

# *A journey from Fraudulent to fair Corporate : A Steady Process*

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## **Introduction :**

Now a days frauds / misappropriations / embezzlements are so common, more so in Indian context, that the average Indian does not even bother to read and ponder over the issue. The steep rise in corporate frauds is responsible for up to 6 % of company's revenue loss. The quantum of such instances is growing day by day. We are assuming the revenue loss on the basis of the reported crimes, the percentage of the unreported cases would be even more.

The research article makes an attempt to compile the issues related with financial frauds , the reasons behind such instances and the importance of fraud analytics. The area of forensic accounting plays important role in the detection of cases as well as controlling the instances in future. When the modus operandi of the fraudster is studied carefully , a prevention mechanism can be thought of. This study would be incomplete without mentioning the legal provisions to detect the frauds. We are restricting ourselves to the financial frauds of a serious nature only. To study such cases we need to take in to accounts the frauds of large quantum w.r.t. Indian Corporate Scene. If the most recent fraud is to be considered then , the Satyam's fraud committed by Mr. Ramalinga Raju should be analysed. In January 2009 Mr Raju himself admitted the falsification of accounts , irregularities amounting to Rs. 12,000 crores. As per the pace of legal procedures, the investigations and interrogations are still in progress. The real quantum may go up further.

The fake stamp papers scam , where the prime accused Mr Abdul Karim Telgi used the fake stamps and sold the same to the innocent buyers. Mr Telgi's network was spread over about 14 states , 125 Banks and about 1000 employees. The height is, the initial estimate was Rs.30,000 crores , however it was stated later to be in the range of Rs.200 crores. The Ketan Parekh Scam , wherein Mr Parekh , a qualified Chartered Accountant took high positions in some elected shares, to do so, he heavily borrowed from the banks like Global Trust banks , Madhopura Bank , these banks went in to liquidation and the extent of the scam is quoted to be Rs 1,500 crores. The "Home Trade" scam , where some of the co operative banks were involved in gilt trading , the RBI became suspicious and the fraud was detected . The quantum of the fraud was reported to be Rs.200 crores. Besides this in early nineties Harshad Mehta (Big Bull) was responsible for a scam , amounting to be Rs 5,000 crores.

The fraud and scam can not be separated , we may say that , these are the two terminologies used to narrate an event , where financial irregularities and malafide intentions are detected which invariably results in siphoning of money. The detection of frauds and embezzlements could be accidental, many a times. Once the fraud is detected, then the re occurrence of the same should be prevented at every cost. The control aspect has following steps: The likelihood of the fraud need to be predicted and the prevention methods should be thought of and implemented.

## **Some of the prudent methods are**

- Provision of "Anti fraud Training " to the staff as a routine training procedure. Such training needs to be provided by the professional agency , active in fraud analytics and detection.
- Use of business Intelligence systems, where the business data is linked / grouped with the intention of analysis for prediction of fraudulent practice.
- In built checks in the systems provided by the M I S.
- Rotating the staff periodically, so that over reliance on some individuals is nullified.
- Checking the credentials of the employees, before sensitive profiles are allotted to the individuals.
- Observing the ethical practices in the organization.
- The special audits to rule out the possibility of the potential frauds should be performed by the companies.
- Most importantly, no immunity should be granted to any employee or office bearer , irrespective of the rank and file. So that , if big fishes are involved in fraudulent practice, corrective action is possible.

## **The studies conducted and survey information compiled reveals the following reasons for the occurrences of frauds**

- A. Absolute lack of internal Control

## ***Finance Management***

- B. Over riding of the existing controls
- C. Lack of management Review
- D. Poor tone at the top
- E. Lack of competent persons in over sight roles
- F. Lack of independent checks and audits
- G. Lack of employee fraud education and
- H. Lack of clear line of Authority

Besides these the compilation of research data also reveals that, the Computer hardware, software and the manufacturing industries are facing highest cases , amongst other industries. As well the, related party transaction also reflects the maximum instances of frauds. As a matter of routine surveillance such transactions need to be monitored very cautiously.

**The fraud cluster, which is a systematic co relation between different entities responsible to precipitate the fraud these are**

1. The abuse of Power (Position) and Corruption
2. Disclosure Fraud
3. Third party Fraud
4. Financial statement Manipulation
5. Misappropriation of Assets

The detailed analysis of above mentioned links would lead to clues for tracking and preventing the potential frauds. Many a times when the fraud analytics is harnessed two or three of the above links operate hand in hand which ultimately leads to a full blown fraud. The Anti Fraud and anti money laundering laws are very effective and there are provisions for Rigorous imprisonment as well as financial penalties. Unfortunately the conviction rate is abysmally low.

**The relevant laws are**

1. Prevention of money laundering Act ,2002.
2. SEBI Guidelines ( W.r.t section 49).
3. Foreign Exchange Management Act 1999.
4. The Banking Regulations Act 1949.
5. Prevention of corruption Act 1988.
6. The I R D A Guidelines

**While on global front , the legal frame work is as follows**

1. The Sarbanes Oxley Act (Section 103 & 404)
2. SEC Regulation and Enforcement Policy
3. Foreign Corrupt Practice Act
4. U K Bribery Act and Companies Act 2004.
5. Financial Services Action Plan (FSAP) of European union.
6. The Canadian Criminal Code.
7. Statement of Auditing Standard (SAS 99) Consideration of fraud in financial Audit

**Finally we may conclude that for Fraud Prevention the logical approach would be**

Anti Fraud Policies include Fraud Identification, Fraud prevention detection, Fraud reporting.

On “People” Level : Code of Ethics , whistle Blower Policy, Online Hotline.

On “Technology” Level: IT general Control, Digital Forensic, IT Application Control.

**The last word in prevention of fraud is**

As far as possible, manage your own fund personally. When money management is delegated double check the credentials of the system and persons and appoint outside Auditing Agency.

Financial frauds are like mishaps , where human error plays significant role even though mishaps can not be avoided however same can be minimized. Same holds true for the Financial Frauds.

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