

Cbi Hyderabad vs Subramani Gopalakrishnan And Anr on 21 April, 2011

Equivalent citations: 2011 AIR SCW 2751, 2011 (5) SCC 296, 2011 CRI. L. J. 3355, AIR 2011 SC (CRIMINAL) 1168, 2011 (3) AIR KANT HCR 355, 2011 (2) SCC(CRI) 618, (2011) 1 CRILR(RAJ) 505, (2011) 4 CHANDCRIC 71, (2011) 3 JCR 131 (SC), 2011 CRILR(SC&MP) 505, (2011) 4 MAD LJ(CRI) 706, (2011) 102 ALLINDCAS 161 (SC), (2011) 2 RECCRIR 946, 2011 CRILR(SC MAH GUJ) 505, 2011 (5) SCALE 12, (2011) 2 UC 1320, (2011) 2 ALLCRILR 425, (2010) 3 KER LT 515, (2011) 1 CURCRIR 299, (2011) 2 CURCRIR 254, (2011) 49 OCR 319, (2011) 5 SCALE 12, (2011) 2 DLT(CRL) 389, (2011) 73 ALLCRIC 939, (2011) 2 CRIMES 229, 2011 (2) ALD(CRL) 492, 2011 (87) ALR SOC 1 (SC)

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Bench: B.S. Chauhan, P. Sathasivam

REPORTABLE

IN THE SUPREME COURT OF INDIA

CRIMINAL APPELLATE JURISDICTION

CRIMINAL APPEAL NO. 985-986 OF 2011

(Arising out of SLP (Criminal) Nos. 2772-2773 of 2011)

CBI, Hyderabad

.... Appellant (s)

Versus

Subramani Gopalakrishnan & Anr.

.... Respondent(s)

J U D G M E N T

P. Sathasivam, J.

1) Leave granted. These appeals, at the instance of the Central Bureau of Investigation (in short "the CBI"), Hyderabad are directed against the order dated 25.06.2010 passed by the High Court of Andhra Pradesh at Hyderabad in Criminal Petition Nos. 4972 and 4913 of 2010, in and by which, the High Court enlarged the respondents herein, namely, S. Gopalakrishnan (A4) and V.S. Prabhakara Gupta (A10) on bail by imposing certain conditions.

2) Since the CBI has challenged the order of the High Court granting bail in respect of the two accused, namely, A4 and A10, we are constrained to refer only the facts which are necessary for the disposal of these appeals.

3) Brief Facts:

(a) On 07.01.2009, B. Ramalinga Raju (A1), the then

Chairman of M/s Satyam Computer Services Limited (in short "M/s SCSL") addressed a confessional letter to the Board of Directors revealing certain financial irregularities in M/s SCSL. As per this letter, the balance-sheet as on 30.09.2008 showed inflated (non-existent) cash and bank balances of Rs.

5,040/- crores, an accrued interest of Rs. 376/- crores which is non-existent and an understated liability of Rs.1,230/-

crores on account of funds arranged by him and an overstated debtors position of Rs. 490/- crores (as against Rs. 2,651/-

crores reflected in the books). He also revealed several other factual details which resulted an increase in artificial cash and bank balances.

(b) He also revealed several frauds and cooking books of accounts ever happened in India's corporate history. Due to the fraud on the part of the persons in Management including the Financial Advisors, Auditors, etc., many investors suffered loss and on the complaint of one of such investors, a First Information Report (in short "FIR") was registered on 09.01.2009 by the Andhra Pradesh State Crime Investigation Department against the then Chairman, Directors and Auditors of M/s SCSL and others under Section 120-B read with Sections 409, 420, 467, 468, 471 and 477A of the Indian Penal Code (in short 'IPC'). Considering the magnitude of the offence, investigation was entrusted to the CBI and a regular case being RC.No.4(S)/2009 was registered by the CBI, Anti-

Corruption Branch, Hyderabad, on 20.02.2009.

(c) Due to fudging of the company accounts and manipulation of records by showing incorrect and inflated figures in the balance-sheets by the Chairman, M.D. and other Directors of the Company which were certified by the Auditors, the value of the shares of the Company suddenly dropped causing huge financial loss to the shareholders. The drop in the value of the shares was due to dishonest and fraudulent acts committed by the aforesaid functionaries, who were managing the affairs of the Company and were associated with its functioning and day-to-day affairs.

4) With the above brief facts, let us consider the allegations leveled against the Respondents herein (A4 and A10) and the role played by them.

The role of S. Gopalakrishnan (A4), Partner and In-charge of M/s Price Waterhouse in CC 1/2010:

(a) He affixed his signature on the financial statements as partner of M/s Price Waterhouse, the Statutory Auditors for M/s SCSL from the financial year 2001 till 2007.

(b) He was a partner in the firm 'M/s Price Waterhouse, Bangalore and not in 'M/s Price Waterhouse'.

(c) In the agreement entered into between M/s SCSL and M/s Price Waterhouse, instead of affixing his signature, he signed as 'M/s Price Waterhouse' which is contrary to the established practice and procedure.

(d) By virtue of his status as a Statutory Auditor, it is incumbent on his part to verify the bank balances and FDRs claimed to be held by M/s SCSL besides other investments, liabilities and sales of the Company before certifying the statutory Audit Report which forms the basis of Annual Financial Statement of the Company

(e) The presentations made by him to the Audit Committee about the health of the Company were misleading.

(f) As a consideration for his acts in accommodating the accused persons, he received an exorbitant audit fee from M/s SCSL over and above the market rate which reflects a quid pro quo arrangement.

(g) Letters generated on the letter-heads of M/s Price Waterhouse were recovered from the computer systems of M/s SCSL. These letters were supposed to be written by the Auditors addressed to the banks seeking confirmations about the balances.

(h) Though deficiencies were found in Information Technology General Check, no substantial and elaborate examination of the financial accounts was conducted by him.

(i) Control deficiencies identified in the integrated audit were not brought to the notice of the Audit committee.

(j) The above overt acts of A4 reveal the offences punishable under Section 120-B read with Sections 420, 419, 467, 471 and 477A of IPC.

5) The role of Sri S. Gopalakrishnan (A4), in CC 3/2010:

(a) He failed to comply with the Audit & Assurance Standards while conducting Statutory Audit in case of M/s SCSL.

(b) He failed to point out the existence of forged and fabricated invoices in the Invoice Samples.

(c) As a quid pro quo for his role he received very high remuneration.

(d) The above overt acts of A4 reveal the offences punishable under Section 120-B r/w 420, 471 & 477A IPC.

The role of Sri V.S. Prabhakara Gupta (A10), Head Internal Audit, M/s SCSL in the Supplementary Charge-sheet:

(a) He was the Associate In-charge - Internal Audit and was the Global Head of Internal Audit of M/s SCSL during the relevant period of time.

(b) He had intentionally not included auditing of Oracle Financials (OF) in the Internal Audit Plan of M/s SCSL till 2007 even though the system was operational since 2002.

(c) He intentionally submitted a prioritization plan to the Audit Committee for postponing the audit of many items including Oracle Financials citing several irrelevant reasons.

(d) With regard to anomalies pertaining to the invoices no correctional measures or follow up action was taken.

(e) He did not properly follow up for the restoration of the access to the offshore books of accounts for the Internal Audit team.

(f) He intentionally flouted the laid down procedures mentioned in the Internal Audit Manual.

(g) The above overt acts of A10 reveal the offences punishable under Section 120-B r/w Section 420 IPC.

6) Apart from the above details, Mr. P.P. Malhotra, learned ASG has also brought to our notice that prior to the grant of bail by the High Court A4 had filed seven bail applications and the High Court passed the impugned order only in the eighth bail application. He also pointed out that in the same way, A10 had filed six bail applications and the High Court passed the impugned order enlarging him on bail only in the sixth bail application.

7) By pointing out all these details, learned ASG submitted that at this stage, release of the accused-respondents from judicial custody will jeopardize the trial, particularly, when these two respondents, A4 and A10 who were the external and internal auditors of the Company, will influence the witnesses and it would be difficult for the employees to come and depose against them. He also submitted that considering the seriousness of the offence, impact on the society as a whole and magnitude of the offence, the respondents are not entitled for bail and the High Court has committed an error in granting the bail to them. He also submitted that the reliance on the orders of this Court insofar as Talluri Srinivas (A5) is not comparable because after the order of this Court granting him bail on 04.02.2010 in Criminal Appeal No. 257 of 2010, the entire scenario in the trial has changed, hence the said order cannot be cited as a precedent. He also submitted that though A4 and A5 were Auditors of M/s SCSL, A5 was there only for a limited period of one year whereas A4 worked for a period of seven years i.e. from 2000-07. He also relied on the order of this Court in Criminal Appeal No. 2068-2072 of 2010 dated 26.10.2010 wherein this Court cancelled the bail granted by the High Court insofar as A1, A2, A3, A7, A8 and A9 are concerned.

8) On the other hand, Mr. Mukul Rohatgi, learned senior counsel appearing for A4 highlighted the alleged role between those accused, i.e. A1, A2, A3, A7, A8 and A9 whose bail has been cancelled by this Court and that of A4. According to him, the order of this Court dated 26.10.2010 in Criminal Appeal No. 2068-2072 of 2010 is not applicable. A4 had been in custody for one year and five months before he was enlarged on bail. He also demonstrated that even according to the prosecution the role assigned to A4 and A5 is identical and when A5 was ordered to be released by this Court even as early as on 04.02.2010, the High Court rightly applied parity between them and granted bail. He also contended that A4 was not an employee of M/s SCSL but was partner in M/s Price Waterhouse and has nothing to do with the alleged claim in M/s SCSL.

9) Shri D. Rama Krishna Reddy, learned counsel appearing for A10 submitted that though he was an internal auditor of M/s SCSL, no statutory function was assigned to him. He also pointed out that only in the second charge-sheet, his name was included as an accused. He further pointed out that before granting bail by the High Court, he was put in jail for 222 days.

10) We have perused the impugned order of the High Court, various details furnished by both the sides and considered the rival contentions.

11) As per the complaint and investigation, A4 and A10 along with the other accused are involved in one of the greatest corporate scams of the commercial world. It has caused a financial storm not only throughout the country but also worldwide and by their action and conduct, lakhs of shareholders and others have been duped and the corporate credibility of the nation has received a serious setback. It is not in dispute that nobody can underestimate the sufferings of the shareholders and others due to the scam in question.

12) Though it was argued that the Management of M/s SCSL has been shifted to other corporate entity, it is demonstrated before us that the employees who were working in the erstwhile M/s SCSL are now working under the present management. In view of the same, at least persons working in the accounts section/financial management will not come forward to depose against the Respondents herein (A4 and A10) who were the external and internal auditors of the Company and who had influence in the Company.

13) The High Court, while ordering bail for A4 and A10, heavily relied on the order of this Court dated 04.02.2010 made in Criminal Appeal No. 257 of 2010. The said appeal relates to one - Talluri Srinivas (A5), who is a Chartered Accountant, registered with the Institute of Chartered Accountants of India (ICAI). He was working as a partner with M/s Price Waterhouse, Bangalore registered with the ICAI.

M/s Price Waterhouse is the statutory authorized auditors of M/s SCSL and allegation against A5 is that while submitting the audit report for the year 2007-08, some inflated figures were incorporated in the said report and thereby he committed serious breach of faith as a Member of the professional body of auditors/accountants. After noting several details and hearing the learned counsel on either side, this Court noted the following circumstances for releasing A5 on bail:

"i) the charge-sheet is running into several thousand pages;

ii) The CBI proposes to examine 470 witnesses;

iii) a very large volume of records have been produced in this case;

iv) therefore, it can be easily assumed that the trial of this case will take a long time even to start."

Considering these factual details without expressing any opinion on the merits of the case regarding the nature of offence or gravity thereof allegedly committed by A5 and having regard to the fact that he had been in custody for more than a year released him on bail on 04.02.2010 by imposing certain conditions.

14) Now the question is whether the same reasonings are applicable to the respondents herein, i.e. A4 and A10?

15) We have already pointed out that in view of the appeal filed by Talluri Srinivas (A5) against the dismissal of his bail application by the High Court, this Court considering the facts stated in the earlier paragraph passed an order on 04.02.2010 releasing A5 on bail subject to certain conditions. First of all, there is no similarity in respect of the role assigned to A4 and A5. Mr. Mukul Rohtagi, learned senior counsel, after taking us through several materials, submitted that even as per the prosecution, the role assigned to A4 and A5 is identical. After going through the same, prima facie, we are satisfied that the said assumption is incorrect. It is pointed out that though both A4 and A5 were Auditors of M/s SCSL at the relevant time, admittedly, A5 had worked only for a period of one year whereas A4 was in-charge of auditing the accounts of M/s SCSL for a period of seven years, i.e., from 2000 to 2007. In addition to the same, we have also verified three charge-sheets and the imputations made against both these accused persons. In these factual details available, prima facie, we are satisfied that A4 and A5 cannot be put on the same footing in respect of erroneous auditing resulting in inflated cash and bank balances of M/s SCSL.

16) It is relevant to point out the recent order of this Court dated 26.10.2010 in Criminal Appeal No. 2068-2072 of 2010 wherein this Court cancelled the bail granted by the High Court in respect of A1, A2, A3, A7, A8 and A9. After passing such order, this Court after recording the fact that the charges have been framed on 25.10.2010 and trial is scheduled to commence w.e.f. 02.11.2010 issued several directions, namely,

(i) the trial Court to take up the case on day-to-day basis and conclude the trial as expeditiously as possible in any event on or before 31.07.2011;

(ii) the trial Court would avoid granting undue adjournments, unless it becomes absolutely imperative;

(iii) the parties are directed to examine only material and most essential witnesses and fully cooperate with the trial Court;

(iv) the accused shall be produced before the trial Court on time, on every date of hearing, unless exempted by orders of the Court;

(v) the trial Court is free to decide the case without being influenced by any of the observations made by the High Court or by this Court;

(vi) for any reason, trial is not concluded before 31.07.2011, the accused would be at liberty to approach the trial Court for grant of bail.

17) The recent order dated 26.10.2010 of this Court referred to above makes it clear that this Court cancelled the bail in respect of prime accused, namely, A1, A2, A3, A7, A8 and A9.

It is also brought to our notice that in view of the specific directions of this Court in the said order, the trial has started and according to the learned ASG, it is likely to be concluded by the cut off date, i.e. 31.07.2011. It is also brought to our notice that out of 697 witnesses, the prosecution has dropped 470 witnesses and only 227 witnesses are to be examined.

Out of this, 193 witnesses have already been examined and some of them are to be cross-examined. According to the him, only 30 more witnesses have to be produced and examined.

18) In view of the directions of this Court in the subsequent order dated 26.10.2010, the trial is proceeding on day-to-day basis and likely to be concluded by 31.07.2011. We are satisfied that the reasons stated while granting bail for Talluri Srinivas (A5) by this Court on 04.02.2010 are not applicable to the respondents herein. Accordingly reliance on the basis of the bail order granted in favour of A5 cannot be applied to these respondents.

19) Mr. Mukul Rohatgi, learned senior counsel, appearing for A4 and Mr. D. Rama Krishna Reddy, learned counsel appearing for A10 strongly commented the conduct of the CBI in not challenging the order of the High Court granting bail to these persons and failure on their part to place these matters before the Court at the appropriate time. It is not in dispute that the High Court granted bail to these respondents on 25.06.2010 and the CBI challenging the said order filed two special leave petitions before this Court on 06.10.2010. No doubt, the matter was listed before the Court only on 01.04.2011 on which date, this Court issued notice to the respondents and on the same day the notice was accepted by the respective counsel for the respondents and they were permitted to file their reply. After filing reply, when the matter again came up for hearing on 04.04.2011 at the request of both sides, the matter was posted for final hearing on 15.04.2011 and was argued at length on the same day.

Though the appellant-CBI was not so diligent to bring the special leave petitions for orders immediately after filing of the same due to various reasons and compliance of the office report had taken some time, however, on this ground their challenge with regard to the order of the High Court granting bail cannot be rejected without going into the merits.

20) Though Mr. D. Rama Krishna Reddy, learned counsel for A-10, submitted that he being the internal auditor, employee of M/s SCSL, there is no statutory function and his name does not find place in the first charge-sheet and he was named only in the second charge-sheet, considering the materials available, it is not desirable to go into the correctness or otherwise at this juncture and at the same time in view of the magnitude of the scam and without the assistance and connivance of persons in-charge of auditing, we are unable to accept the stand of the learned counsel and hold that the High Court is not justified in granting bail for him.

21) It is also relevant to note that there is difference between yardsticks for cancellation of bail and appeal against the order granting bail. Very cogent and overwhelming circumstances are necessary for an order directing the cancellation of bail already granted. Generally speaking, the grounds for cancellation of bail are, interference or attempt to interfere with the due course of administration of justice or evasion or attempt to evade the due course of justice or abuse of the concessions granted

to the accused in any manner. These are all only few illustrative materials. The satisfaction of the Court on the basis of the materials placed on record of the possibility of the accused absconding is another reason justifying the cancellation of bail. In other words, bail once granted should not be cancelled in a mechanical manner without considering whether any supervening circumstances have rendered it no longer conducive to a fair trial to allow the accused to retain his freedom by enjoying the concession of bail during the trial.

We have already pointed out that the issue before us is not for cancellation of bail granted earlier, the question is whether in the facts and circumstances of the magnitude of the scam, the bail granted in favour of all the main accused have been cancelled and the Respondent Nos. A4 and A10 being external and internal auditors respectively, their role being paramount in inflating processing assets and bank balances of M/s SCSL, we are of the view that the High Court is not justified in granting bail.

22) In view of the specific allegation by the prosecution that A4 and A10 were party to the criminal conspiracy showing inflated (non-existent) cash and bank balances reflected in the books, inflated proceeds over a period of last several years, frauds and cooking books of accounts, we are satisfied that the High Court ought not to have granted bail to these respondents. Considering the subsequent order of this Court dated 26.10.2010 cancelling the bail in respect of other accused and issuing directions based on which the trial has to be concluded within the schedule time, viz. 31.07.2011, we hold that the High Court committed an error in granting bail to these respondents A4 and A10.

23) In the light of the above discussion, the impugned order of the High Court dated 25.06.2010 in Crl. Petition Nos. 4913 and 4972 of 2010 granting bail in favour of the respondents i.e., A4 and A10 is set aside. They are directed to surrender on or before 30.04.2011 otherwise the appellant shall take appropriate steps in accordance with law. All the observations and directions, as stated in the earlier order dated 26.10.2010, are also applicable to the respondents (A4 and A10). We also make it clear that the above said conclusion is for considering the grant of bail by the High Court and the trial Court is free to decide the case without being influenced by any of the observations made by the High court and by this Court in this order.

24) The appeals are allowed.

.....J.

(P. SATHASIVAM)

.....J.

(DR. B.S. CHAUHAN)

NEW DELHI;

APRIL 21, 2011.