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INVASIVE CORPORATE FRAUDS: AN ALARMING CALL FOR INDIA INC.



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Abstract

Corporate fraud entails the dishonest or illegal activities of a perpetrating individual or company for its own benefits. Incidences of corporate fraud/scam are increasing around the world. In India, its percentage is rising substantially every year. In spite of presence of many regulatory bodies India Inc. witnessed many corporate frauds/scams in recent years. Even amendments in earlier acts failed to mitigate the incidences of corporate fraud. This paper attempts to describe the present status of corporate frauds through the reports of corporate fraud surveys conducted in India. It also tries to find measures to mitigate corporate frauds. This paper uses descriptive research design and collected data from secondary sources. The findings of the paper indicates incidences of corporate fraud are rising and there is a need is to adopt not only good corporate governance but also implement and practice it de facto.

Keywords: Corporate, corporate frauds, regulatory bodies, corporate governance

INTRODUCTION

Corporate frauds are affecting the world economy and the interesting part is that no one in the corporation recognizes it until it become huge and takes the shape of a fraud or scam. According to DS Rawat, general secretary of ASSOCHAM if a corporate is involved in malpractices it eventually leads to create a vicious cycle of much larger problems which includes deterioration of shareholders value, damages investor's trust leading to locking up of capital in litigation and finally causes an inevitable financial market instability. Kroll is an international technology-enabled and information management company involved in global survey on corporate fraud, which is affecting not just companies but the economy as a whole. The survey is conducted by Economist Intelligence Unit of the Kroll. Another joint study conducted by ASSOCHAM-Grant Thornton which also reported the high incidences of corporate fraud in India. Now, the problem is who to be blamed for this as no one takes the responsibility and what measures could be adopted to minimize it.

Objectives

1. To describe the present status of corporate frauds in India.
2. To find measures to mitigate corporate frauds

Research Methodology

This paper uses a descriptive research approach where data was gathered through secondary sources like websites, articles, reports etc.

KROLL 2015 CORPORATE FRAUDS REPORT

Survey results shows that India topped in having fraud/scam problems in comparison to other countries. In India, the latest survey results of three months duration collected between Jan'15 to March'15 showed a rise in corporate frauds/scams. The survey was done on 768 senior executives from different sectors like retail and wholesale, healthcare and pharmaceutical, engineering, technology, media and telecoms, financial services, travel, and professional services etc. According to survey findings at least one insider was involved in 81% of fraud affected companies which is 72% high as compared to previous survey. It indicates that the cases of corporate fraud where culprits were identified, the major fraud threats originated from within the companies.

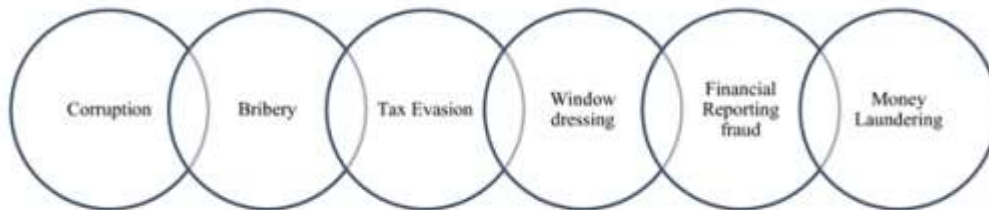
The highlights of the reports for India are-

| CRITERIA | % TO EXECUTIVES WHO RESPONDED TO THE SURVEY |
|-----------------------------------|---|
| Experienced fraud | 80% |
| Bribery and Corruption | 25% |
| Vendor/supplier/procurement fraud | 23% |
| Regulatory or compliance breach | 20% |
| Theft of physical assets | 18% |
| Money Laundering | 7.5% |

Source: Kroll 2015 report

ASSOCHAM-GRANT THORTON CORPORATE FRAUDS REPORT

According to joint study conducted by ASSOCHAM-Grant Thornton 65% of the respondent agreed that they witnessed an increasing trend in the incidences of fraud and wilful defaults. Also, RBI 2012-13 reports disclosed that there were 29,653 fraud cases amounting Rs. 24,828 crores were identified by nationalized banks of India. As per study, the common and major corporate frauds are originated due to-

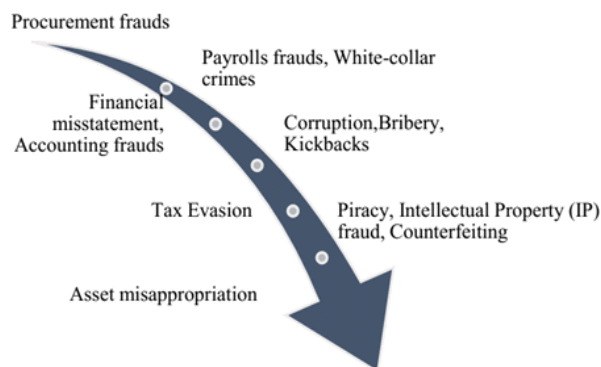


Weak internal audit mechanism and undue excessive powers in the hands of top management lead to an increase of over 45% of frauds in the last two years. Percentage of corporate frauds affecting different sectors are given below-

| SECTORS AFFECTED BY CORPORATE FRAUDS | CORPORATE FRAUDS (%) |
|--------------------------------------|----------------------|
| Real Estate and Infrastructure | 52% |
| Financial Services | 34% |
| Telecom | 5% |
| Manufacturing | 3% |
| Electronic Goods and IT/ ITeS | 2% |
| Hospitality and Tourism | 2% |

Source: ASSOCHAM-Grant Thornton

FRAUDS THAT ARE AFFECTING BOTH PRIVATE AND PUBLIC SECTORS



Source: ASSOCHAM-Grant Thornton

Survey report shows major impact of the fraud on India Inc. as concerned by respondents are-

| |
|---|
| The brand image of the company: 66% |
| Financial losses that company incurs at the end of the fraud: 26% |
| Companies are expecting that cases of corporate fraud to increase in the next five years: 71% |

RECENT CORPORATE FRAUDS/SCAMS

| | |
|----|---|
| 1. | <p>Company: Satyam Computer Services Limited Fraud/Scam Year: 2009 Main Accuse: B Ramalinga Raju (Chairman), his kin and 166 companies. Fraud/Scam:</p> <ul style="list-style-type: none"> Accounting scandal of Rs. 7200 crores Money Laundering Pledge of inflated shares |
| 2. | <p>Company: Speak Asia Fraud/Scam Year: 2011 Main Accuse: Harender Kaur (global CEO) & others. Fraud/Scam:</p> <ul style="list-style-type: none"> Ponzi scheme An online business survey firm that collected Rs. 2000 plus crores from over 24 lakh investors. |
| 3. | <p>Company: Saradha Chit Fund Fraud/Scam Year: 2013 Main Accuse: Sudipta Sen (Chairman and Managing Director) Fraud/Scam :</p> <ul style="list-style-type: none"> The chit fund eventually collapsed leading to defaults of around Rs. 2400 Cr after a curb by SEBI and the RBI 10 media outlets owned by it was forced to wind up that made 1000 journalists jobless. |
| 4. | <p>Company: National Spot Exchange (NSE) Fraud/Scam Year: 2013 Main Accuse: Jignesh Shah (founder), Jagmohan Garg (largest trader) and others Fraud/Scam :</p> <ul style="list-style-type: none"> Ponzi scheme Rs. 5600 crore fraud considered as 'economic genocide' on thousands of investors through forgery and criminal conspiracy. |
| 5. | <p>Company: Sahara India Parivar Fraud/Scam Year: 2014 Main Accuse: Subrata Roy (Chairman) Fraud/Scam:</p> <ul style="list-style-type: none"> Two of its firms were charged for alleged irregularities in fund raising schemes. |
| 6. | <p>Company: Kingfisher Airlines Ltd. Fraud/Scam Year: 2015 Main Accuse: Vijay Mallya (Chairman) Fraud/Scam:</p> <ul style="list-style-type: none"> Bank consortium declared him 'wilful defaulter' Money Laundering |

MEASURES TO PREVENT OR MITIGATE CORPORATE FRAUDS

- Investors need to be vigilant about the company's operations and investments.
- There is a need to organize employee awareness program pertinent to factors that lead to frauds.
- There is a need to make companies more aware about their internal mechanism which will curb the internal fraud incidents of the companies.
- To minimize the financial/ accounting fraud risks there is a need of make policies related to whistleblower and auditors independence.
- Maximum use of technology will help in mitigating fraud risks.
- XBRL is Extensible Business Reporting Language which facilitates analysis of business information which not only provide benefits to the company but also help the regulators to keep watch on company's operations as the information can be exchanged between the computers.

CONCLUSION

In majority of cases, Chairman/CEO held responsible for the corporate frauds/scams. Corporate frauds/ scams are invading companies in India. They are appearing in different forms i.e. bribery, corruption, money laundering, kickbacks, financial misrepresentation etc. It is indicative that everyone on the board used to agree on whatever Founder/Chairman/CEO decides. Corporate governance which is assumed to be practiced by the board, actually exists seldom and members attend the board meetings just to agree with the Chairman/CEO decisions. As the incidences of corporate fraud are rising, there is a need is to adopt not only good corporate governance but also implement and practice it de facto.

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