

FRAUDULENT MANIPULATION OF ACCOUNTS: A CASE STUDY FROM INDIA

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Abstract: Fraud is omnipresent that can affect all countries and all sectors of the economy. India is not an exception to this. Fraud means false representation or entry made intentionally or without belief in its truth with a view to defraud somebody. Detection of fraud is one of the important duties of an auditor. The present paper will focus on the deceptions, scams in the corporate sector. Nowadays, such accounting scandals and frauds have increased both in the frequency and severity. It is a major problem for the corporate sector and its shareholders. Accounting related fraud, scandal and scams related issues are hiked up. Some noticeable examples have been the cases of Vijay Mallya, Ramalinga Raju, Agrigold and so on.

Keywords: Frauds, accounting fraud and misappropriation of corporate assets.

Introduction

Accounting is a significant service activity in any business. It is concerned with collecting, recording, evaluating and communicating the results of past events. The history of accounting is as old as money itself. Accounting practices in India could be traced back to when twenty three centuries ago, Kautilya, a minister in Chandragupta's Kingdom, wrote a book named "Artha Shastra" which also described how accounting records have to be maintained. Accounting has been developing day after day. Today, it has grown into an important discipline in itself. The modern system of accounting, based on the principles of double entry, owes its origin to 'Luco Pacioli' who first published the *Principle of Double Entry System* in 1494 at Venice in Italy. According to him, it is any behaviour by which one person intends to gain a dishonest advantage over another. A fraud may not be a crime. Corporate fraud refers to those frauds in which a company

involved. Fraud is a false representation by means of a statement or conduct in order to gain a material advantage. Kohler posited that fraud is the successful practice of deception of artifice with the intention of cheating or injuring another. In the recent years, large scale production, cutthroat competition, widening of market and changes in technology have brought remarkable changes in the field of accounting. The International Auditing Guidelines (IAG) defined fraud as *An intentional misrepresentation of financial information by one more individuals among management, employees and parties.* (Chinna Durai & Kathir Vel, 2018).

This paper is organised into four sections. The first section describes a brief introduction on the fraud, types of fraud, and consequences of fraud. The second section describes the available literature. This will also include the objectives of the study, the methodology of the study, and the sources from which data was collected.

The third section will examine discussion details of company cases involved in accounting frauds. The last section will present the conclusions drawn from the study.

Review of Literature

Accounting fraud differs from other frauds in that it is committed usually by the management to deceive financial statement users. On the other hand, misappropriation of assets is committed against an entity, most often by employees (Guy & Pany, 1997: 4). Accounting fraud is the intentional, material misstatement of financial statements or financial disclosures, or the perpetration of an illegal act that has a material direct effect on the financial statements or financial disclosure (Beasley, Carcello, Hermanson & Neal, 2010: 7). The classification of an action as being fraudulent may depend on the motivation behind it (Brennan & Hennessey, 2001:61).

Objectives

Following are the objectives of the present study.

- To examine the speculative infrastructure of accounting frauds.
- To contemplate the cases concerning accounting frauds in India.

Methodology

The data used in this paper has been collected from secondary sources. The secondary data included details of accounting frauds in India during the period 1905 to 2018. The secondary data included: books, media articles, internet source, etc.

Discussion

It means the false representation or entry made intentionally or without belief in truth, with a view to defrauding other. Accounting scandals and frauds are perennial and they have occurred in all eras, in all countries and affected millions of corporations. Unfortunately, there are few loopholes in accounting and auditing standards, which provide leeway and thus motivate accounting professionals to use aggressively manipulation practices. In fact, accounting manipulation involves the intentional cooking-up of financial records towards a pre-determined target. Corporate fraud can be classified in three broad areas. Financial fraud or Accounting fraud consists of falsifying financial information by fudging the books thereby misleading the investors. The most popular accounting schemes are capitalising expenses, side deals, swap transactions, channel stuffing, accelerated revenues and deferred expenses. This is usually perpetuated by management. Self-dealing by corporate insiders is mostly related to misappropriation of corporate assets by senior executives such as loans granted to senior management that are never intended to be repaid, failure to disclose forgive loans, reimbursed personnel expenses and extra ordinary personnel expenses charged to the company. Other such frauds are insider trading, misuse of corporate property for personal gain, kickbacks and individual tax violations related to self-obstructive conduct is falsifying testimony to regulators, erasing computer files, shredding documents, creating or altering document to support illegal conduct.

The Association of Certified Fraud Examiners (2008) defined fraud as the use 31 of one occupation for personal enrichment through deliberate misuse or

misapplication of the employing organization's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It has been considered as is any act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other, or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intension to deceive, falsify or take advantage over the unsuspecting and innocent victim resulting to suffering loss or damage (Chinna Durai and Kathir Vel, 2018). Companies involved in accounting fraud are shown in Table 1.

Table 1 explain that the corporate cases involved in accounting frauds, compare to all the corporate of our paper findings Kingfisher Airlines involved the more accounting frauds amounted to \$90 billion. Next Satyam Computers amounted

\$ 80 billion. Then Agrigold \$ 67 billion and the Bernie Madoff involved \$ 64.8 billion value of accounting fraud each.

Conclusions

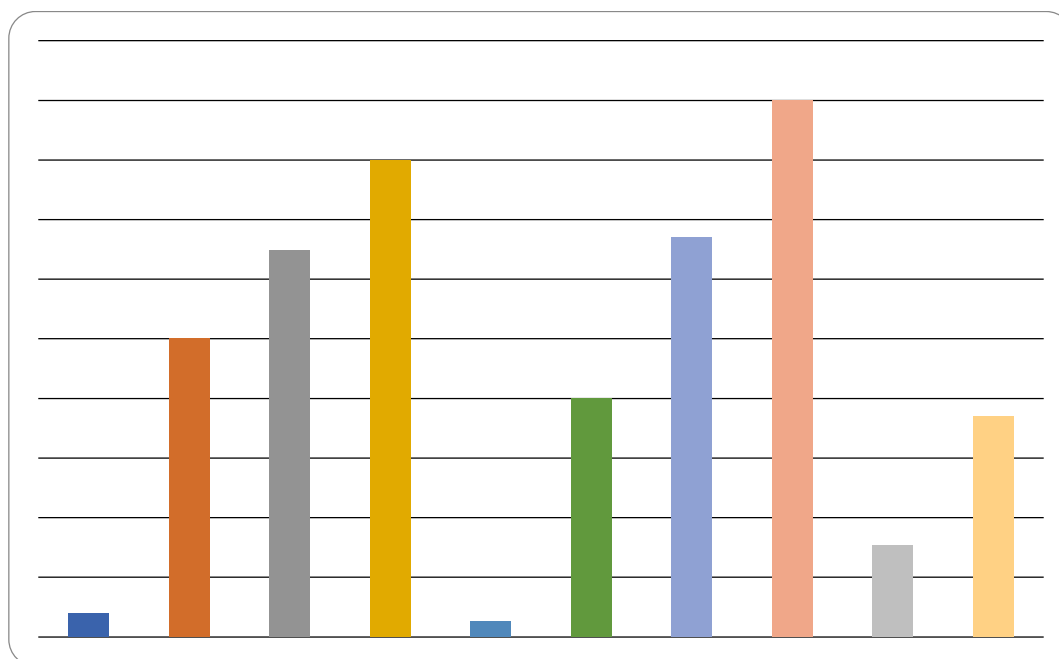
In conclusion, the present study has brought out that accounting fraud connected cases and the number of cases have increased. The study found that some corporate auditors were involved and supported the management for accounting frauds. Some examples were those of Vijay Mallya, Ramalinga Raju and Agrigold. Accounting frauds are increasing every day. Indian Institute of Chartered Accountant of India, Comptroller & Audit General and the Government of India resolve only reduce, if severe penalties and detention are awarded to the criminal Corporate and its chartered accountants.

Table 1: Details of Company Cases Involved in Accounting Frauds

| Sl.No | Year of Occurrence | Name of the Company/Group | Amount Involved | Activities | CEO Involved |
|-------|--------------------|---------------------------|-----------------|--|--|
| 1 | 2005 | American Insurance Group | \$3.9 billion | Inflate Stock Price & Fictitious Accounting entries | CEO Hank Greenberg |
| 2 | 2008 | Lehman Brothers | \$ 50 billion | Under valuation of Assets | CEO Lehman and Auditor, Emst & Young |
| 3 | 2008 | Bernie Madoff | \$ 64.8 billion | Investors were paid returns out of their reserves | Bernie Madoff and Auditor David Friehling & Frank Dipascalli |
| 4 | 2009 | Satyam Computers | \$80 billion | Over-valuation of assets& Revenues | Chairman Ramalinga Raju and the Auditors |
| 5 | 2011 | Amir-Mansour | \$ 2.6 billion | Business loans without putting any collateral and financial system | IAO(Audit organization) and other Audit firms |

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|----|------|------------------------------|------------------|--|-----------------------------|
| 6 | 2013 | Saratha Chit Fund | \$40 billion | Fake collective investment scheme & Wrong Utilisation | MD Sudipta Sen |
| 7 | 2014 | Agrigold | \$67 billion | Cheques that were given to the customers toward their maturity amount bounced | Venkatramana Rao |
| 8 | 2016 | Kingfisher Airlines | \$90 billion | Tax Evasion Loan Default & Improper Maintenance of Books | CEO, Vijay Mallya |
| 9 | 2017 | Winsome Diamonds & Jewellery | \$ 15.30 billion | Allegedly cheating three government banks | Chief Promoter, Jatin Mehta |
| 10 | 2018 | Rotomac bank | \$36.95 billion | Diverted the loans to a fictitious company, which routed the money back to Rotomac | Rotomac |

Figure 1: Amount of Accounting Frauds / Scams (amount in billion)



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