



Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2024 – ISSN 2582-7820
Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

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Major Scandals Explaining the Magnitude of Economic Crimes

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Received 27 April 2024; Accepted 28 May 2024; Published 01 June 2024

Corporate fraud is a significant issue in India, impacting investor confidence, financial market integrity, and economic stability. The paper explores the various forms of fraud, including financial misstatements, embezzlement, and insider trading. It highlights the importance of a robust regulatory framework in combating corporate fraud, including legislative measures like the Companies Act of 2013, SEBI Act, RBI Act, Indian Penal Code, and Prevention of Money Laundering Act. However, the effectiveness of these mechanisms depends on their enforcement and adaptation to evolving fraud risks. The paper also emphasises the need for strengthening corporate governance standards, promoting ethical leadership, and fostering compliance within organisations. Judicial interventions, such as Satyam Computer Services Ltd. v CBI and SEBI, have shaped legal precedents and strengthened investor protection mechanisms. The paper suggests a multifaceted approach, including accurate fraud risk assessment, enhanced regulatory frameworks, empowered investigative agencies, specialised regulatory bodies, and stakeholder collaboration.

Keywords: *corporate fraud, corporate governance, RBI, SEBI.*

INTRODUCTION

Fraud is a deceptive act aimed at unlawfully gaining assets or valuables from someone else. It involves intentional misrepresentation or omission, often carried out with a specific motive.

When fraud occurs within a corporate setting, it's termed Corporate Fraud, and it can be highly intricate due to the involvement of company entities and individuals.¹

Throughout India's industrialization history, corporate frauds of various forms have plagued the economy, ranging from stock market frauds to mass-scale cheating of investors. Some companies systematically drive themselves into insolvency, leading to liquidation proceedings before courts or the NCLT. Often, these fraudulent activities involve collusion between insiders and unscrupulous professionals, evading regulatory scrutiny until the company's collapse exposes the extent of the fraud.

In India, protection against corporate fraud is provided for under various legislative frameworks, including the Companies Act of 2013, as well as statutes such as the Securities and Exchange Board of India Act of 1992, the Reserve Bank of India Act of 1949, the Indian Penal Code of 1860, and the Prevention of Money Laundering Act, among others. These laws play a crucial role in safeguarding investor interests and maintaining the integrity of the financial system.

ENRON SCANDAL

Enron scandal, the sequence of occurrences that led to the financial collapse of Enron Corporation, a prominent American energy, commodities, and services firm. Additionally, it examines the subsequent dissolution of Arthur Andersen LLP, a globally recognised auditing and accounting firm.² The corporation known as Enron was established in 1985 by Kenneth Lay through the amalgamation of two natural gas transmission entities, namely Houston Gas Corporation and InterNorth, Inc.³ Following the merger, the combined company, HNG InterNorth, was subsequently rebranded as Enron in 1986. Following the enactment of a set of

¹ Beverley J. Alleyne and Raymond J. Elson, 'The impact of federal regulations on identifying, preventing, and eliminating corporate fraud' (2013) 16(1) *Journal of Legal, Ethical and Regulatory Issues* <https://www.researchgate.net/publication/287764851_The_impact_of_federal_regulations_on_identifying_preventing_and_eliminating_corporate_fraud> accessed 24 April 2024

² Michael Jones Patricia Stanton, 'Negative accounting stereotype: Enron cartoons' (2021) 26(1) *Accounting History* <<https://journals.sagepub.com/doi/pdf/10.1177/1032373220981424>> accessed 24 April 2024

³ Martynas Damulis, 'Investigations of Financial Fraud: Literature Analysis of Selected Financial Scams' (2023) *Theory and Practice of Illegitimate Finance* <<http://dx.doi.org/10.4018/979-8-3693-1190-5.ch011>> accessed 24 April 2024

laws by the U.S. Congress aimed at deregulating the sale of petrol in the early 1990s, the company forfeited its privilege to operate its pipelines. Enron transformed itself into a purveyor of energy derivative contracts, serving as an intermediary between natural gas producers and their clientele. Enron facilitated the process of price stabilisation for producers by negotiating contracts for a fee, thereby enabling them to mitigate the risks associated with fluctuations in energy prices. Enron achieved dominance in the natural gas contract market during Skilling's tenure, resulting in substantial profits from trading activities.⁴

Skilling implemented a gradual shift in the corporate culture towards emphasising high-risk trading practices. The individual in question recruited highly qualified individuals from various MBA programmes across the nation and fostered a highly competitive atmosphere within the corporation. The primary objective was to efficiently execute a maximum number of profit-generating transactions within a limited timeframe. Andrew Fastow, who demonstrated exceptional abilities, was recruited by Enron and subsequently promoted to the position of chief treasurer.

During the 1990s, Enron's ascent was propelled by market forces and its resolute pursuits. Numerous transactions have been facilitated, enabling the company to establish a platform for the exchange of any commodity that individuals are willing to barter. Consequently, it engaged in the exchange of derivative contracts for tangible commodities such as electricity, coal, paper, and steel, as well as intangible commodities such as weather. Enron established a web-based trading arm, Enron Online, during the period of rapid growth in the technology sector known as the dot-com boom. As a result, the company made significant investments in constructing a broadband telecommunications infrastructure to enable efficient high-speed trading.⁵

With the conclusion of the prosperous period and heightened competition in the energy trading industry, Enron's profits rapidly diminished. In the face of shareholder pressure, corporate leaders resorted to employing dubious accounting methods, such as the employment of 'mark-

⁴ Alexandre Di Miceli da Silveira, 'The Enron Scandal a Decade Later: Lessons Learned?' (2013) SSRN <<https://dx.doi.org/10.2139/ssrn.2310114>> accessed 24 April 2024

⁵ Perihan Iren and Moo Sung Kim, 'How Harsh Should the Legislation Be to Prevent Financial Crimes? Lessons After the Enron Scandal' (2023) In Concepts and Cases of Illicit Finance <<https://doi.org/10.4018/978-1-6684-8587-3.ch003>> accessed 24 April 2024

to-market accounting,' as a means of concealing their difficulties. The company was able to record unrealized future gains from certain trading contracts as current income, thereby creating the illusion of increased current profits. The company's problematic operations were transferred to Special Purpose Entities, commonly known as limited partnerships established with external parties. Although numerous companies engaged in the distribution of assets to Special Purpose Entities (SPEs), Enron misused this practice by utilising SPEs as repositories for its distressed assets. The transfer of assets to SPEs resulted in their exclusion from Enron's financial records, thereby presenting a less severe depiction of the company's losses. Paradoxically, several of those Special Purpose Entities were traversed by Fastow himself. Throughout this period, Arthur Andersen fulfilled the dual role of serving as both the auditor and consultant for Enron.

In the middle of 2001, the level of severity began to appear misleading as several experts delved into the details of Enron's financial statements that were made public. An internal inquiry was launched after receiving a memo from a vice-chairman of the company, and subsequently, the Securities and Exchange Commission (SEC) commenced an investigation into the dealings between Enron and Fastow's SPEs. Upon the revelation of the specifics regarding the accounting frauds, the corporation's stock value experienced a significant decline, plummeting from a peak of \$90 per share in mid-2000 to a mere \$1 by November 2001.⁶ This decline in stock value had a detrimental effect on the 401(k) pensions of Enron employees, which were predominantly linked to the company's stock. Following the commencement of the SEC investigation, Lay and Skilling tendered their resignations, while Fastow was terminated from his position within two days.⁷

Enron initiated Chapter 11 bankruptcy proceedings in the year 2001. Several of its executives faced allegations of a major failure and subsequently received prison sentences. Arthur Andersen underwent intense scrutiny and subsequently lost a significant portion of its clientele. The extent of the harm inflicted upon its reputation was of such magnitude that it was compelled

⁶ George Benston et. al., *Following the Money: The Enron Failure and the State of Corporate Disclosure* (Brookings Institution Press 2004)

⁷ Jerry W Markham, *A financial history of modern US corporate scandals: From Enron to Reform* (Routledge 2015)

to disband. Furthermore, apart from the federal lawsuits, numerous civil litigations were initiated by shareholders against Enron and Andersen.⁸

The scandal emerged amidst a surge of contemporary regulations and legislation aimed at enhancing the precision of financial reporting for corporations that are publicly traded. The Sarbanes-Oxley Act of 2002 established stringent consequences for the destruction, modification, or fabrication of financial documentation. The aforementioned legislation additionally prohibited inspection firms from engaging in any concurrent consulting activities for a comparable clientele.^{9 10}

BOFORS SCANDAL

The Bofors scandal was a noteworthy political controversy regarding a weapons contract that transpired between India and Sweden during the 1980s and 1990s. It was instigated by Indian National Congress party legislators and the Indian Prime Minister, Rajiv Gandhi, along with several other members of the Indian and Swedish governments who were accused of accepting bribes from Bofors, a bank primarily funded by the Wallenberg family's Scandinavia Enskilda Banken.¹¹ For the successful acquisition of a contract to provide India with their 155 mm field howitzer. The issue at hand pertains to the impropriety surrounding the unauthorised payments made in connection with a transaction valued at US\$1.4 billion between Bofors, a Swedish manufacturer, and the government of India for the sale of 410 field howitzer weapons, as well as a stockpile contract worth twice that amount.¹² This was the primary agreement ever to be established in Sweden, and funds allocated for development initiatives were divided to secure

⁸ Edward I. Altman, 'Post-chapter 11 bankruptcy performance: avoiding chapter 22' (2009) 21(3) <<https://doi.org/10.1111/j.1745-6622.2009.00239.x>> accessed 24 April 2024

⁹ U. S. Congress, *Public Company Accounting Reform and Investor Protection Act Of 2002* (CreateSpace Independent Publishing Platform, 2002)

¹⁰ Sarbanes-Oxley Act 2002

¹¹ R. Whiteside, *Major Companies of Europe 1992/93* (vol 3, Springer Netherlands 1992)

¹² Rhiannon Pugh and Ida Andersson, 'Personality and place as resources for regional development: Alfred Nobel's Karlskoga' (2023) *Regional Studies* <<https://doi.org/10.1080/00343404.2023.2250813>> accessed 24 April 2024

this agreement at any expense. The examinations revealed instances of rule repudiation and circumvention of established organisations.¹³

On April 16th, 1987, a Swedish publication released an article detailing allegations made by an informant within the Swedish police force. The allegations claimed that Bofors, a Swedish manufacturer of artillery, had provided financial incentives to individuals in multiple countries, including Sweden and India, in order to secure a deal worth Rs 1,500 crore.¹⁴ In the previous year, an agreement was executed for the procurement of 410 units of 155-mm type howitzer weapons intended for the Indian armed forces. However, it is noteworthy that none of the papers in India had acknowledged this fact. In May 1986, it was reported by a Swedish station that payments totaling Rs. 60 crores had been made through Bofors to Indian government officials, members of the Congress party, and civil servants. The aforementioned transition occurred as reported by a fledgling journalist affiliated with *The Hindu*, namely Chitra Subramaniam, who was situated in Sweden at the time and was concurrently covering an alternative narrative. The level of contamination observed during the November 1989 general elections was more severe than any previously witnessed in Sweden and India. This resulted in the cancellation of Gandhi's Indian National Congress birthday celebration. The Swedish organisation disbursed a sum of ₹640 million in bribes to prominent Indian legislators and influential regulatory officials. During Vishwanath Pratap Singh's tenure as Defence Minister, a case was brought to light through investigative journalism, which was initially alerted by a Reuters data disclosure on Swedish radio. Chitra Subramaniam, a journalist for *The Hindu*, obtained over 350 records that revealed the alteration of settlements. Subsequently, the articles were disseminated in the *Indian Express* and subsequently in the *Statesman* after *The Hindu* refrained from publishing stories pertaining to the Bofors scandal due to significant government pressure. During a joint meeting, Sten Lindstrom, former chief of the Swedish police, explained

¹³ Chitra Subramaniam Duella, 'The Bofors story, 25 years after' *The Hoot* (24 April 2022) <<http://asu.thehoot.org/media-watch/media-practice/the-bofors-story-25-years-after-5884>> accessed 24 April 2024

¹⁴ William Gould, *Corruption and anti-corruption in modern India: History, patronage and the moral politics of anti-colonialism* (1st edn, Routledge 2015)

the reasons behind his decision to disclose the records to the individual in question, as well as the challenges associated with protecting sources during a democratic regime.

Investigation: Octavio Quattrochi, an Italian finance manager who represented the petrochemicals firm Snamprogetti, served as the mediator in the case involving the outrage. It is purported that Quattro Chi occupied a position close to the tenuous periphery of Rajiv Gandhi's circle and emerged as a formidable authority in the 1980s, operating in conjunction with major corporations and the Indian government. During the investigation, Rajiv Gandhi was assassinated by the LTTE for reasons that were unambiguous. In 1997, Swiss financial institutions submitted approximately 500 reports after several years of litigation. The boycott on Bofors was lifted by the Indian government in 1999. The cessation of the boycott occurred amidst the Kargil War, wherein the Bofors artillery systems proved to be efficacious but were impeded by a dearth of supplementary components.¹⁵

On October 22, 1999, during the tenure of the National Democratic Alliance government headed by the Bhartiya Janata Party, the CBI lodged its initial complaint against Quattrochi, Win Chadha, Rajiv Gandhi, Defence Secretary S. K. Bhatnagar, and several other individuals. All legal proceedings related to the case were nullified by the Delhi Supreme Court on June 10, 2002. Nonetheless, the Supreme Court of India overturned this decision on July 7th, 2003.¹⁶

Subsequently, there was a change in the central government and the Indian National Congress assumed power following the Lok Sabha elections of 2004. In 2004, prior to the Indian National Congress assuming control in India, the Delhi Supreme Court dismissed allegations of bribery against Rajiv Gandhi and other individuals. The Delhi Supreme Court discharged the allegations against British enterprises on May 31, 2005. The Hinduja brothers, namely Srichand, Gopichand, and Prakash, have been charged, while charges against other individuals remain outstanding. In December 2005, Mr. B. Daat, an Indian law enforcement official working on

¹⁵ Sayantan Chakravarty, 'Bofors Case: CBI Files Chargesheet, Italian Businessman Ottavio Quattrocchi under Scanner' *India Today* (08 November 1999) <<https://www.indiatoday.in/magazine/cover-story/story/19991108-bofors-case-cbi-files-chargesheet-italian-businessman-ottavio-quattrocchi-under-scanner-781589-1999-11-07>> accessed 24 April 2024

¹⁶ Alexander Lee, 'Policing in India: The Politics of Justice in a Poor Democracy' (2021) University of Rochester <https://www.rochester.edu/college/faculty/alexander_lee/wp-content/uploads/2021/02/bookonline.pdf> accessed 24 April 2024

behalf of the Indian Government and the CBI, requested that the British Government release two British bank accounts associated with Quattro Chi due to a lack of evidence linking these accounts to the Bofors case. The aforementioned pair of financial accounts, comprising a sum of three million euros and one million US dollars, had been subjected to a state of temporary suspension. The Indian Supreme Court issued a directive on January 16th, instructing the Indian government to prevent Octavio Quattrochi from withdrawing funds from two London-based accounts. On January 23, 2006, the CBI, which is the regulatory body of the Indian government, acknowledged that a total of approximately USD 4.6 million, equivalent to Rs 210 million, had been successfully withdrawn from two accounts by the accused. The provision of support by the British government was delayed. Due to the absence of a removal agreement between India and Argentina, the matter was brought before the Argentine Supreme Court. The Indian government failed to succeed in the removal case due to its failure to provide a crucial writ, namely the warrant for the arrest of Quattro Chi. The decision was not expedited by the governing body due to delays in obtaining a legislator's English translation of the court's ruling.

On July 12th, 2013, Quattro Chi passed away due to an attack that occurred in Milan. Despite the controversy surrounding it, the Bofors weapon was extensively employed as the primary artillery during the Kargil War with Pakistan, thereby affording India a strategic advantage over its adversary, as per military personnel. Dr. A P Mukherjee, former CBI chief, stated in his digital publication titled 'Unknown Facets of Rajiv Gandhi, Jyoti Basu, and Indrajit Gupta' that Rajiv Gandhi had expressed his desire for the commission paid through insurance providers to be utilised solely to fund the expenses of organising the Congress birthday celebration. During a meeting held in 1989 at the Prime Minister's residence, Mukherjee conveyed that Gandhi expounded on his circumstances. However, in agreement with Sten Lindstrom, the former chief of the Swedish police who led the investigations, no evidence was found to indicate that Rajiv Gandhi had received any bills. However, he was cognizant of the potential benefits and refrained from exploiting them. During an interview with a news channel in October 2017, Michael Hershman from the Fairfax Group provided an early disclosure regarding the Bofors Scam. He discussed the arrangement and associated irregularities.

FODDER SCAM

The minor acts of forgery and fraudulent transactions that were previously overlooked have now culminated into a scam worth Rs. 100 crores and involving the United States. A resolute and decisive political leader served as a minister prior to the Lalu Prasad Yadav era in Bihar. In 1985, the initial discovery of irregularities in the timely disbursement of monthly payments from the Bihar treasury was made by CAG TN Chaturvedi.¹⁷ The aforementioned modestly-sized fraudulent transactions thrived for an extended period of time, were methodically organised, and ultimately resulted in a scam totalling Rs 945 crore. This article provides comprehensive information regarding a multi-crore scam, which is considered one of the earliest instances of large-scale corruption.¹⁸

The case pertains to the extensive misappropriation of presidential funds through the fabrication of spurious invoices to substantiate non-existent expenditures. The fraudulent activity, commonly known as the 'Animal Husbandry Scam,' was primarily based within the Bihar government's Animal and Husbandry Department. Over two decades, under successive administrations, deceitful transactions were carried out in the guise of procuring feed for farm animals. Following the 1985 incident, the case resurfaced in 1996 when the finance secretary of the country initiated an investigation into the matter and mandated inspections across all districts. The Farming Department in Chaibasa was subjected to a widespread raid, which uncovered a significant number of files containing evidence of unauthorised withdrawals from the state treasury.¹⁹

Before this, covert raids had already been conducted on several AHD officials, incrementally contributing to what would later be known as the fodder scam, all while avoiding media attention. According to a report by India Today, a series of Income Tax raids conducted in 1993 uncovered that approximately eighty officers and suppliers of the Animal Husbandry

¹⁷ John F. Burns, 'Fodder Scam' Could Bring Down a Shaky Indian Government' *The New York Times* (2 July 1997) <<https://www.nytimes.com/1997/07/02/world/fodder-scam-could-bring-down-a-shaky-indian-government.html>> accessed 24 April 2024

¹⁸ V Krishna Ananth, 'Fodder Scam, Lalu, and the Conviction' (2013) 48(43) *Economic and Political Weekly* <<https://www.jstor.org/stable/23528830>> accessed 24 April 2024

¹⁹ Basab Kumar Sil, 'A Review of Forensic Accounting in India' (2022) 5(12) *IRE Journals* <<https://www.irejournals.com/formatedpaper/1703534.pdf>> accessed 24 April 2024

Department had amassed assets worth Rs 25 crore.²⁰ However, before any action could be taken, the officer in charge of the raids was transferred, and the case was subsequently put on hold. In February 1992, an individual identified as an AHD legitimate was discovered in possession of more than Rs One crore in currency at Ranchi airport. Subsequently, in the year 1994, another instance of detecting a fraudulent transaction was reported. According to the findings of the Vigilance Department, it has been discovered that the director of the AHD in Dumka had fraudulently withdrawn a sum of 50 lakh rupees through the use of counterfeit bills. Jagdish Sharma, who serves as the chairman of the Public Accounts Committee (PAC) in the assembly and is known for his allegiance to former Bihar chief minister Jagannath Mishra, has been implicated in the case. Sharma has argued that the PAC is already conducting an investigation into these matters and therefore the Vigilance Department should not pursue the matter any further. Currently, the case encompasses a total of 64 occurrences and involves more than 56 individuals who have been accused, among them high-ranking executives, politicians, and government officials.²¹

The matter gained momentum as the scandal unfolded, prompting Sushil Modi, the state unit chief of the Bharatiya Janata Party, to file a Public Interest Litigation in the Patna High Court in 1997, seeking a Central Bureau of Investigation into the matter. Subsequently, in the same year, the inquiry was transferred to the CBI, thereby initiating a protracted and distressing ordeal for Lalu, which persisted for a considerable duration. A substantial amount of funds was withdrawn from the treasury of the government. In summary, a significant amount of public funds was misappropriated by government officials with the support of political leaders. Over a decade, an estimated sum of Rs 950 crore was embezzled by individuals in positions of authority. At that juncture, the revelation of the scam and the initiation of legal proceedings against a sitting chief minister by Rakesh Asthana, the renowned superintendent of police of the Central Bureau of Investigation, had a significant impact on all of us.²²

The CBI made a formal request to the Governor in 1997 to initiate widespread prosecution proceedings against the Chief Minister of Bihar. In response to mounting public scrutiny, Lalu

²⁰ N. Vittal, *Ending Corruption? How to Clean Up India* (Penguin UK 2012)

²¹ Ramachandra Guha et. al., *Deeper Roots of Historical Injustice* (Rights plus Resources 2012)

²² *Ibid*

was compelled to resign from his position, though he managed to outmanoeuvre his adversaries by appointing his spouse, Rabri Devi, as the new chief minister before his departure. Rabri's unexpected appointment as the Chief Minister of Bihar is widely regarded as a shrewd political manoeuvre. Presently, out of the 64 cases that have arisen from the aforementioned scam, Yadav has been implicated as a defendant in six cases. Additionally, he has already been found guilty in one of the cases that pertains to the deceitful withdrawal of Rs 37.70 crore from Chai Basa treasury. This particular case pertains to the period between 1 April 1994 and 31 January 1995 and the treasury is currently located in Jharkhand.²³

HARSHAD MEHTA SCAM

In the year 1984, there occurred a significant financial fraud commonly referred to as the Harshad Mehta Scam. Following his membership in the Bombay securities market in 1990, several distinguished individuals engaged in speculation of his firm and availed themselves of his services. Before 1990, financial institutions were prohibited from engaging in speculative activities within the equity markets. Nevertheless, it was anticipated that they would generate profits and maintain a specific proportion of their assets in fixed-interest bonds issued by the government. Mehta astutely generated capital from the industry to address the banking sector's needs and subsequently invested these funds into the stock market. The individual utilised the funds temporarily present in their account to engage in share purchasing, thereby significantly increasing the demand for specific shares. Subsequently, they sold the shares at a profit, remitting a portion of the proceeds to the Bank while retaining the remainder for personal gain.²⁴ As a consequence, equities such as ACC experienced a significant increase in value, with shares that were valued at Rs. 200/- in 1991 rising to approximately Rs. 9000 within a mere three-month period.²⁵ The transfer of securities did not occur frequently in a bidirectional manner. The

²³ FP Politics, 'Fodder scam verdict: All you need to know about the 21-year-old case against Lalu Prasad Yadav' *First Post* (23 December 2017) <<https://www.firstpost.com/politics/fodder-scam-all-you-need-to-know-about-the-21-year-old-case-against-lalu-prasad-yadav-3432192.html>> accessed 24 April 2024

²⁴ Ridhya Mahajan, 'An Analysis of The Biggest Scams in The Corporate World' (2023) 5(2) *Indian Journal of Law and Legal Research* <https://3fdef50c-add3-4615-a675-a91741bcb5c0.usrfiles.com/ugd/3fdef5_60c04d148faf47cbbe9a8b7e9061145d.pdf> accessed 24 April 2024

²⁵ A. Gupta, 'Scams That Changed India's Capital Market' (2023) 4(2) *SunText Review of Arts & Social Sciences* <https://www.law.ox.ac.uk/sites/default/files/migrated/oscola_4th_edn_hart_2012quickreferenceguide.pdf> accessed 24 April 2024

vendor of securities provided the customer of the securities with a Bank Receipt in lieu of the borrower. The Bank Receipt serves as a confirmation of the transaction involving the sale of securities. Mehta required the services of banks capable of generating counterfeit bank receipts that lacked support from government securities. The Bank of Karad and the Mumbai Mercantile Bank allegedly issued counterfeit bank receipts, which resulted in Mehta receiving funds from other banks under the false pretence of borrowing against Government securities.

As he was required to realise gains by the end of the trading period, he opted to sell his assets on the same day that the financial markets experienced a significant downturn. Mehta's illicit practices were revealed in 1992 when he engaged in unauthorised penetration of the industry. Upon the revelation of the scheme, Banks initiated a request for reimbursement, ultimately resulting in the downfall of the operation. Following his arrest, he was banished from the stock exchange, with investors attributing to him the responsibility for incurring losses across diverse entities. This particular case has brought to light a noteworthy concern regarding Corporate Governance. It was not evident during this case as to who bore responsibility for the collapse in question. The system has exhibited vulnerabilities, which Mehta has exploited to his advantage. This particular instance has highlighted the heightened importance of ensuring that the governance of a company, being a highly sensitive area, is impervious to breaches. The aforementioned fraudulent activity, instead of proposing any modifications, elicited a profound reaction from both the Indian corporate sector and the government, as it constituted the principal source of technical deceit in India.²⁶

List of Changes by SEBI after the Harshad Mehta Scam:

- Full disclosure standards were introduced strictly. This norm was with relevant material facts, specific risk factors, prudential standards, etc. Guidelines regarding requirements of full disclosure to SEBI were introduced.
- The Listing Agreement was introduced and obedience to that was made mandatory by all listed companies.

²⁶ Anshi Goel and Parul Saini, 'Major scams in Indian capital market' (2015) 5(5)
<<https://www.indianjournals.com/ijor.aspx?target=ijor:aca&volume=5&issue=5&article=019>> accessed 24 April 2024

- A code of advertisement was introduced to make sure that the businesses disclosed all the knowledge in an honest and trusted manner to the investors at the time of creating a public offer for the acquisition of securities.
- The securities market with online, screen-based, nationwide electronic trading was introduced to extend transparency of operations. The Bombay securities market switched to online, screen-based trading.
- A revised carry-over system replaced the badla system.
- Requirements to be fulfilled before making public offers for the acquisition of securities to the general public were also introduced.

THE STAMP PAPER SCAM

Telgi attended the local English-speaking Sarvodaya Vidyalaya in his hometown of Khanapur in the Belagavi area of Karnataka. After that, he went to college in Belagavi and graduated with a Bachelor of Commerce. The person in question started as a vendor selling produce on trains since one of their parents worked in the railway sector. After that, he uprooted and moved to Saudi Arabia. After seven years away, upon his return, he entered the counterfeiting business.²⁷

Telgi secured a stamp paper license in 1994 and opened an office on Mumbai's Mint Road shortly afterwards. Reports indicate that he got along swimmingly with a number of employees at the income service, the stamp office, and the Nashik Security Press, which printed the stamp sheets. The Nashik press gear was judged 'worthless' because of Telgi's political connections, and he was suspected of buying it and installing it in his Mumbai office. He reportedly worked with Nashik press security officers to get the primary ink colour for printing on paper, then went on to mass-create fake stamp sheets. Examining authorities found that he had run the business efficiently with a staff of 350 specialists until the deceit was uncovered. Companies, banks, and brokerages bought large quantities of copy stamp sheets in a range of quality levels for use as security markings. His alleged minions include powerful politicians and powerful law enforcement authorities. For over a decade, Telgi ran his dominion by manufacturing counterfeit

²⁷ Shrimoyee Nandini Ghosh, "Not worth the paper it's written on': Stamp paper documents and the life of law in India' (2019) 53(1) Contributions to Indian Sociology <<https://doi.org/10.1177/0069966718810566>> accessed 24 April 2024

stamp sheets. The dissolution of his group in 2001, however, presented him with a challenge that finally led to his capture. According to the results of the narco-investigation study, he was able to name many key persons as his associates. Two people were arrested in Bengaluru in 2000 while smuggling in fake stamp sheets, and this led to the uncovering of the fraud.²⁸

Telgi claimed to be a minor player in a plot involving several public workers and government officials. However, no evidence of this kind has been uncovered in previous investigations. He was arrested in Ajmer, India, in November of 2001, and later sentenced to 30 years in jail for his role in a counterfeit stamp paper conspiracy. Over five years, he will also be required to pay a punishment of Rs 202 crore. 'STAMPIT' is the name of the examination committee set up by the government of Karnataka. However, when news of the fraud spread throughout the country, the CBI took over the investigation. In 2006, Telgi was found guilty of criminal conspiracy under the Indian Penal Code and the Maharashtra Control of Organised Crime Act. He received a total of 20 years in jail sentences, spread over four distinct instances, for his crimes. The security and knowledge offices estimated that the fraud cost a whopping Rs 20,000 crore. The estimates varied from three thousand to thirty thousand billion Indian rupees (INR). The plan has far-reaching effects on the marketplace and the economy.²⁹

SATYAM COMPUTER LIMITED SCAM

Ramalinga, B. Raju, Satyam Computers' founder, got into problems after he acknowledged increasing the company's quarterly sales, profit, and profit margins over five years starting in 2003 and ending in 2008. It was believed that he had stolen something in the neighbourhood of Rs. 7,200 crores. Several methods were used by him and the company's worldwide head of internal audit to carry out the fraud. In order to further the deception, Raju forged a number of false bank statements. He made up balances in the bank accounts so the books would seem better. By including the interest from the fictitious accounts, he was able to increase the report

²⁸ Tejashree D. Datar et. al., 'Awareness of Scam E-mails: An Exploratory Research of Scam E-mails: An Exploratory Research Study' (2014) ADFSL Conference on Digital Forensics, Security and Law <<https://commons.erau.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1280&context=adfs>> accessed 24 April 2024

²⁹ Akash Jaiswal, 'A Legal Study On Ketan Parekh Scam 2001' (2023) 5(1) Indian Journal of Law and Legal Research <https://3fdef50c-add3-4615-a675-a91741bcb5c0.usrfiles.com/ugd/3fdef5_6d884311072244dfb9708b3e1dc6aee6.pdf> accessed 24 April 2024

of profits. Raju also admitted that, over the preceding several years, he had set over 6,000 bogus pay accounts and stolen the money that the company had paid into them. To exaggerate profits, the company's worldwide head of internal audit made up customers and had bills issued in their names. In addition to unlawfully obtaining financing for the Company, he faked board resolutions.³⁰

New Board members were selected soon after Raju's revelation, and they immediately began searching for a way to save the company from going down. The Board of Directors intended to sell the company within a hundred days. Tech Mahindra, the highest bidder, purchased Satyam and saved its operations for \$1.13 per share, or about a third of the company's stock market value before Raju disclosed the fraud. Tech Mahindra and the SEBI learned about the scam simultaneously. Several groups of persons with ties to Satyam have been charged as a result of the inquiry that followed the fraud's exposure. In addition to Raju and his brother B. Rama Raju, the Indian government also detained the company's former managing director Srinivas Vadlamani, as well as the head of internal audit and the chief financial officer. Several members of the company's auditing firm, PWC, were also detained and charged with fraud by Indian authorities.³¹

Corporate Governance Issues at Satyam: Raju admitted that the fraud he committed amounted to just about \$276 million. In the process, Satyam violated all rules of Corporate Governance.³² The Satyam scam set an example of poor Corporate Governance practices in India. It does not show good relations with the shareholders and employees. The Corporate Governance issue at Satyam arose because of the non-fulfilment of obligations by the Company towards the various stakeholders. The following are as under:³³

- Distinguishing the roles of board and management;

³⁰ Dr. Madan Lal Bhasin et al., 'Debacle of Satyam Computers Limited: A Case Study of India's Enron' (2016) 23(3) Wulfenia Journal
<https://www.researchgate.net/publication/299482211_Debacle_of_Satyam_Computers_Limited_A_Case_Study_of_India's_Enron#> accessed 24 April 2024

³¹ *Ibid*

³² R. Chakrabarti et. al., 'Corpo-rate Governance in India' (2008) 20(1) Journal of Applied Corporate Finance
<<https://dx.doi.org/10.2139/ssrn.649857>> accessed 24 April 2024

³³ Madan Lal Bhasin, 'Corporate Accounting Fraud: A Case Study of Satyam Computers Limited' (2013) 2(2) Open Journal of Accounting <<http://dx.doi.org/10.4236/ojacct.2013.22006>> accessed 24 April 2024

- Separation of the roles of the CEO and chairman;
- Appointment to the board;
- Directors and executive compensation; and
- Protection of shareholders' rights and their executives.

The 2009 affair demonstrated the terrifying consequences of a company leader who is not adequately managed. It is widely hoped that some good may come from the incident in the form of lessons learned as the fallout continues and as a result, the impacts were felt across the global economy. The Satyam Scandal taught us a few things. The 2009 scandal demonstrated the scary potential of a poorly controlled corporate pioneer. As the fallout continues and the effects ripple across the economy, the hope is that something positive might be gleaned from the lessons learned that have been deemed embarrassing. The Satyam Scandal has taught us a few valuable lessons.

Find any Errors: The first stages of the \$276 million deception plot at Satyam were quite modest. Sure, plenty of sneaky schemes had humble beginnings, with the perpetrator thinking that little adjustments wouldn't amount to much and being reluctant to be singled out. Therefore, it is important to look into all nuances.

Damaged Reputations: Fraud not only brings disrepute to the Company but the whole country. The once-booming section of India's corporate sector has had its growth stifled as a result of the country's worst corporate scandal in recent history. Bombay's key benchmark fell 7.3% in response to the news, and the Indian rupee followed suit. Indian companies will face more scrutiny from regulators, investors, and customers as a result of the Satyam scandal. There is a need for more robust corporate governance, and the Satyam case is just one more example of why this is so. Publicly traded companies need to exercise caution when selecting their CEOs and board members. The roles of Chief Executive Officer and Chairman of the Board should also be separated. Therefore, by keeping the roles distinct, we may avoid situations just like the one at Satyam.

Changes by SEBI after the Satyam Scandal:³⁴

- A record of all transactions concerning the stock markets is to be maintained by the companies for inspection by SEBI.
- Regular monitoring of all transactions by SEBI between investors, shareholders, brokers, and the company.
- Special attention to large, unusual transactions by SEBI while inspecting balance sheets.
- Appointment of the CFO to be made by the Audit Committee after proper assessment of their background, qualifications, etc.
- Appointment of Independent Directors on the Board to ensure the fair and honest functioning of the company. No stock options are to be given to these directors and the salary should also be given in the form of reimbursements.
- Several audit norms were introduced like the mandatory rotation of auditors/ audit firms every 5 years.
- Preventing auditors from undertaking any non-audit related to activities to ensure that the auditors are true to their work and there is no conflict of interest.
- Adoption of the International Financial Reporting Standards by all major companies in the preparation of various financial reports by the companies.
- Interim Disclosure of balance sheet figures (audited balances of major account heads) on a half-yearly basis.
- Strict timelines for the submission of various financial reports to SEBI throughout the year.

CONCLUSION

The phenomenon of corporate fraud represents a critical challenge to the integrity of financial markets, the trust of investors, and the stability of the corporate sector. As explored in this research paper, corporate fraud encompasses various forms of misconduct, including financial

³⁴ Bhasin (n 30)

misstatements, embezzlement, insider trading, and other deceptive practices that undermine the transparency and reliability of corporate disclosures.

Moreover, judicial interventions, as exemplified by landmark cases such as Satyam Computer Services Ltd. v CBI and SEBI have contributed to shaping legal precedents, enhancing accountability, and strengthening investor protection mechanisms. These judgments underscore the judiciary's role in upholding corporate governance standards, ensuring transparency, and promoting fairness in corporate transactions.

However, it is essential to recognize that combating corporate fraud requires a multifaceted approach involving proactive regulatory enforcement, robust internal controls, ethical leadership, and a culture of compliance within organizations. While regulatory measures and legal responses serve as essential deterrents against corporate malfeasance, the effectiveness of these mechanisms depends on their enforcement, implementation, and adaptation to evolving fraud risks and market dynamics.

SUGGESTIONS

To effectively address the pervasive issue of corporate fraud in India, a multifaceted approach is imperative. Firstly, an accurate assessment of the magnitude and impact of corporate fraud requires enhanced data collection and analysis mechanisms across various sectors and industries. This entails conducting regular risk assessments and scenario planning exercises to identify emerging fraud risks and vulnerabilities, thus enabling proactive measures to mitigate potential threats. Collaboration among regulatory agencies, law enforcement authorities, industry associations, and academic institutions is essential to share insights, best practices, and intelligence on fraudulent activities, fostering a collective effort to combat fraud.

Moreover, the regulatory framework governing corporate governance, financial reporting, and enforcement mechanisms must be strengthened and updated to address gaps and inconsistencies. This involves reviewing and amending existing laws and regulations to align with international best practices and emerging fraud risks. Adequate resources, training, and technology infrastructure should be provided to regulatory agencies and law enforcement

authorities to enhance their oversight and enforcement capabilities. Strengthening corporate governance standards, internal controls, and audit mechanisms is crucial to promoting transparency, accountability, and integrity in corporate operations.

Investigative agencies such as the Serious Fraud Investigation Office (SFIO), SEBI, and Enforcement Directorate (ED) play a pivotal role in uncovering and prosecuting instances of corporate fraud. To bolster their effectiveness, these agencies require sufficient resources, manpower, and specialized training to conduct thorough and timely investigations. Furthermore, coordination and information-sharing mechanisms between investigative agencies, regulatory authorities, and other stakeholders should be enhanced to streamline investigation processes and expedite case resolutions.

Specialized agencies such as the National Financial Reporting Authority (NFRA) and regulatory bodies like the Insolvency and Bankruptcy Board of India (IBBI) also have a significant role in preventing and addressing corporate fraud. Empowering these agencies with adequate authority, autonomy, and resources is essential to fulfilling their mandates effectively. Additionally, promoting research, innovation, and collaboration in regulatory frameworks, enforcement strategies, and technology solutions can enhance the detection and prevention of corporate fraud.