

The Satyam Scandal: A Deep dive into India's Biggest Corporate Fraud

Imagine a hypothetical scenario in the stock market where the very basic financials provided to you by a company are manipulated. This was what happened with Satyam Computer Services. This detailed examination of the Satyam scandal will provide CA students and professionals with crucial insights into the intricacies of corporate fraud, its detection and the subsequent regulatory reforms.

Introduction to Satyam Computers:

Satyam Computer Services Ltd., founded by Ramalinga Raju in 1987, was a leading IT services company based in Hyderabad, India. It was one of the top players in the industry, offering services in software development, systems maintenance and consulting to a global clientele. Satyam's rapid growth and success made it a darling of investors and a symbol of India's IT powers.



What is Satyam Scam is about?

It is about corporate governance and fraudulent auditing practices allegedly in connivance with auditors and chartered accountants. The company misrepresented its account both to its board, stock exchanges, regulators, investors and all other stakeholders.

The Unraveling of the scam:

The scandal came to light on January 7, 2009, when Ramalinga Raju confessed to inflating the company's financials for several years. In his letter to the board, Raju admitted to falsifying accounts to the tune of Rs. 7136 crore. The revelation sent shockwaves through the corporate world, leading to a dramatic fall in Satyam's stock price and eroding investor confidence.

The promoters are primary culprits, although it is almost impossible to misrepresent such facts without the connivance of the auditors and some executive board members. Independent directors, it seems, were kept in the dark about the actual books of accounts.

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The Satyam Scandal was a classic case of accounting fraud. Raju and his accomplices employed several methods to inflate the company's financial statements:

- Fake invoices were generated to show higher revenues.
- Bogus bank statements were created to reflect inflated cash balances.

Liabilities were underreported, giving a false impression of the company's financial health.

Key financial ratios like earnings per share (EPS) and return on equity (ROE) were manipulated to maintain investor interest and boost the company's stock price.

The timeline of the scam:

January 7, 2009: Ramalinga Raju dropped a letter-bomb on unsuspecting investors, employees and the government confessing to a Rs. 7136 crore fraud committed by him and his close circle of relatives and employees at the company. Ramalinga Raju resigns.

January 8, 2009: Citibank freezes Satyam's 30 accounts.

January 9, 2009: Ramalinga Raju and his younger brother got arrested. Central government disbands Satyam's board to appoint its own 10 directors. Satyam removed from Sensex, Nifty.

January 10, 2009: Satyam's former CFO Srinivas Vadlamani arrested.

January 11, 2009: Government appoints Deepak Parekh, Kiran Kamik and C. Achuthan to Satyam board.

February 2009: CBI takes over investigation, goes on to file 3 charge sheets.

March 6, 2009: Gets SEBI nod for bidding process to select investor.

April 22, 2009: Tech Mahindra makes open offer to Satyam shareholders at Rs. 58%share, offer to close June 9.

June 22, 2009: Mahindra unveils new brand identity for Satyam, Mahindra Satyam.

2010: Raju says charges levelled by CBI are false.

November 2, 2011: Supreme Court grants bail to Raju sine CBI failed to file charge sheet on time.

October 8, 2013: Enforcement Directorate files a criminal complaint against 47 persons and 166 corporate entities headed by Ramalinga Raju.

December 8, 2014: Ramalinga Raju and three others given six months jail term by SFIO.

December 23, 2014: Judge postpones verdict citing voluminous documents.

March 9, 2015: Special court defers verdict till April 9.

April 9, 2015: All 10 accused found guilty.

The impact of the scandal:

The immediate impact of the Satyam scandal was catastrophic for Stakeholders.

1. Investors:

Shareholders saw the value of their investments plummet as Satyam's stock price nosedived.

2. Employees:

Thousands of employees faced job insecurity and the company's reputation was severely tarnished.

3. Clients:

Clients lost trust in Satyam's ability to deliver, leading to the loss of several key contracts.

4. Regulations and Auditors:

- The scandal exposed significant lapses in the oversight mechanisms of regulators and auditors.
- PricewaterhouseCoopers (PwC), the auditing firm, came under severe scrutiny for failing to detect the fraud.



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

Regulatory reforms post-scandal:

The Satyam scandal prompted a slew of regulatory changes aimed at enhancing corporate governance and auditing standards in India.

1. The Companies Act, 2013:

Introduced stricter norms for corporate governance, including mandatory auditor rotation, enhanced disclosure requirements and stricter penalties for fraud.

2. Clause 49 of the listing agreement:

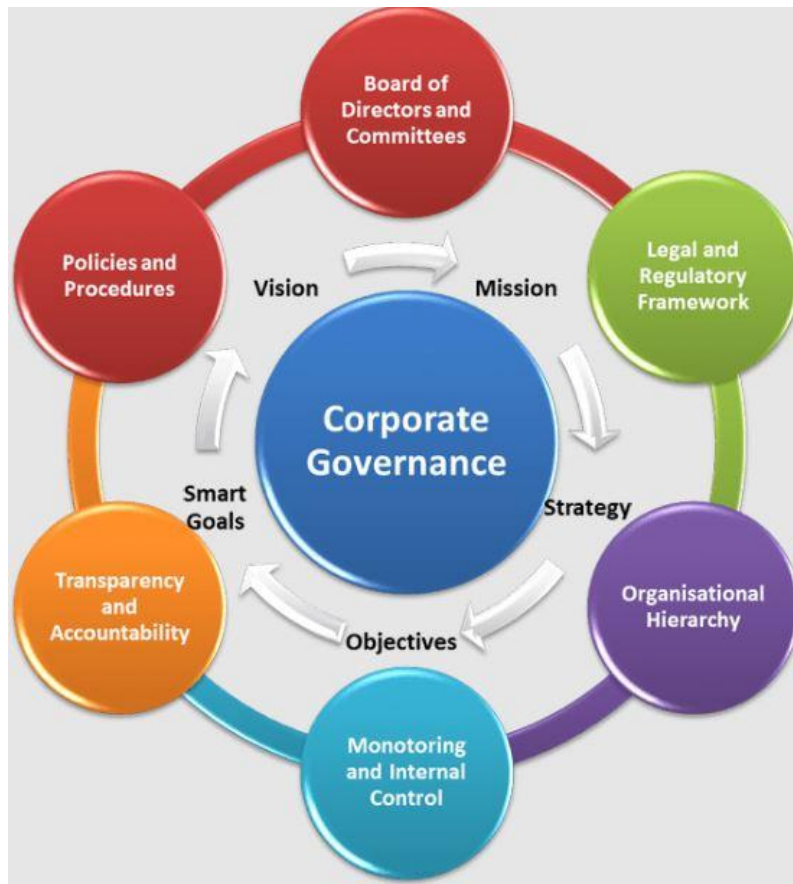
The Securities and Exchange Board of India (SEBI) revised Clause 49 to strengthen corporate governance norms for companies including improved roles for audit committees and independent directors.

3. National Financial Reporting Authority (NFRA):

Established to oversee auditing and accounting standards, ensuring higher accountability and transparency.

4. Stricter Auditing Standards:

The Institute of Chartered Accountants of India (ICAI) introduced stricter auditing standards and guidelines to prevent such lapses in the future.



Conclusion:

The Satyam scandal REMAINS ONE OF THE MOST SIGNIFICANT FINANCIAL FRAUDS IN India's corporate history> For CA students, it offers invaluable lessons in ethics, auditing and corporate governance, By studying such cases, future CA can better understand the complexities of financial fraud and the importance of regulatory compliance, ultimately contributing to a more transparent and trustworthy corporate environment.

