

**PROJECT REPORT
ON
“FINANCIAL SCAMS IN
INDIA”
BACHELORS OF MANAGEMENT
STUDIES
(BMS)**

**UNDER GUIDANCE OF
PROF. SATHISH
IN THE PARTIAL FULFILLMENT OF THE
REQUIREMENT
FOR THE AWARD OF
DEGREE OF
BACHELOR OF MANAGEMENT
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**CERTIFICATE OF PROJECT
COMPLETION**

Certified that the Project Report titled **Financial
scams in India** has been completed satisfactorily in partial fulfillment of B.M.S course of the University of Mumbai, Mumbai for the academic year 2015-2016 by **Sonia Suresh** a student of **“S.I.C.E.S DEGREE COLLEGE” Ambernath.**

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DECLARATION

I SONIA SURESH, student of S.I.C.E.S COLLEGE OF ARTS, COMMERCE & SCIENCE T.Y.B.M.S hereby declare that I have completed this project on **Financial Scams in India** in the academic year 2015-2016. The information submitted is true and original to the best of my knowledge.

SIG

NATURE OF THE STUDENT

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The successful completion of the project on

“FINANCIAL SCAMS OF INDIA”

Has been a great learning experience.

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Thank you once again for your precious time and support.

SIGNATURE

(SONIA SURESH)

The Scope of Financial scam in India

Without accurate and reliable estimates of fraud, it is difficult to understand what works or does not work to protect victims from harm. Unfortunately, current estimates of fraud prevalence vary widely, making it difficult for law enforcement, researchers, and policymakers to appreciate the true scope of the problem.

HIGHLIGHTS

- Complaint data, though increasing over time, still vastly underestimate the scope of the problem due to the large number of victims who do not report to authorities. For example,

An estimated 37.8 million incidents of fraud took place in 2011, but just over 1 million fraud complaints were received by authorities.

An estimated \$40 – \$50 billion is lost to fraud annually, but victims reported losing \$1.4 billion to fraud in 2012, as measured by complaints filed with the Consumer Sentinel Network.

- Clarifying the proper reporting mechanism(s) for consumers would be valuable in reducing the current levels of under-reporting.
- Survey estimates of fraud victimization may vary for many reasons, including different sample populations, different prevalence periods, different definitions of fraud, and different question wording.
- Researchers and practitioners can look to issues of measurement in other crime domains (like rape, child abuse, and elder abuse) to learn valuable lessons about encouraging reporting behavior and obtaining accurate prevalence estimates.

The objectives of this study are

- a) To examine some of the major misdemeanors this perpetuated in the financial system in 1991 and 2001 in India.
- b) Understand the financial regulatory measures which have been adopted after the 1991 share scam in India and why despite such measures adopted a security scam has recurred in 2001.
- c) Examine the theoretical structure of corporate governance for analyzing security scams that have occurred in the 1990s and the new millennium.

INDEX

CHAPT ER	TOPIC	PAGE NO.
	PREFACE	1
1	INTRODUCTION OF FINANCIAL SCAMS IN INDIA	3
2	HARSHAD MEHTA SCAM	4
3	2G SPECTRUM POLITICAL SCAM	8
4	TELGI SCAM	13
5	SATYAM SCAM	16
6	HAWALA SCAM	20
7	COMMONWEALTH GAME SCAM	25
8	COALGATE SCAM	37
9	CASE STUDY	57
10	CONCLUSION	74
	WEBLIOGRAPHIES	76

PREFACE

Corporate governance is the mechanism by which values, principles, management policies and procedures of a company are made manifest to the corporate public. It is concerned with both the internal aspects of the company, such as internal controls, and the external aspects such as an organization's relationship with its shareholders and other stakeholders. Good transparent corporate governance ensures that the company is managed and monitored in a responsible manner.

The word corporate governance has become a buzzword these days because of two factors. The fact is that after the collapse of the Soviet Union and the end of the cold war in 1990, it has become the conventional wisdom all over the world that market dynamics must prevail in economic matters. The concept of government controlling the commanding heights of the economy has been given up. This, in turn has made the market the most decisive factor in setting economic issues. The second factor is the thrust given to globalization because of the setting up of the WTO. Globalization involves the movement of the four economic parameters namely, physical capital in terms of plant and machinery, financial capital in terms of money invested in capital markets or in FDI, technology and labour moving across national borders. The pace of the movement of financial capital has become greater because of the pervasive impact of information technology and the world having become a global village.

Corporate governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words it is directed to ensure that the not only the capital of the investors is handled effectively and adds to the creation of

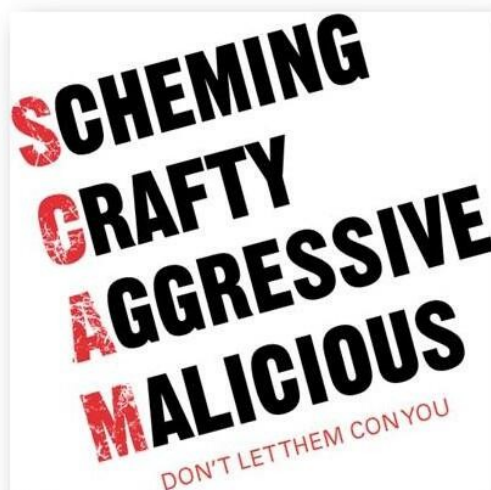
wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard.

Implementation of corporate governance has depended upon laying down explicit codes, which enterprises and the organizations are supposed to observe. The Cadbury's code in United Kingdom was the starting point, which led to a number of other codes. In India itself we have the Kumarmangalam Birla code as a result of the committee headed by him at the behest of SEBI. Earlier we had the CII coming up with the code of corporate governance recommended by the committee headed by Shri Rahul Bajaj. The codes, however, can only be a guideline. Ultimately effective corporate governance depends upon the commitment of the people in the organization.

1

In the Indian context, the need for corporate governance has been highlighted because of the scams occurring frequently ever since. We started to follow the policy of liberalization in 1991. We had the Harshad Mehta Scam, Ketan Parikh Scam, UTI Scam, Vanishing Scam, Bhansali Scam and so on. In this connection, we must be able, to induct global standards so that at least, while the scope for scams may still exist, we can reduce the scope to the minimum. In the light of the above, the present study attempts to evaluate the whole mechanism of corporate governance in Indian financial sector with a view to unearth the 'strengths' and 'weaknesses' of the practices adopted so far and to make 'suggestions' for further improvement.

INTRODUCTION OF FINANCIAL SCAM IN INDIA



What is Financial Fraud?

Financial fraud can be broadly defined as an intentional act of deception involving financial transactions for purpose of personal gain. **Fraud is a crime**, and is also a civil law violation. Many fraud cases involve complicated financial transactions conducted by 'white collar criminals' such as business professionals with specialized knowledge and criminal intent.

Fraudsters can contact their potential victims through many methods, which include face- to-face interaction, by post, phone calls, sms and/or emails. The difficulty of checking identities and legitimacy of individuals and companies, the ease with which fraudsters can divert visitors to dummy sites and steal personal financial information, the international

dimensions of the web and ease with which fraudsters can hide their true location, all contribute to making internet fraud the fastest growing area of fraud.

"Get-Rich-Quick" schemes are plans which offers high or unrealistic rates of return for a small amount of investment while at the same time promising that such investment is easy and risk-free. Generally speaking, if the offer is too good to be true, members of the public are advised to be wary and should make an effort to verify the validity of the promised high returns. Most get-rich-quick schemes also assert that wealth can be generated with little skill, effort, or time. Illegal schemes or scams are often advertised through spam or 'cold-calling'. Some forms of advertising for these schemes MARKET books or compact discs about getting rich quick rather than asking participants to invest directly in a concrete scheme. It is clearly possible to get rich quickly if one is prepared to accept very high levels of risk - this is the premise of the gambling industry.

3

Harshad Mehta Scam



Harshad M Mehta was an Indian stockbroker, well known for his wealth and for having been charged with numerous financial crimes that took place in 1992. Of the 27 criminal charges brought against him, he was only convicted of one, before his death at age 47 in 2001. It was alleged that Mehta engaged in a massive stock manipulation scheme financed by worthless bank receipts, which his firm brokered in "ready forward" transactions between banks. Mehta was convicted by the Bombay High Court and Supreme Court of India[2] for his part in a financial scandal valued at ₹49.99 billion (US\$750 million) which took place on the Bombay Stock Exchange (BSE). The scandal exposed the loopholes in the Bombay Stock Exchange (BSE) transaction system and SEBI further introduced new rules to cover those loopholes. He was tried for 9 years, until he died in late 2001.

AT THE BEGINNING

Harshad Mehta was born on 29 July 1954,[5] at Paneli Moti, Rajkot district, in a Gujarati Jain family. His early childhood was spent in Kandivali, Mumbai, where his father was a small-time businessman. Later, the family moved to Raipur, Chhattisgarh, where Mehta studied in Kalibadi Higher Secondary School.

4

Profession

Over a period of ten years, beginning 1980, he served in positions of increasing responsibility at a series of brokerage firms. By 1990, he had risen to a position of prominence in the Indian securities industry. He established his own firm, with the financial assistance of associates, when the BSE auctioned a broker's card. It was at this time that he began trading heavily in the shares of Associated Cement Company (ACC). The price of shares in the cement company eventually rose from Rs. 200 to

nearly 9000. Mehta justified trading in ACC shares by stating that the stock had been undervalued, and that the market had simply corrected when it revalued the company at a price equivalent to the cost of building a similar enterprise; the so-called "replacement cost theory".

In criminal indictments later brought by the authorities, it was alleged that Mehta and his associates then undertook a much broader scheme, which resulted in manipulating the rise in the Bombay Stock Exchange. The scheme was financed by supposedly collateralised bank receipts, which were in fact uncollateralized. The bank receipts were used in short-term bank-to-bank lending, known as "ready forward" transactions, which Mehta's firm brokered. By the second half of 1991 Mehta had earned the nickname of the 'Big Bull', because he was said to have started the Bull Run in the stock market.

Conviction

Exploiting several loopholes in the banking system, Mehta and his associates siphoned off funds from inter-bank transactions and bought shares heavily at a premium across many segments, triggering a rise in the BSE SENSEX. When the scheme was exposed,

banks started demanding their money back, causing the collapse. He was later charged with 72 criminal offences, and more than 600 civil action suits were filed against him.

He was arrested and banished from the stock market with investigators holding him responsible for causing a loss to various entities. Mehta and his brothers were arrested by the CBI on 9 November 1992 for allegedly misappropriating more than 2.8 million shares (2.8 million) of about 90 companies, including ACC and Hindalco, through forged share transfer forms. The total value of the shares was placed at ₹2.5 billion (US\$38 million).

5

Mehta made a brief comeback as a stock market guru, giving tips on his own website as well as a weekly newspaper column. However, in September 1999, Bombay High Court convicted and sentenced him to five years rigorous imprisonment and a fine of ₹25000 (US\$380).[9] On 14 January 2003, Supreme Court of India confirmed High Court's judgement. It was a 2:1 majority judgement. While Justice B.N. Agrawal and Justice Arijit Pasayat upheld his conviction, Justice M.B. Shah voted to acquit him.

Allegations of payment of bribe to India's prime minister

Mehta again raised a furor on 16 June 1993 when he made a public announcement that he had paid Rupees 1 Crore to the then Congress president and Prime Minister, Mr. P.V. Narasimha Rao, as donation to the party, for getting him off the scandal case.

Exposure of 1992 Securities Scam

- On April 23, 1993, Journalist Sucheta Dalal exposed Mehta's Scam.
- She is columnist in Times of India.



Sucheta dalal

Sucheta Dalal reveals Mehta's Scam

The crucial mechanism through which the scam was affected was the ready forward (RF) deal. The RF is in essence a secured short-term (typically 15-day) loan from one bank to another. Crudely put, the bank lends against government securities just as a pawnbroker lends against jewellery. The borrowing bank actually sells the securities to the lending bank and buys them back at the end of the period of the loan, typically at a slightly higher price. It was this ready forward deal that Mehta and his accomplices used with great success to channel money from the banking system.

Sucheta Dalal, the Times of India

6

IMPACT ON OTHERS

- Mehta had by then swindled the banks of a staggering Rs.4000crore.
- Bribery case on P.V.Narshimha Rao.
- Stay on liberalization.
- Holding banks of fake BR had to face losses.
- BR was removed by RBI.
- The chairman of the Vijaya bank committed suicide over.

Death of Harshad Mehta

Mehta was under Criminal custody in the Thane prison. Mehta complained of chest pain late at night and was admitted to the Thane civil Hospital. He died following a brief heart ailment, at the age of 47, on 31 December 2001. He is survived by his wife and one son. He died with many litigations still pending against him. He had altogether 28 cases registered against him. The trial of all except one, are still continuing in various courts in the country. Market watchdog, Securities and Exchange Board of India, had banned him for life from stock market-related activities.

2G Spectrum Scam

What is 2G?

2G means: "Second Generation Wireless Telephone Technology"

2G is relatively new technology in field of mobile.

2G is not just a network but a good technology.

2G spectrums was the revolutionary technology in their time it comes with some more benefits.

- SMS facility was first started with network.
- Safe for use, means security level was high.
- Environmental conditions were very good for this network & no network shortage was there.

INTRODUCTION

The 2G spectrum scam was a telecommunications scam and political scandal in which politicians and government officials under the Congress government undercharged mobile telephone companies for frequency allocation licenses, which they then used to create 2G spectrum subscriptions for cell phones. The difference between the money collected and that mandated to be collected was estimated by the Comptroller and Auditor General of India at ₹1766.45 billion (US\$27 billion), based on 2010 3G and BWA spectrum-auction prices. In a charge sheet filed on 2 April 2011 by the Central Bureau of Investigation (CBI, the investigating agency), the loss was pegged at ₹309845.5 million (US\$4.7 billion). In a 19 August 2011 reply to the CBI, the

Telecom Regulatory Authority of India (TRAI) said that the government had gained over ₹30 billion (US\$450 million) by selling 2G spectrum. Minister of Communications & IT Kapil Sibal said in a 2011 press conference that "zero loss" was incurred by distributing 2G licenses on a first-come-first-served basis.

Although the policy for awarding licenses was first-come, first-served, Raja changed the rules so it applied to compliance with conditions instead of the application itself. On 10 January 2008, companies were given only a few hours to supply Letters of Intent and payments; some executives were allegedly tipped off by Raja, and they (and the minister) were imprisoned. In 2011 Time ranked the scam second on their "Top 10 Abuses of Power" list, behind the Watergate scandal.



On 2 February 2012, the Supreme Court of India ruled on public interest litigation (PIL) related to the 2G spectrum scam. The court declared the allotment of spectrum "unconstitutional and arbitrary", cancelling the 122 licenses issued in 2008 under

9

A. Raja (Minister of Communications & IT from 2007 to 2009), the primary official accused. According to the court, Raja "wanted to favor some companies at the cost of the public exchequer" and "virtually gifted away important national asset." The zero-loss theory was discredited on 3 August 2012 when, after a Supreme Court directive, the government of India revised the base price for 5-MHz 2G spectrum auctions to ₹140 billion (US\$2.1 billion), raising its value to about ₹28 billion (US\$420 million) per MHz (near the Comptroller and Auditor General estimate of ₹33.5 billion (US\$510 million) per MHz).

Accused parties

The selling of the licenses drew attention to three groups: politicians and bureaucrats, who had the authority to sell licenses; corporations buying the licenses, and professionals who mediated between the politicians and corporations.

PERSONS INVOLVED IN 2G SPECTRUM SCAM

- Nira Radia
- M.Karunanidhi
- A Raja (Telecom minister)
- Arun Jaitley
- Barkha dutt (Journalist)
- Arun Shourie
- Pramod Mahajan

Politicians

The following charges were filed by the CBI and the Directorate General of Income Tax Investigation in the Special CBI Court.

A. Raja

Political career: Four-time DMK member of Parliament (present constituency Nilgiris, Tamil Nadu), former Union Minister of State for Rural Development (1999) and Health and Family Welfare (2003), former Union Cabinet Minister for Environment and Forests (2004) and Communication and Information Technology (2007 and 2009)

10

M. K. Kanimozhi

Political career: Daughter of five-time Chief Minister of Tamil Nadu M. Karunanidhi. A DMK member of Parliament, representing Tamil Nadu in the Rajya Sabha

Bureaucrats

A number of bureaucrats were named in the CBI charge sheet filed in its Special Court.

Siddharth Behura

Position: Telecom Secretary when the licenses were granted.

RK Chandolia

Position: Raja's private secretary when the licenses were granted

Executives

A number of executives were accused in the CBI charge sheet.

Sanjay Chandra

Position: Former Unitech Wireless managing director

Gautam Doshi

Position: Managing director, Reliance Anil Dhirubhai Ambani Group

Hari Nair

Position: Senior vice-president, Reliance Anil Dhirubhai Ambani Group

Vinod Goenka

Position: Managing director, DB Realty and Swan Telecom

Shahid Balwa

Position: Corporate promoter, DB Realty and Swan Telecom

Sharath Kumar

Position: Managing director, Kalaingar TV

11

Ravi Ruia

Position: Vice-chair, Essar Group

Anshuman Ruia

Position: Director, Essar Group



STEPS TAKEN BY GOVERNMENT AFTER SCAM

Government of India take some important steps looking forward in this Scan:

- Set up a special branch of CBI to look into the matter.
- Telecom Minister resigns his post after Scan.
- A Raja also arrested by the Police.
- CBI is also interacting with the brothers of A Raja and also some business men.

Media role

Main article: Radia tapes controversy

OPEN and Outlook reported that journalists Barkha Dutt (editor of NDTV) and Vir

Sanghvi (editorial director of the Hindustan Times) knew that corporate lobbyist Nira Radia influenced Raja's appointment as telecom minister,[84] publicising Radia's phone conversations with Dutt and Sanghvi[85][86] when Radia's phone was tapped by the Income Tax Department. According to critics, Dutt and Sanghvi knew about the link between the government and the media industry but delayed reporting the corruption

12

ABDUL KARIM TELGI SCAM



TELGI SCAM

Abdul Karim Telgi (born 1956) is a convicted Indian counterfeiter. He earned money by printing counterfeit stamp paper in India. He cited Sharad Pawar, then the chief of NCP party, name in relation to a ₹600 billion (US\$9.1 billion) stamp-paper scam, during a narcoanalysis filmed by various Indian news channels, wherein he also mentioned NCP leader, and former Deputy Chief Minister of Maharashtra Chhagan Bhujbal.

Earlier

Telgi's mother was Shariefabee Ladsaab Telgi, and his father was an employee of Indian Railways.[3] His father died while he was young. Telgi paid for his own education at Sarvodaya Vidyalaya, an English medium school, by selling fruit and vegetables on trains.

Eventually, he moved to Saudi Arabia. Seven years later, he returned to India, at which time he began a career in counterfeiting, originally focusing on fake passports.

13

HOW BIG A SCAM? Rs 23,000 crore stamp scam was running for 10 years through 72 centres in 9 states	IN THE NET 6 police officers arrested. Sridhar Vagal, Mumbai Joint Commissioner of Police, allegedly took Rs 72 lakh from Telgi. Mumbai police commissioner questioned	UNDER THE SCANNER Mumbai police commissioner; former Maharashtra CM Deshmukh; Dy CM Chhagan Bhujbal. Phone records may rope in big names in Karnataka as well
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Counterfeiting

Telgi moved to more complex counterfeiting when he began to counterfeit stamp paper. He appointed 350 people as agents who sold the fakes to bulk purchasers, including banks, insurance companies, and share-broking firms. The size of the scam was estimated to be more than ₹320 billion (US\$4.8 billion).[4] One aspect of the scandal that caused much concern was that it required the involvement of many police officers and other government employees including Nikhil Khotari. For example, one Assistant Police Investigator was found to have a net worth of over ₹1 billion (US\$15 million), despite making a salary of only ₹9,000 (US\$140) per month.

On 17 January 2006, Telgi and several associates were sentenced to 30 years rigorous

imprisonment. On 28 June 2007, Telgi was sentenced to rigorous imprisonment for 13 years for another aspect of the scandal. He was also fined ₹10 billion (US\$150 million). The Income Tax Department requested that Telgi's property be confiscated to pay the fine

14

Movie Related To The scam

Mudrank (The Stamp) is a film based on the stamp scandal. It was finished in 2008, but Telgi filed legal challenges to prevent its release. Telgi alleged that the details covered in the film would damage his legal appeals. As of August 2014, the film has not yet been released.

-

'Telgi got AIDS from cops'

BANGALORE: The story of multi-crore fake stamp paper racket and its kingpin, Abdul Karim Telgi alias Kareem Lala took an interesting twist on Wednesday with Telgi's counsel in Bangalore charging the police team probing the stamp case of injecting HIV positive virus to his client and the police making an outright denial that Telgi had contracted AIDS much before his arrest in 2001.

Abdul Karim Telgi has proved HIV positive, much before his arrest in November 2001 and allegations being made by Telgi's counsel M.T.Nanaiah that his client has been injected with HIV virus by the police after his arrest are false.

This While vehemently denying the charge of Telgi's counsel, Srikumar said, "We have evidence to this effect and we will prove it in the court of law at an appropriate time. Let Nanaiah sue us. We will face him in the court," Srikumar maintained.

Justifying his was disclosed to the Times of India on Wednesday by STAMPIT chief in Karnataka and ADGP R Srikumar who is heading the team probing the stamp paper racket.

statement, Srikumar said "Some time ago, few newspapers had carried reports that Telgi

is an AIDS patient and he contracted it before his arrest.

"Telgi's personal doctor in Mumbai is aware of the fact that Telgi has contracted HIV positive virus in 2000 itself. His lawyer is making "empty noise" to see that his client is out of jail and kept in the comforts of a hospital, where threat to Telgi's life is more compared to in the prison. In the prison, he is being treated as a high-risk prisoner and kept in an isolated cell.

15

SATYAM SCAM



INTRODUCTION

Ramalinga Raju (born 16 September 1954) was the former chairman of Satyam Computer Services from 1987 and till 7 January 2009, stepping down admitting to embezzlement of financial figures of the company to the tune of Rs 71.36 billion (approximately US\$1.5 billion), including Rs 50.40 billion (approximately US\$1 billion) of non-existent cash and bank balances



Career

In 1987, Raju incubated Satyam Computer Services along with one of his brothers-in-law, DVS Raju at P&T colony in Secunderabad and 20 employees. In 1991, Satyam won its first fortune 500 client – John Deere. Raju navigated Indian bureaucracy to obtain the required clearance to transmit data from India.[citation needed] Satyam became the pioneer of outsourcing from India.[citation needed] The company went public in 1992._

16

Raju was enrolled in the Owner/President Management (OPM) program at Harvard Business School in the 1990s. In an interview with Deccan Chronicle way back in 1998, Raju was talking about Satyam's ambition of operating out of 50 countries with an employee count of more than 50,000. In 1999, Raju launched Satyam Infoway (Sify) as Satyam's internet subsidiary, thereby becoming an early participant in the Indian internet service market. Sify was later sold to Mr. Raju Vegesna.

Business and politics

In September 1995, as Raju was building Satyam, Andhra Pradesh had a new Chief Minister, Chandra Babu Naidu, who wanted to bring in change and saw IT as a strategic industry to focus on and Mr. Raju became instrumental in shaping the state's information technology initiatives like 'Mee Kosam'. Raju had unfettered access to the Chief Minister of Andhra Pradesh at a very personal level. Research into his life has exposed close links between business and politics.

Accounting scandal

Raju resigned from the Satyam board after admitting to falsifying revenues, margins and over ₹5,000 crore of cash balances as the company. The Indian affiliate of

PricewaterhouseCoopers, the company's auditors, appears to have certified the company had \$1.1 Billion in cash when the real number was \$78 million.

Just a few months before the scandal broke out, Mr. Raju tried to persuade investors by claiming that the company is sound and that past October he surprised analysts with better-than-expected results, claiming that "the company had achieved this in a challenging global macroeconomic environment, and amidst the volatile currency scenario that became reality"

A botched acquisition attempt involving Maytas in December 2008 led to corporate governance concerns among Indian investors and plunge in the share price of Satyam. In January 2009, Raju indicated that Satyam's accounts had been falsified over a number of years. Total assets on Satyam's balance sheet trebled during 2003-07 to

\$2.2 billion. He confessed to an accounting fraud to the tune of ₹7,000 crore or \$1.5 billion and resigned from the Satyam board on 7 January 2009. Satyam was purchased by Tech Mahindra in April 2009 and renamed Mahindra Satyam.

17

In his letter, Raju explained his modus operandi to something that started as a single lie but led to another as "What started as a marginal gap between actual operating profit and the one reflected in the books continued to grow over the years. It has attained unmanageable proportions as the size of the company's operations grew over the years.". Raju described how an initial cover-up for a poor quarterly performance escalated: "It was like riding a tiger, not knowing how to get off without being eaten."

Raju and his brother, B Rama Raju, were then arrested by the CID Andhra Pradesh police headed by Mr. V S K Kaumudi, IPS on charges of breach of trust, conspiracy, cheating, falsification of records. Raju may face life imprisonment if convicted of misleading investors. Raju had also used dummy accounts to trade in Satyam's shares, violating the insider trading norm.

The Andhra Pradesh government attached 44 properties belonging to the family members of the promoters of Satyam Computers in the case against Raju.

It has now been alleged that these accounts may have been the means of siphoning off the missing funds. Raju has admitted to overstating the company's cash reserves by USD\$ 1.5 billion. Raju was hospitalized in September 2009 following a minor heart attack and underwent angioplasty. Raju was granted bail on condition that he should report to the local police station once a day and that he shouldn't attempt to tamper with the current evidence.

This bail was revoked on 26 October 2010 by the Supreme Court of India and he has been ordered to surrender by 8 November 2010. The people of his native village, Garagaparru, hail the development works undertaken by the Byrraju Foundation, the charitable arm of Satyam.

Investigation by the authorities revealed that Raju led a lavish lifestyle including 321 pairs of shoes, 310 belts, 13 cars including Mercedes and BMWs. His house contained a telescope worth £140,000. It was also claimed that he donated huge quantities of gold to temples in Andhra Pradesh and possessed villas and properties in 63 countries.

18

Court proceedings

In November 2010, Raju surrendered after the Supreme Court in August cancelled the bail granted to him by a lower court in Hyderabad, where Satyam is based.

The Supreme Court on 4 November 2011 granted bail to Raju since the Central Bureau of Investigation (CBI) failed to file charges on time. According to Indian law, a charge-sheet against an accused must be filed within 90 days of arrest.

On 28 October 2013, the Enforcement directorate filed a chargesheet against Raju and 212 others. The filed report states that "it transpires that the accused resorted to inter-connected transactions, so as to ensure that crime proceeds were distanced from its initial beneficiaries, and laundered the said proceeds under the cover of the corporate veil, with an ulterior motive to project the properties so acquired as untainted ones".

On 9 April 2015, Ramalinga Raju and his brothers were sentenced to 7 years in jail, fined Rs. 5.5 crore.

New CEO and special advisors

On 5 February 2009, the six-member board appointed by the Government of India named A. S. Murthy as the new CEO of the firm with immediate effect. Murthy, an electrical engineer, has been with Satyam since January 1994 and was heading the Global Delivery Section before being appointed as CEO of the company. The two-day-long board meeting also appointed Homi Khusrokhhan (formerly with Tata Chemicals) and Partho Datta, a Chartered Accountant as special advisors.

Acquisition by Mahindra Group

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

19

HAWALA SCAM



HAWALA SCAM

INTRODUCTION

The **Hawala scandal** or **hawala scam** was an Indian political scandal involving payments allegedly received by politicians through four Hawala brokers, the Jain brothers. It was a US\$18 million bribery scandal that implicated some of the country's leading politicians.

In 1991, an arrest linked to militants in Kashmir led to a raid on hawala brokers, revealing evidence of large-scale payments to national politicians. Those accused included L. K. Advani, V.C. Shukla, P. Shiv Shankar, Sharad Yadav, Balram Jakhar, and Madan Lal Khurana. The prosecution that followed was partly prompted by a public interest petition, and yet the court cases of the Hawala scandal eventually all collapsed without convictions. Many were acquitted in 1997 and 1998, partly because the hawala records (including diaries) were judged in court to be inadequate as the main evidence. The Central Bureau Of Investigation's role was criticised.

20

In concluding the Vineet Narain case, the Supreme Court of India directed that the central vigilance commission should be given a supervisory role over the CBI.

The Jain Hawala story was broken by two Delhi-based journalists Ram Bahadur Rai and Rajesh Joshi, working for the Hindi daily Jansatta. Then Vineet Narain, the journalist filed public interest litigation in the Supreme Court of India.

HAWALA SCAM

- ◆ HAWALA is the biggest ever scandal in the world which involved over 115 top politicians and bureaucrats of the country.
- ◆ The **Hawala scandal** or **Hawala scam** was an Indian political scandal involving payments allegedly received by politicians through four Hawala brokers, the Jain brothers.

- ◆ It was a US\$18 million bribery scandal that implicated some of the country's leading politicians.

How it came out?

- The case broke out on march 1991, with the arrest of two kashmiri militants, Shahbuddin Ghauri and Ashfaq Hussain Lone, in march 1991.
- They had, in turn, led the CBI to high-profile hawala operators Shambhu Dayal Sharma and Moolchand Shah. It was the testimony of the hawala operators that led to the unfolding of the case.
- The hawala operators, Sharma and shah, told the agency during interrogation that they had been working for the jain brothers, N.K. Jain and S.K.Jain.
- This led to the immediate arrest of the Jain Brothers. In his 1995 confeesion, SK Jain alleged that he had paid a number of politicians, including the then Prime Minister, P.V Narashima Rao.
- Vineet Narian was responsible for bringing the scam to light.

21

POLITICIANS INVOLVED

- ◆ PV Narasimha Rao
- ◆ Lal Krishna Advani
- ◆ VC Shukla
- ◆ P Shiv Shankar
- ◆ Sharad Yadav

- ◆ Balram Jakhar
- ◆ Madan Lal Khuranna
- ◆ Kalpnath Rai
- ◆ Madhavrao Scindia
- ◆ Arjun Singh
- ◆ Ajit Panja
- ◆ CK Jaffer Sharief
- ◆ Buta Singh
- ◆ S.R Bommai
- ◆ Yashwant Sinha
- ◆ Devi Lal
- ◆ Arif Mohammad Khan

WHO GOT WHAT AS PER JAIN DIARY

◆ LK Advani	Rs. 98.5 lakh	Bhartiya Janata Party
◆ Arif Mohd Khan	Rs. 7.5 lakh	Independent
◆ Arjun Singh Tiwari	Rs. 10.5 lakh	Congress
◆ Yashwant Sinha	Rs. 21 lakh	Bhartiya Janata Party
◆ Kalpnath Roy	Rs. 54.7 lakh	Congress
◆ Devi Lal	Rs. 50 lakh	SJP
◆ Pradeep Kumar	Rs. 14.6 lakh	SJP
◆ VC Shukla	Rs. 65.8 lakh	Congress

◆ Balram Jhakar	Rs. 61 lakh	Congress
◆ Madhavrao Scindia	Rs. 75 lakh	Congress
◆ RK Dhawan	Rs. 50 lakh	Congress
◆ Sharad Yadav	Rs. 5 lakh	Janata Dal
22		
◆ Jafer Shareef	Rs. 15 lakh	Congress
◆ Buta Singh	Rs. 7.5 lakh	Congress
◆ Kamal Nath	Rs. 22 lakh	Congress
◆ Arvin Netam	Rs. 50 thousand	Congress
◆ AK Sen	Rs. 20 Lakh	Congress
◆ Natwar Singh	Rs. 23 lakh	Congress
◆ LP Shahi	Rs. 5 lakh	Congress
◆ Ranjeet Singh	Rs. 5 lakh	Congress
◆ ND Tiwari	Rs. 26.1 lakh	Congress
◆ Harmohan Dhawan	Rs. 1.1 crore	SJP
◆ Kailash Joshi	Rs. 10 lakh	Bhartiya Janata Party
◆ BD Dahkne	Rs. 10 lakh	Bhartiya Janata Party
◆ Madan Lal Khurana	Rs. 3 lakh	Bhartiya Janata Party

PROSECUTION

- CBI's entire case collapsed in the court.
- Special CBI Judge V.B.Gupta held that none of the statements and confessions of the accused was admissible in court since they were given to the CBI.

- He also stated that he found there was nothing that could be converted into legal proof against the accused, and that the crucial diaries were inadmissible evidence. Since then the case have gone out the door, one by one.
- The case got a momentary boost up as a result of a PIL (Public Interest Litigation) filed by Vineet Narain (An Indian Journalist) in the supreme court.
- He also wrote a book on the case entitled 'HAWALA KE DESHDROHI' OR 'DANGEROUS SILENCE'.
- Jains are still in trouble but with the Income Tax Department and they have a tax liability of Rs. 79 crores for five assessment years and their appeal is pending with the I-T tribunal in Nagpur.
- On 14th july 1997, Justice JS Verma announced in the open court that he and his brother judge, justice SC Sen were being persistently pressurized to hush up the hawala case.

23

- A shocked nation demanded that the name of the person having committed such grave contempt of the Apex Court be exposed and punished.
- Surprisingly two years later, on 15th July 1999, Dr. Jolly Bansal confessed before the media persons in Delhi that he was involved in managing the two judges. He said so in a sworn affidavit.
- The devastating affidavit made serious allegations of immoral practices against Justice Verma and Justice Sen.
- Surprisingly neither defamation nor contempt of court proceedings were initiated against Dr. Bansal.
- Instead an attempt to physically eliminate him was made in Delhi. The matter is pending in Delhi High Court

LEGAL PROVISIONS TO CURB HAWALA

- Hawala is prohibited by the Foreign Exchange Management Act, 1999.
- Prevention of Money Laundering Act, 2002, makes laundering an offense punishable with imprisonment, fine and confiscation of properties involved.
- Conservation of Foreign Exchange and Prevention of Smuggling Act, 1974, authorize detention of people, including foreigners; Union of India and others Vs. Venkateshan S and others allowed detention of hawala suspects.
- Over – invoicing of imports and under-invoicing of exports come under the provisions of Customs Act 1962.
- RBI'S “know your customer” guidelines, 2004, forces banks to set up processes to check money laundering.
- Prevention of Terrorism Act, 2002, has provisions to curb hawala trade, which may be used to finance terrorists.

COMMONWEALTH GAME SCAM

INTRODUCTION OF COMMONWEALTH



The **Commonwealth Games** (known as the **British Empire Games** from 1930–1950, the **British Empire and Commonwealth Games** from 1954–1966, and **British Commonwealth Games** from 1970–1974)¹ is an international, multi-sport event involving athletes from the Commonwealth. The event was first held in 1930, and, with the exception of 1942 and 1946, which were cancelled due to World War II, has taken place every four years since then.

25

The games are overseen by the Commonwealth games federation (CGF), which also controls the sporting program and selects the host cities. A host city is selected for each edition. 18 cities in seven countries have hosted the event. Apart from many Olympic sports, the games also include some sports that are played predominantly in Commonwealth countries, such as lawn bowls and netball.

Although there are 53 members of the Commonwealth of Nations, 71 teams participate in the Commonwealth Games, as a number of dependent territories compete under their own flag.

The four Home Nations of the United Kingdom—England, Scotland, Wales, and Northern Ireland—also send separate teams. Only six countries have attended every Commonwealth Games: Australia, Canada, England, New Zealand, Scotland, and Wales. Australia has been the highest achieving team for twelve games, England for seven, and Canada for one.

HISTROY OF COMMONWEALTH

A sporting competition bringing together the members of the British Empire was first proposed by the John Astley Cooper in 1891, when he wrote an article in *The Times* suggesting a "Pan-Britannic-Pan-Anglican Contest and Festival every four years as a means of increasing goodwill and good understanding of the British Empire". The John Astley Cooper Committees worldwide (e.g. Australia) helped Pierre de Coubertin to get his international Olympic Games off the ground fast. In 1911, the Festival of the Empire was held at The Crystal Palace in London to celebrate the coronation of King George V. As part of the festival, an Inter-Empire Championships was held in which teams from Australia, Canada, South Africa, and the United Kingdom competed in events such as boxing, wrestling, swimming, and athletics.

In 1928, Melville Marks Robinson of Canada was asked to organize the first British Empire Games; these were held in 1930, in Hamilton, Ontario, and women competed in the swimming events only. From 1934, women also competed in some athletics events.

The first Commonwealth Paraplegic Games were held alongside the Commonwealth Games from 1962 to 1974. Athletes with a disability were then first included in exhibition events at the 1994 Commonwealth Games in Victoria, British Columbia, and, at the 2002 Commonwealth Games, they were included as full members of their national teams, making them the first fully inclusive international multi-sport games. This meant that results were included in the medal count.

The Empire Games flag was donated in 1931 by the British Empire Games Association of Canada. The year and location of subsequent games were added until the 1950 games. The

name of the event was changed to the British Empire and Commonwealth Games and the flag was retired as a result.

MASTERMIND OF COMMONWEALTH SCAM



Suresh Kalmadi (born 1 May 1944) is an Indian politician and senior sports administrator. He was formerly a member of the Indian National Congress. He was a member of parliament from Pune till May 2014. He is alleged to have been involved in corrupt practices in relation to the 2010 Commonwealth Games during his tenure as president of Association and chairman of Common Wealth Games 2010. He was charged with conspiracy, forgery, misconduct and under provisions of the Prevention of Corruption Act and later arrested for the same in April 2014, but as has yet not faced trial.

27

POLITICAL CAREER OF KALMADI

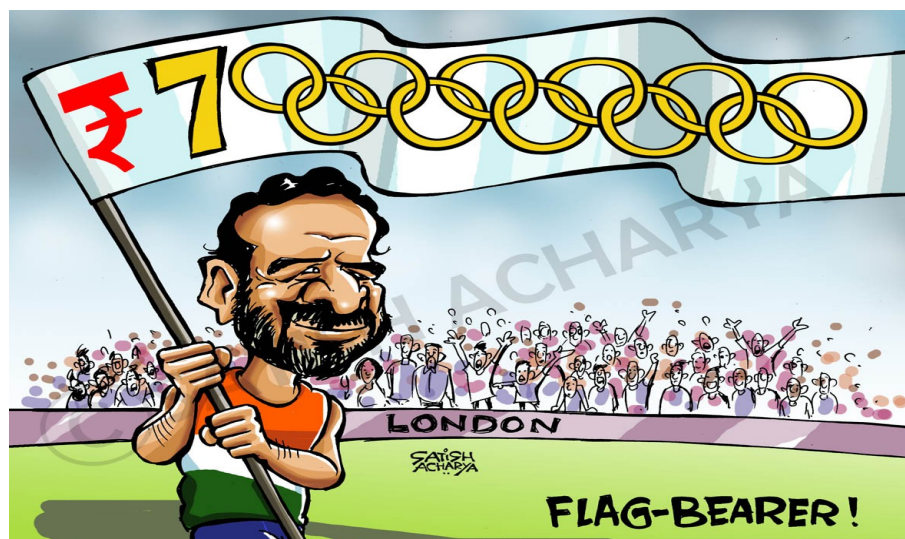
In 1977, Kalmadi became the President of the Indian Youth Congress, Pune, and the very next year took over President-ship of the Youth Congress, Maharashtra, a post he held from 1978 to 1980. In 1980, as the President of the Maharashtra Athletics Association, Kalmadi undertook the selection trials for the Marathon team to represent the country at the Moscow Olympics. This soon led to the establishment of the Pune International Marathon. He was a member of the Rajya Sabha for three terms from 1982 to 1996, and again in 1998.

Kalmadi took over as the Chairman of the Maharashtra Tourism Development Corporation and in 1989 started the Pune Festival.

He was also elected to the 11th Lok Sabha in 1996, and to the 14th Lok Sabha in 2004. During the tenure of P. V. Narasimha Rao as the Prime Minister of India, Suresh Kalmadi served as the Minister of State for Railways from 1995 to 1996. He presented the Railway Budget then as Union Minister of State for Railways, the only MoS to do so.

Kalmadi served as the President of the Indian Olympic Association from 1996 to 2012. He also served as the president of Asian Athletics Association from 2000 to 2013 and was named its *Life President* in 2015.

CONTROVERSY



Mr Kalmadi, as the Indian Olympic Association, signed an agreement to bring the Formula One Grand Prix to India in 2007. Later that year, the UK-based organizers Formula One Administration Limited signed a Rs 1600-crore contract in this regard with India-based JPSK Sports Private Limited. Records obtained by *The Indian Express* showed that Pune-based Sulba Realty Private Limited was a 13% shareholder in JPSK, along with Jaypee Group (74%). Kalmadi's son Sumeer was a director in Sulba Realty at the time, which would have implied a conflict of interest. While the JP in JPSK stood for Jaypee Group, it was alleged that the SK was a reference to Suresh/Sumeer Kalmadi. Records from the Registrar of Companies, India showed that a year after the company was floated, Kalmadi's daughter, Payal Aditya Bhartia, and his son-in-law, Aditya Bhartia, joined JPSK as independent directors.

Commonwealth Games 2010 SCAM



COMMONWEALTH GAMES SCAM



Kalmadi's conduct around the 2010 Commonwealth Games came under scrutiny, with the Central Vigilance Commission(India's anti-corruption organization) asking the Central Bureau of Investigation to probe certain aspects of the games' organization. For this, the opposition demanded Kalmadi's resignation.

On 25 April 2011, CBI arrested former CWG Organizing Committee (OC) chairman Suresh Kalmadi in the Timing-Scoring-Result (TSR) case. He was arrested under Sections 120 B (criminal conspiracy) and 420 (cheating) of the Indian Penal Code.

On 20 May 2011, CBI filed the first charge sheet in a special CBI court against Kalmadi. The CBI alleged that he was the main accused in awarding TSR system contract to a Swiss firm. The charge sheet said, "Kalmadi is the main accused as he was the person with all supreme powers. He had the supreme over-riding powers in the Organizing Committee of the CWG, 2010." In addition to Kalmadi, the CBI named two companies and eight persons including OC former Secretary General Lalit Bhanot and former Director General VK Verma as accused.

Kalmadi's membership of the Indian National Congress Party was suspended after being arrested and charged with corruption. On 26 April 2011 he was sacked from the post of president of the Indian Olympic Association. Later on, on 1 July 2013 he lost the election for the post of President of the Asian Athletics Association, a post which he had held for 13 consecutive years, losing to Qatar's Dahlan Jumaan Al-Hamad.

Suresh Kalmadi was in jail for 10 months and the court asked him to pay a surety amount of Rs. 500,000. Kalmadi was allowed by a Delhi court on 13 July 2012 to go to London for 2012 Olympics. He was, however, restrained on 25 July 2012 by the Delhi High court from participating in the opening ceremony of the London Olympics, saying his participation can cause "embarrassment" to the nation.

He claimed to be suffering from dementia during course of investigation while in Tihar jail. Medical tests were not conclusive to be able to prove his claim

FACTS AND FIGURES

DELHI GOVERNMENT'S CWG RELATED INFRASTRUCTURE SPENDS

Amount directly spent on Commonwealth	Rs. 670 crore on Stadium
Flyovers and bridges, including Barapulla Nallah	Rs. 3700 crore
ROB, RUB at Indira Gandhi International Terminal Network	Rs.450 Crore
BRTS from Ambedkar Nagar to Delhi Gate	Rs. 215 crore
Augmentation of DTC fleet	Rs. 1800 Crore
Construction of Bus Depot	Rs. 900 Crore
Strengthening and Resurfacing of Roads	Rs. 650 Crore
Street-Scalping	Rs. 525 Crore
Road Signage's	Rs. 150 Crore
Metro Connectivity	Rs. 3000 Crore
Total Amount Spent	
ROB (road over bridge) RUB (road under bridge)	

FUNDS ALLOCATED FOR THE VENUES

- The initial planned amount was Rs. 1000 crore but later it was revised to Rs. 2460 crore.
- The amount spend on Jawaharlal Nehru Stadium was Rs. 961 crore.

- On Ferozshah Kotla Stadium was Rs. 85crore.
- On Indira Gandhi Stadium was Rs. 669 crore.
- Dhyan Chand Hockey Stadium was Rs.262 crore.

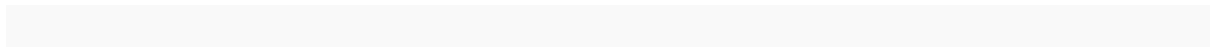
AMOUNT SPENT ON OTHER FACILITIES

- **BUS SERVICE**
- **METRO SERVICE**
- **BALLOON COST AND SERVICE**



SOCIO-ECONOMIC IMPACT

Financial costs



Azim Premji, founder of Wipro Technologies, remarked that India faced several socio-economic challenges and "to instead spend on a grand sporting spectacle sounds like we [India] have got our priorities wrong."

Miloon Kothari, a leading Indian expert on socio-economic development, remarked that the 2010 Commonwealth Games will create "a negative financial legacy for the country" and asked "when one in three Indians lives below the poverty line and 40% of the hungry live in India, when 46% of India's children and 55% of women are malnourished, does spending billions of dollars on a 12-day sports event build national pride or is it a matter of national shame?"

32

One of the outspoken critics of the Games is Mani Shankar Aiyar, former Indian Minister for Youth Affairs and Sports. In April 2007, Aiyar commented that the Games are "irrelevant to the common man" and criticized the Indian government for sanctioning billions of dollars for the Games even though India requires massive investment in social development programs. In July 2010, he remarked that he would be "unhappy if the Commonwealth Games are successful".

Azim Premji called the 2010 Commonwealth Games a "drain on public funds" and said that hosting the high-expense Games in India is not justified given that the country had more important priorities facing it, such as education, infrastructure and public health.

SOCIAL AND ENVIRONMENTAL IMPACT

Nearly 400,000 people from three large slum clusters in Delhi have been relocated since 2004. Gautam Bhan, an Indian urban planner with the University of California-Berkeley, said that the 2010 Commonwealth Games have resulted in "an unprecedented increase in the degree, frequency and scale of indiscriminate evictions without proper resettlement. We haven't seen these levels of evictions in the last five years since the Emergency."

In response to a Right to Information (RTI) application filed for study and statements by civil society groups, a report by the Housing and Land Rights Network (HLRN) - an arm of the Habitat International Coalition - detailed the social and environmental consequences of the event. It stated that *no tolerance zones* for beggars are enforced in Delhi, and the city has arbitrarily arrested homeless citizens under the "Bombay Prevention of Begging Act 1959".

LABOUR LAWS VOILATIONS

Campaigners in India have accused the organisers of enormous and systematic violations of labour laws at construction sites. Human Rights Law Network reports that independent investigations have discovered more than 70 cases where workers have died in accidents at construction sites since work began. Although official numbers have not been released, it is estimated that over 415,000 contract daily wage workers are working on Games projects. Unskilled workers are paid ₹85 (US\$1.30) to ₹100 (US\$1.50) per day while skilled workers are paid ₹120 (US\$1.80) to ₹130 (US\$2.00) INR per day for eight hours of work.

33

Workers also state that they are paid ₹134 (US\$2.00) to ₹150 (US\$2.30) for 12 hours of work (eight hours plus four hours of overtime). Both these wages contravene the stipulated Delhi state minimum wage of ₹152 (US\$2.30) for eight hours of work. Nearly 50 construction workers have died in the past two years while employed on Games projects.

These represent violations of the Minimum Wages Act, 1948; Interstate Migrant Workmen (Regulation of Employment and Condition of Services) Act 1979, and the constitutionally enshrined fundamental rights per the 1982 Supreme Court of India judgement on Asiad workers. The public have been banned from the camps where workers live and work – a situation which human rights campaigners say prevents the garnering of information regarding labor conditions and number of workers

There have been documented instances of the presence of young children at hazardous construction sites, due to a lack of child care facilities for women workers living and working in the labor camp style work sites. Furthermore, workers on the site of the main Commonwealth stadium have reportedly been issued with hard hats, yet most work in open-toed sandals and live in cramped tin tenements in which illnesses are rife. The High Court of Delhi is presently hearing a public interest petition relating to employers not paying employees for overtime and it has appointed a four-member committee to submit a report on the alleged violations of workers' rights.

During the construction of the Games Village, there was controversy over financial mismanagement, profiteering by the Delhi Development Authority and private real estate companies, and inhumane working conditions.

Child labour

Mitu Sengupta, a professor of politics at Ryerson University, Canada, points out that there is a "tradition of using 'urban spectacles' such as the Olympics and World's Fairs to enhance a city's global recognition, image and status, and to push through controversial policy reforms that might otherwise linger in the pending file for years (it is easier to undercut local opposition under the pressure of a fixed deadline and the international spotlight)." She writes that the reforms involved are often "the invention of an affluent, globally connected minority that is relatively detached from local conditions and the local population". The 2010 Commonwealth Games, she says, are being used to invigorate an elite-driven program of urban transformation" that centers on privatization, securitization, and the construction of "monuments.

34

Sengupta expands upon this argument in a subsequent article in Z Magazine. Amita Baviskar, a professor of sociology at the Institute of Economic Growth, University of Delhi, makes a similar argument, on how mega-events, like the Olympics and Commonwealth Games, are used to advance narrow agendas of urban reform that cater to the middle class and rich. She focuses on how, in preparation for the Commonwealth Games, the city's slums were bulldozed in order to make room for shopping malls and expensive real estate.

Sex slavery and prostitution boom

There has been a boom in the number of young girls, mostly from impoverished parts of India, coming to Delhi after being offered jobs by disguised criminals, only to be taken prisoner and forced into sex slavery. The number of victims is believed to be in the hundreds. Many brothels have been running English courses for sex workers and upgrading their facilities in anticipation of a business upturn during the games. Overseas prostitutes are also

expected to come as tourists and ply their trade. One anti-trafficking NGO has claimed that there are reports of 40,000 women being brought in from northeastern India alone. A spokesperson said that recruits from that part of India were favored because of their lighter skin. It has been reported that over 3,000 bar girls in Mumbai have stopped going to work; this has been blamed on an exodus to Delhi for the Commonwealth Games.

ORGANIZATIONAL FAILURE

Vigilance-related irregularities and Over-Invoicing

On 28 July 2010, the Central Vigilance Commission, an Indian government body created to address governmental corruption, released a report showing irregularities in up to 14 CWG projects. As per official reports, in total 129 works in 71 organizations have been inspected. The detailed preliminary findings included the award of work contracts at higher prices, poor quality assurance and management, and work contracts awarded to ineligible agencies.

There are also allegations of widespread corruption in various aspects of organizing the games including procurement and awarding contracts for constructing the game venues.

35

The Commonwealth Games Organizing Committee on 5 August 2010 suspended joint director T S Darbari and M Jayachandran following the report of the three-member panel which was probing the financial irregularities related to the Queen's Baton Relay.

Also, Organizing Committee treasurer Anil Khanna resigned from the post in the wake of allegations that his son's firm had secured a contract for laying synthetic courts at a tennis stadium. The Global Post news agency reports that scandals have come to light, such as "shadowy off-shore firms, forged emails, inexplicable payments to bogus companies and inflated bills – for every purchase from toilet paper to treadmills." Among the alleged corruption and defrauding of the games budget, toilet paper rolls valued at \$2 were costed at \$80, \$2 soap dispensers at \$60, \$98 mirrors at \$220, \$11,830 altitude training simulators at \$250,190.

RESPONSE TO SCAM

- ❖ Kalmadi and Bhanot were sacked from the Organizing Committee by th Sports Ministry on Jan 2011.
- ❖ Shunglu panel was constituted by Prime Minister Manmohan Singh to go into the irregularities in the conduct of the Games.
- ❖ After his arrest on 25th April 2011, Suresh Kalmadi was suspended by the Indian National Congress.
- ❖ He was however restrained on 25th July 2012 by the Delhi High Court from participating in the opening ceremony of the London Olympics, saying his participation can cause ‘EMBARRASSMENT’ to the Nation.

COALGATE SCAM



Coal allocation scam (or **Coalgate**) is a major political scandal concerning the Indian government's allocation of the nation's coal deposits to public sector entities (PSEs) and private companies. In a draft report issued in March 2014, the Comptroller and Auditor General of India (CAG) office accused the Government of India of allocating coal blocks in an inefficient manner during the period 2004–2009. Over the Summer of 2012, the opposition BJP lodged a complaint resulting in a Central Bureau of Investigation probe into whether the allocation of the coal blocks was in fact influenced by corruption.

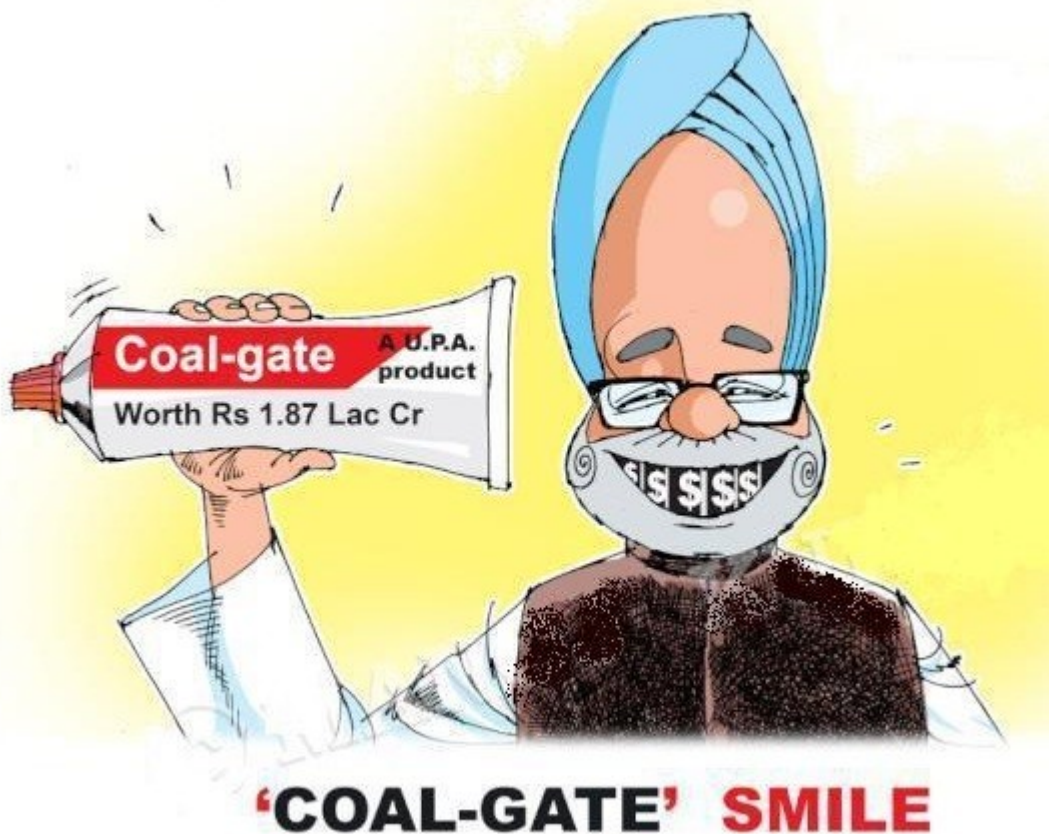
The essence of the CAG's argument is that the Government had the authority to allocate coal blocks by a process of competitive bidding, but chose not to. As a result, both public sector enterprises (PSEs) and private firms paid less than they might have otherwise. In its draft report in March the CAG estimated that the "windfall gain" to the allocatees was ₹10673 billion (US\$160 billion). The CAG Final Report tabled in Parliament put the figure at ₹1856 billion (US\$28 billion) On 27 August 2012 Indian prime minister Manmohan Singh read a statement in Parliament rebutting the CAG's report both in its reading of the law and the alleged cost of the government's policies.

While the initial CAG report suggested that coal blocks could have been allocated more efficiently, resulting in more revenue to the government, at no point did it suggest that corruption was involved in the allocation of coal. Over the course of 2012, however, the question of corruption has come to dominate the discussion. In response to a complaint by the BJP, the Central Vigilance Commission (CVC) directed the CBI to investigate the matter.

The CBI has named a dozen Indian firms in a First Information Report (FIR), the first step in a criminal investigation.

These FIRs accuse them of overstating their net worth, failing to disclose prior coal allocations, and hoarding rather than developing coal allocations. The CBI officials investigating the case have speculated that bribery may be involved.

The issue has received massive media reaction and public outrage. During the monsoon session of the Parliament, the BJP protested the Government's handling of the issue demanding the resignation of the prime minister and refused to have a debate in the Parliament. The deadlock resulted in Parliament functioning only seven of the twenty days of the session. The Parliamentary Standing Committee report on Coal and Steel states that all coal blocks distributed between 1993 and 2008 were done in an unauthorized manner and allotment of all mines where production is yet to start should be cancelled. In 2015, Coal auction helped state government earned 80,000 Crore after sales of 11 coal blocks.



1992-2010 HISTROY OF COAL ALLOCATION IN INDIA

The coal allocation process

“In July 1992 Ministry of Coal, issued the instructions for constitution of a Screening Committee for screening proposals received for captive mining by private power generation companies." The Committee was composed of government officials from the Ministry of Coal, the Ministry of Railways, and the relevant state government. "A number of coal blocks, which were not in the production plan of CIL and ... SSCL, were identified in consultation with CIL/SSCL and a list of 143 coal blocks were prepared and placed on the website of the Mop for information of public at large."

Coal allocation guidelines

The guidelines for the Screening Committee suggest that preference be given to the power and steel sectors (and to large projects within those sectors). They further suggest that in the case of competing applicants for a captive block, a further 10 guidelines may be taken into consideration:

- status (stage) level of progress and state of preparedness of the projects;
- net worth of the applicant company (or in the case of a new SP/JV, the net worth of their principals);
- production capacity as proposed in the application;
- maximum recoverable reserve as proposed in the application;
- date of commissioning of captive mine as proposed in the application;
- date of completion of detailed exploration (in respect of unexplored blocks only) as proposed in the application;
- technical experience (in terms of existing capacities in coal/lignite mining and specified end-use);
- recommendation of the administrative ministry concerned;

- recommendation of the state government concerned (i.e., where the captive block is located);
- track record and financial strength of the company.

Results of the coal allocation program

The response to the allocation process between 2003 and 2009 was spectacular, with some 44 billion metric tons of coal being allocated to public and private firms. By way of comparison, the entire world only produces 7.8 billion tons annually, with India being responsible for 585 million tons of this amount. Under the program, then, captive firms were allocated vast amounts of coal, equating to hundreds of years of supply, for a nominal fee.

Year of allocation	Government Companies		Private Companies		Power Projects		Total	
	No. of blocks	GR (in MT)	No. of blocks	GR (in MT)	No. of blocks	GR (in MT)	No. of blocks	GR (in MT)
Up to 2005	29	6,294.72	41	3,336.88	0	0	70	9,631.6
2006	32	12,363.15	15	3,793.14	6	1,635.24	53	17,791.53
2007	34	8,779.08	17	2,111.14	1	972	52	11,862.22
2008	3	509.99	20	2,939.53	1	100	24	3,549.52
2009	1	337	12	5,216.53	3	1,339.02	16	6,892.55
2010	0	0	0	0	1	800	1	800

Out of the above 216 blocks, 24 blocks were de-allocated (three blocks in 2003, two blocks in 2006, one block in 2008, one block in 2009, three blocks in 2010, and 14 blocks in 2011) for non-performance of production by the allocates, and two de-allocated blocks were subsequently reallocated (2003 and 2005) to others. Hence, 194 coal blocks, with aggregates geological reserves of 44.44 billion metric tons, stood allocated as at 31 March 2011.

Source: Draft CAG Report, Table 5.1.

Given the inherent subjectivity in some of the allocation guidelines, as well as the potential conflicts between guidelines (how does one choose between a small capacity/late stage project and a large capacity/early stage project?) it is unsurprising that in reviewing the allocation process from 1993 to 2005 the CAG says that "there was no clearly spelt out criteria for the allocation of coal mines." In 2005 the Expert Committee on Coal Sector Reforms provided recommendations on improving the allocation process, and in 2010 the Mines and Minerals (Development and Regulation) Act (MMDR Act), 1957 Amendment Bill was enacted, providing for coal blocks to be sold through a system of competitive bidding.

The foregoing supports the following conclusions:

- The allocation process prior to 2010 allowed some firms to obtain valuable coal blocks at a nominal expense
- The eligible firms took up this option and obtained control of vast amounts of coal in the period 2005–09
- The criteria employed for awarding coal allocations were opaque and in some respects subjective.

First CAG charge: the Government had the legal authority to auction coal blocks

The most important assertion of the CAG Draft Report is that the Government had the legal authority to auction the coal, but chose not to do so. Any losses as a result of coal allocations, then, between 2005 and 2009 are seen by the CAG as being the responsibility of the Government. The answer to this question turns on whether the Government could institute competitive bidding by an *administrative decision under the current statute* or whether it needed to *amend the statute* to do so.

41

The CAG devotes ten pages of its report to reviewing the legal basis for an auction, and comes to the following conclusion:

"In sum there were a series of correspondences with the Ministry for Law and Justice for drawing conclusion on the legal feasibility of the proposed amendments to the CMN Act/MMDR Act or through Administrative order to introduce auctioning/competitive bidding process for allocation of coal blocks for captive mining. In fact, there was *no legal impediment to introduction of transparent and objective process of competitive bidding* for allocation of coal blocks for captive mining as per the legal opinion of July 2006 of the Ministry of Law and Justices and *this could have been done through an Administrative decision*. However, the Ministry of Coal went ahead for allocation of coal blocks through Screening Committee and advertised in September 2006 for allocation of 38 coal blocks and continued with this process until 2009."

Other parts of the report, however, suggest that while an administrative decision might be sufficient legal basis for instituting competitive bidding, the "legal footing" of competitive bidding would be improved if the statute were amended to specifically provide for it. i.e. there were some questions around the legality of using an administrative decision as the ground for an auction process under the current statute. Quoting the Law Secretary in August 2006:

"there is no express statutory provision providing for the manner of allocating coal blocks, it is done through a mechanism of Inter-Ministerial Group called the Screening Committee ... The Screening Committee had been constituted by means of administrative guidelines. Since, under the current dispensation, the allocation of coal blocks is purely administrative in nature, it was felt that the process of auction through competitive bidding can also be done through such administrative arrangements. In fact, this is the basis of our earlier legal advice. This

according to the administrative Ministry has been questioned from time to time for legal sanction. *If provision is made for competitive bidding in the Act itself or by virtue of rules framed under the Act the bidding process would definitely placed on a higher level of legal footing.*"

So while the CAG certainly makes the case that the Government had legal grounds on which to introduce competitive bidding into the coal allocation process, saying that there was "no legal impediment" to doing so perhaps overstates their case.

42

Second CAG charge: "windfall gains to the allocatees were ₹10673 billion (US\$160 billion)

If the most important charge made by the CAG was that of the Government's legal authority to auction the coal blocks, the one that drew the most attention was certainly the size of the "windfall gain" accruing to the allocatees. On pp. 32–34 of the Draft Report, the CAG estimates these to be ₹10673 billion (US\$160 billion) with details in the following table:

Windfall Gains to Allocatees (in ₹ crore)

Calend ar Year	Government Companies			Private Companies			Government + Private Companies		
	90 % of GR in MT	Windf all gain histori c rates	Windf all gain Mar 2011 rates	90 % of GR in MT	Windf all gain histori c rates	Windf all gain Mar 2011 rates	90% of GR in MT	Windf all gain histori c rates	Windf all gain Mar 2011 rates
2004	1,70	45,807	56,949	0	0	0	1,70	45,807	56,949

	9						9		
2005	1,388	34,056	45,561	1,776	39,146	85,523	3,163	73,203	131,084
2006	8,660	185,119	259,547	3,011	62,085	111,764	11,671	247,204	371,311
2007	7,000	64,066	207,098	1,747	38,284	51,502	8,746	102,350	258,599

The table employs the following calculations for windfall gain:

- windfall gain/ton = market price/ton – production cost/ton
- windfall gain = windfall gain/ton x number of tons allocated x 90% (to reflect 90% confidence in the geology of the reserve)

Note that while the windfall gain/ton is fairly modest ₹322 (US\$4.90), because of the vast size of the coal allocations, the total figure for the windfall gain is very large. Note also that the figure stated as a windfall gain would in fact accrue to the allocatee over the life of the reserve, which would likely exceed 100 years. Thus, using any reasonable discount rate, the Present value of the windfall gain will be dramatically smaller (perhaps one tenth) of the windfall gain stated in the CAG Report.

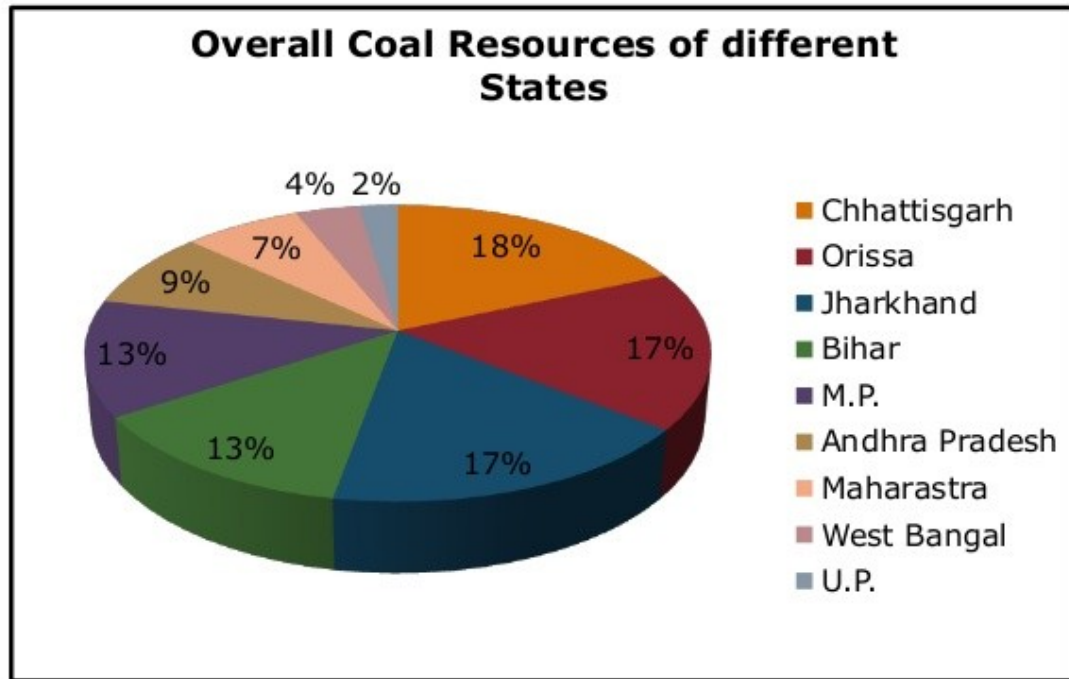
While the headline number of ₹10673 billion (US\$160 billion) was sure to attract the attention of the public, in the Annexures to the report the CAG listed the windfall gains by company, allowing readers to see who exactly benefited from the allocation program, and by how much. The resulting list, a veritable Who's Who of Indian commerce, ensured that the topic of coal allocations would be one of the most written about stories of 2012.

March-August 2012 Coalgate Grow: the media, the BJP, and the CBI and Income Tax Investigation

On 22 March, the *Times of India*, broke the story on the contents of the Draft CAG Report:

NEW DELHI: The CAG is at it again. About 16 months after it rocked the UPA government with its explosive report on allocation of 2G spectrum and licences, the Comptroller & Auditor General's draft report titled 'Performance Audit of Coal Block Allocations' says the government has extended "undue benefits", totalling a mind-boggling Rs 10.67 trillion (short scale), to commercial entities by giving them 155 coal acreages without auction between 2004 and 2009. The beneficiaries include some 100 private companies, as well as some public sector units, in industries such as power, steel and cement. The Income Tax Department was also roped in to look into the financial frauds and follow the money trail.

□ The shares of overall coal resources of different States are:



Allegations against S Jagathrakshakan

In September 2012, several news reports alleged that family of S Jagathrakshakan, Minister of State for Information and Broadcasting in the UPA government is a part of a company named JR Power Gen Pvt Ltd which was awarded a coal block in Odisha in 2007. It was the same company which formed a joint venture with a public sector company, Puducherry Industrial Promotion Development and Investment (PIPDIC), on 17 January 2007. Barely five days after, PIPDIC was allotted a coal block. According to the MoU, JR Power enjoyed a stake in this allotment. However, JR Power had no expertise in thermal power, iron and steel, or cement, the key sectors for consumption of coal. Later, in 2010, JR Power sold 51% stake to KSK Energy Ventures, an established player with interests in the energy sector. In this way, the rights for the use of the coal block ultimately passed on to KSK.

Reacting to this, Jagathrakshakan admitted to getting a coal block, and said that, "It is true that we got a coal allocation but it was a sub-contract with Puducherry government and then we gave it away to KSK company. Now, we have got nothing to do with the allocation but if the government wants to take back the allocation it can do so."

Allegations against Subodh Kant Sahay

In September 2012, it was revealed that Subodh Kant Sahay, Tourism Minister in the UPA government sent a letter to prime minister Manmohan Singh trying to persuade him for allocation of a coal block to a company, SKS Ispat and Power which has Sudhir Sahay, his younger brother, as honorary Executive Director. The letter was written on 5 February 2008. On the very next day, Prime Minister's Office (PMO) sent a letter to the coal secretary on 6 February 2008, recommending allotment of coal blocks to the company. However, Sahay denied these allegations, citing that the coal block was allocated to SKS Ispat, where his brother was only an "*honorary director*".

On 15 September 2012, an Inter Ministerial Group (IMG) headed by Zohra Chatterji (Additional Secretary in Coal Ministry) recommended cancellation of a block allotted to SKS Ispat and Power.

Allegations against Ajay Sancheti and his link with Nitin Gadkari

Ajay Sancheti's SMS Infrastructure Ltd. was allegedly allocated coal blocks in Chhattisgarh at low rates. He is a BJP Rajya Sabha MP and is believed to be in close relation with Nitin Gadkari. According to the CAG, the allocation of the coal block to SMS Infrastructure Ltd. has caused a loss of Rs. 10 billion.

Allegations against Vijay Darda and Rajendra Darda

Vijay Darda, a Congress MP and his brother Rajendra Darda, the education minister of Maharashtra, have been accused of direct and active involvement in the affairs of three companies JLD Yavatmal Energy, JAS Infrastructure & Power Ltd., AMR Iron & Steel Pvt. Ltd, which received coal blocks illegally by means of inflating their financial statements and overriding the legal tender process.

Allegations against Premchand Gupta

UPA partner Rashtriya Janata Dal's leader Premchand Gupta's sons' company, new in the steel business applied for a coal block when Premchand Gupta was the Union minister for corporate affairs and secured it about a month after his tenure ended along with that of his government. The company in question is IST Steel & Power – an associate company of the IST Group, which is owned and run by Premchand Guptas two sons Mayur and Gaurav. IST Steel, along with cement majors Gujarat Ambuja and Lafarge, was allocated the Dahegaon/Makardhokra IV block in Maharashtra. The company, which applied for a block on 12 January 2007, and was awarded it on 17 June 2009, is sitting on reserves of 70.74 million tonnes. The reserves it controls are more than the combined reserves held by much larger companies – Gujarat Ambuja and Lafarge. Gupta, who belongs to the Rashtriya Janata Dal headed by Bihar leader Lalu Prasad Yadav, was the minister of state for corporate affairs in UPA-I when his party was a constituent of the Congress-led coalition with 21 seats in Lok Sabha. However Mr Gupta maintains he had no involvement in IST Steel and denies influencing the coal-block allocation process.¹

Allegations against Naveen Jindal

Congress. MP, Naveen Jindal's Jindal Steel and Power got a coal field in February 2009 with reserves of 1500 million metric tones while the government-run Navratna Coal India Ltd was refused.

On 27 February 2009, two private companies got huge coal blocks. Both the blocks were in Orissa and while one was over 300 mega metric tones, the other was over 1500 mega metric tones. Combined worth of these blocks was well over Rs 2 trillion (short scale) and these blocks were meant for the liquification of coal. One of these blocks was awarded to Jindal. Naveen Jindal's Jindal Steel and Power was the company which was allotted the Talcher coal field in Angul in Orissa in 2009, well after the self-imposed cutoff date by the Centre on allocation of coal blocks.

The Opposition alleged that the Government violated all norms to give him coal fields. Naveen Jindal, however, denied any wrongdoing.

On 15 September 2012, an Inter Ministerial Group (IMG) headed by Zohra Chatterji (Additional Secretary in Coal Ministry) recommended cancellation of a block allotted to JSW (Jindal Steel Works), a Jindal Group company.

On 11 June 2013, CBI has booked former Minister of State for Coal Dasari Narayan Rao and Congress MP Naveen Jindal for alleged cheating, graft and criminal misconduct in its 12th FIR in the coal blocks allocation scam.

BJP response

In response to the *Times of India* story there was an uproar in Parliament, with the BJP charging the government with corruption and demanding a court-monitored probe into coal allocations:

"The CWG scam is (to the tune) of Rs 700 billion, 2G scam is Rs 1.76 trillion (short scale). But, now the new coal scam is Rs 10.67 trillion (short scale). It is a government of scams... from airwaves to mining, everywhere the government is involved in scams,' party spokesperson Prakash Javadekar told reporters."

48

CBI and Income Tax Investigation



On 31 May 2012, Central Vigilance Commission (CVC) based on a complaint of two Bharatiya Janata Party Member of Parliament Prakash Javadekar and Hansraj Ahir directed a CBI enquiry. Income Tax Department also started an enquiry based on the reference by the two BJP MP's. There were leaks of the report in media in March 2012 which claimed the figure to be around ₹10600 billion (US\$160 billion). It is called by the media as the *Mother of all Scams*. Discussion about the issue was placed in the Parliament on 26 Aug 2012 by the prime minister Manmohan Singh with wide protests from the opposition.

According to the Comptroller and Auditor General of India, this is a leak of the initial draft and the details being brought out were observations which are under discussion at a very

preliminary stage. On 29 May 2012, Prime Minister Manmohan Singh offered to give up his public life if found guilty in this scam.

Formation of Inter-Ministerial Group (IMG)

At the end of June 2012, coal ministry decided to form an Inter-Ministerial Group (IMG), to decide on either de-allocation or forfeiting the Bank Guarantees (BG) of the companies that did not develop allotted coal blocks. Zohra Chatterji, additional secretary, coal ministry was named as Chairman of the IMG. Other IMG members include representatives from power, steel, departments of economic affairs, industrial policy and promotion, and law and justice.

49

Significantly, the decision was taken *after* the CVC had already ordered a CBI enquiry into alleged irregularities.

As of 26 September 2012, the IMG has reviewed 31 coal blocks. Out of these, it has recommended de-allocation of 13 coal blocks and encashment of bank guarantees of 14 allottees.

The coal ministry on Thursday decided to de-allocate 11 captive coal blocks including three mines of Jindal Steel and Power, besides forfeiting the bank guarantees of six firms and asking five to expressly furnish bank guarantees. The ministry has been facing intense flak over alleged irregularities in allocation of coal blocks since 1993 and the Central Bureau of Investigation (CBI) is currently investigating the abnormalities and criminal conspiracy in their allotment. The agency has filed 14 FIRs and two preliminary enquiries so far in this connection. In this backdrop, an inter-ministerial group (IMG) of the coal ministry met on 24 October to consider the fate of 30 coal blocks, including those being investigated by the CBI. Of the mines recommended for de-allocation, two blocks – Amarkonda Murgadangal and Ramchandi Promotional (coal-to-liquid mine) belongs to Naveen Jindal-promoted JSPL and the Urtan North block also allocated to JSPL along with Monnet Ispat & Energy . All allottees had been issued show-cause notices and were asked to furnish their views to the IMG. The decisions have been taken after careful consideration, a top coal ministry official told The Indian Express. Coal minister Sriprakash Jaiswal is learnt to have approved the recommendations of the IMG. Another coal-to-liquid block – North of Akrapal allocated to the Strategic Energy tech System Limited, which is a joint venture between the Tata group and South African firm Sasol has also been de-allocated. The Radhikapur (West) block allocated jointly to Rungta Mines, OCL India and Ocean Ispat, Bikram mine allotted to Birla Corporation, Khappa and Extension block allocated to Sunflag Iron and Steel and Dalmia

Cement have been cancelled. The ministry has decided to de-allocate the Rajgamar Dipside (South of Pulakdih Nala) coal block jointly allotted to Monnet Ispat and Energy Ltd among others. With the fresh round of de-allocation, the total number of blocks cancelled stands at 51 as the government had earlier de-allocated 40 blocks. The ministry is preparing to inform the companies impacted by the decision. As per the IMG's recommendations steel maker SAIL is among the five companies to lose bank guarantees for delay in developing allotted blocks.

50

Other firms include Abhijeet Infrastructure, Andhra Pradesh Mineral Development Corporation, Tenughat Vidyut Nigam and Chaman Metaliks. DE-ALLOCATED BLOCKS - COMPANIES COAL BLOCKS STATE Jindal Steel and Power Amarkonda Murgadangal Jharkhand, Jindal Steel and Power Ramchandi Promotional Block(CTL) Orissa .Jindal Steel and Power & Urtan North Madhya Pradesh, Monnet Ispat and Energy .Rungta Mines, OCL India Radhikapur (West) Orissa and Ocean Ispat, Strategic Energy tech System North of Akrapal (CTL) Orissa Ltd (A Tata-Sasol JV company), Birla Corporation Bikram Madhya Pradesh .Sunflag Iron and Steel Khappa & Extension Maharashtra & Dalmia Cement Monnet Ispat and Energy Rajagamar Dipside Chhattisgarh & Shri Virangana Steels Ltd, Rathi Udyog Limited Kesla North Chhattisgarh, Castron Brahmdiha Jharkhand, Maharashtra State Mining Corp Warora Maharashtra .

Meanwhile, Jindal Steel and Power Ltd (JSPL) intends to appeal in court against the government decision to de-allocate the coal block allocated to it, a company source said.

A JSPL spokesperson earlier said the company sees “no reason” behind the de-allocation as environment clearance for the coal block in Chhattisgarh was given on Feb 10.

Sources in the Coal Ministry said the IMG has sent a note to the Ministry recommending de-allocation of 11 coal blocks of companies including JSPL, Monnet Ispat and Energy Ltd and either imposition or deduction of bank guarantee in another 19 cases. A large of allottees of these blocks were issued show cause notices by the IMG to show why they had failed to take the required action to develop these blocks and why action should not be taken against them.

Following this, the Coal Ministry had asked the owners of these blocks to make a presentation before the IMG on achievement of milestones and reasons for delays. Those who were asked to make a presentation before the IMG included state-owned Steel Authority of India (SAIL), NTPC Ltd, JSPL, Abhijeet Infrastructure, Birla Corp and Rathi Udyog, Tata Power and Monnet Ispat and Energy Ltd. JSPL was specifically asked to make a presentation with regard to delay in production from its four coal blocks - Amarkunda Murgadangal in Jharkhand, Utkal B1 and Ramchandi in Odisha and Urtan North in Madhya Pradesh. Similarly, SAIL was asked to make presentation for Sitanala mine in Jharkhand and NTPC for Parki Barwadih mine in Jharkhand and Talaipalli mine in Chhattisgarh. During the presentation, a number of companies pointed to the continued unending delays in land acquisition, getting environmental clearances and regulatory hurdles for delays in development of the mines.

51

The government had formed the IMG last year to review the progress of coal blocks allocated to firms for captive use and recommend action, including de-allocation. The panel has members from other Ministries including Steel and Power. The Supreme Court is monitoring the Coalgate scam probe into coal block allocations since 1993 being conducted by CBI following three public interest litigation petitions alleging that rules were flouted in giving away the natural resources and favouring certain companies at a huge loss of crores to the national exchequer. Slamming the decision to de-allocate their coal blocks, Jindal Steel and Power and Monnet Ispat and Energy have blamed lack of government approvals and external factors like Naxal activities for not making enough progress in their mines. The two companies, whose 4 blocks figure in the list of 11 to be de-allocated, said that they are being punished for no fault of theirs. The de-allocation is seen as a major setback to both as the blocks were supposed to be the captive raw material source for their upcoming/existing steel and power plants. Jindal's Rs. 80,000-crore mega venture of Coal-to-Liquid project is likely to be hit. The two companies have together invested over 110 billion so far on development of their end-use plants. At the outset, we are shocked and surprised to hear the recommendation made by IMG (Inter-ministerial group), it seems that everybody in the policy making/monitoring wants to avoid a pragmatic decision in view of the media hype,"

Monnet Ispat spokesperson said in a statement. The JSPL spokesperson said the company's coal blocks are being de-allocated "despite best efforts made by the company and no fault on part of the company." Last week, the Coal Ministry decided to de-allocate 11 captive coal blocks to various companies. JSPL's three – Ramchandi promotional block, Amarkonda Murgadangal and Urtan North (jointly with Monnet) — figure in the list. Monnet's one more block, Rajagamar Dipside (South of Pulakdih Nala) coal block jointly allotted to Monnet Ispat and Energy Ltd among others, is also part of the list. The Monnet spokesperson further said 450 hectares of the block, out of total 650 hectares, is over-lapping with a block of the South Eastern Coalfields Ltd (SECL) and SECL needs to surrender title of the land and transfer it to Monnet. He also accused the Coal Ministry of violating its own conditions (clause 17 of General Condition of Allocation), saying that the clause "clearly stipulates that any delay in transferring the land by a government company to the coal block allocatee can be claimed as grace period." "If IMG has recommended for de-allocation, then they are violating the published guidelines of MoC," the spokesperson said, adding that Monnet can start development of the block immediately as it needs "to acquire only 5 acre of land for making an entry."

52

According to the JSPL spokesperson, the company has made 4 attempts for carrying out exploration at Amarkonda Murgadangal block since April, 2009 but could not do it due to "large amount of extremist/Naxal activities" and "illegal mining" supported by extremists/anti-social elements. "State government had further agreed to extend the validity of PL (prospective licence) by 2 years 4 months and 8 days under force majeure conditions on 5 June 2013 and we are in the process of starting our fifth attempt to carry out drilling operations in this block," he said. The spokesperson of Jindal Steel and Power (JSPL) said its employees, officials and contractors were assaulted or made hostage many times at the site and equipment were damaged. He added that many complaints and FIRs have been filed on these issues and state and central governments have been informed about it. Talking about the to be de-allocated Ramchandi promotional block, he said JSPL's application for prospecting licence is pending with Odisha government for more than three years and the state government has not yet "executed PL on one pretext or the other in spite of a number of reminders." "In the circumstances, company could not start exploration activities for no fault of the company," he said, while noting that the company has already completed various initial

work, including detailed feasibility study, for the project and has invested Rs. 740 million on it. The Ramchandi block, which has estimated 1.5 billion tonnes of coal reserves, was allocated for ambitious Coal-to-Liquid project in February, 2009 and JSPL had already announced investment Rs. 800 billion on the venture. On Urtan North block, the third to be de-allocated block (jointly allocated with Monnet), JSPL spokesperson said that its Mine Plan is pending for final approval from Coal Ministry for more than six months now. The delay in Coal Ministry's approval has led to further delay in securing Environment Clearance (EC) as well. "Expert Appraisal Committee (EAC) of MoEF, GoI has already considered grant of EC and is mainly pending for submission of Mine Plan approval letter. The Mine Plan approval letter is pending for issuance with Ministry of Coal for more than six months," the company said. Monnet, which is also a partner in the block, also echoed the same. It the spokesperson said that grant of EC is in the "final stage" and the company is hopeful that it will be cleared by EAC in their "forthcoming meeting" to be held later this month. For Monnet, Urtan North and Rajagamar Dipside blocks are supposed to be the captive raw material source for its over a million tonne steel plant in Chhattisgarh's Raigarh, which is now in final stages of commissioning.

The company said it has invested over Rs. 60 billion to develop the end-use plant. The Urtan North block is also critical to JSPL's plans as it was supposed to meet 10-12 per cent of the coking coal needs of its already operational Raigarh steel plant in Chhattisgarh. The company said has invested Rs. 34.16 billion on its development

Role of Sonia Gandhi

On 31 August, Manmohan Singh met UPA chairperson Sonia Gandhi and communicated to her that his office had cleared the coal block allotment on the recommendation of her political secretary Ahmed Patel. Washing his hands of the tainted coal block allotment, Dr Singh made it clear to Sonia Gandhi that he had no role or interest in determining who the beneficiaries should be. PM explained that his then principal secretary T K A Nair had merely coordinated the allotment decision as desired by Ahmed Patel. Ahmed Patel is one of Sonia Gandhi's closest aides – he has been her political secretary since 2000, and she is known to rely on him greatly in the running of the Congress Party

Role of Prime Minister Manmohan Singh

In 2004, coal secretary P C Parakh informed PM the potential fraud inherent in the discretionary allocation of the captive coal fields and objected to it in writing. Still all the 142 coal blocks were allocated without auction during the Prime Minister's tenure in the coal ministry. BJP on 19 April demanded the resignation of Prime Minister Manmohan Singh alleging that he was using the law ministry to save himself from the probe. The Supreme Court observations on 30 April are undoubtedly harsh. No other government in India has been criticized in such words. The legalities of the case have proved troublesome for Manmohan Singh and the UPA. P C Parakh who is considered the whistleblower for the Coalgate said that he clearly pushed for auctions, but was overruled by the PM.

People in the office during the Allocations

TKA Nair, Former Principal Secy, PM and now Adviser to PM DC Garg (Chief, Western Coalfields Ltd) under CBI scanner

Ministers

Sriprakash Jaiswal (incumbent since 2012) Manmohan Singh (PM) (four months in 2004 and from 2007 to 2012)

UPA-I coal minister – Siby Soren, May 2004 to 2007, except 24 July – 27 November 2004
2003 – Ministry of coal separated from ministry of mines

Ministers of mines

Mamata Banerjee (January 2004 – May 2004) AITC Ram Vilas Paswan (September 2001 – April 2002) LJP Syed Shanawaz Hussain (2001 minister of coal) BJP Sunder Lal Patwa (2000-2001) BJP Naveen Patnaik (minister of mines – 1998 – 2000) BJD

Missing Files



Coal Allocation (I & II) sections are responsible for maintaining all records pertaining to allocation of coal blocks. The number of missing files was initially pegged at 157 – the number of applications for coal blocks allocation. Nearly 150 are related to the period between 1993 and 2004 in which 45 coal blocks were allocated. Missing files benefit three sets of people– the beneficiary companies (and individuals) who received coal block allocations; the screening committee (based on its deliberations) and the minister and his office (bureaucrats and officials). The BJP says that the bulk of the questionable allocations took place while PM Manmohan Singh held charge of the coal ministry.

'WHO' IS RESPONSIBLE?

The Comptroller and Auditor General of India puts the Coal Ministry and the government, particularly the PMO's office during the period 2004-2009 as responsible for the misallocation of coal blocks. The coal ministry at the time was headed by the current Prime Minister Dr. Manmohan Singh, whose clean image has now come under question.



56

CASE STUDY

Corporate Accounting Frauds: A Case Study of Satyam Computers Limited

INTRODUCTION

Fraud is a worldwide phenomenon that affects all continents and all sectors of the economy. Fraud encompasses a wide-range of illicit practices and illegal acts involving intentional deception or misrepresentation. According to the Association of Certified Fraud Examiners (ACFE, 2010), fraud is "a deception or misrepresentation that an individual or entity makes knowing that misrepresentation could result in some unauthorized benefit to the individual or

to the entity or some other party.” In other words, mistakes are not fraud. Indeed, in fraud, groups of unscrupulous individuals manipulate, or influence the activities of a target business with the intention of making money, or obtaining goods through illegal or unfair means. Fraud cheats the target organization of its legitimate income and results in a loss of goods, money, and even goodwill and reputation.

Fraud often employs illegal and immoral, or unfair means. It is essential that organizations build processes, procedures and controls that do not needlessly put employees in a position to commit fraud and that effectively detect fraudulent activity if it occurs.

Fraud is a deliberated action done by one or more persons from the society’s leadership, employees or third parts, action which involves the use of false pretence in order to obtain an illegal or unjust advantage. The auditor will be concerned with the fraudulent actions leading to a significant falsification of financial situations. The fraud involving persons from the leadership level is known under the name “managerial fraud” and the one involving only entity’s employees is named “fraud by employees’ association”.

The IFAC’s International Audit Standards-240 (2009) defines two types of fraud relevant for the auditor: (a) Falsifications that are caused by the misrepresentation of the assets; and (b) Falsifications that are caused by the fraudulent financial reporting, meaning the basic action that has provoked a falsification of the financial situations was done intentionally or/and unintentionally.

Financial statement fraud is also known as fraudulent financial reporting, and is a type of fraud that causes a material misstatement in the financial statements. It can include deliberate falsification of accounting records; omission of transactions, balances or disclosures from the financial statements; or the misapplication of financial reporting standards. This is often carried out with the intention of presenting the financial statements with a particular bias, for example concealing liabilities in order to improve any analysis of liquidity and gearing.

MAGNITUDE OF FRAUD

Organizations of all types and sizes are subject to fraud. On a number of occasions over the past few decades, major public companies have experienced financial reporting fraud, resulting in turmoil in the U.S. capital markets, a loss of shareholder value, and, in some cases, the bankruptcy of the company itself. Although it is generally accepted that the Sarbanes-Oxley Act has improved corporate governance and decreased the incidence of fraud, recent studies and surveys indicate that investors and management continue to have concerns about financial statement fraud. For example:

- The Association of Certified Fraud Examiners' (ACFE) "2010 Report to the Nations on Occupational Fraud and Abuse" found that financial statement fraud, while representing less than five percent of the cases of fraud in its report, was by far the most costly, with a median loss of \$1.7 million per incident. Survey participants estimated that the typical organization loses 5% of its revenues to fraud each year. Applied to the 2011 Gross World Product, this figure translates to a potential projected annual fraud loss of more than \$3.5 trillion. The median loss caused by the occupational fraud cases in our study was \$140,000. More than one-fifth of these cases caused losses of at least \$1 million. The frauds reported to us lasted a median of 18 months before being detected.

58

- "Fraudulent Financial Reporting: 1998–2007," from the Committee of Sponsoring Organizations of the Treadway Commission (the 2010 COSO Fraud Report), analyzed 347 frauds investigated by the U.S. Securities and Exchange Commission (SEC) from 1998 to 2007 and found that the median dollar amount of each instance of fraud had increased three times from the level in a similar 1999 study, from a median of \$4.1 million in the 1999 study to \$12 million. In addition, the median size of the company involved in fraudulent financial reporting increased approximately six-fold, from \$16 million to \$93 million in total assets and from \$13 million to \$72 million in revenues.
- A "2009 KPMG Survey" of 204 executives of U.S. companies with annual revenues of \$250 million or more found that 65 percent of the respondents considered fraud to be a significant risk to their organizations in the next year, and more than one-third of those identified financial reporting fraud as one of the highest risks.
- Fifty-six percent of the approximately 2,100 business professionals surveyed during a

“Deloitte Forensic Center” webcast about reducing fraud risk predicted that more financial statement fraud would be uncovered in 2010 and 2011 as compared to the previous three years. Almost half of those surveyed (46 percent) pointed to the recession as the reason for this increase.

- According to “Annual Fraud Indicator 2012” conducted by the National Fraud Authority (U.K.), “The scale of fraud losses in 2012, against all victims in the UK, is in the region of £73 billion per annum. In 2006, 2010 and 2011, it was £13, 30 and 38 billion, respectively. The 2012 estimate is significantly greater than the previous figures because it includes new and improved estimates in a number of areas, in particular against the private sector. Fraud harms all areas of the UK economy.”

The 2010 ACFE Report is based on 1,843 fraud cases examined by its members in more than 100 countries between January 2008 and December 2009. The Report identified the entity types which were victims of fraud, as shown in Table 1. It also presented data with respect to victim size, measured in terms of number of employees.

For small organizations (under 100 employees), the frequency of fraud cases exceeded that of larger organizations, and the median loss was comparable to that for the largest of the four size categories reported. The Report cites the limited amount of financial and human resources available for fraud prevention in small organizations as a major driver of the results. In addition, leadership of small organizations typically has closer relationships with, and trust in, their employees, and thus, may engage in less oversight. Internal controls are the first-line of defense against fraud. When strong controls are lacking, or when controls are in place but are not actually followed, the environment for fraud is enhanced.

59

Moreover, financial statement fraud was a contributing factor to the recent financial crisis and it threatened the efficiency, liquidity and safety of both debt and capital markets (Black, 2010). Furthermore, it has significantly increased uncertainty and volatility in financial markets, shaking investor confidence worldwide. FSF also reduces the creditability of financial information that investors use in investment decisions. When taking into account the loss of investor confidence, as well as, reputational damage and potential fines and criminal actions, it is clear why financial misstatements should be every manager’s worst fraud-related nightmare (E&Y, 2009). However, the terms “fraudulent financial reporting” and “financial statement fraud” are interchangeably throughout this paper.

Past research has shown that corporate environment most likely to lead to an accounting scandal manifests significant growth and accounting practices that are already pushing the envelope of earnings smoothing (Crutchley et al., 2007). The primary responsibility for the prevention and detection of frauds and errors belongs to the ‘leadership’, as well as, to the

‘management’ of the corporation. The accent falls on preventing frauds, and it can determine individuals to not commit fraud because of the possibility to be discovered and punished. The creation of a culture of the organization and ethical behavior is necessary in any corporation/society and it must be communicated and sustained by the persons in charge of leadership (surveillance, control, management). The active surveillance of those in charge of the leadership means a continuity of the internal control, the analysis of the financial situations’ safety, the efficiency and efficacy of operations, of the conformity with the legislation and regulations in use.

WHAT COMMITS FRAUDS?

As Reuber and Fischer (2010) states: “Everyday, there are revelations of organizations behaving in discreditable ways.” Observers of organizations may assume that firms will suffer a loss of reputation if they are caught engaging in actions that violate social, moral, or legal codes, such as flaunting accounting regulations, supporting fraudulent practices, damaging the environment or deploying discriminatory hiring practices. There are three groups of business people who commit financial statement frauds. They range from senior management (CEO and CFO); mid- and lower-level management and organizational criminals (Crumbley, 2003). CEOs and CFOs commit accounting frauds to conceal true business performance, to preserve personal status and control and to maintain personal income and wealth.

60

Mid- and lower-level employees falsify financial statements related to their area of responsibility (subsidiary, division or other unit) to conceal poor performance and/or to earn performance-based bonuses. Organizational criminals falsify financial statements to obtain loans or to inflate a stock they plan to sell in a “pump-and- dump” scheme. Methods of financial statement schemes range from fictitious or fabricated revenues; altering the times at which revenues are recognized; improper asset valuations and reporting; concealing liabilities and expenses; and improper financial statement disclosures (Wells, 2005). Sometimes these actions result in damage to an organization’s reputation.

While many changes in financial audit processes have stemmed from financial fraud or manipulations, history and related research repeatedly demonstrates that a financial audit simply cannot be relied upon to detect fraud at any significant level. The Association of Certified Fraud Examiners (ACFE) conducts research on fraud and provides a report on the results biennially, entitled “Report to the Nation.” The statistics in these reports (ACFE 2002, 2004, 2006) consistently states that about 10–12 percent of all detected frauds are

discovered by financial auditors (11.5 percent, 10.9 percent, and 12.0 percent, respectively). The KPMG Fraud Survey (KPMG 1994, 1998, 2003) consistently reports lower but substantively similar detection rates (5 percent, 4 percent, and 12 percent, respectively). The dismal reliability of financial audits to detect fraud can be explained very simply. They are not designed or executed to detect frauds. Statistically, one could infer that about 10 percent of all frauds are material, and because financial audit procedures are designed to detect material misstatements, then a 10 percent detection rate would be logical.

CONSEQUENCES OF FRAUDULENT FINANCIAL REPORTING

Fraudulent financial reporting can have significant consequences for the organization and its stakeholders, as well as for public confidence in the capital markets. Periodic high-profile cases of fraudulent financial reporting also raise concerns about the credibility of the U.S. financial reporting process and call into question the roles of management, auditors, regulators, and analysts, among others (Telberg, 2003).

Moreover, fraud impacts organizations in several areas: financial, operational and psychological. While the monetary loss owing to fraud is significant, the full impact of fraud on an organization can be staggering. In fact, the losses to reputation, goodwill, and customer relations can be devastating. When fraudulent financial reporting occurs, serious consequences ensue. The damage that results is also widespread, with a sometimes devastating ‘ripple’ effect. Those affected may range from the ‘immediate’ victims (the company’s stockholders and creditors) to the more ‘remote’ (those harmed when investor confidence in the stock market is shaken). Between these two extremes, many others may be affected: ‘employees’ who suffer job loss or diminished pension fund value; ‘depositors’ in financial institutions; the company’s ‘underwriters, auditors, attorneys, and insurers’; and even honest ‘competitors’ whose reputations suffer by association. As fraud can be perpetrated by any employee within an organization or by those from the outside, therefore, it is important to have an effective “fraud management” program in place to safeguard your organization’s assets and reputation. Thus, prevention and earlier detection of fraudulent

financial reporting must start with the entity that prepares financial reports.

The wave of financial scandals at the turn of the 21st century elevated the awareness of fraud and the auditor's responsibilities for detecting it. The frequency of financial statement fraud has not seemed to decline since the passage of the Sarbanes-Oxley Act in July 2002 (Hogan et al., 2008). For example, The 4th Biennial Global Economic Crime Survey (2007) of more than 3,000 corporate officers in 34 countries conducted by PricewaterhouseCoopers (PwC) reveals that "in the post-Sarbanes-Oxley era, more financial statement frauds have been discovered and reported, as evidenced by a 140% increase in the discovered number of financial misrepresentations (from 10% of companies reporting financial misrepresentation in the 2003 survey to 24% in the 2005 survey). The increase in fraud discoveries may be due to an increase in the amount of fraud being committed and/or also due to more stringent controls and risk management systems being implemented," (PricewaterhouseCoopers 2005). The high incidence of fraud is a serious concern for investors as fraudulent financial reports can have a substantial negative impact on a company's existence as well as market value. For instance, the lost market capitalization of 30 high-profile financial scandals caused by fraud from 1997 to 2004 is more than \$900 billion, which represents a loss of 77% of market value for these firms, while recognizing that the initial market values were likely inflated as a result of the financial statement fraud.

62

No doubt, recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have given rise to two disparate yet logical outcomes. First, 'forensic' accounting skills have become crucial in untangling the complicated accounting maneuvers that have obfuscated financial statements. Second, public demand for change and subsequent regulatory action has transformed 'corporate governance' (henceforth, CG) scenario. Therefore, more and more company officers and directors are under ethical and legal scrutiny. In fact, both these trends have "the common goal of addressing the investors' concerns about the transparent financial reporting system." The failure of the corporate communication structure has made the financial community realize that there is a great need for 'skilled' professionals that can identify.

OBJECTIVES OF STUDY AND SOURCES OF

INFORMATION

Recently, the accounting fraud of Satyam rocked the world; some even named it as Indian Enron. Satyam fraud is India's biggest corporate scandal since the early 1990s and its first high-profile casualty since the start of the global financial crisis. The main objectives of this study are to: (1) identify the prominent American and foreign companies involved in fraudulent financial reporting practices and the nature of accounting irregularities they committed; (2) highlight the Satyam Computers Limited's 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 (3) what lessons can be learned from Satyam scam?

To complement prior literature, we examined "documented behaviors in cases of corporate scandals, using the evidence taken from press articles (such as managers' quotes and journalists' analyses)." In this context, research-based evidence by Miller (2006) has shown that "press fulfill the role of a monitor or watchdog for accounting frauds by rebroadcasting information from other information intermediaries (analysts, auditors, and lawsuits) and by undertaking original investigation and analysis." In addition, we prepared the "Corporate Scandal Fact Sheet," which includes a list of 'short' vignettes on companies, and the names of the main characters involved in the corporate fraud scandals. To attain the above stated research objectives we applied a "content" analysis to the "press" articles.

62

In terms of information collection 'methodology', we searched for evidence from the U.S. press coverage contained in the "Factiva" database (also called Dow Jones Factiva). It is a non-academic database of international news containing 20,000 worldwide full-text publications including The Financial Times, The Wall Street Journal, as well as the continuous information from Reuters, Dow Jones, and the Associated Press. We also used SEC documents, to understand the technical and accounting aspects of the corporate fraud. For some companies, we also used the restatement reports. Thus, present study is primarily based on "secondary" sources of data,

(EBSCO host database), gathered from the related literature published in the journals, newspaper, books, statements, reports. However, as stated earlier, the nature of study is "primarily qualitative, descriptive and analytical." However, no quantitative and statistical tools have been used for analysis of this case study.

GLOBAL CASES OF CORPORATE FRAUDS AND ACCOUNTING FAILURES

Financial scandals have plagued our society since before the Industrial Revolution. During the last few decades, there have been numerous financial frauds and scandals, which were milestones with historical significance. For instance, in the 1970s, the equity funding scandal was uncovered. In this context, Pearson et al., (2008) remarked, “Equity funding scandal is significant because it is one of the first major financial scandals, where computers were used to assist in perpetrating a fraud. The CEO and other conspirators kept track of the ‘phony’ insurance policies by assigning special ‘codes’ to them.” The public has witnessed a number of well-known examples of accounting scandals and bankruptcy involving large and prestigious companies in ‘developed’ countries. The media has reported scandals and bankruptcies in companies, such as, Sunbeam, K- mart, Enron, Global Crossing (USA), BCCI, Maxwell, Polly Peck (UK) and HIH Insurance (Australia).

63

Besides scandals in developed countries, which have sophisticated capital markets and regulations, similar cases can be also seen in ‘developing’ countries with ‘emerging’ capital markets. Asian countries have also experienced similar cases, such as, PT Bank Bali and Sinar Mas Group (Indonesia), Bangkok Bank of Commerce (Thailand), United Engineers Bhd (Malaysia), Samsung Electronics and Hyundai (Korea). The corporate collapses of recent times, culminating with massive collapses, such as, those of Enron in the U.S., HIH in Australia, and Satyam in India, have suggested that there are major ‘systemic’ problems facing the way in which corporations and CG operate.

The recent high-profile accounting scandals involving major companies worldwide, such as, Enron, WorldCom, Parmalat and most recently, India’s Satyam along with recent outcries over the excessive remuneration paid to some CEOs have raised questions about the relationship between ethical leadership, financial incentives and financial misreporting (Chen, 2010). During the recent series of corporate fraudulent financial reporting incidents

in the U.S., similar corporate scandals were disclosed in several other countries.

Almost all cases of foreign corporate accounting frauds were committed by entities that conducted their businesses in more than one country, and most of these entities are also listed on U.S. stock exchanges. The list of corporate financial accounting scandals in the U.S. is extensive, and each one was the result of one or more “creative-accounting” irregularities. Table 2 identifies a sample of U.S. companies that committed such fraud and the nature of their fraudulent financial reporting activities (Badawi,2003).

Overseas, nine major international companies, based in eight different countries have also committed financial accounting frauds. Table 3 identifies these nine international companies and the nature of the accounting irregularities they committed (Taub 2004).

CORPORATE ACCOUNTING SCANDAL AT SATYAM COMPUTER SERVICES LIMITED: A CASE STUDY OF INDIA’S ENRON

BACKGROUND

Ironically, Satyam means “truth” in the ancient Indian language “Sanskrit” (Basilico et al., 2012). Satyam won the “Golden Peacock Award” for the best governed company in 2007 and in 2009. From being India’s IT “crown jewel” and the country’s “fourth largest” company with high- profile customers, the outsourcing firm Satyam Computers has become embroiled in the nation’s biggest corporate scam in living memory (Ahmad, et al., 2010). Mr. Ramalinga Raju (Chairman and Founder of Satyam; henceforth called ‘Raju’), who has been arrested and has confessed to a \$1.47 billion (or Rs. 7,800 crore) fraud, admitted that he had made up profits for years. According to reports, Raju and his brother, B. Rama Raju,

who was the Managing Director, “hid the deception from the company’s board, senior managers, and auditors.” The case of Satyam’s accounting fraud has been dubbed as “India’s Enron”. In order to evaluate and understand the severity of Satyam’s fraud, it is important to understand factors that contributed to the ‘unethical’ decisions made by the company’s executives. First, it is necessary to detail the rise of Satyam as a competitor within the global IT services market-place. Second, it is helpful to evaluate the driving-forces behind Satyam’s decisions: Ramalinga Raju. Finally, attempt to learn some ‘lessons’ from Satyam fraud for the future.

EMERGENCE OF SATYAM COMPUTER SERVICES

Satyam Computer Services Limited was a ‘rising-star’ in the Indian ‘outsourced’ IT-services industry. The company was formed in 1987 in Hyderabad (India) by Mr. Ramalinga Raju. The firm began with 20 employees and grew rapidly as a ‘global’ business. It offered IT and business process outsourcing (BPO) services spanning various sectors. Satyam was as an example of “India’s growing success.” Satyam won numerous awards for innovation, governance, and corporate accountability. As Agrawal and Sharma (2009) states, “In 2007, Ernst & Young awarded Mr. Raju with the ‘Entrepreneur of the Year’ award. On April 14, 2008, Satyam won awards from MZ Consult’s for being a ‘leader in India in CG and accountability’. In September 2008, the World Council for Corporate Governance awarded Satyam with the ‘Global Peacock Award’ for global excellence in corporate accountability.”

65

Unfortunately, less than five months after winning the Global Peacock Award, Satyam became the centerpiece of a ‘massive’ accounting fraud. By 2003, Satyam’s IT services businesses included 13,120 technical associates servicing over 300 customers worldwide. At that time, the world-wide IT services market was estimated at nearly \$400 billion, with an estimated annual compound growth rate of 6.4%. “The markets major drivers at that point in time were the increased importance of IT services to businesses world- wide.

The impact of the Internet on eBusiness; the emergence of a high-quality IT services industry in India and their methodologies; and, the growing need of IT services providers who could provide a range of services.” (Caraballo, 2010) To effectively compete, both against domestic and global competitors, the company embarked on a variety of multipronged business growth strategies.

From 2003-2008, in nearly all financial metrics of interest to investors, the company grew measurably. Satyam generated USD \$467 million in total sales. By March 2008, the

company had grown to USD \$2.1 billion. The company demonstrated “an annual compound growth rate of 35% over that period.” Operating profits averaged 21%.

Earnings per share similarly grew, from \$0.12 to \$0.62, at a compound annual growth rate of 40%. Over the same period (2003-2009), the company was trading at an average trailing EBITDA multiple of 15.36. Finally, beginning in January 2003, at a share price of 138.08 INR, Satyam’s stock would peak at 526.25 INR—a 300% improvement in share price after nearly five years (www.capitaliq.com). Satyam clearly generated significant corporate growth and shareholder value. The company was a leading star— and a recognizable name—in a global IT marketplace. The external environment in which Satyam operated was indeed beneficial to the company’s growth. But, the numbers did not represent the full picture. Exhibit 1 lists some of the critical events for Satyam between 1987 and 2009. The case of Satyam accounting fraud has been dubbed as “India’s Enron”

MR. RAMALINGA RAJU AND THE SATYAM SCANDAL

On January 7, 2009, Mr. Raju disclosed in a letter, as shown in Exhibit 2, to Satyam Computers Limited Board of Directors that “he had been manipulating the company’s accounting numbers for years.” Mr. Raju claimed that he overstated assets on Satyam’s balance sheet by \$1.47 billion. Nearly \$1.04 billion in bank loans and cash that the company claimed to own was non-existent. Satyam also underreported liabilities on its balance sheet. Satyam overstated income nearly every quarter over the course of several years in order to meet analyst expectations. For example, the results announced on October 17, 2009 overstated quarterly revenues by 75 percent and profits by 97 percent. Mr. Raju and the company’s global head of internal audit used a number of different techniques to perpetrate the fraud. As Ramachandran (2009) pointed out, “Using his personal computer, Mr. Raju created numerous bank statements to advance the fraud. Mr. Raju falsified the bank accounts to inflate the balance sheet with balances that did not exist. He inflated the income statement by claiming interest income from the fake bank accounts. Mr. Raju also revealed

that he created 6,000 fake salary accounts over the past few years and appropriated the money after the company deposited it. The company's global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue. The global head of internal audit also forged board resolutions and illegally obtained loans for the company." It also appeared that the cash that the company raised through American Depository Receipts in the United States never made it to the balance sheets (www.outlookindia.com).

Exhibit 2: Satyam's Founder, Chairman and CEO, Mr. Raju's Letter to his Board of Directors To The Board of Directors, Satyam Computer Services Ltd. From: B. Ramalinga Raju Chairman, Satyam Computer Services Ltd. January 7, 2009

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:

1. 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).

2. 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 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.

Raju claimed in the same letter that “neither he nor the managing director had benefited financially from the inflated revenues, and none of the board members had any knowledge of the situation in which the company was placed.” 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, Kirpalani (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.” “What accounted as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. This gap reached unmanageable proportions as company operations grew significantly,” Raju explained in his letter to the board and shareholders. He went on to explain, “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). Table 4 depicts some parts of the Satyam’s fabricated ‘Balance Sheet and Income Statement’ and shows the ‘difference’ between ‘actual’ and ‘reported’ finances.

AFTERMATH OF SATYAM SCANDAL

Immediately following the news of the fraud, Merrill Lynch terminated its engagement with Satyam, Credit Suisse suspended its coverage of Satyam, and PricewaterhouseCoopers (PwC) came under intense scrutiny and its license to operate was revoked. Coveted awards won by Satyam and its executive management were stripped from the company (Agarwal and Sharma, 2009). Satyam's shares fell to 11.50 rupees on January 10, 2009, their lowest level since March

1998, compared to a high of 544 rupees 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 (BBC News, 2009). Unfortunately, Satyam significantly inflated its earnings and assets for years and rolling down Indian stock markets and throwing the industry into turmoil (Timmons and Wassener, 2009). Criminal charges were brought against Mr. Raju, including: criminal conspiracy, breach of trust, and forgery.

69

After the Satyam fiasco and the role played by PwC, investors became wary of those companies who are clients of PwC (Blakely), 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 chart titled as "Fall from grace," shown in

Exhibit 3 depicts the Satyam's stock decline between December 2008 and January 2009:

Exhibit 1: Satyam Timeline

June 24, 1987: Satyam Computers is launched in Hyderabad

1991: Debuts in Bombay Stock Exchange with an IPO over-subscribed 17 times. 2001: Gets listed on NYSE: Revenue crosses \$1 billion. 2008: Revenue crosses \$2 billion.

December 16, 2008: Satyam Computers announces buying of a 100 per cent stake in two companies owned by the Chairman Ramalinga Raju's sons—Maytas Properties and Maytas

Infra. The proposed \$1.6 billion deal is aborted seven-hours later due to a revolt by investors, who oppose the takeover. But Satyam shares plunge 55% in trading on the New York Stock Exchange.

December 23: The World Bank bars Satyam from doing business with the bank's direct contracts for a period of 8 years in one of the most severe penalties by a client against an Indian outsourcing company. In a statement, the bank says: "Satyam was declared ineligible for contracts for providing improper benefits to Bank staff and for failing to maintain documentation to support fees charged for its subcontractors." On the day the stock drops a further 13.6%, it is lowest in more than four-and-a-half years.

December 25: Satyam demands an apology and a full explanation from the World Bank for the statements, which damaged investor confidence, according to the outsourcer. Interestingly, Satyam does not question the company being barred from contracts, or ask for the revocation of the bar, but instead objects to statements made by bank representatives. It also does not address the charges under which the World Bank said it was making Satyam ineligible for future contracts.

December 26: Mangalam Srinivasan, an independent director at Satyam, resigns following the World Bank's critical statements.

70

December 28: Three more directors quit. Satyam postpones a board meeting, where it is expected to announce a management shakeup, from December 29 to January 10. The move aims to give the group more time to mull options beyond just a possible share buyback. Satyam also appoints Merrill Lynch to review 'strategic options to enhance shareholder value.'

January 2, 2009: Promoters' stake falls from 8.64% to 5.13% as institutions with whom the stake was pledged, dump the shares.

January 6, 2009: Promoters' stake falls to 3.6%.

January 7, 2009: Ramalinga Raju resigns, admitting that the company inflated its financial results. He says the company's cash and bank shown in balance sheet have been inflated and fudged to the tune of INR 50,400 million. Other Indian outsourcers rush to assure credibility to clients and investors. The Indian IT industry body, National Association of Software and

Service Companies, jumps to defend the reputation of the Indian IT industry as a whole.

January 8: Satyam attempts to placate customers and investors that it can keep the company afloat, after its former CEO admitted to India's biggest-ever financial scam. But law firms IZard Nobel and Vianale & Vianale file "class-action suits on behalf of US shareholders," in the first legal actions taken against the management of Satyam in the wake of the fraud.

January 11: The Indian government steps into the Satyam outsourcing scandal and installs three people to a new board in a bid to salvage the firm. The board is comprised of Deepak S Parekh, the Executive Chairman of home-loan lender, Housing Development Finance Corporation (HDFC), C. Achuthan, Director at the country's National Stock Exchange, and former member of the Securities and

Exchange Board of India, and Kiran Karnik, Former President of NASSCOM.

January 12: The new board at Satyam holds a press conference, where it discloses that it is looking at ways to raise funds for the company and keep it afloat during the crisis. One such method to raise cash could be to ask many of its Triple A-rated clients to make advance payments for services.

71

INVESTIGATION: CRIMINAL, CIVIL CHARGES AND VICTIMS

The investigation that followed the revelation of the fraud has led to charges against several different groups of people involved with Satyam. Indian authorities arrested Mr. Raju, Mr. Raju's brother, B. Ramu Raju, its former managing director, 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) 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. Some of the main victims, according to Manoharan (2011), were:

- Employees of Satyam spent anxious moments and sleep-less nights as they faced non-payment of salaries, project cancellations, layoffs and equally-bleak prospects of outside employment opportunities. They were stranded in many ways: morally, financially, legally, and socially.
- Clients of Satyam expressed loss of trust and reviewed their contracts, preferring to go with other competitors. Several global clients, like Cisco, Telstra and World Bank cancelled their contracts with the Satyam. “Customers were shocked and worried about the project continuity, confidentiality and cost overrun.”
- Shareholders lost their valuable investments and there was doubt about revival of India, as a preferred investment destination. The VC and MD of Mahindra, in a statement, said that the development had “resulted in incalculable and unjustifiable damage to Brand India and Brand-IT, in particular.”
- Bankers were concerned about recovery of financial and non-financial exposure and recalled facilities.
- Indian Government was worried about its image of the nation and IT-sector affecting faith to invest, or to do business in the country.

72

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. Tech Mahindra purchased 51% of Satyam on April 16, 2009, successfully saving the firm from a complete collapse. As Winkler states (2010), “With the right changes, India can minimize the rate and size of accounting fraud in the Indian capital markets.”

LESSONS LEARNED FROM SATYAM SCAM

The 2009 Satyam scandal in India highlighted the nefarious potential of an improperly governed corporate leader. As the fallout continues, and the effects were felt throughout the global economy, the prevailing hope is that some good can come from the scandal in terms of lessons learned (Behan, 2009). Here are some lessons learned from the Satyam Scandal:

- Investigate All Inaccuracies: The fraud scheme at Satyam started very small, eventually growing into \$276 million white-elephant in the room. Indeed, a lot of fraud schemes initially start out small, with the perpetrator thinking that small changes here and there would not make a big difference, and is less likely to be detected. This sends a message to a lot of

companies: if your accounts are not balancing, or if something seems inaccurate (even just a tiny bit), it is worth investigating. Dividing responsibilities across a team of people makes it easier to detect irregularities or misappropriated funds.

- Ruined reputations: Fraud does not just look bad on a company; it looks bad on the whole industry and a country. “India’s biggest corporate scandal in memory threatens future foreign investment flows into Asia’s third-largest economy and casts a cloud over growth in its once-booming outsourcing sector. The news sent Indian equity markets into a tail-spin, with Bombay’s main benchmark index tumbling 7.3% and the Indian rupee fell” (IMF, 2010). Now, because of the Satyam scandal, Indian rivals will come under greater scrutiny by the regulators, investors and customers.
- Corporate Governance needs to be stronger: The Satyam case is just another example supporting the need for stronger CG. All public-companies must be careful when selecting executives and top-level managers. These are the people who set the tone for the company: if there is corruption at the top, it is bound to trickle-down. Also, separate the role of CEO and Chairman of the Board. Splitting up the roles, thus, helps avoid situations like the one at Satyam.

CONCLUSION

Fraud is a deception. Whatever industry the fraud is situated in, or whatever kind of fraud you visualize, “deception is always the core of fraud”. Fraud is “a million dollar business and it is increasing every year.” Applied to the 2011 Gross World Product, as per ACFE Survey, this figure translates to a potential projected annual fraud loss of more than \$3.5 trillion. Both internal and external fraud present a substantial cost to our economy worldwide. It is widely accepted that corporate entities of all sizes across the world are susceptible to accounting scandals and frauds. From Enron and WorldCom in 2001 to Madoff and Satyam in 2009, accounting fraud has been a dominate news item in the past decade. Despite intense efforts to stamp out corruption, misappropriation of assets, and fraudulent financial reporting, it appears that fraud in its various forms is a problem that is increasing, both in frequency and severity. Financial statement fraud was a contributing factor to the recent financial crisis and threatens the efficiency, liquidity, and safety of both debt and capital markets (Black, 2010). Furthermore, frauds and scandals have significantly increased uncertainty and volatility in the financial markets, thereby shaking investor confidence worldwide. It also reduced the creditability of financial information that investors use in investment decisions (Rezaee and

Kedia, 2012). However, there has been ample evidence that rising number of frauds have undermined the integrity of financial reports, contributed to substantial economic losses, and eroded investors' confidence in the usefulness and reliability of financial statements. Given the current state of the economy and recent corporate scandals, fraud is still a top concern for corporate executives. Hence, major financial reporting frauds need to be studied for lessons learned and strategies to be followed so as to avoid (or reduce) the incidence of such frauds in the coming future.

Recent corporate frauds and the outcry for transparency and honesty in reporting have given rise to two outcomes. First, forensic accounting skills have become very crucial in untangling the complicated accounting maneuvers that have obfuscated financial statements. Second, public demand for change and subsequent regulatory action has transformed CG scenario across the globe. In fact, both these trends have the common goal of addressing the investors' concerns about the transparent financial reporting system. The failure of the corporate communication structure, therefore, has made the financial community realize that "there is a great need for skilled professionals that can identify, expose, and prevent structural weaknesses in three key areas: poor corporate governance, flawed internal controls, and fraudulent financial statements."

74

Undoubtedly, forensic accounting skills are becoming increasingly relied upon within a corporate reporting system that emphasizes its accountability and responsibility to stakeholders (Bhasin,

2008). In addition, the CG framework needs to be first of all strengthened and then implemented in "letter as well as in right spirit." The increasing rate of white-collar crimes, without doubt, demands stiff penalties and punishments.

Perhaps, no financial fraud had a greater impact on accounting and auditing profession than Enron, WorldCom, and recently, India's Enron: "Satyam". Unlike Enron, which sank due to "agency" problem, Satyam was brought to its knee due to "tunneling". All these frauds have led to the passage of the Sarbanes-Oxley Act in July 2002, and a new federal agency and financial standard-setting body, the Public Companies Accounting Oversight Board (PCAOB). It also was the impetus for the American Institute of Certified Public Accountants' (AICPA) adoption of SAS No. 99, "Consideration of Fraud in a Financial Statement Audit." But it may be that the greatest impact of Enron and WorldCom was in the significant increased focus and awareness related to fraud. It establishes external auditors' responsibility to plan and perform audits to provide a reasonable assurance that the audited financial statements are free of material frauds.

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- ◆ <http://theconsiglieres.WordPress.com/2013/03/11/the-2g-scam>
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