in a single day. After Wednesday's fall, the firm's market value has sunk to little more than \$500 million from around \$7 billion as recently as last June. The stock that hit its all-time high of Rs. 542 in 2008 crashed to an unimaginable Rs. 6.30 on the day Raju confessed on January 9, 2009. Satyam's shares fell to 11.50 rupees on January 10, 2009, their lowest level since March 1998, compared to a high of Rs. 544 in 2008. In the New York Stock Exchange, Satyam shares peaked in 2008 at US\$ 29.10; by March 2009 they were trading around US\$ 1.80. Thus, investors lost \$2.82 billion in Satyam.

Criminal charges were brought against Mr. Raju, including: criminal conspiracy, breach of trust, and forgery. After the Satyam fiasco and the role played by PwC, investors became wary of those companies who are clients of PwC (Blakely, 2009), which resulted in fall in share prices of around 100 companies varying between 5-15%. The news of the scandal (quickly compared with the collapse of Enron) sent jitters through the Indian stock market, and the benchmark Sensex index fell more than 5%. Shares in Satyam fell more than 70%. The graph, “Fall from Grace,” shown in Figure 2, depicts the Satyam's stock decline between December 2008 and January 2009.

Figure 2: Stock Charting of Satyam from December 2008 to January 2009



Just a year later, the scam-hit Satyam was snapped up by Tech Mahindra for a mere Rs. 58 per share—a market cap of mere Rs. 5,600 crore. In the aftermath of Satyam, India's markets recovered and Satyam now lives on. India's stock market is currently trading near record highs, as it appears that a global economic recovery is taking place. Civil litigation and criminal charges continue against Satyam. Shubhashish (2015) concluded, "On 13 April 2009, via a formal public auction process, a 46% stake in Satyam was purchased by Mahindra & Mahindra owned company Tech Mahindra, as part of its diversification strategy. Effective July 2009, Satyam rebranded its services under the new Mahindra management as Mahindra Satyam. After a delay due to tax issues Tech Mahindra announced its merger with Mahindra Satyam on 21 March 2012, after the board of two companies gave the approval. The companies are merged legally on 25 June 2013." As Winkler states (2010), "With the right changes, India can minimize the rate and size of accounting fraud in the Indian capital markets."

INVESTIGATION INTO SATYAM CASE: CRIMINAL & CIVIL CHARGES

"The Satyam fraud has highlighted the multiplicity of regulators, courts and regulations involved in a serious offence by a listed company in India. The

lengthy and complicated investigations that were followed up after the revelation of the fraud has led to charges against several different groups of people involved with Satyam," says Bhasin (2013). Indian authorities arrested Mr. Raju, Mr. B. Ramu Raju (Raju's brother), its former managing director, Mr. Srinivas Vdlamani, the company's head of internal audit, and its CFO on criminal charges of fraud. Indian authorities also arrested and charged several of the company's auditors (PwC) with fraud. The Institute of Chartered Accountants of India (ICAI 2009) ruled that "the CFO and the auditor were guilty of professional misconduct." The CBI is also in the course of investigating the CEO's overseas assets. There were also several civil charges filed in the U.S. against Satyam by the holders of its ADRs. The investigation also implicated several Indian politicians. Both civil and criminal litigation cases continue in India and civil litigation continues in the United States.

All the accused involved in the Satyam fraud case, including Raju, were charged with cheating, criminal conspiracy, forgery, breach of trust, inflating invoices, profits, faking accounts and violating number of income tax laws. The CBI had filed three charge-sheets in the case, which were later clubbed into one massive charge-sheet running over 55,000 pages. Over 3000 documents and 250

witnesses were parsed over the past 6 years. A special CBI court on April 9, 2015 finally, sentenced Mr. B. Ramalinga Raju, his two brothers and seven others to seven years in prison in the Satyam fraud case. The court also imposed a fine of Rs. 5 crore on Ramalinga Raju, the Satyam Computer Services Ltd's founder and former chairman, and his brother B Rama Raju, and Rs. 20-25 lakh each on the remaining accused. The 10 people found guilty in the case are: B. Ramalinga Raju; his brother and Satyam's former managing director B. Rama Raju; former chief financial officer Vadlamani Srinivas; former PwC auditors Subramani Gopalakrishnan and T. Srinivas; Raju's another brother, B Suryanarayana Raju; former employees (G. Ramakrishna, D. Venkatpathi Raju and Ch. Srisailam); and Satyam's former internal chief auditor V.S. Prabhakar Gupta.

REGULATORY AND CORPORATE GOVERNANCE REFORMS IN INDIA

After the Satyam scandal, both the investors and regulators have called for strengthening the regulatory environment in the securities markets. As Bhasin (2016c) concludes, "In response to the scandal, the SEBI revised CG requirements and financial reporting requirements for publicly traded corporations listed in the country. The SEBI also strengthened its commitment to the adoption of International Financial Accounting Reporting Standards (IFRS). In addition, the Ministry of Corporate Affairs (MCA) has devised a new Company Law and has changed the securities laws to make it easier for shareholders to bring class-action lawsuits. Some of the recent CG reforms undertaken in India, as summed up by Sharma (2015), are: (a) Appointment of Independent Directors, (b) Disclosure of Pledged Securities, (c) Increased Financial Accounting Disclosures, (d) IFRS (Adoption of International Standards), and (e) Creation of New Corporate Code by the Ministry of Corporate Affairs.

Satyam grossly violated all rules of corporate governance (Chakrabarti et al., 2008). The Satyam scam had been the example for following "poor" CG practices. It had failed to show good relation with the shareholders and employees. As Kahn (2009) stated, "CG issue at Satyam arose because of non-fulfillment of obligation of the company towards the various stakeholders. Of specific interest are the following: distinguishing the roles of board and management; separation of the roles of the CEO and chairman; appointment to the board; directors and executive compensation; protection of shareholders rights and their executives." Scandals from Enron to the recent financial crisis have time and time again proved that there is a need for good conduct based on strong ethics. It is suggested by Goel and Ansari (2015) that "the abuse of CA can be prevented and detected by the measures like good CG, periodic rotation of auditors, due diligence by auditors, efficient whistle-blower system, sound system of internal control and audit, timely examination of the cases of pledging (or selling of shares) by promoters and controlling shareholders, heavy penalties by regulators for non-compliance to any regulation, mandatory course on ethics in accounting and auditing, and more campaigns on awareness and education of investors." Not surprising, such frauds can happen, at any time, all over the world. Satyam fraud spurred the government of India to tighten CG norms to prevent recurrence of similar frauds in the near future. The government took prompt actions to protect the interest of the investors and safeguard the credibility of India and the nation's image across the world.

CONCLUSION AND RECOMMENDATIONS

The Satyam scam is clearly a glaring example of 'abuse' of creative accounting (CA), in which the accounts were cooked up by creating fake invoices for the services not rendered, recognized revenue on these fake receipts, showed 13,000 ghost employees on payroll, falsified the bank balances, FDR's and interest on fixed deposits to show these fake invoices

are converted into cash receipts and are earning interest. The purpose was to inflate the share price of the company and sell the promoters holding at inflated price. This type of CA is both illegal and unethical. As a result of this fraud, the share of the company fell drastically thus, wiping out Rs. 9,376 crores of investors' wealth in just one single day. The Satyam fraud seriously affected all the stakeholders of the company. Moreover, Satyam investigators have uncovered "systemic" insider trading. The ED claims to have found prima facie evidence against Raju and others of violating the Prevention of Money Laundering Act. Sources at the SFIO revealed to the Press that several institutional investors dumped shares in the firm on "large scale" up-to-two-days before Ramalinga Raju confessed to "wildly" inflating the company's assets and profitability. Most of the sales seemed to have taken place after Satyam failed in the bid to acquire Maytas Infra and Maytas Properties. Even to a casual observer of the Satyam fiasco, the enormity of the scandal is a great eye-opener.

The CA scam committed by the founders of Satyam 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. Bhasin (2016a) lucidly pointed out that "the culture at Satyam (especially dominated by the board) symbolized an unethical culture. Unlike Enron, which sank due to 'agency' problem, Satyam was brought to its knee due to 'tunneling' effect." All kind of frauds have proven that there is a need for good conduct based on strong ethics. The debacle of Satyam raised a debate about the role of CEO in driving an organization to the heights of success and its relation with the board members and various core committees. This scam brought to light the role of CG in shaping the protocols related to the working of Audit Committee and duties of Board members (Niazi, and Ali, 2015). At last, Tech Mahindra purchased 51% of Satyam shares on April 16, 2009, and successfully saving the firm from a complete collapse. Undoubtedly, the inability of stock analysts to identify the 'gaps' in Satyam's books and ring

warning bells proved costly for investors.

Now, it is amply clear that the Satyam scam was plotted at the top and driven by Ramalinga Raju and his brother. They were the key players in the plot to falsify the accounts and hide the bottom-line truth from everyone. It is also clear that all the culprits—from Raju down to the finance guys—did everything possible to give Sebi and other investigative agencies a run-around and delay the verdict. This is what explains, why it took more than five-and-a-half years to close an open-and-shut-case. It took nearly 2 years, involvement of multitude of investigation agencies, and over 200 experts to assess the total damage of the scam perpetrated by Raju. Now, the final figure is a shade under Rs. 8,000 crore. A special CBI Court in Hyderabad on April 9, 2015 finally, sentenced all the 10 people involved in the multi-crore accounting scam found guilty of cheating, forgery, destruction of evidence and criminal breach of trust, almost the six-year-old case has reached its logical conclusion. This includes the founder and the Chairman of the company B. Ramalinga Raju. The Court pronounced a 7 year-jail term for the founder and also imposed on Raju a fine of Rs. 5 crore. Undoubtedly, the Indian government took quick actions to protect the interest of the investors, safeguard the credibility of India, and the nation's image across the world.

The Satyam scam, involving the misuse of CA, has shattered the dreams of different categories of investors, shocked the government and regulators alike, and led to questioning the accounting practices of statutory auditors and CG norms in India. The accounting scandal at Satyam has raised several governance questions about the company's board and its auditors. The most perplexing question is: "Why did not the oversight mechanisms at Satyam uncover the fraud sooner?" One CG expert claims that a lax regulatory system in India bears at least some of the blame. Here, Bhasin (2010a) commented as: "CG in India was late on the scene, it is more politically motivated than legally based and regulatory laws and agencies are burdened with the

complex, slow-moving legislative and judicial processes. The Satyam scam has exposed huge cracks in India's CG structures and system of regulation through the SEBI, Ministry of Corporate Affairs and the SFIO. Unless the entire system is radically overhauled and made publicly accountable, corrupt corporate practices will recur, robbing wealth from the exchequer, public banks and shareholders. Thus, a governance disaster was predictable." Moreover, Satyam fraud has forced the government to re-write CG rules and tightened the norms for auditors and accountants. The Indian affiliate of PwC "routinely failed to follow the most basic audit procedures. The SEC and the PCAOB fined the affiliate, PwC India, \$7.5 million: in what was described as the largest American penalty ever against a foreign accounting firm" (Norris, 2011). According to Mr. Chopra (2011), President of ICAI, "The Satyam scam was not an accounting or auditing failure, but one of CG. This apex body had found the two PwC auditors 'prima-facie' guilty of professional misconduct." The CBI, which investigated the Satyam fraud case, also charged the two auditors with complicity in the commission of the fraud by consciously overlooking the accounting irregularities. As Krishnan (2014) pointed out, "Yet both Satyam's internal as well as statutory auditors did not bring it to anyone's notice. Well, the internal auditor hauled up by SEBI has frankly admitted that he did notice differences in the amounts billed to big clients, such as Citigroup and Agilent, when he scoured Satyam's computerized accounts. But when he flagged this with Satyam's finance team, he was fobbed off with the assurance that the accounts would be 'reconciled'. Later, he was 'assured' that the problem had been fixed."

However, Kumar et al., (2012) recommended that "Indian regulatory framework needs to be strengthened and the roles of independent directors need to be clearly defined to prevent such frauds. They made some recommendations to improve the auditing infrastructure in India that will enhance the corporate governance mechanism." Keeping in view

the "modus operandi" used by the management in Satyam scam, we recommend the followings: (a) Corporations must uplift the moral, ethical and social values of its executives. (b) Board members need to feel the importance of the responsibility entrusted with them: be proactive and watchful in protecting the interests of owners. (c) There was a lack of proper and timely information in Satyam's case. (d) Shareholder activism is an excellent mechanism of keeping a check on the corporation and its executives. (e) Block-holders and institutional investors can also serve as an effective means for board's and management's accountability. Since liberalization, serious efforts have been directed at overhauling the CG system, with the SEBI instituting the Revised Clause 49 of the Listing Agreements dealing with CG. With the right changes, India can minimize the rate and size of accounting fraud in the Indian capital markets. And finally, CG framework needs to be implemented in letter as well as spirit.

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