FRAUD INVESTIGATION ON FINANCIAL STATEMENT FRAUD FACTORS AND COMPARISON OF FRAUD TRIANGLE AND FRAUD ELEMENTS TRIANGLE ANALYSIS

A THESIS

Presented as Partial Fulfillment of the Requirement to Obtain the Bachelor Degree

in Accounting Department

Written by:

Raden Anca Jagra Ardana

Student Number: 14312415

DEPARTMENT OF ACCOUNTING
INTERNATIONAL PROGRAM
FACULTY OF ECONOMICS
UNIVERSITAS ISLAM INDONESIA
YOGYAKARTA

2018

FRAUD INVESTIGATION ON FINANCIAL STATEMENT FRAUD FACTORS AND WITH COMPARISON OF FRAUD TRIANGLE AND FRAUD ELEMENTS TRIANGLE ANALYSIS

A THESIS

Presented as Partial Fulfillment of the Requirement to Obtain the Bachelor Degree in Accounting Department

Written by:

Raden Anca Jagra Ardana

Student Number: 14312415

DEPARTMENT OF ACCOUNTING
INTERNATIONAL PROGRAM
FACULTY OF ECONOMICS
UNIVERSITAS ISLAM INDONESIA
YOGYAKARTA
2018

FRAUD INVESTIGATION ON FINANCIAL STATEMENT FRAUD FACTORS AND WITH COMPARISON OF FRAUD TRIANGLE AND FRAUD ELEMENTS TRIANGLE ANALYSIS

Presented By:

Raden Anca Jagra Ardana

Student Number : 14312415

Approved By :

Content Advisor,

Hendi Yogi Prabowo SE., M.For.Accy., Ph.D. November 30th,2018

Language Advisor,

Mr Willy Prasetya, S.Pd., M.A. November 30th,2018

FRAUD INVESTIGATION ON FINANCIAL STATEMENT FRAUD FACTORS AND COMPARISON OF FRAUD TRIANGLE AND FRAUD ELEMENTS TRIANGLE ANALYSIS

A Bachelor Degree Thesis
By:
RADEN ANCA JAGRA ARDANA
Student Number : 14312415

Defended Before the Board of Examiners
On December 20th, 2018 and Declare Acceptable

Board of Examiners
Examiner I:

Hendi Yogi Prabowo SE., M.For.Accy., Ph.D. December 20th, 2018

Examiner II

Ayu Chairina Laksmi SE., M.App.Com., M.Res., Ph.D., Ak., CA
December 20th, 2018

Yogyakarta, December 20th, 2018.
International Program
Faculty of Economics
Universitas Islam Indonesia
Dean,

Jaka Sriyana Dr., S.E., M.Si.

Declaration of Autheticity

Hereby i declare the originality of the thesis; i have not presented someone else's work to obain my univesity degree, nor i have presented someone else's words, ideas, or expressions without any acknowledgements. All quotations are cited and listed in the bibliography of the thesis. If in the future this statement is proven to be false, i am willing to accept any sanction complying with the determined regulation or its consequence.

Yogyakarta, November 30th, 2018.

Raden Anca Jagra Ardana

ACKNOWLEDGEMENT

Assalamu'alaikum Warrahmatullahi Wabarakaatuh.

All the high praise to the Creator of All-Being. Allah SWT. I testify that there is no god but Allah and Muhammad is the messenger of Allah. For all the strength and the willpower given to the researcher that gave the researcher the opportunity to finish a thesis entitled **"Fraud Investigation on Financial Satatement Fraud Factors and With Comparsion of Fraud Triangle and Fraud Element Triangle Analysis".** This study is a partial requirement to acquire the bachelor degree in Accounting Department from International Program of Islamic University of Indonesia.

As the researcher in this study, i acknowledged that this study is still far away from perfect. However, I have given all my time, energy, and spirit to be able to complete this study as perfectly as possible. The author also realized that this study won't be able to be finished without supports and guidances from several parties that had helped me morally and spiritually. Therefore, the researcher would like to address my best appreciations and regards to:

1. Allah SWT. *Alhamdulillahi Rabbil'Alamin.* Thank you for all the grace, guidances, and blessings that has been given to me. I personally hope that my good intentions can be addressed to the right parties in orde to give furhter benefits.
2. Muhhamad SAW. The role model of all mankind, the number 1 influencer in the world. Best regards and salutations from me upon you.

3. All of the Hariono family members. Nunung Iriani Handayani, as my mother, who had supported me through countless kindness even in hardship situations. Raden Edy Hariono Mintardjo, as my father, that have supported me through monetary and countless life experiences. I would like to thank you for all the countless support you two gave me. I pledged that i will return all your favors even though i knew i wouldn't able to fulfill it. Rona Aulia Tareza Utami and Reva Arma Jala Antariksa, as my little sister and my little brother, who also had supported me in various ways possible.
4. Fathul Wahid, S.T., M.Sc., Ph.D. as the rector and Dwipraptono Agus Harjito, Dr., Drs., M.Si. as the dean of the Faculty of Economics Islamic University of Indonesia.
5. Jaka Sriyana Dr., S.E., M.Si. as the Dean of the Faculty of Economics, Universitas Islam Indonesia.
6. Mahmudi S.E., M.Si. as Head of Accounting Program, Faculty of Economics, Universitas Islam Indonesia.
7. Ayu Chairina Laksmi S.E., MAC., M.Res., Ak., PI as the Secretary of Accounting, International Program, Faculty of Economics, Universitas Islam Indonesia
8. Hendi Yogi Prabowo SE., M.For.Accy., Ph.D. as my thesis advisors who always guide me.
9. Mr Willy Prasetya, S.Pd., M.A. as my language advisor, thank you for your guidance, understanding, and simplicity so the thesis could be finished.

10. All lecturers and staffs of Islamic University of Indonesia who had packed me with knowledge both in theoritical and islamic values.
11. Banatidika Ikrarida Dzakkiyah. Thank you for all the spiritual, emotional, and countless supports. Also all lessons and things we've been through this 7 years. I wish you a wishing well for the future. Fly away my graceful bird!
12. GENE_Family members. Ghifari Wibi Eghanisa, Fachrullah, Iqro Asmi Muttaqien, Krisnawan Mustaqim Saputra, Hilman Luthfan Nahari, Muhammad Djordy Djati, Patria Dani Wijaya, and Faris Asyrof al Fatih. Thanks for all the laughs mate!. GENE_Family *milik kita bersama*.
13. My close friends whom i always share my stories with. Ghifari W.E., Karima Syahidah, Aisya Dewi F., Dyah Aniza, Rani Ayu K.D., Luky Fitri, Asia M., Zahra Amelia H, and Patricia Anggitani. Thanks for all memories and the fuss i shared! We both learn together.
14. CHIPS. Alifia, Rafika, Vina, Angga, Renov. Thanks for being the best *konco hura-hura* also *konco haru-haru!*.
15. Gadjah Mada Airsoft Squad. Thank you for all the tactical and life lessons that you all gave me! Keep the family "fun and Brotherhood". MVP is for the one recruited me: Yoshua Krista / Rubah Binal. And the current supreme leader of GAS, Fadly F.W.
16. Tukang Santet FC. Thank you for trusting me as the GK. Gala, Patria besar, Patria kecil, Aqil, Alm. Nawal, Krisna, Danie, Afif, Raja, Abang, and Udik. And yet we still didn't win any trophy. However, we won the fun!.

17. Hendi Squad. Muli, Asia, Desi, Ojan, Shafira, and many others. Let this struggles made our brotherhood stronger!.
18. Forum Dzikir, Magang HMJA 2014/2015, Poland AIESECers, and all the organizational events I had enrolled in. Thanks for all the valuable lessons!.
19. And all other parties that cannot be mentioned one by one. Thank you for all the support given!.

May Allah SWT's blessings and gratitude be upon you for all parties that supported the author all this way.

Wassalamualaikum Warohmatullahi Wabarakatuuh.

Yogyakarta, November 15th, 2018

Raden Anca jagra Ardana

Table of Content

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

ABSTRACT

This study has the purpose to acknowledge the comparation of fraud triangle and fraud element triangle in two different companies and identify the fraud investigator's steps in respective companies in finding the fraud. The object of this study was the case of Olympus Corporation and Satyam Ltd. This study was conducted using qualitative method of research with content analysis technique in order to get precise and comprehensive results from various data sources. Data analysis technique was used throughout the document study. Cressey's fraud triangle theory and fraud element triangle theory were used to identify the causal factors of the fraud and how the perpetrator did the fraud, concealing, and utilizing the cash used from the fraud. The result of this study was there were major differences in causal factors and the way Olympus Corporation and Satyam Ltd did the fraud in the case study. The researcher analyzed fraud investigator's steps to establishing predication, finding evidence, and analyzing the evidence from each company's fraud investigator. Last, the researcher presented recommendation for both companies to prevent other companies to repeat the case, and both fraud investigators in order to improve further investigations.

Keywords: Financial statement fraud, Olympus Corporation, Satyam Ltd., Fraud triangle, Fraud element triangle, Fraud investigation.

ABSTRAK

Studi ini memiliki tujuan untuk mengetahui perbandingan antara segitiga penipuan dan elemen segitiga penipuan di dua perusahaan yang berbeda dan mengidentifikasi langkah penyidik penipuan di masing-masing perusahaan dalam menemukan penipuan. Objek penelitian ini adalah kasus Olympus Corporation dan Satyam Ltd. Penelitian ini dilakukan menggunakan metode penelitian kualitatif dengan teknik analisis isi untuk mendapatkan hasil yang tepat dan komprehensif dari berbagai sumber data. Teknik analisis data digunakan di seluruh studi dokumen. Teori segitiga penipuan Cressey dan teori segitiga elemen penipuan digunakan untuk mengidentifikasi faktor-faktor penyebab penipuan dan bagaimana pelaku melakukan penipuan, menyembunyikan, dan memanfaatkan uang tunai yang digunakan dari penipuan. Hasil dari penelitian ini adalah ada perbedaan besar dalam faktor penyebab dan cara Olympus Corporation dan Satyam Ltd melakukan kecurangan dalam studi kasus. Peneliti menganalisis langkah-langkah penyidik penipuan untuk membangun predikasi, menemukan bukti, dan menganalisis bukti dari penyelidik penipuan masing-masing perusahaan. Terakhir, peneliti mempresentasikan rekomendasi untuk kedua perusahaan untuk mencegah perusahaan lain mengulangi kasus ini, dan kedua penyelidik penipuan untuk meningkatkan penyelidikan lebih lanjut.

Kata kunci: *Kecurangan laporan keuangan, Olympus Corporation, Satyam Ltd., Segitiga penipuan, Segitiga unsur penipuan, Investigasi Kecurangan.*

CHAPTER 1

INTRODUCTION

1.1 Background of Study

In this globalization era, multinational companies developing rapidly. With so many multinational companies it will be different in its accounting standards following the rules of financial accounting standards by their respective countries. However, some multi-national companies have been exposed to fraud cases. The main purpose of profit-oriented companies is to profit as big as in carrying out its operation. In a company, especially those who have attended an IPO or Initial Public Offering shall invite an external auditor to audit the company and provide its opinion, this is done to determine whether the financial statements provided by the company has met the standard and reliable for the parties concerned, for example, investors.

However, some large corporations potentially committed unjust acts, especially in the field of financial statements aimed at enriching certain individual or group. Financial Statement fraud is the act of deception of the financial statement of a company achieved through the purposeful misquote or oversight of sums or publication in the financial statement to dishonestly stated the company's financial health (Albrecht, Albrecht, Albrecht, & Zimbelman, 2012).

Based on a survey conducted in 2015 by Kroll Inc., a company competent in investigations and fraud risks in the 2015/2016 fraud global report states that three quarters (75%) of companies reporting they have fallen victim to a fraud incident within the past year (2014), an increase of 14 percentage points from just

three years ago. The number of businesses suffering a financial loss as a result of fraud has also increased, from 64% in the previous survey period to 69% this year (Dajani, 2015) Fraud hits a company in three methods: it causes losses in sales (e.g., via illicit payments and disguised income); it increases operating costs (e.g., fraud detection and restoration); and as end result it has a critical effect on profitability (Pan & Skeels, 2016). According to estimates by Certified Fraud Examiners, global losses to organizations from fraud may exceed $3.7 trillion each year (Association of Certified Fraud Examiners, 2018).

Among the varied types of fraud that companies might be featured with, occupational fraud is probably the largest and most current danger. Occupational fraud – which is a theft act against the company by its insider workers or employees—performs an attack against the company internally, by the employees who were put in faith with safeguarding the assets of the company (Association of Certified Fraud Examiners, 2018). More immense trouble happens when fraud has been executed internally. Besides from the damage involved, there is likely some auxiliary casualty caused including fall of reputation, product damage, and reduced workers morale. Seniority of the perpetrator is also a factor, the more expertise the worker, damage caused will be more tremendous (Clements, 2015).

Within each fraud, there can be certain backgrounds that underlie the occurrence of the fraud. Fraud itself cannot be separated from the Fraud Triangle theory proposed by Donald R. Cressey, a criminologist from America. Fraud triangle briefly and accurately describes the factors that drive a group or individual into a fraud. Which namely:

- Pressure: the pressure that encourages fraud. The pressure, in this case, is the pressure that occurs within an individual or group that commits fraud. Pressure can be a demand that is non-economic or economic.
- Opportunity: an open opportunity or an open and possible to commit a fraud within an entity. One factor is to provide a group or individual access to an asset so that they can misuse the access with a relatively small risk. Usually occurs due to the weak internal control of a company and lack of supervision of the authorized person. With the increased supervision, this factor is most likely to be minimized its appearance.
- Rationalization: the instinct of thinking that fraud actors deem to do as a form of understanding and worth doing because of other factors that support to commit fraud in an entity. That it was his act to please his family and his loved ones. The worker's period is long enough and he feels he should be entitled to get more than he has earned now (position, salary, promotion, etc.) The company has gained enormous profits and it is okay if the offender takes a little of the profits.

After fraud triangle is considered reasonable by the perpetrator, then perpetrator will enter the fraud element triangle, which contains the ways the perpetrator in taking the asset, attempts in hiding the act and spending the loot gained from the company the perpetrator took. Fraud triangle consists of the theft act, concealment, and conversion. The theft act associated with the real taking of funds, inventory, digital data, or other assets. Theft can arise physically, by technology, or by wireless communication. Concealment associates with the ways

taken by the fraudster to disguise the fraud from unwanted parties. Concealment could associates with changing financial statements, purposely miscounting funds or inventory, or liberating evidence. Conversion associates with how the fraudster spending his result of fraud. It can be by selling stolen asset or, if the stolen asset is in form of monetary unit, then the fraudster only merely spending the fund (Albrecht et al., 2012).

If fraud activity is suspected occurring in the company, stakeholders can consult to the related independent auditor to audit the company. The auditor has a duty to devise and carry out the audit to acquire reasonable guarantee about whether the financial statements are freed from material misstatement, whether resulting from mistakes or fraud. The unbiased auditor may additionally make recommendations about the form or content of the financial statements or draft them, in entire or in part, primarily based on data from management throughout the performance of the audit. however, the auditor's duty for the financial statements she or he has audited is restrained to the expression of his or her opinion on them (Public Company Accounting Oversight Board, 2010).

An audit is a general checkup of the financial report of a company - as conferred in the yearly report - by entities unrelated to that company. The financial report involves a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and notes comprising a summary of significant accounting policies and other explanatory notes. When checking the financial report, auditors obliged to follow auditing standards set by local government. When auditors completed their work, auditors will publish an audit report, illustrate what

auditors did and present an opinion concluded from their work. Commonly, all listed enterprises and limited liability enterprises are obligated to be audited each year (ElBorno, 2017).

When fraud is believed happening in the company by the auditor, the said auditor should commence the fraud investigation steps. Fraud investigations are frequently initiated after an allegation or a tip-off (often nameless) is obtained. this will generally be sourced from within the company, even though outside tip-offs are not unusual. Many fraud incidents are initially found by coincidence, possibly due to an audit, task change or resignation (Clements, 2015). Fraud investigation ought to adhere to the regulation; consequently, fraud investigation should not initiate or maintain fraud examinations without right predication.

Predication is the totality of situations that could lead a reasonable, professionally skilled, and prudent character to believe that a fraud has taken place, happening, or will arise. In different phrases, predication is the premise upon which an examination, and every step taken in the course of the investigation, is commenced. Therefore, fraud examiners should initiate a fraud investigation only when there are occasions that suggest fraud had taken place, is occurring, or will arise, and they should not inspect past the available predication. If fraud investigators can't articulate a genuine foundation or proper motive for an investigative step, they should not do it (Association of Certified Fraud Examiners, 2014).

The practitioner shall examine the sufficiency and appropriateness of the evidence acquired in the context of the engagement and, if necessary on the

occasions, attempt to acquire further evidence. The practitioner shall keep in mind all applicable evidence, no matter whether it seems to corroborate or to contradict the measurement or evaluation of the underlying subject matter in opposition to the applicable standards (Office of the Auditor General of Canada, 2016).

After the evidence is deemed suitable, then auditor will express his or her opinion based on the findings in the investigation in which will be written on auditor's report, the auditor's opinion is used by stakeholders for their decision making. The auditor also should express their building suggestions for the company based on the facts found in the investigation and compliance towards law and regulation of corresponding states.

Olympus is a renowned company engaged in the production of optics and images with the main product camera, microscope, and camera lens. Olympus was founded in Japan on October 12, 1919 in Tokyo, Japan with revenues on 2016 of 847.1 billion JPY. However, Olympus had experienced fraud in its business journey resulting loss 87.1 Billion JPY. This is caused by inaccurate representation of accounting for years. The detection that occurred in Olympus's scandal is found by their CEO, Woodford reporting to an independent auditor firm and resulting in the findings in "highly inappropriate disposal" of Olympus's loss

Mahindra Satyam was a well-known company that originates from India that operates on IT services and IT consulting. It was founded in 2009 but now Mahindra Satyam had merged with Tech Mahindra in 2013, a multinational provider of IT and networking solution, because of scandal that overwhelmed Satyam. The scandal concerning Satyam was involving the fake financial statement

representation. Which turns out that Satyam had a large gap of Rs7,000 crore ($1.1 billion) between their actual and published financial statement.

With the descriptions above, the researcher motived to know what the differences in causal factors and the fraud element triangle of both companies, which the biggest fraud scandal in their own respective countries. Also, how fraud investigators in respective company investigate the fraud starting from initial predications until data analysis. A deeper understanding of fraud triangle and fraud element triangle also and fraud investigation procedures can be achieved.

Concerning the background description of the problem, the researcher was interested in conducting research which titled **"FRAUD INVESTIGATION ON FINANCIAL STATEMENT FRAUD FACTORS AND COMPARISON OF FRAUD TRIANGLE AND FRAUD ELEMENTS TRIANGLE ANALYSIS".**

1.2 Problem Identification

The first problem formulation of this study focused on the comparison of the fraud triangle and fraud element triangle between both companies. As fraud emerges these two triangles must coexist in an act of fraud. A comparison is taken to show the resemblance of both cases. The researcher will analyze the both companies' fraud triangle and fraud element triangle based on journals and websites that deemed credible as a basis of gathering information.

And then, the second problem formulation of this study focused on the comparison of predication, evidence gathering, and data analysis of each company's fraud investigation process. The researcher gathered available information through investigation report published by each company.

The third problem formulation of this study focused on fraud prevention that can be applied from Olympus and Satyam cases. And also recommendations that directed to both investigators in respective cases. The researcher sourced recommendations from journals, investigation reports, and verified credible websites.

By answering the first problem formulation we will gain knowledge about what triggering the fraud and how the perpetrators did the fraud, concealing their fraud, and how they spent it. And by answering second problem formulation we will gain knowledge about what predications that fraud investigator had before conducting the fraud investigation, what evidences that fraud investigator had acquired, and how the investigator analyzes the evidence.

1.3 Problem Formulation

Large companies, and especially those whose products have entered the international market and listed on the stock market, certainly have a high degree of reliability in their financial statements. Considering the process of qualification is also checked by certified auditor in order to reflect the accurate presentation of the company's financial health. But in fact, there is still a lot of fraud that later detected within the company. Even those who have passed the auditor's unqualified opinion. Here raises the question to the author,

1. ***What is the causal factor behind Olympus and Satyam fraudulent acts and how they perpetrate the fraud, and what are the differences between them?***

The researcher analyzed the motives behind the fraudulent acts done by Olympus and Satyam, and the ways both companies did in perpetrating the fraud.

The researcher also compared the differences between both fraud triangle and fraud element triangle between Olympus and Satyam.

2. ***How the respective fraud investigators in Olympus and Satyam did the investigation?***

The researcher acknowledged the process of fraud investigators in order to find legitimate evidence. What made the fraud investigator in respective companies did the investigation, how the evidence collected, and how the evidence can be a legitimate sound evidence.

3. ***What prevention should other companies take in order to not repeat the case, and what should be improved in the investigation at Olympus and Satyam?***

In this research problem, the researcher discussed on what course of action of other companies should take in order to prevent these fraudulent activity happening in other company. Also, recommendations for both investigators that can make future investigation more effective.

1.4. Research Objectives

The objectives of this study are as follow :

1. To recognize the similarities shared in fraud triangle and fraud element triangle in both companies that are affected by same fraud type
2. To recognize the process of predications, evidence gathering, and analyzation of documents used by fraud investigator in both companies.

3. To recognize the preventions and recommendations given by experts and reliable sources regarding the cases in both companies and investigators in both companies.

1.5. Research Contribution

1. For Researcher:

For the researcher, this study is useful to add insight to fraud triangle and fraud element triangle to different companies yet same fraud type, giving insights about how fraud investigator did the investigation, and fraud preventions that are useful to enhance the corporate governance in the future company that researcher will work for. And also become one of the requirements to get a degree in the field of Bachelor of Accounting.

2. For other parties:

This study is expected to add insight into how fraud that occurs in both companies can be revealed so that it can be a boost for the auditor or other parties to be able to add anti-fraud control and as reference countermeasures if a company is found or suspected to be exposed to fraud.

3. For Future Research :

The future researchers that had the same topic with researcher are expected to utilize this study as one of their literature research and hopefully modify this with the latest fraud news.

1.6. Systematic of Writing

This study constructed in this systematic of writing as follows :

CHAPTER 1: INTRODUCTION

This chapter gave insights in relation about the background of the research, the problem identifications which used to conduct problem formulation, the problem formulation itself, problem limitation of the research, the research objectives in which cover the knowledge that researcher expected to gain, the research contribution for future, and the systematic of writing

CHAPTER II: LITERATURE REVIEW

This chapter consisted of literatures and theories used in this study, precious studies, hypothesis formulation, and model of the study.

CHAPTER III: RESEARCH METHODOLOGY

This chapter described the type of research conducted by the researcher. The researcher discussed qualitative research, research focus, data collection method, what type of data collected by the researcher.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

In this chapter, the researcher analyzed the data and later will be discussed to answer the problem formulation. The discussion based on previous studies that have been discussed in Chapter II.

CHAPTER V : CONCLUSION AND RECCOMENDATIONS

This chapter discussed the conclusion about the research's result. The conclusion derived from the data analysis and discussion. Recommendation in this study is regarding what kind of research that can be conducted in the research.

CHAPTER II

REVIEW OF LITERATURE RESEARCH

2.1. Chapter Introduction

In this literature review, the researcher discusses four sub-chapters, which are the nature of fraud, fraud triangle and fraud element triangle, financial statement fraud, fraud investigation, fraud prevention, and previous research.

2.2. Theoretical Review

Theoretical review in this chapter will explain the brief view of theories used by the researcher as a basis to conduct this study. The theories used include;

2.2.1. Nature of Fraud

There may be no established definition of fraud. However, it basically involves using deception to make a private advantage dishonestly for oneself and/or create a loss for another (Chartered Global Management Accountant, 2012). Fraud is an deliberately deceptive motion designed to supply the culprit with an illegal benefit, or to disclaim a right to a sufferer. Fraud can arise in finance, actual estate, investment and insurance. (Chen, 2015).

Fraud can suggest multiple meanings and result from many numerous relationships among offenders and victims. Examples of fraud encompass:

- Crimes through people towards clients, customers or different business people, e.g. misrepresentation of the quality of products; pyramid trading schemes.

• Worker fraud towards employers, e.g. payroll fraud; falsifying cost claims; thefts of cash, property or intellectual property (IP); false accounting.

• Crimes through organizations against buyers, clients, and personnel, e.g. financial statement fraud; selling counterfeit items as authentic ones; not paying over tax or national coverage contributions paid by personnel.

• Crimes against financial establishments, e.g. the use of misplaced and stolen credit cards; cheque frauds; fraudulent coverage claims.

• Crimes by people or companies towards authorities, e.g. grant fraud; social protection advantage claim frauds; tax evasion.

• Crimes by expert criminals in opposition to major businesses, e.g. major counterfeiting rings; loan frauds; 'advance charge' frauds; company identity fraud; money laundering.

• E-crime by people using computers and technology to conduct crimes, e.g. phishing; spamming; copyright crimes; hacking; social engineering frauds (Doody, 2008)

Fraud is a prevalent term and embraces all of the multifarious methods which human ingenuity can devise, which are resorted to through one person, to get an advantage over another by fake representations. No precise and invariable rule may be laid down as a standard proposition in defining fraud because it consists of surprise, trickery, foxy and unfair methods by which any other is cheated. The only obstacles defining it are the ones which restrict human knavery. One of the primary variations among fraud and other kinds of crime is the presence

of concealment to cover the fraud. Commonly, concealment attempts to associated with changing accounting records and files (Albrecht et al., 2012).

Table 2.1: Type of Fraud

Types of Fraud	Victim	Perpetrator	Explanation
Employee embezzlement or occupational fraud	Employers	Workers	Workers directly or indirectly steal from other employers
Management fraud	Stockholders, and Those who rely on financial statements	Upper Management	Upper management conducts misrepresentation, usually in financial statements
Investment scams	Investors	Individuals	Individuals trap investors to put their money into counterfeit Investment
Vendor fraud	Organization that purchase goods or services	Organization that sell goods or services	Sellers overcharge for goods or service or nonshipment of goods, even though payment is made.
Purchaser fraud	Organizations that sell goods or services	Purchasers	Purchasers trick seller in order to give purchasers something they should not have or charging them less than they should.

Source: Albrecht et al. (2012).

Occupational fraud and abuse impose huge expenses on an enterprise. The median loss as a result of occupational frauds within the study was $160,000. almost one-quarter of the cases precipitated at least $1 million in losses. the scale of the loss due to occupational fraud is strongly associated with the position of the

wrongdoer. as an instance, frauds dedicated by proprietors/executives were greater than three times as costly as frauds conducted by managers (Albrecht et al., 2012).

Worker fraud comes in lots of styles and sizes. It goes by numerous different names, such as inner fraud, occupational fraud, or worker dishonesty. There are three primary varieties of fraud: asset misappropriation, bribery and corruption, and financial statement fraud. in lots of fraud schemes perpetrated by personnel, multiple forms of fraud are present.

We hear about asset misappropriation the most often, probably due to the fact they are the frauds that arise the most often and that they're the easiest schemes to apprehend. An asset misappropriation would possibly consist of things like check forgery, robbery of cash, inventory robbery, payroll fraud, or robbery of services.

Current data display that asset misappropriation occurs in over 91% of fraud schemes. This easily makes it the most frequent fraud, but data display that it is the least costly fraud on a per-fraud basis. The common asset misappropriation charges a corporation $150,000.

The subsequent most regularly happening fraud scheme is bribery and corruption, which is part of approximately 30% of all fraud that is exposed. Bribery and corruption consist of schemes including kickbacks, shell corporation schemes, bribes to steer decision-making, manipulation of contracts, or

substitution of inferior items. The common bribery/corruption scheme is far more expensive than asset misappropriation, at $538,000 per scheme.

The least frequent form of fraud is financial statement fraud. even though it happens least frequently, in only 10% of all fraud cases, it is easily the most costly. The common financial statement fraud charges a corporation $2 million. This form of fraud centers on the manipulation of financial statements so that it will create financial possibilities for a person or entity. think manipulation of stock fee, expanded year-end bonuses, favorable mortgage terms, or other oblique advantages from the financial statement fraud (Coenen, n.d.).

2.2.1.2. Financial Statement Fraud

Financial statement fraud is the planned misrepresentation of the monetary condition of a corporation executed through the planned misstatement or exclusion of quantities or disclosures inside the financial statements to mislead financial statement users (Association of Certified Fraud Examiners, 2014).

financial statement fraud is a planned misstatement of material data by the executives within the books of accounts of a corporation with the purpose of deceiving investors and creditors. This illegitimate task accomplished by the executives has an intense effect on the economy as it considerably dampens the self-assurance of investors (Omoye, A. S., & Eragbhe, 2014).

Fraudulent statements typically in the shape of falsification of financial statements with the intention to gain improper advantages. It also includes

falsifying files such as worker credentials (Chartered Global Management Accountant, 2012)

Financial statements are the obligation of the company's management. Hence, financial statement fraud is commonly committed by a person in a managerial position who not only has the capacity to modify the financial statements, but also has an incentive to accomplish that. Financial statement fraud frequently has a devastating effect on an organization's reputation and financial position, as well as on the people involved. The stock market capitalization of companies affected by financial statement fraud might fall substantially almost overnight, losing billions of dollars for investors (Association of Certified Fraud Examiners, 2014).

Financial statement schemes are considered one of a massive class of frauds that fall below the heading of Occupational Fraud and Abuse, which is described as "the usage of one's profession for private enrichment through the planned misuse or misapplication of the employing enterprise's assets or property." simply stated, occupational frauds are the ones in which a worker, supervisor, officer, or proprietor of an enterprise commits fraud to the company's detriment. The three main forms of occupational fraud are corruption, asset misappropriation, and financial statement fraud (Association of Certified Fraud Examiners, 2014)

2.2.1.3. Fraud Triangle and Fraud Element Triangle

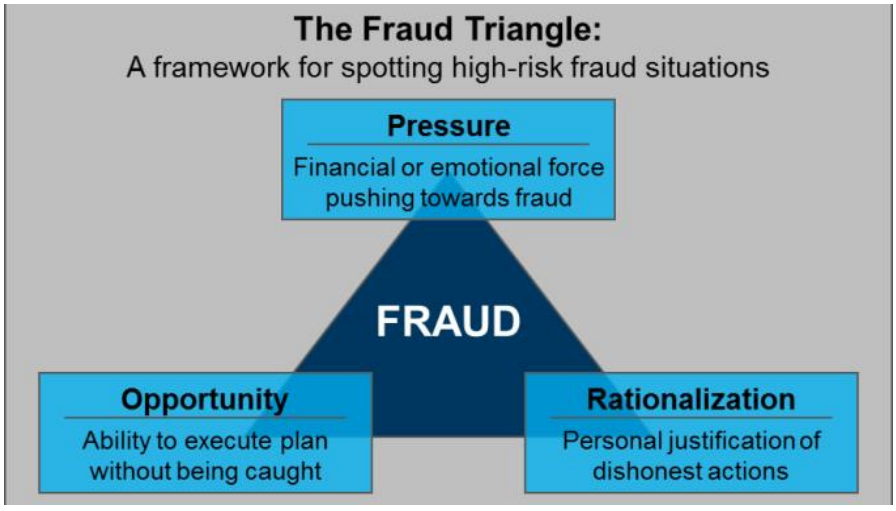
Interviews with individuals who did fraud have proven that the majority of these people do not initially set out to did the fraud. frequently they simply took benefit of an opportunity; oftentimes the first fraudulent act was an accident – possibly they mistakenly processed the identical bill twice. but once they found out that it wasn't noticed, the fraudulent acts became planned and more frequent. Fraud investigators speak about the 10 - 80 - 10 regulation which states that 10% of people will never devote fraud; 80% of people will commit fraud beneath the proper circumstances, and 10% actively seek out opportunities for fraud. So we need to be vigilant for the 10% who are out to get us and we should attempt to guard the 80% against creating a mistake that might damage their lives (Coderre, 1999).

American criminologist Donald Cressey developed a theory – known as the Fraud Triangle – that explains the factors that lead to fraud and other unethical behavior. When businesses and organizations understand the Fraud Triangle, they can more effectively combat criminal behavior that negatively impacts their operations.

1. Pressure. Most individuals require some form of pressure to commit a criminal act. This pressure does not need to necessarily make sense to outside observers, but it does need to be present. Pressures can include money problems, gambling debts, alcohol or drug addiction, overwhelming medical bills. Greed can also become a pressure, but it

usually needs to be associated with injustice. “The company has not been paying me what I am really worth,” for instance.

2. Opportunity. An opportunity to commit the act must be present. In the case of fraud, usually, a temporary situation arises where there is a chance to commit the act without a high chance of being caught. Companies that are not actively working to prevent fraud can present repeated opportunities to individuals who meet all three criteria of the fraud triangle.
3. Rationalization. The mindset of a person about to commit an unethical act is one of rationalization. The individual manages to justify what he or she is about to do. Some may think they are just going to borrow the stolen goods, or that they need the money more than the “big” company they are stealing from (Brumell, 2015).



Source: Brummell (2015).

Figure 2.1: Fraud Triangle.

Fraud Element triangle consists of theft act, concealment, and conversion. The theft act associated with the real taking of funds, inventory, digital data, or other assets. Theft can arise physically, by technology, or by wireless communication. Concealment associates with the ways taken by the fraudster to disguise the fraud from unwanted parties. Concealment could associates with changing financial statements, purposely miscounting funds or inventory, or liberating evidence. Conversion associates with how the fraudster spending his result of fraud. It can be by selling stolen asset or, if the stolen asset is in form of monetary unit, then the fraudster only merely spending the fund (Albrecht et al., 2012).

2.2.2. Fraud Investigation

A fraud investigation determines whether or not a fraud has taken place and gathers proof to guard the victims concerned. Fraud investigations start with

a meeting among the investigator and customer. The person launching the investigation explains why they suspect deceit and hands over any proof they have assisting their claims. an excellent fraud investigator will use this preliminary data to locate extra proof and facts. To do this, they can use surveillance, asset searches, background assessments, worker investigations, enterprise investigations, and other strategies (PInow, n.d.)

A fraud investigation tries to decide whether or not fraud has occurred and attempts to set up proof if a fraudulent maneuver has occurred. In many occasion of fraud investigations, the investigator will cope with white collar criminals—because of this category, the fraud investigation will revolve across the assessment of complicated financial files. That being stated, just as there are specific kinds of fraud, there are specific varieties of fraud investigations. A fraud investigation is crucial for victims of fraud; fraud costs the economy billions of dollars a year. Preventing fraud or mitigating those externalities it imposes is in everybody's satisfactory interests (LAWS, n.d.).

2.2.2.1. Predication

Fraud examinations obliged to adhere the regulation; consequently, fraud examiners should not conduct or preserve fraud examinations without right predication. Predication is the totality of situations that might lead a reasonable, professionally skilled, and prudent person to consider that a fraud has taken place, is happening, or will arise. In different phrases, predication is the premise

upon which an examination, and every step taken throughout the examination, is commenced.. (Association of Certified Fraud Examiners, 2014).

Overview the allegations and records gathered so far to decide if there may be good enough “predication” or “probable reason” to continue. Predication means having a genuine foundation – reasonable grounds, or, as generally expressed, “probable reason” – to conduct an investigation. It generally develops in levels: an anonymous tip, for instance, is probably sufficient predication to discreetly test inner information, which could offer predication for still similarly inquiries, and so on. An investigator should not inspect past the available predication, as the investigation might appear to be without basis and punitive. Investigating past the available predication is not going to be productive anyway. If regulation enforcement help is to be required (e.g., to subpoena files, execute search warrants or request worldwide legal help), take steps to make certain that there is sufficient probable reason to acquire such help (IACRC, n.d.).

2.2.2.2. Evidence Gathering

Evidence is the available body of truth or information showing whether a belief or proposition is true or valid (Oxford Dictionaries, n.d.). In general, evidence includes whatever that can be used to show something. In a legal sense, evidence means an assertion of truth, opinion, notion, or information, whether material or not, and whether admissible or not. Genuine evidence is evidence that appropriately represents the truth or scenario it is provided to agree or disagree. The originality of evidence is a crucial idea in civil regulation and

common regulation systems. The admissibility of evidence in large part relies at the discretion of the presiding judge, but a fundamental requirement of admissibility in each common and civil regulation systems is that evidence ought to be relevant. Evidence ought to be relevant to material problems in dispute.

There are two primary kinds of admissible evidence: direct and circumstantial. Direct evidence suggests prima facie (primarily based on the first impression) the information at issue; it proves the information directly. What constitutes direct evidence depends on the elements concerned. for instance, in a case regarding feasible kickbacks, direct evidence might be a check from the seller to the suspect. Circumstantial evidence is evidence that has a tendency to prove or disprove information in issue not directly, by inference. within the case of a kickback allegation, cash deposits of unknown origin deposited to the suspect's account across the time of the suspect transaction may be considered circumstantial evidence.

Meanwhile, The value of a fraud examination rests on the credibility of the proof acquired. proof of fraud generally takes the form of files or statements by witnesses; consequently, fraud examiners should realize how to correctly and legally acquire documentary proof and witness statements. as soon as proof has been received and analyzed, and findings have been drawn from it, the fraud examiner ought to report the outcomes to the specific people (e.g., management, the board, or the audit committee). A fraud examination file is a narration of the fraud examiner's particular activities, findings, and, if suitable, recommendations (Association of Certified Fraud Examiners, 2014).

Audit evidence is the whole informations and data used by auditor to conclude audit opinion in which all the information are based totally in the financial statement and related. Auditors are less expected to examine all the evidence. Audit evidences may be obtained during the application of the audit and may be obtained from other sources, such as previous audits (SAS, 2006).

A key consideration in any investigation should constantly be the way to secure or maintain sufficient proof to prove a case of fraud. it is vitally essential that control is taken of any physical proof earlier than the possibility arises for it to be eliminated or destroyed by the suspect(s). physical proof may consequently need to be seized at an early level within the investigation, earlier than any witness statements are gathered or interviews carried out. If a criminal act is suspected, the police ought to additionally be consulted early in the process, earlier than any overt movement is taken and the suspect is alerted (Doody, 2008)

2.2.2.3. Analysis

Data analysis addressed to any analytical procedures used to analyze data and formulate the conclusions from the evidence. Data analysis processes and techniques are compelling resources if properly used. Fraud investigators allowed to methodically acknowledge red flags and conduct predictive modeling, detecting an unlawful situation far before many conventional fraud investigation methods would be able to do so.

Even though the goal of data analysis concerning on running selected tests on data to recognize anomalies, the capability of such tests to assist detect fraud relies hugely on what the fraud investigator does before and after conducting the data analysis techniques. Moreover, to make sure the most relevant and meaningful outcomes, a formal data analysis procedures should be practiced that starts several steps before the assessments are launched and concludes with active and continuing review of the data. (Association of Certified Fraud Examiners, 2014).

The primary purpose to apply data analysis to address fraud is due to the fact numerous internal control systems have critical control weaknesses. With a purpose to correctly check and monitor internal controls, companies need to examine each transaction that takes place and check them in opposition to established parameters, throughout applications, throughout systems, from distinct applications and data resources. Most internal control systems simply cannot cope with this. On top of that, as the investigator enforce internal systems, some controls are by no means even turned on (Bănărescu, 2015).

The utilization of conventional data analysis continues to gain resistance in the auditing sector to recognize the arrangements and trends exhibitive of fraud; nonetheless, these strategies may not be adequate anymore. Looking past conventional analytics to the analysis of unstructured data could help uncover a large sum of evidence that may have gone undiscovered with conventional analytics. When confronted with disparate data systems or evidence, the analysis of unstructured data can be exceptionally helpful (Todd & Gill, n.d.)

2.2.3. Fraud Prevention

Prevention is described as, “to prevent, or keep from acting or occurring, to block a person from perpetrating”. Fraud prevention is determined to secure the organization and its daily processes in opposition to fraud. The Prevention component of the Fraud Deterrence Lifecycle likely to be the most misinterpreted and yet can be the most valuable (Exatech, 2013).

Fraud detection and prevention is a flexible process. There’s no fixed beginning and ending point. On the other hand, it’s a continuous cycle concerning monitoring, detection, judgment, case-control and learning to bolster advancement in detection back into the system. Organizations should aim to gradually learn from cases of fraud and the results into upcoming monitoring and detection processes. This obligates an organization-wide analytics life cycle approach (SAS, n.d.).

2.3. Previous Research

This study is related with the results of several other libraries and preceeding researchs that have explored the discussion on identical topics include:

Research thesis was conducted by Monica (2015) entitled *The Prevention And Investigation of Fraudulent Accounting Practices* was aimed to identify the types of fraudulent accounting practices, the factors that caused fraudulent accounting practices, and how to prevent, detect, and combat fraudulent activities in an organization. The scope of the research was SMEs in Romania as the research subject. The result of this study was the application of program “FraudAnalyst” to

detect and prevent from occurring fraud in the research subjects along with basic understanding of the software itself. The limitation of this study was the inability to obtain sufficient data to input in “FraudAnalyst” program, because some of the data were classified.

Other research conducted by Leonard (2014) entitled *The Impact of Fraud Education on Fraud Detection* was aimed to identify the relation of knowledge of fraud detection versus experience in fraud detection. The subjects for this study were graduated professional accounting students and forensic accounting students. The result of this study was the forensic students outperform the accounting students. This was caused by the experiences that forensic students had outperformed the accounting students whereas in theory sector accounting students were able to slightly outperformed the forensic students. Which means that experiences was the best option to detect and combat fraud.

Research conducted by Rahmawati, (2014) in the research *Pengaruh Kemampuan Auditor Investigatif dan Pengalaman Auditor Terhadap Efektivitas Pelaksanaan Prosedur Audit Dalam Pembuktian Kecurangan* was aimed to find out whether knowledge and the experiences that possessed by investigative auditor are effective to help proofing the fraud. The research subject was Financial and Development Supervisory Agency (BPKP) in South Sulawesi. The end result of this study was both knowledge and experiences possessed by investigative auditor was effective to proof the fraud. The limitation of this study was the method used in the research was using questionnaires with no researcher was present at the

moment of the filling. So there's a chance that the respondents didn't understand the questionnaires given, thus affecting the research result.

Another related study was conducted by Ahadian (2010) entitled *Peranan Audit Investigatif Dalam Mengungkap Kecurangan (Fraud) Dana Bantuan Sosial pada Lembaga Pemerintahan.* Which aimed to find out how far investigative audit can help unravel the fraud in social grants in administrative sector. This study was done in Regional Police Department of West Java using interviews, observation, and questionnaires. The result of this study was investigative audit took a part in the investigation and found out the fraud happened because the lack of internal control system existed in the Regional Financial Management Agency (BPKD).

CHAPTER III

RESEARCH METHOD

3.1. Introduction

This chapter explains the research method used in conducting the study. In addition, this chapter also describes the process, resource data sources and data collection method, data analysis techniques, research objects, and validity test used by the researcher in conducting research. The research methodology discussed in this chapter is a methodology, which will be used as a reference for answering the formulation problem in chapter four.

3.2. Type of Research

This study is classified as a qualitative research. It is used to gain an understanding of underlying reasonings, assumptions, processes, and motivation of accounting fraud by comparing between two cases. It provides insights into the problem or facilitates to expand ideas or hypotheses for potential quantitative research. Qualitative studies are also used to discover developments in thought and opinions, and dive deeper into the problem.

Unlike quantitative research, which used computational, statistical, and mathematical tools to gain the results, qualitative studies are commonly more explorative, a form of studies that is dependent on the gathering of verbal, behavioral or observational records that may be interpreted in a subjective way. It

has an extensive scope and is generally used to discover the reasons for potential issues which could exist. Qualitative studies commonly provide insights on numerous elements of a marketing issue. It regularly either precede or be performed after quantitative studies, depending on the study's goals. (SIS International Research, 2018).

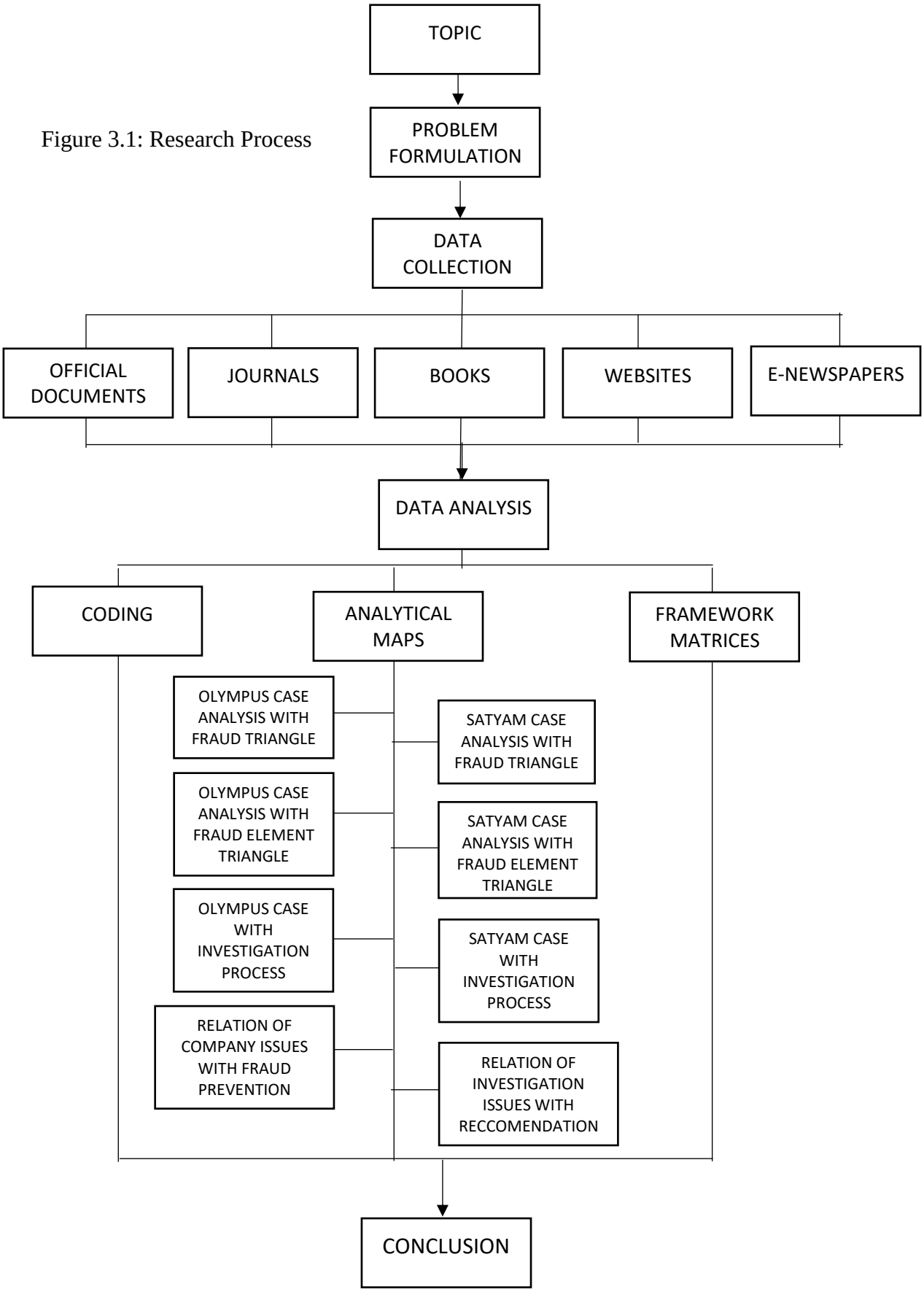
The researcher used case study in this thesis research. Case studies are focused on investigations of a single individual, peers, or community. Generally, information regarding the targeted subject is gathered from varied sources. The research is resumable for an extended period, so changes in the targeted subject could be studied in real time. Case studies granted researcher to investigate a topic in the detailed matter as possible (McLeod, 2008).

The researcher used qualitative research to conduct this thesis. After considering that the elements that the researcher studied were fraud triangle, fraud element triangle, and the steps in the investigation which these elements are heavily sided to personal opinions and point of view.

3.3. Research Process

Research process is the way that researcher take during the research in order to reach the conclusion. As illustrated below :

Figure 3.1: Research Process



First, the researcher studied and searched for previous researchs and topics that are related to what the researcher wanted to research, which is the fraud triangle and fraud element triangle. Then, the researcher discussed and decided to take the case study of financial statement fraud with addition of investigation steps and results. This topic was chosen by the researcher after a continued discussion with the researcher's thesis advisor, which were too common if researcher just chose fraud element and fraud element triangle for this thesis. Thus, the researcher searched companies that had alleged with fraud that had investigation report from respective investigators. The researcher then decided to choose Olympus Company and Satyam Limited as the subjects for the research.

Second, with thesis advisor's continued discussion, the researcher decided to make fraud triangle and fraud element triangle as first problem formulation, then investigation steps and result for second problem formulation, and fraud prevention and recommendations for investigator as the third problem formulation.

The third step was collecting data. The main data for the first problem formulation was collected from various sources that related to fraud element triangle and fraud triangle of Satyam and Olympus. Mainly from credible websites, journal, and the investigation report published by the company. The second problem formulation was collected heavily from investigation report from respective companies. And the third problem formulation was collected from combination from previous problem formulations and with additional sources from various sources.

The data collected then processed with NVivo11. NVivo is a qualitative data analysis (QDA). The software granted the researcher to classify, sort and arrange information, and analyzing relationships in the data (McNiff, 2016). The data collected then grouped into several categories of *sources.* The categories were created based on the type of data that the researcher got

After categorizing the data that had been collected by the researcher, then the researcher did the coding process for the data that related with the topic. Coding is an analytical step in which data obtained in both quantitative form or qualitative form are categorized in order to facilitate analysis (Hay, 2005). The data then inputted into their respective *nodes* according to their information. A node is a group of references regarding a specific theme, place, individual or other subject of interest. References are gathered by 'coding' the sources such as interviews, focus groups, articles or survey results (QSR International, n.d.). Thus, nodes was used to classify each problem formulation in this study.

Next, based on the coded informations, the researcher explained the data that had been coded in NVivo in form of analytical maps and narration. Then the researcher draw the conclusions of the study based on information and references that had been processed.

3.4 Research Data Sources and Data Collection Method

The researcher used secondary data as the source in this study. Secondary data refers to information that is accumulated by someone aside from the user. Further, analysts of social and monetary change consider secondary information

important, due to the fact it is impossible to conduct a new survey that can appropriately capture past change and/or developments (Juneja, n.d.).

In this study, the researcher analyzed the financial statement fraud cases that happened in Olympus and Satyam, especially in the fraud element triangle and fraud triangle that occured in the fraud of the respective companies which used as a comparation. The list of the sources used to gather datas is shown in appendix 2.

Secondary data that relevant to these two cases were used, namely :

1. Investigation Report

Since the study also included steps taken in investigation of fraud, the researcher needed to obtain the investigation report from both subjected companies. The researcher obtained investigation report from Olympus' official website itself and for Satyam, the researcher obtained the investigation report from the investigator's website. The Olympus' investigation report was published by Thrid Party commitee which is consisted of 5 external lawyers and 1 CPA. Whereas in Satyam it was published by Securities and Exchange Board of India.

2. Journal articles and Books

The researcher used journal and books to develop Cressey's fraud triangle theory and fraud element theory that related to the case. Further, journal articles and books that are downloaded from internet acted as additional informations in order to give more supporting datas.

3. News and Web Pages

The researcher used news and web pages in order to develop Cressey's fraud triangle theory and fraud element triangle theory that reated to the case. News and web pages also used as additional informations in order to give more accurate datas.

The next process taken by researcher was gathering and selecting datas for fraud triangle and fraud element triangle case, steps taken in investigation, and reccomendation for company and fraud investigators. In fraud triangle and fraud element triangle case, the researcher used investigation report issued by Olympus and Satyam as well as journal and web pages. In steps taken in investigation, the researcher used heavily on investigation report with several journals and web pages that related to the case. Next, in reccomendation for company and investigators, the researcher used investigation report as the benchmark to identify the lackings that exised in respective companies and gave reccomendation from credible web pages and journals.

3.5. Data Analysis Technique

Data analysis was performed by researcher in order to answer the problem formulations. In this study, the reseacher used content analysis technique. Content analysis is a research method used to decide the existence of several words or concepts within texts. Researchers analyzed the existence, values and relationships of said words and concepts (University of Missouri, 2004). In data analysis technique, the researcher used NVivo11 as the platform to conduct this technique.

The steps taken by researcher in data analysis technique were data reduction, data presentation, and drawing of conclusion.

1. Data Reduction

The first step taken by researcher was data reduction. Data reduction involved summarizing, picked essential datas, focusing on the infomation that in relation with the cases, and removing unimportant information.

Based on the above understanding, the researcher began to identify sources and picking up the most relevant information within the stated sources that related to each case. Further, the researcher also eliminated information that are irrelevant to the cases in order to answer the problem formulation that had been prepared by the researcher. Then, the datas resulted in data reduction technique were grouped according to the relevance of problem formulation.

Content analysis incudes data collection and also main method in data analysis, hence, content analysis is a several set of processes that assimilates from data collection to data analysis (Leavy, 2014).

In the process of utilizing the data reduction technique, the researcher was assisted with NVivo11 in the process of coding and making analytical maps. Which defined as follow :

a. Coding

Coding is the process of transferring information that deemed relevant to a particular case to a node. In qualitative research, coding is equal to marking in a writing to facilitate researchers in taking

information later (Bazeley & Jackson, 2013). In this study, the researcher used NVivo software to help analyze the data. NVivo is software that is used to assist researchers in analyzing qualitative data, such as images, diagrams, audio, web pages, and other document sources (Bazeley & Jackson, 2013). Further, the datas accumulated from various sources with same relevance with certain problem formulation will be coded in the problem formulation's node according to the topic that the accumulated data had. In the first problem formulation, the researcher found the three elements of fraud triangle both in Olympus and Satyam cases respectively, followed by three elements of fraud triangle elements. For the second problem formulation, the researcher found investigation steps taken by respective companies' investigators by utilized the investigation report published by Olympus' official website and SEBI official website. After a prolonged discussion with thesis advisor, it is settled that the researcher could state three elements in the second problem formulation, namely predication, evidence gathering, and analysis. In the third problem formulation, the researcher identified recommendations for each company also for each investigator for respective companies based on the investigation reports for each company then compare it to the latest fraud investigation techniques and fraud investigation tools.

b. Analytical Maps.

Analytical maps were made after the coding process had been completed. The main purpose of analytical maps is to presentate the relationship between nodes and the sources of the data coded in the nodes in order to make easier understanding to interested parties. The researcher only used analytical maps after a prolonged discussion with thesis advisor because of less complexity of the number of nodes in the researcher's study. The researcher made eighteen analytical maps that covers all the problem formulations in the researcher's study, namely : analytical map of respective company's fraud triangle, analytical map of respective company's fraud element triangle, analytical map of comparation from both companies' fraud triangle (pressure, opportunity, rationalization), analytical map of comparation from both companies' fraud element triangle (act, concealment, conversion), analytical map of comparation of fraud investigation steps in respective companies (Predication, evidence gathering, analysis), analytical map of relations in both companies' issues and fraud prevention tips given, and analytical map of relation in both companies' investigation issues with recommendation given.

2. Data Presentation

The second step that has been taken by the researcher was data presentation. Data presentation means how the informations or datas collected

can be presented to other interested parties so it can be easily understandable. This presentation can be in form of graph, chart or alike.

The researcher used framework matrix as the tool to present the sources that the researcher had taken. The framework matrix applied to arrange and control the studies via the procedure of summarization, ensuing in a strong, flexible and specific matrix output which permits the researcher to investigate the information both through case and theme (MacFarlan, 2018).

Based on the understanding above, the researcher used analytical maps in order to give an understanding of one node to another, relationship between nodes, and the sources used to make the nodes. This analytical map presented in each of sub-bab of each problem formulation, followed by narration in order to give a full understanding of the case.

3. Conclusion/ Verification

The third step taken by the researcher was the drawing of conclusion. The conclusion was drawn from the result of relationships in analytical maps that used in each of the problem formulations. Further, after the data processing in the NVivo11 was completed, the researcher describes the result in form of description into the chapters.

3.7. Validity Testing

Validity of data is an essential part of any research, if datas gained were incorrect it would resulted in false facts, where legitimate and correct data would resulted in relevant and accurate result. According to Lincoln and Guba (1985) in

Leavy (2014), in qualitative research, it is important to test the validity of data includes the testing of credibility, dependability, and confirmability of the data obtained.

1. Credibility

As stated by Leavy (2014), Credibility is a factor in the research that grant the interested parties to know the experiences comprehend within the study through the description of researcher's experiences, checking overall existed data, and recheck the people involved in the research to make sure if the researcher's description is an or reflecting the accurate situation of the research object. The validity testing that undergo by the researcher are as follows:

- Triangulation

Patton (1999) in Carter (2014) stated that triangulation refers to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena. Triangulation also has been viewed as a qualitative research strategy to test validity through the convergence of information from different sources.

In the process of the research, the researcher used various secondary data sources according to the related topic that the researcher studies. Including journal, official documents, books, websites, and e-newspaper that coded in NVivo11.

- Research Persistence

As stated by Lincoln & Guba (1985) in Robert Wood Johnson Foundation (2008). Persistent observation was purposed to acknowledge elements in the situation that most relevant to the issues that is being focused. Research persistence provides depth understanding against the issue. The researcher continuously reviewed the sources that have been coded in the nodes in order to make sure that no important data were missed. This was done in order to get an accurate and systematic data to be coded in the nodes.

2. Transferability

As stated by Trochim (2006), transferability means the level to which the outcomes of qualitative studies can be generalized or moved to different contexts or settings. From a qualitative angle, transferability is mainly the obligation of the one doing the generalizing. The qualitative researcher can enhance transferability through doing an intensive process of describing the studies context and the assumptions that were essential to the studies. For this study, the researcher did the transferability by describing the findings found by the researcher in form of description in systematic, clear, and reliable for every problem formulation. However, there was some restriction in data collected, such as limited information given by the sources.

3. Dependability

As stated by Trochim (2006), dependability maintained the need for the researcher to take note for the anomaly context within which research takes

places. The research is obligated for describing the changes that occur in the research and how these changes afflicted the way the research approached the study. Since the research conducted by the researcher already happened and limited to the exact time of the fraud, so it won't be affected by any means.

4. Confirmability

According to Trochim (2006), confirmability is the degree to which the outcomes could be justified or accepted by other parties. There are some methods for increasing confirmability, the researcher can note the process of checking the data obtained during the study. Another method, the researcher can actively seek for and describe the negative examples that disprove before observations. And, after the research conducted, one can make a data audit that checks out the data gathering and analysis process and makes an observation about the possibility of bias. The confirmability that took by the researcher was by checking the result of the research to thesis advisor and language and grammar checking by language advisor.

CHAPTER IV

FINDINGS AND DISCUSSION

4.1 Chapter Introduction

In this chapter, the researcher will describe and explain the findings of the research conducted. To give a full understanding of the topic researched, the researcher will first give the overview of auditor's reports published by the respective company's external auditors, as an object of this study.

4.2 Profile and Case Overview of Research Object

In order to give a full view of the issue discussed on the topic, the researcher would explain the brief overview about both companies where the financial statement fraud occurred, Olympus Corporation and Satyam inc., and the fraudulent arrangement in this section.

4.2.1. Profile of Olympus Corporation

Olympus was established on 12 October 1919 founded by Takeshi Yamashita. Three decades later, Olympus efficiently developed the world's first gastrocamera for realistic use. The spirit of innovation that infused the organization at its founding has been handed on over the years, from the discharge of the organization's first product to its breakthroughs in Opto-digital technology nowadays. Yamashita's business worked relentlessly to develop technology and spread sales connections with the goal of making Japanese-made microscopes that could compete with international products. Olympus began selling their first product at March 1920 with the Asahi 600x microscope.

In Greek mythology, Mt.Olympus is the house of the twelve highest gods and goddesses. Olympus was named after this mountain to copy its robust aspiration to create a first-class, international well-known device. "Olympus" has been used as a brand since the time of Takachiho Seisakusho, the predecessor of Olympus organization. In eastern mythology, it is stated that eight million gods stay in Takamagahara, the height of Mt.Takachiho. The callsign "Olympus" was picked as the trademark because Mt.Olympus, like Mt.Takachiho, was the house of gods. This trademark is likewise imbued with the aspiration of Olympus to light up the world with its optical gadgets. Takachiho Seisakusho was renamed Takachiho Optical Co., Ltd. in 1942 while optical products have become the mainstay of the employer. In 1949, the name was changed again to Olympus Optical Co., Ltd. in an try to beautify its corporate image. In 2003, the organization made a fresh start as Olympus organization, to reveal its willingness to set up a dynamic company mark through unifying the company name and the brand. In current years, Olympus organization has targeted on "Opto-digital technology" as its center competence, technological strengths that challengers cannot simply imitate, to maximize company value and to emerge as one of the most dominant optical devices manufacturers.

4.2.2. The Overview of Olympus Financial Statement Case

The Olympus scandal came to light as ex – CEO of Olympus Michael C. Woodford suddenly was ousted from his position in Olympus. It is later known that the management was operating a loss-hiding scheme that conceals losses of $1.7bn. The document, published by The Panel, says Olympus chalked up approximately 100 billion yen in investment losses because of the burst of the asset bubble and employed *tobashi* scheme of shifting losses to foreign places funds- due to the fact the organization was required to record latent losses in its earnings after new accounting regulations obligating organizations to calculate financial belongings at market prices were introduced in 2000. Further, Olympus attempted to conceal the losses in a single swoop by means of taking benefit of its acquisitions of overseas and domestic businesses and shifting exorbitant acquisition costs to overseas funds. The report additionally discovered that three preceding presidents were abreast of the wrongdoing.

The loss of Olympus began in 1980. Toshiro Shimoyama became the president and CEO of Olympus organization. Olympus' running profits fell drastically because of the sharp appreciation of the yen. The CEO determined to expand an aggressive financial property management unit inside the Accounting department headed by Hideo Yamada. This unit was formed to make speculative investments called *zaiteku*. From those aggressive asset management activities, handsome earnings have been produced. In 1987, with Yamada in charge of the speculative investments deal, a man named Hisashi Mori became his subordinate within the investment dealings. In time, Yamada and Mori's dealings propelled

them into upper control. Mori became an executive vice president and board director whilst Yamada have become a standing company auditor. Ten years passed earlier than the speculative investment actions led to a tremendous losses. Yamada and Mori's investment group doubled and tripled down by making an investment in high-threat, high-return products, and volatile financial products that provided interest advancement as well as the riskier, complicated structured bonds.

These investments suffered substantial losses as the Japanese economy collapsed in 1990. In response, Olympus executives doubled down, increased their risk allocations to the investments and incurred ever higher losses of nearly $700 million by the end of 1990. The losses accumulated to ¥46.6 billion by March 1992, approximately equal to cumulative net income for the entire decade of the 1990s. But Yamada and Mori persisted to wager cash in volatile investments in a desperate bid to regain losses. Those losses were masked through a Japanese accounting standard that allowed financial assets to be accounted for at historical value basis as opposed to writing them down to a lower market value. In 1997, the accounting regulations were changed which pressured Japan to undertake the fair value accounting system, or "market-to-market accounting," as part of its implementation of global financial Reporting requirements.

Yamada stated massive losses might be confronted by Olympus as soon as Japan followed this standard. To hide this, Olympus, with the assistance of outside economic advisers, eliminated the bad assets from the balance sheet without recognizing the losses, which referred to as Tobashi scheme. Furthermore, new

shell businesses had been made below Olympus control and sold the bad assets to those entities at markup prices (the assets' original price). Olympus additionally supplied the cash, either directly or indirectly, to allow the associated entities to purchase the bad assets. As an end result, Olympus did not account for any loss on these "sales" and the bad assets was no longer presented in Olympus' financial statements.

In addition, changes in Japan accounting standard was introduced that financial statements starting in 2007 ought to be consolidated. To maintain their concealment, the organization paid grossly inflated expenses and advisers' charges in M&A transactions for three Japanese businesses, and later for a British organization, Gyrus plc., and the inflated component flowed again to pay off Olympus for formerly supplied financing and to cowl accrued losses. When Olympus' outside accountants objected to the domestic transactions, Olympus changed its outside accounting company in 2009, KPMG AZSA LLC with a brand new one, Ernst & Young ShinNihon LLC.

Having seemingly finished its scheme and now freed of its long-concealed losses, Olympus felt secure enough to hire an outsider, in fact, a foreigner, as president in April 2011. It selected a 30-year worker from England, Michael Woodford. Earlier management remained, and the incumbent Japanese chairman persisted as the organization's CEO. In July 2011, a small Japanese magazine known as Facta posted an editorial on Olympus's astonishing money-losing investments. Another magazine, Zaiten, followed up with a reveal on Olympus's failed investment sector, ITX. The news also revolves across the mentioned

$687m advisory price paid on the back of Olympus's 2008 acquisition of united kingdom scientific group Gyrus. Over-valued fees paid on three further businesses Altis, News Chef, and Humalabo have also been called into the query. Woodford retained PricewaterhouseCoopers (PwC) in London to observe adviser fees paid for the Gyrus acquisition in England. PwC's interim record concluded that there have been great defects in Olympus' governance on subjects which include its due diligence and decisionmaking processes. On October 11, 2011, Woodford issued a thirteen-page letter calling for the resignation of the whole board, mentioning "critical governance issues" and attaching the PwC record. At a special meeting of the board on October 14, 2011, Woodford was fired as President for alleged issues with his "management fashion" in a meeting.

In mid-January 2012, Olympus posted its panel's record. It determined that five people were guilty: auditors Minoru Ota and Katsuo Komatsu, independent auditors Makoto Shimada and Yasuo Nakamura, and standing auditor Tadao Imai. Ota was held liable for ¥3.7 billion, has been the top of the accounting department at the time the losses were made inside the Nineties, the others were held collectively responsible for around ¥4.7 billion for overlooking the unlawful activities. The record cleared KPMG and Ernst & Young of any obligation for the accounting fraud at the organization and concluded that the scheme had been too well hid. The record stated: "The masterminds of this situation were hiding the unlawful acts by artfully manipulating professionals' opinions." The aftermath of the scandal, Tokyo court found Kikukawa and five others liable for $529m After

initially denying the accusations, Olympus eventually admitted that it had hidden $1.7bn (£1.1bn) of losses over 20 years through acquisitions and *tobashi* schemes.

4.2.3. The overview of Satyam Computers Limited

Satyam Computer Services Computers Limited is a worldwide consulting and IT services business, the organization is engaged in computer programming, consultancy, and relevant assistances. Its operating section includes Information Technology (IT) Business and Business Processing Outsourcing (BPO). It offers a wide variety of IT services and industry-specific solutions to its customers. The Company offers a wide range of services, which includes telecom services, consulting, application outsourcing, infrastructure outsourcing, engineering services, BPO, platform solutions, and mobile value-added services. It has main offices in India, the United States, the United Kingdom, Germany, Canada, Australia, Singapore, Malaysia, the Philippines, and Brazil, among others. The Company has an international footprint with around 49 sales offices and around 85 delivery centers in around 90 countries around the world. The organization was established on 24th June 1987. The organization was promoted by B Rama Raju and B Ramalinga Raju. The organization has set up two software technology Parks, one at Mayfair Centre, Secunderabad and other at Qutuballapur of Ranga Reddy Dist. of A.P. The organization also developed a software program improvement center in Bangalore.

On 13 April 2009, through a formal public auction procedure, a 46% stake in Satyam was bought by Mahindra & Mahindra owned corporation Tech Mahindra, as a part of its diversification strategy. Effective July 2009, Satyam

rebranded its services beneath the new Mahindra management as "Mahindra Satyam". After a postpone due to tax issues Tech Mahindra announced its merger with Mahindra Satyam on 21 March 2012, after the board of two businesses gave the approval. The businesses are merged legally on 25 June 2013.

4.2.4. The Overview of Satyam Financial Statement Case

On 7 January 2009, Securities and Exchange Board of India (SEBI) received an email from Mr. B. Ramalinga Raju, Ex-Chairman, Satyam Computer Services Limited, now recognized as Tech Mahindra Limited (hereinafter referred to as "Satyam Computers"/ "the company") admitting and confessing about fraudulent practices inside the organization. It was this letter written by Ramalinga Raju written to the board of administrators of Satyam Computer Services Limited that learned the markets that he had overstated cash and bank balances of Satyam by Rs 5,040 crore as on 30 September 2008 and exposed what is possibly India's largest company fraud until date.

Raju inside the latter stated that he had proven non-existent interest income of Rs 376 crore in his books, and invented debtors (people who owed Satyam cash) worth Rs 490 crore – for a total misstatement of Rs 5,906 crore. He additionally claimed that the organization owed him (and his promoter organization) Rs 1,230 crore. In short, the total fraud was worth Rs 4,676 crore. Ramalinga Raju also made more than 6,000 fake invoices, including payables for nonexistent customers.

A special CBI court on Thursday sentenced B Ramalinga Raju, his two brothers, and seven others to seven years in jail within the Satyam fraud case. The judge further imposed a punishment of Rs 5 crore ($687 million USD) on Ramalinga Raju, the Satyam Computer Services Ltd's founder and previous chairman, and his brother B Rama Raju and Rs 20-25 lakh ($27.500 – 34.400 USD) each on the last accused. All 10 accused in the case were convicted of criminal conspiracy, cheating and breaching public trust. As a result of the fraud and negligent audit, PwC's Indian affiliates will pay $7.5 million in penalties to the US Securities and Exchange Commission (SEC).

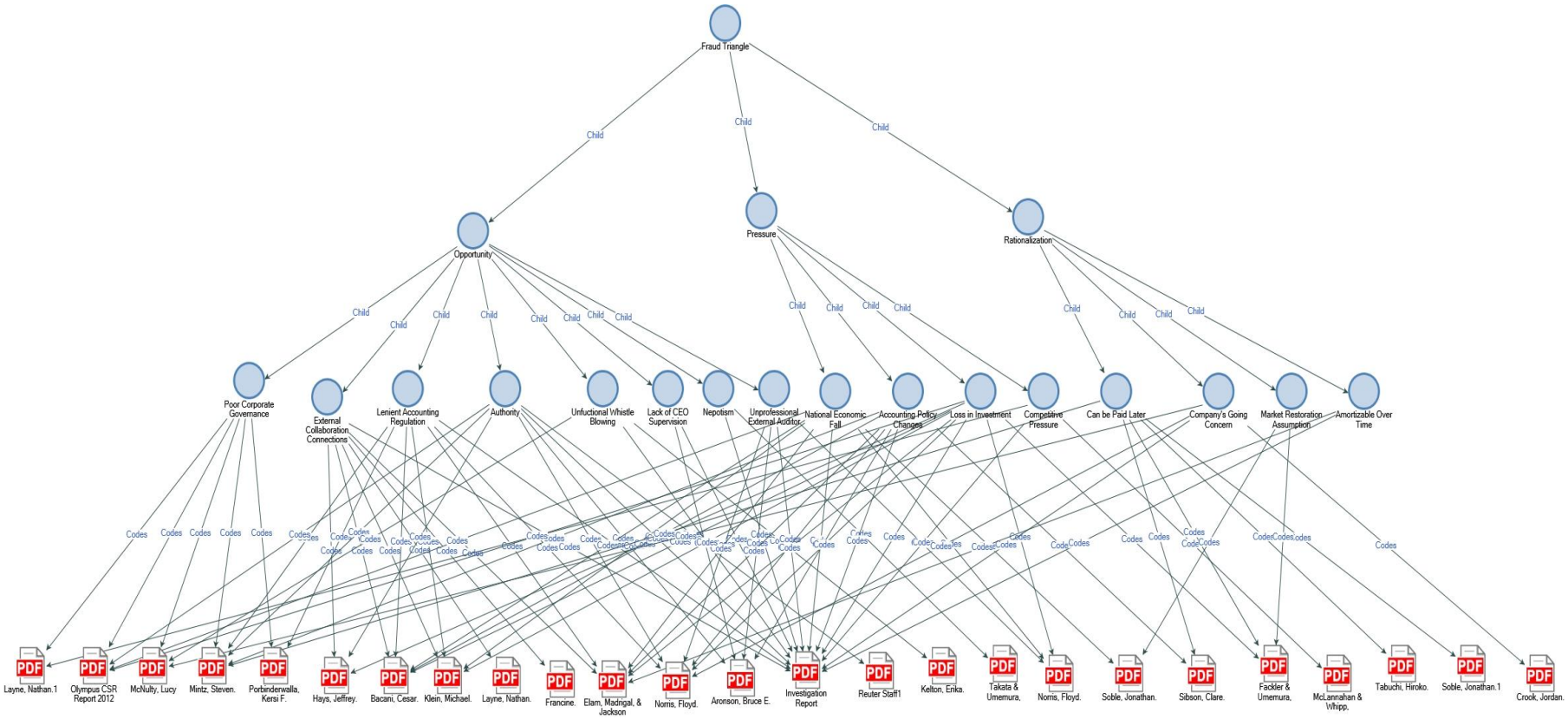
4.3 Olympus Financial Statement Fraud Case Analysis with Fraud Triangle and Satyam Financial Statement Fraud Case Analysis with Fraud Triangle

This section will discuss the causal factors that underlie both Olympus Corporation and Satyam Computers Limited did the fraudulent actions in accordance with theories stated by Donald R. Cressey regarding the perspective of Fraud Triangle theory (1953). The theory will describe regarding the motives or pressures that exist in somebody to do fraud, the justification of self or rationalization of somebody to do the fraud, and the opportunities that enable the ones to do the fraud.

4.3.1 Olympus Financial Statement Fraud Case with Fraud Triangle

The illustration of Olympus financial statement fraud analysis with fraud triangle component can be seen in figure 4.1 below :

Figure 4 1: Analytical Map of Olympus Corporation Case Analysis with Fraud Triangle



Source: Processed by Researcher Using NVivo11

4.3.1.3. Pressure

For the Olympus Corporation case, the researcher found five kinds of pressure that forced Olympus Corporation's employees to did the fraud, namely: Accounting Policy Changes, Competitive Pressures, Delisting Threat, Loss in Investment, National Economic Fall. Further explanation will be discussed below :

i. Loss in Investment

In 1980, Toshiro Shimoyama was the president and CEO of Olympus Corporation. Olympus' main selling income fell significantly because of the sharp appreciation of the yen. Later he decided to launch an intrusive financial assets management unit within the Accounting Department headed by Hideo Yamada. This unit was to make speculative investments or *zaiteku*. At first, this investment gained plenty of earning. Then later on taken speculative investment as non-operating activities. Yamada and Mori's investment group decided to invest three times the initial value in high-risk, high-return financial products and risky financial products that offered interest advancement as well as the riskier, more advance structured bonds. (Elam, Madrigal, & Jackson, 2014).

It was about that time that Olympus began to undergo losses from its investment assets. But the risky investment didn't go as expected, the investment were gained unrealized losses, it is stated that for Olympus, While the actual numbers are unclear, as of 1995 the number of unrealized losses

had grown to tens of billions of yen. And as of 1998 Olympus had unrealized losses totaling 95 billion yen (Olympus Corporation, 2011).

ii. National Economic Fall

Back in 1984 era, the appreciation of yen had risen sharply against dollar, worth more than 250 yen. The Japanese exporters aggressively export their product to overseas, mainly to the United States and gained huge profit, which led to a gaping Japanese trade surplus with the United States. The Plaza Accord was reached by five representation countries — Japan, the United States, West Germany, France, and Britain — at the Plaza Hotel in New York. It led to an agreement in reducing the value of the dollar. By the end of the year, the dollar rate was reduced to 200 yen, and kept reducing to 121 yen in 1987 (Norris, 2011).

This triggered many Japanese companies to participate in Zaiteku or speculative investment, Olympus Corporation was no exception. This was driven by the facts that operating profits was dropped almost half from 1984 to 1985. In FY1985, Olympus had an operating profit of 6.8 billion yen on sales of 128.6 billion yen, but in FY1986 operating dropped by more than half to about 3.1 billion on sales of 120.9 billion yen. This also drives the ex-CEO of Olympus, Toshiro Shimoyama to enrolled in speculative investment. Tobashi became a trend in the 1990s after the asset bubble of the previous decade burst, leaving companies that had engaged in speculative financial investments gaining big losses (Soble, 2011). The Nikkei stock index lost around half its value in less than a year, falling from 38,000 yen in late 1989

to under 20,000 yen in late 1990. Eventually, the investment bubble burst in 1990, Thus made an enormous unrealized loss to Olympus' investments (Olympus Corporation, 2011).

iii. Accounting Policy Changes

The accounting policy in Japan in the late 1990s allowed financial assets to be counted for at historical cost basis or writing them down to a lower market value. This eased Olympus to write off their unrealized losses. Then in 1997, accounting rules in Japan changed in order to implement the International Financial Reporting Standard, which is market-to-market accounting rules (Elam et al., 2014).

Olympus were managed to pass through the new regulation by implementing loss separation scheme. However, a further revision in accounting standards regarding scandals at Kanebo Corporation in 2005 and Livedoor Corporation in 2006 compelled subsidiary entities to be consolidated in financial statements beginning in 2007 (Aronson, 2012). This also forced Olympus to develop such a complex scheme in order to avoid exposure of their unrealized loss to appear from their financial statement.

iv. Competitive Pressure

Competition between companies is unavoidable. Every company wants to show how healthy their financial statement looks in order to attract investors. The Olympus mass acquisitions in the 1990s, followed by tens of billions of write-downs, left the company with a concerning thin equity ratio

of less than 14 percent – notably the lowest ratio among its global competitor groups. R&I, one of Japan's big two rating agencies, downgraded Olympus by two grades on Tuesday to BBB+ and kept the rating on negative review. It said the rating was based on "increasing circumstances of a delay in improvement in [Olympus'] financial base, and the emergence of the risk of investment disruptions" (McLannahan & Whipp, 2011).

4.3.1.2 Opportunity

In Olympus financial statement fraud case study, Researcher found nine opportunities that enabled the Olympus Corporation to did the fraud. Namely: Authority, External Collaborator Connections, Lack of CEO Supervision, Lenient Accounting Regulation, Nepotism, Poor Corporate Governance, Unfunctional Whistleblowing, and Unprofessional External Auditor.

i. Lenient Accounting Regulation

In 1980 until late 1990, the accounting policy in Japan allowed financial assets to be counted for at historical cost basis or writing them down to a lower market value. This eased Olympus to write off their unrealized losses caused by their speculative investment. Also, the losses of assets in investment trust did not need to be reported as long as their market value did not decline by more than 50 percent (Klein, 2015).

And after the implementation IFRS starting 2000, Olympus could make their way through with the implementation of Tobashi scheme or separating losses to another entity (in this case, dummy company or shell

company) unrelated to main business. And within the new accounting rules, those shell companies would not have to be consolidated with Olympus, so the losses remained hidden (Norris, 2011).

ii. Authority

Japanese culture in working very related with loyalty to one company. It is called *shushin-koyo* or "lifetime employment", this culture of undying company loyalty started in the 1920s when remarkable Japanese companies recruited university graduates and guaranteed life-length job security and benefits as a way to keeping talents. In return, workers did the job seriously and pledged strong loyalty to their company (Yu, 2014). Japanese management maintains the need for data or events to flow from the bottom of the company to the top. And so the supervisor's orders are absolute (Lane, 2017).

Olympus as another Japanese company seems to follow the same set of business culture. The lack of functionality of internal corporate auditors (*kansayaku* or "company auditor") is one of the main issues in this case, as they are unable to fire or promote CEO or directors. Apparently, the company auditor had pledged as lifetime company employees, which led to disability to question or object the management's decision (Aronson, 2012). Third-party committees reported that the management also nurtured a "yes man" culture, which means even though top management of Olympus knew what was going on and that new president always accepted the decisions made by

their formers and couldn't voice their objections (Norris, 2011). The leader of the panel, Tatsuo Kainaka, stated, "Because the authoritarian management system continued for a long time and those [involved in the cover-up] were treated well, the flow of information was blocked." This situation was impacting to a corporate culture that was ruled by one person with some problems relating to the attitudes of corporate employees (Jeffrey, 2012).

iii. Lack of CEO Supervision

The board's inadequacy supervision over the CEO, consisting of subjects including hiring and firing, may be the largest corporate governance dispute at Olympus corporations. In a stakeholder system wherein the CEO acts on behalf of all involved parties, and not just the shareholders, it is uncertain to whom the CEO is responsible. In principle, below Japanese law, the administrators supervise the representative. director (i.e., CEO). In practice, however, administrators are frequently decided by the individual they are predicted to oversee. Therefore, instead of the CEO is responsible to shareholders or a board of administrators, the CEO is the person to whom the board is responsible. It is here that unbiased administrators can play a crucial function. Even though they do not represent a majority of the board, a set of unbiased administrators can doubtlessly be effective within the most fundamental role of tracking self-dealing and top management, mainly if the essential data can be acquired (Aronson, 2012).

At Olympus, there was no risk management system in place that expected such misconduct would be completed by the top control and managers of the corporation, and the tracking function towards such did not function (Olympus Corporation, 2011).

iv. Nepotism

Many Asian corporations tend to depend on private intermediaries and relationships in business, and infrequently have unbiased boards willing to ask difficult questions. That type of a relationship-based enterprise is possibly a thing we need to reconsider. Olympus's auditing company, Ernst & Young ShinNihon, is not recognized to have raised any warnings regarding Olympus's finances or acquisitions. The company stated it was not able to talk about its clients (Takata & Umemura, 2011).

With respect to the outside directors also, appropriate directors had not been elected, and they were not functioning. The Board of Auditors had even further turned out to be a formality, appropriate directors had not been elected as auditors, along with external auditors, It should have sought human sources in a well-timed manner from outside the organization, far from the private connections or prosperity of the organization, and in having them control the financial aspects etc., it was when by chance, a foreigner president was elected, that this was found out. It was a critical flaw that a system had been maintained wherein human sources, which ought to be fair, was distorted, and those who shared secrets and were concerned within the cover-

up were handled favorably (Olympus Corporation, 2011). Olympus promoted Woodford as a way to made their company looks more international. But in the end, Olympus is just another traditional Japanese company which cannot handle sudden deployment of a high-ranked foreigner (McNulty, 2011).

v. Poor Corporate Governance

A corporation cannot adopt first-rate business activities except it has the knowledge, self-assurance, and assists of its stakeholders and society. Olympus shattered this relationship through its very own shortcomings and became the focal point of public distrust for that reason. in the past, Olympus has shown weaknesses within the areas of corporate governance and compliance. Obviously, this situation caused a lack of accountability (Olympus Corporation, 2012).

As the past management of Olympus has been degraded by its original reaction to Mr. Woodford's accusations and its lack of communications with shareholders (Layne, 2011). The valuable lesson to learn from the Olympus case is that a poor underlying ethical corporate values trumps full exposure even in the post-Enron era of transparency (McNulty, 2011).

vi. Unprofessional External Auditor

The auditing company mentioned at one point that possibly a part of the transaction within the case at issue was unreasonable, and at the same time as there was the chance that the check feature might work at that time, they without a doubt relied on the opinion of a Committee of outside experts that did not satisfy its original function, and ultimately was unable to make the appropriate suggestion. The succession at the time the auditing companies were changed was inadequate, and the assessment should be made that they were unable to sufficiently fulfill their obligations reaction to the matters mentioned by the auditing company, the organization formed a committee of outside experts, and by securing a document that complied with the intentions of the top management, it attempted to prevent the disclosure of fraud. however, said document was incomplete and had many qualifying conditions, and was not to be trusted because of the opinion of a truthful and impartial third party. The Board of Auditors, and in addition, the auditing company placed emphasis on the conclusion of this document alone and did not conduct an extensive overview of the content or its qualifying conditions

At Olympus, a system had been operated in which the intentional omission of due diligence in the acquisition of companies or checks by the Legal Department was not seen as an issue. However. Inside the Olympus Corporation itself, the units which handling internal control or risk management were not independent (Olympus Corporation, 2011).

Additionally, a Japan lawyer believed the Olympus case should be a warning to the application of auditing standards in Japan. He believes that from auditor's point of view it was not their responsibility to detect the fraud. But with this kind of scandal arises in Japan it would leave a bad mark for external auditor's responsibilities. Referring to the three of the big four external auditor companies had gotten themselves in financial scandals. He further stated if both internal and external auditors worked their own job accordingly, it would never happen (McNulty, 2011).

vii. Unfunctional Whistleblowing

It is understandable by the fact that the internal whistleblowing hotline at Olympus Corporation had not been properly functioned. The organization's inner "hotline" for whistleblowers was overseen by the very executives who allegedly designed and performed the massive accounting fraud, so by any means eliminated it to smoothen the scandal that the higher-ups at that time worked on (Olympus Corporation, 2011).

The government side also plays role in the non-functionality of whistleblower hotline. There may be no doubt that if the Securities and Exchange Commision (SEC) or Japan had an effective whistleblower program in the region a decade ago. There is a superb chance the investment losses allegedly hidden for thirteen years at Olympus might have been uncovered a lot sooner and the casualties to the organization and its investors would have been far less. Instead of reporting records about wrongdoing to a

sham hotline, employees might have had the motivation to inform it to the relevant enforcement personnel, which could have unveiled and ended the scheme years in advance. (Kelton, 2012).

Another reason why there was no whistleblower because of the cultural work of lifetime employment with one company only and had resulted in an unfunctional whistleblowing environment. If there is someone who blows the whistle or marked as a trouble-maker then there's a higher chance that someone is likely to find him or herself transferred within a Japanese company to a workplace in the middle of nowhere and degraded into the charge of administration (McNulty, 2011).

viii. External Collaboration Connections

Olympus obviously not alone in conducting such massive financial statement scandal. Instead, they had outsiders assisted their schemes. Namely Akio Nakagawa and Hajime Sagawa. Nakagawa was president of Axes Japan Securities while Sagawa was president of Axes America (Bacani, 2011). they were demanded by Olympus to establish dummy entities. In 1998, the first dummy entity, called Central Forest and trademarked in the Cayman Islands, was established to conceal the losses (Elam et al., 2014). These entities, which Yamada and Mori demanded both presidents of Axes Japan and America that later called "*tobashi*" Receiver funds that would not be recorded on Olympus' consolidated financial statements (Olympus Corporation, 2011)

On the other hand, the auditor's report also mentions the fraud was hidden pretty nicely. Three banks were also involved by concealing facts from the auditors. The outline document says all three of them agreed not to inform auditors the facts that would generally be supplied on an audit confirmation (Francine, 2012).

There also three former personnel of securities agencies, who had advised Olympus Corp. the way to disguise losses and exchanged greater than 2,000 e-mails with Olympus executives and acquired over 1.1 billion yen in reimbursement, according to the report. Among others, they exchanged e-mails with and were compensated with the aid of Hisashi Mori, former vice president of Olympus. He was an employee of Nomura Securities Co. after which moved to an overseas affiliated securities company. Within the 1980s, he was involved in the investment of Olympus' assets. Later introduced Yamada to the top of a U.S. investment advisory company, who was also a former Nomura Securities employee (Jeffrey, 2012).

4.3.1.3 Rationalization

Rationalization is a protection mechanism that entails the justification of an unacceptable conduct, concept or feeling in a logical way, averting the actual cause for the action. This defensive maneuver is frequently called "making excuses" (Pedersen, 2018). In Olympus financial statement case, Researcher found five points that pointed out Olympus' rationalization to did the fraud,

namely: Amortizable Over Time, Company's Going Concern, Market Restoration Assumption, More Profitable, and Paid Later.

i. The company's Going Concern

Stephen Harner, a Forbes contributor, mentioned the underlying motivation of the executives accused in this fraud was that of attempting to save the company, not to make themselves wealthy. He further mentioned that if Olympus were disclosed their actual financial statement status at that time, because of the massive *zaiteku* losses that Olympus had accumulated, it very likely would have been bankrupted (Crook, 2011). It seems the chairman reacted with righteous indignation. He had not stolen; he had only attempted to clean up the bad side of Olympus without damaging the popularity of generations of Olympus executives (Norris, 2011).

It is mirrored in the attempts that Olympus Corp. made in their decision, In its internal earnings statement for September 1999, Olympus embarked on a solution aimed at achieving the restoration of financial health relating funds management using Specified fund trusts and swap contracts. Since the 1990s, Olympus Corp. utilized the acquisition projects of the Three Domestic Companies and Gyrus as a means to settle the unrealized losses gained from speculative investment (Olympus Corporation, 2011).

ii. Amortizable Over Time

The unusually high purchase prices of dummy companies were calculated as goodwill on Olympus' balance sheet. This is including the fees paid as advisory fees to related the acquisition of these companies. Yamada and Mori believed they were a great feature because the goodwill would be amortized over time until zero. Then the cash that Yamada and Mori used on bad assets was transferred to the receiver funds, which could be properly accounted for without anyone's conscience (Elam et al., 2014).

The recognition for obtaining stock and the FA fees expending by Olympus that allow them to cover the losses of the funds was covered within the goodwill on the consolidated balance sheet of Olympus and was to be progressively written off over a duration of 10 to 20 years. Due to this, the initially separated losses seemed as expenses on the consolidated balance sheet of Olympus and were identified (Olympus Corporation, 2011)

iii. Can be Paid Later

Tobashi was famed by Yamaichi Securities, which hid over 200 billion yen in losses. Yamaichi collapsed in 1997. Yamaichi had no alternative but to shut down instead of search court-led rehabilitation, mainly because of its *tobashi* (flying away) mortgage-hiding practices. Yamaichi, which did nicely in attracting company customers, had assured funding returns to a select organization of customers and reimbursed them for losses due to plunging stock prices caused by the crumble of the bubble economy.

Using tobashi transactions, Yamaichi hid greater than ¥260 billion in latent off-the-books losses by moving them to shell companies overseas (Jiji, 2017). It was Olympus's selected broker. The idea was Olympus would pay the unrealized losses later, when company finances are capable. If this was the case at Olympus, the payments it made would have been made to settle the loss. Which allows the company with bad assets to temporarily mask losses (Takata & Umemura, 2011).

iv. Market Restoration Assumption

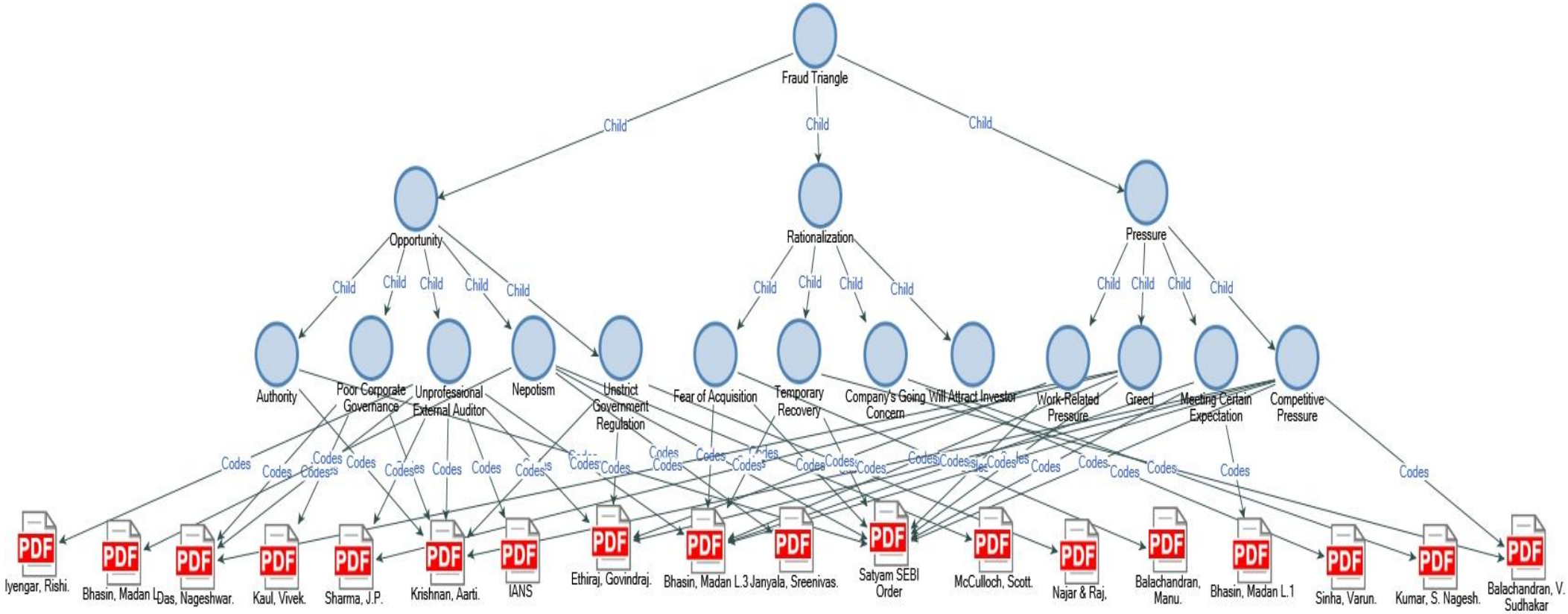
Following the sharp Japanese decline appreciation toward US dollar in effect of The Plaza Accord meeting. Many assumed the market might get better. Bad assets were handed among allied businesses with different reporting dates, parked in off-balance-sheet subsidiaries or offered at book value to agents to maintain until prices recovered. The schemes were easy and brief at first (Soble, 2011).

Even though Olympus has not specified the system by which it concealed the losses, the local news media have speculated that it used a once not unusual maneuver called "tobashi." In tobashi, translated loosely as "to blow away," a corporation hides losses on bad assets by selling those assets to different businesses, frequently dummies, only to buy them again later when the market had restored (Takata & Umemura, 2011).

4.3.2 Satyam Financial Statement Fraud Case Analysis with Fraud Triangle

Satyam, a once-renowned company which ran their business in computer and peripheral services segment that had expanded their wings to overseas, also had infected with financial statement fraud. The researcher analyzed the Satyam insiders' fraud using fraud triangle analysis. Which can be seen in figure 4.2 below:

Figure 4.2: Analytical Map of Satyam Case Analysis with Fraud Triangle



Source: Researcher using NVivo 11

4.3.2.1 Pressure

For the Satyam case, the researcher found four kinds of pressure that forced Satyam's employees to did the fraud, namely: Competitive Pressure, Greed, Meeting Certain Expectation, and Work-Related Pressure. Which will be discussed below.

i. Greed

One of the most underlying factors of fraud is greed. Greed for money, power, market dominance, success, and reputation compelled Mr. Raju to do the fraud which led to the violation of duties imposed on them as fiduciaries–the duty of care, the duty of carelessness, the duty of devotion, the duty of full exposure towards the decision maker. The Satyam scandal is a conventional case of negligence of fiduciary obligations, the overall collapse of moral standards, and a lack of company social obligation. It is human greed and ambition that caused fraud. This kind of behavior can be traced as greed overshadowing the obligation to satisfy fiduciary responsibilities (Bhasin, 2013).

Also, by significant market values would allow the higher-ups to enjoy enormous gains which allow them to convert it into real wealth outside the company and therefore granting them the opportunity to use the money to acquire large shares in other firms (Nageshwar, 2018).

ii. Competitive Pressure

Typically, when a company higher-ups start taking fraud, they begin with small numbers, until at some point they begin to increase the numbers into an unrealistic one. It is a common response to competitive pressures. Every company has a certain benchmark which they have to reach every month, quarter and year. These targets could be from their internal budgets or from the expectations of their shareholders and stock market analysts (Balachandran, 2009). The fierce pressure of market competition in order to attract investors, analysts, shareholders, and the stock market led to low ethical and moral standards by top management, which is aiming for a larger emphasis on short-term performance made Satyam conducts the fraud (Bhasin, 2013).

In his letter sent to the authorities, Raju had conceded that Satyam's gain had been overstated and assets were falsified to make a rosier image than the reality (Ethiraj, 2015). Based on an interview conducted by the Panel to Mr. Ramalinga Raju, it is clear that his motivation was to preserve a fake image of Satyam Computer's financials and the value of its stocks in the market. He and Mr. Rama Raju said it was essential to present Satyam as a company with progressive shares on the market. As it would attract more investors and financial analysts to invest and recommend their company as an investment target (SEBI Panel, 2014).

iii. Meeting Certain Expectation

Almost $1.04 billion in bank loans and cash that the company claimed to personal was non-existent. Satyam also underreported liabilities on its balance sheet. Satyam overstated profits almost every quarter over the path of several years with a purpose to meet analyst expectancies (Bhasin, 2013).

Also, in his assertion dated February 6th, 2009, during the investigation, Mr. Ramalinga Raju said that it was a choice which had no economic implication for Satyam Computers and, at the identical time, was consistent with the investors‟ expectancies. He also said that among many demands that traders were making now and again, this was a simpler choice for Satyam Computers to take given the situations. Mr. Ramalinga Raju has himself made it clear that Satyam Computers lacked the capability to make the purchase-lower back and that this declaration was only made to buy time and to fulfill investor expectation (SEBI Panel, 2014).

iv. Work-Related Pressure

In an interview with a local press at the Satyam HQ in Hyderabad, in 2006, Raju had once stated that quarterly profits were placing unreal stress on organizations. He stated if any employee took weekends and vacations, the said employee must make it up in less than 150 days (Ethiraj, 2015).

4.3.2.2 Opportunity

For the Satyam case, the researcher found five kinds of opportunity that granted Satyam's employees the chances to did the fraud, namely: Authority, Poor Corporate Governance, Unprofessional External Auditor, Nepotism, and Unstrict Government Regulation. Which will be discussed below.

i. Authority

Mr. Prabhakara Gupta has said therein that internal Audit had raised audit observations concerning the mismatch among the invoices inside the IMS and the Oracle Financials throughout the course of internal audits in relation to the customers viz. Citigroup, Bear Stearns, and Agilent. He was, however, directed by Mr. Rama Raju to shut the observations regarding the reconciliation, and Mr. Rama Raju said that Mr. Ramakrishna would take care of the equal. He said that he could not overrule the instructions from Mr. Rama Raju, and consequently directed his crew to shut the overview.

On January 21, 2002, a decision was handed by the Board of administrators of Satyam Computers authorizing Mr. Ramalinga Raju and Mr. Rama Raju (i.e., either of them) to make any investment or place any fixed deposit from Satyam Computers' budget, without restriction. This decision gave Mr. Ramalinga Raju and Mr. Rama Raju control over the alleged surplus finances of Satyam Computers and has surely been misused by them, inter alia, thru fictitious investments in fixed deposits.

In his declaration recorded on January 10, 2009, Mr. Srinivas, the CFO of Satyam, said that deployment of surplus finances was solely dealt by Mr. Ramalinga Raju/Mr. Rama Raju and particular oral directions were given to him by them that he must not intervene. This conclude the function of Mr Ramalinga Raju by issuing directions for using month-to-month statements for accounting purposes, taking control of fixed deposits, assuring that he and Mr. Ramalinga Raju retained control over the account at BoB, New York department, issuing letters for renewal of fraudulent fixed deposits, and numerous different aspects of the fraud. In effect, Mr. Srinivas told Mr. Venkatapathy Raju that they must not question the structure regarding additional entries in the monthly bank statement. Mr. Venkatapathy Raju also instructed to make accounts on the basis of monthly bank statements by the Chairman, CFO and Mr. Ramakrishna and passed this on to his subordinates in accordance with structure given by the CFO (SEBI Panel, 2014).

Normally, with a huge gap of the company's clients, projects and bank balances that missing from the program, someone within the company would notice it beforehand. Instead of blowing the whistle to authorities, many of the Satyam subordinates deferred it as 'instructions from the higher-ups' excuse (Krishnan, 2014).

ii. Poor Corporate Governance

The Satyam case is just another example the need for stronger Corporate Governance. On a quarterly basis, Satyam profits grew. Mr. Raju admitted that the fraud which he did amounted to almost $276 million Within the procedure, Satyam grossly violated all regulations of corporate governance. In addition, The Satyam rip-off had been the example of following “bad” Corporate Governance practices. It had failed to reveal the utmost relationship among the shareholders and personnel. Corporate Governance problem at Satyam arose due to non-fulfillment of the responsibility of the organization towards the diverse stakeholders (Nageshwar, 2018).

The lack of Corporate Governance also made Mr. Ramalinga Raju and his co-conspirators continue their fraudulent actions. Fake clients kept made, and fake clients could not make real payments. Given this, the company kept inflating the profit (Kaul, 2015).

iii. Nepotism

The Satyam Board was composed of “chairman-friendly” administrators, who didn't object the management’s method and use of leverage in recasting the organization. Furthermore, they were also unusually late to act when it was already clear that the organization was in economic misery. The administrators acted as mere rubber stamps and the promoters were constantly present to persuade the choice. The glue that held the board

participants collectively was Mr. Ramalinga Raju (Chairman). Each of the board participants was there on his private invitation and that made them useless. The Board disregarded or failed to act on, crucial records associated with financial wrong-doings before the organization ultimately collapsed (Bhasin, 2016b).

Moreover, renowned investigators in the Economic Offences Wing of the Andhra Pradesh CID informed The Indian Express that Raju's youngest brother Suryanarayana Raju turned into his chief lieutenant inside the operation. The elusive and low-profile Suryanarayana, in reality, performed a miles larger role in the scam than Raju's other brother, B Rama Raju (Janyala, 2009). Furthermore, later known that these independent administrators alleged to unlawful gains. The plan of giving stock options to the independent administrators was possibly a sensible ploy by Raju to effectively enforce his plot at Satyam, with little resistance from the so-called independent administrators, to whom, he was alleged to report to. It sounds ridiculous to listen to a number of the independent administrators at the press interviews post-scandal that they were not privy to what was occurring at Satyam. Moreover, it is very annoying that extraordinarily respected individuals like T. R. Prasad and Dr. Rammohan Rao, each acquired stock options and commissions from Satyam, without questioning how this was appropriate to their reputation of independent administrators (Bhasin, 2013)

This case also came to light because of the Maytas acquisition, which was harshly criticized by investors who stated it was pushed by

nepotism instead of business sense, and the board was pressured to desert the agreement as Satyam's share price plunged. Raju's fraudulent behavior started to emerge and was completely uncovered yesterday when he admitted all in his letter and resigned. However, the tale may not stop there. The Indian government will start criminal proceedings in due course, but whilst Raju claimed he acted independently of organization administrators, he failed to exonerate his brother, Satyam handling director Rama Raju (McCulloch, 2009).

iv. Unstrict Government Regulation

Financial-related crimes in India rarely have a fulfilling denouement. Perpetrators regularly manage to keep away from the lengthy arm of the law. In which they are brought to book, the real information of the crime wander away in legal technicalities. And untangling the mess typically takes such a long time that, by the point the offender is hauled up, the general public has forgotten what the crime was all about (Krishnan, 2014).

Vidya Rajarao, an associate at Grant Thornton India, stated that incidences of company fraud had been growing in the country. India has remained low on measures like the international bank's Ease of Doing business rating, which Ms. Rajarao stated partially reflected the corruption and absence of transparency within the country. Last 12 months, her company posted a record on company fraud with the related chambers of commerce and industry of India. One of the reasons of fraud, she stated, is the possibility

to commit the fraud and escape with it due to the fact that the regulatory mechanism is not constantly enforced. including that many cases pass unreported in India (Najar & Raj, 2015).

The government in India also had not sufficient whistleblower protection. This will raise a query by insiders or people who exposed to fraud regarding their safety after they blow the whistle. The answer of these queries are clearly easier in theory rather than in practices (Ethiraj, 2015)

v. Unprofessional External Auditor

The huge sum of money thus should have been a ‘red flag’ for the auditors which were all too obvious for any reasonable professional auditor to miss. that need verification and checking were essential (Iyengar, 2018). Moreover, it seems that the auditors did not independently affirm with the banks wherein Satyam claimed to have deposits. Given the fact that PwC had audited the organization for almost nine years and did not discover the fraud, while Merrill Lynch found the fraud as a part of its due diligence in simply 10 days.

S Gopalakrishnan and S Talluri, companions of PwC consistent with the SFIO findings, had admitted they did not encounter any case or instance of fraud by the organization. it is tough to believe that the auditors, which also recognized as the big four, could not catch the gaps in accounting. Including failing to verify the actual bank balances, which by some experts believed that it was “rookie mistake” (Ethiraj, 2015). As to the external auditors who

are obligated to look out for investors, they seem to just trust the internal sources given to them. Instead of verifying bank balances, they relied fully on the fake fixed deposit receipts and bank statements supplied by the 'Chairman's office' (Krishnan, 2014).

The remaining straw of deficiencies in statutory standards was in spite of having observed control deficiencies within the records systems and the risk of publicity to frauds, PwC selected to keep silent and did not file the problem to the shareholders. In an admission before the SFIO, VSP Gupta, the International Head internal audit had stated that despite the fact that the coverage and resources of internal audit were not commensurate with the scale of the enterprise, PwC overlooked this fact and licensed the organization. PwC did not test even one percent of the invoices, neither did they pay sufficient attention to verification of sundry debtors, which consistent with Ramalinga Raju's confession was overstated by 23 percent (SFIO record says it was overstated by nearly 50 percent) (Sharma, 2010).

4.3.2.3 Rationalization

For the Satyam case, the researcher found three kinds of rationalization that justified Satyam's employees the did the fraud, namely: Company's Going Concern, Fear of Acquisition, and Temporary Recovery. Which will be discussed below.

i. The Company's Going Concern

A file found by the Registrar of Companies brought new facts to the scam. It exposed a flow of Rs. 1,230 crore from 36 agricultural companies into Satyam from November 2006 to October 2008. Mr. Raju handed this file specifically to Satyam's authorized personnel on December 16, along with his confessional words. He was trying to drive home his point that he had structured the money (not reflected in the books) to keep the operations running (N. Kumar, 2009).

Following the Maytas acquisition by Satyam, the majority of the Board of Director resigned from their respective position. Mr. Raju wrote a message to over 50,000 Satyam workers and stated his decisions were meant to bring "Satyam back on track" (Sinha, 2009).

ii. Fear of Acquisition

Raju defined his motives for inflating revenues within the letter hence: "because the promoters held a small percentage of equity, the concern was that poor overall performance might result in a takeover, thereby exposing the gap. What started out as a marginal gap among real operating earnings and the one contemplated within the books of accounts persisted to develop over the years," Raju stated inside the letter. "It has attained unmanageable proportions as the scale of the organization operations grew extensively" (Balachandran, 2009). It was like riding a tiger, not knowing how to get off without eaten after hand (SEBI Panel, 2014).

iii. Temporary Recovery

The mess is simple to rationalize at the beginning. Managers commonly believe in their capabilities and believe that their organization is fundamentally sound. Therefore, it is clear to rationalize that while we are only a little short on the numbers now, we will make it up in the future, and no one will realize (Balachandran, 2009).

The aborted Maytas acquisition deal was the final attempt to fill the fictitious assets with actual ones. Maytas' investors were satisfied that this is a great divestment possibility and a strategic fit. As soon as Satyam's trouble was solved, it was hoped that Maytas' payments may be behind schedule (Bhasin, 2016b).

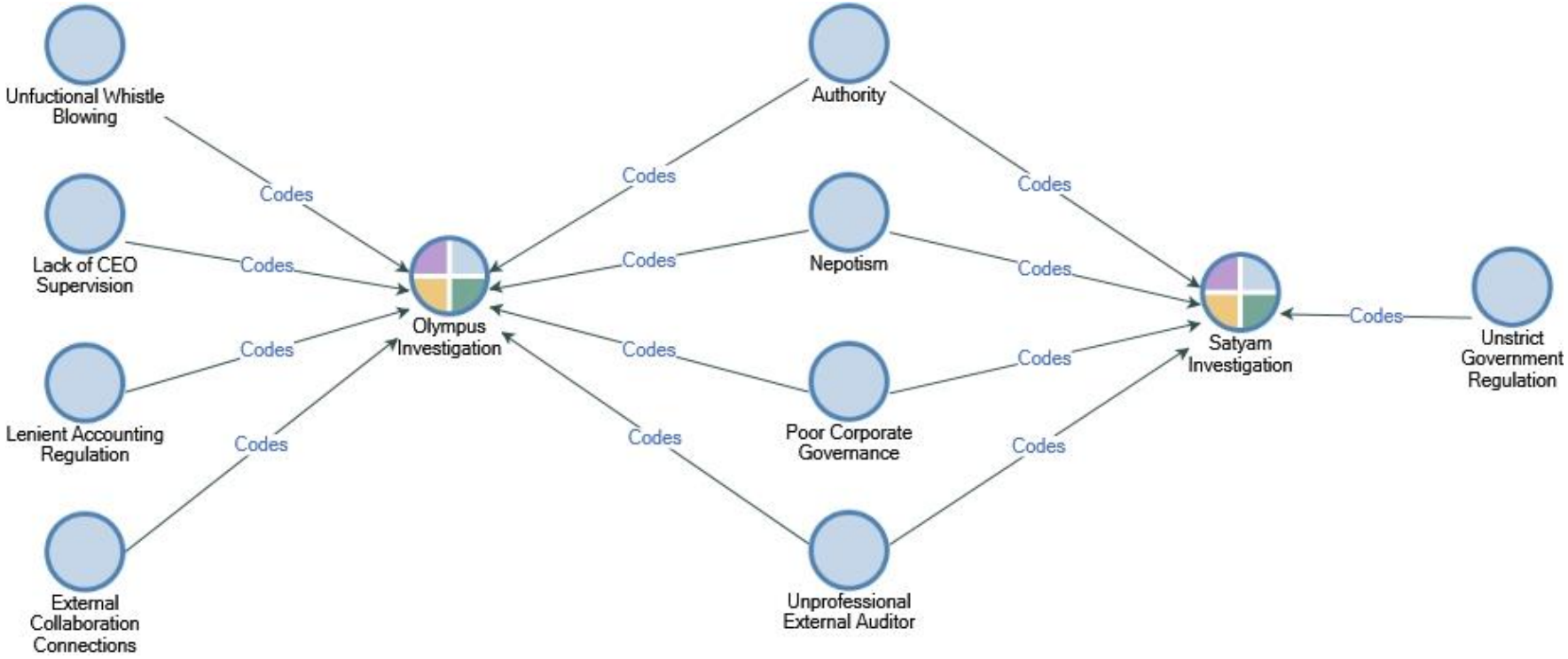
4.4 Differences Between Olympus Corporation and Satyam Computers with Fraud Triangle

The researcher identified relations of the ulterior motives that pushed perpetrator in Olympus and Satyam did the financial statement fraud. The researcher will break down the relation of each element of the fraud triangle

4.4.1. Opportunities

The researcher found eight opportunities in Olympus financial statement fraud case. Whereas in the Satyam case, the researcher found five opportunities. The researcher found five related opportunities from both Olympus and Satyam cases that can be seen below :

Figure 4 3: Analytical Map of Opportunity Comparison Between Olympus Corporation and Satyam Computers Analysis with Fraud Triangle



Source : Processed by Author using NVivo11

In this financial statement fraud cases from both companies, the fraud on each company made possible because of the authority in work environment. Both companies had top-down management style in which the higher-ups monopolized the important information and expected the employees to do whatever the higher-ups said. This lead employees in both companies clueless when asked about certain fraud activity in the company and answered it as the higher-ups' order. The second similarities are nepotism. Both Satyam and Olympus' executives are relatives to each other and had not been properly selected to fill the position. in Satyam case, each of the promoters was personally invited by B. Raju. In the Olympus case, the executives are the ones who seemed suitable to take part in the scandal. The third is poor corporate governance. Both Satyam and Olympus had failed to comply with proper corporate governance which segregation of duties between CEO and protection of shareholders' rights and their executives. The last similarity in opportunity between them is the unprofessional external auditor. External auditor from both Satyam and Olympus' external auditor relied heavily on information given by each company instead of checking the account independently. And both external auditor had acquired fees far more than they should.

The difference is that Olympus also had lenient accounting rules while in Satyam not. Because of the accounting regulation in Japan at the 1980s, it is facilitated Olympus to hide their fraud by transferring to unconsolidated subsidiaries. Secondly, the lack of CEO supervision. In Olympus, there's a special unit called the board of directors in which specialized in assessing the CEO's

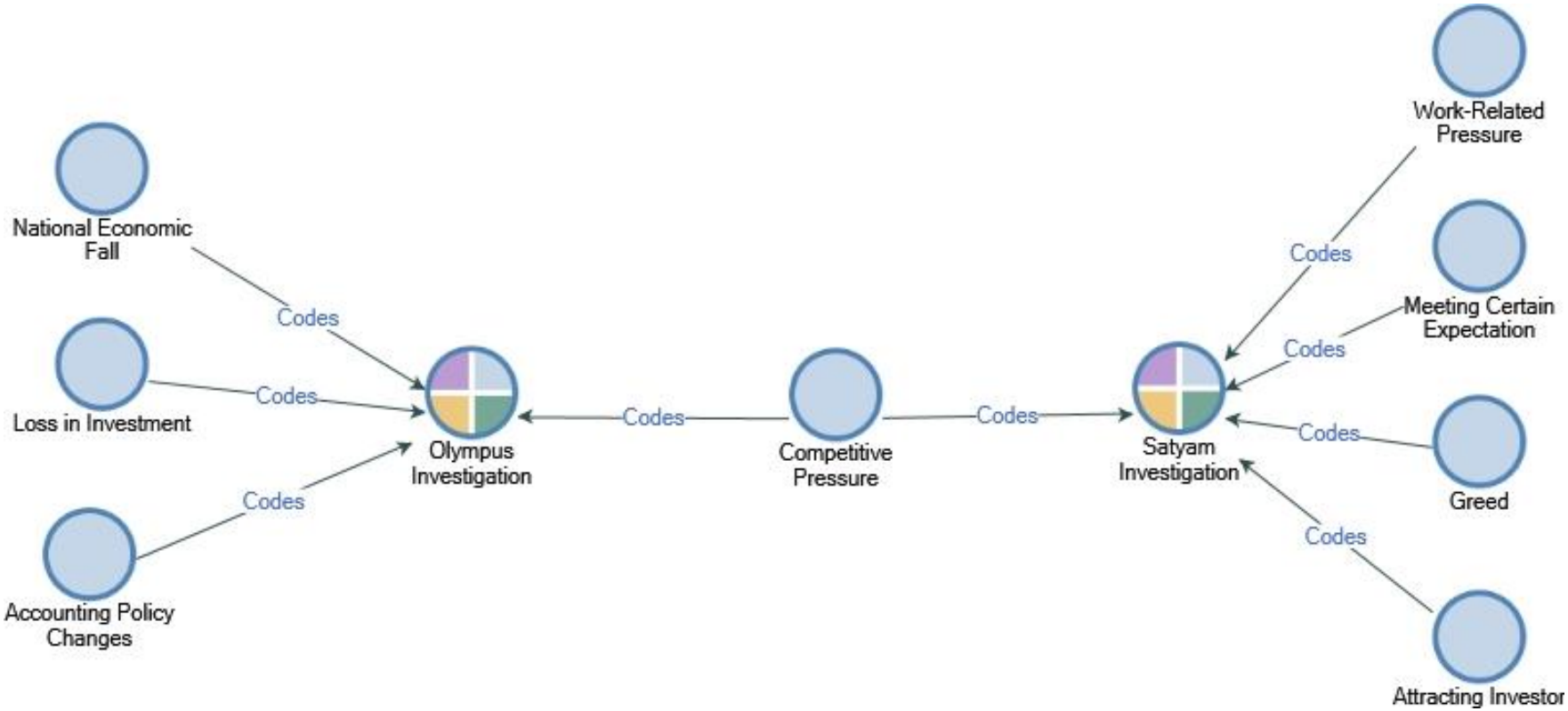
performance. But, the unit itself was a dummy to convince the investors that their corporate governance is well-made. So it impacted on the CEO that they could freely conduct fraud. Third, Unfunctional whistleblowing. In Olympus, the employees are pledged with the assurance of lifetime work and supported with the local culture of lifetime employment with one company only, this had resulted in an environment where whistleblowing is nearly impossible. The fourth and the last difference in the opportunity that Olympus possessed is external collaboration connections. The loss separation scheme and loss disposition scheme conducted by Olympus made possible by various external parties, this included ex-bank employees and financial advisors. Whereas in Satyam case, it is purely inflating the company's financial statements, which is done by insiders in the company itself.

The other difference that exclusive to Satyam is the Unsitriction of Government Regulation. The suspects of financial statement fraud frequently escaped from the law. Moreover, because the lack of law enforcement in India, many cases often go unreported, even when reported, it seldom to have satisfying result in the court, which resulted in the repeated cycle of criminal.

4.4.2. Pressure

The researcher found eight pressures in Olympus financial statement fraud case. Whereas in the Satyam case, the researcher found five opportunities. The researcher found one related pressure from both Olympus and Satyam cases that can be seen below :

Figure 4 4: Analytical Map of Pressure Comparison Between Olympus Corporation and Satyam Computers Analysis with Fraud Triangle



Source: Processed by Author using NVivo11

In this financial statement fraud cases from both companies, the only similarity is the competitive pressure that underlying each company to did the fraud. Both companies are pressured from external parties which is their own competitors. In Olympus case, Olympus did the fraud because of the low actual margins in their financial statement because of the loss in investment did by the previous manager. In Satyam case, Satyam did the fraud in order to make their financial statement higher than the actual and avoid acquisition by big companies.

There are three differences from the Olympus side. First is national economic fall. In the 1980s, Japan had the times where their currencies were raising to a beneficial level to exporters to export their products to overseas. Olympus, on the other side, had a bad time where their main operating profit was falling. and to cover this. Olympus decided to embark on a speculative investments activity. Eventually, because of the Plaza Accord meeting in 1985, the yen appreciation against dollar weaken to 121 per dollar in 1987, as opposed to before 250 yen per dollar in 1984. This then led Olympus to the second pressure factor which is the loss in investment. As Olympus had huge investment loss because of the speculative investment stated before, as sources said it was nearly 100 billion yen in investment losses, led Olympus to hide the loss by the fraudulent scheme. The third is accounting policy changes, Olympus succeeded in hiding their huge loss because of Japan's lenient accounting regulations at the time where investment could be written in the time of acquisition. In the 1990s, market-to-market accounting introduced in order to follow the global market regulations. With this became an obligation, Olympus launched loss separation

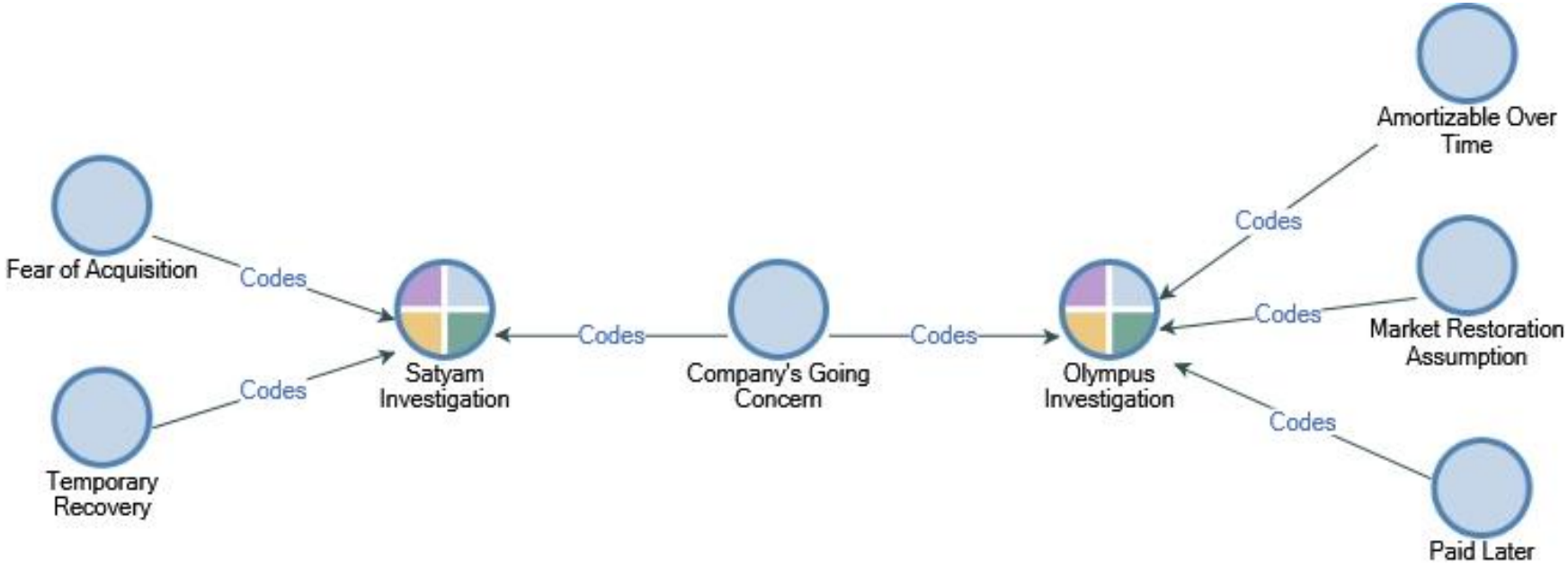
scheme, and loss disposition scheme in order to hide the investment loss to separated companies.

In the Satyam case, there is four main difference from Olympus' case in term of pressure. The first is work-related pressure, this is the impact of the authority in Satyam's opportunity case, where the employees are forced to do whatever the higher-ups told them to, including the participation in the fraud. As the employee only know that there are some irregularities in the company but they could not express their opinion on the higher-ups and stated it was based on the command of the higher ups. Secondly, meeting a certain expectation. Ramalinga Raju, as the main promoter of the company, stated that the motive of him did the fraud was to meet investors, market analyst, and other interested parties to his company, which is rising each year in term of the financial statement. Then he further stated that the only way possible to achieve this was through the fraud he conducted. And the third is greed. Greed is the main motive of Ramalinga Raju and the other perpetrators to "ride the tiger." Which means conducted the fraud. With more investors invest their money on the company, the more also the commission for the promoters. The fourth and the last is attracting investors. Because of the globalization, also the background company of Satyam which is a relatively new company, Satyam struggles to attract investor in order to get more money and divert it to the promoters. The promoters also stated that if a certain target is achieved, they will gain more compensations.

4.4.3. Rationalization

The researcher found four rationalizations in Olympus financial statement fraud case. Whereas in the Satyam case, the researcher found three rationalizations. The researcher found one related rationalization from both Olympus and Satyam cases that can be seen below :

Figure 4 5: Analytical Map of Rationalization Comparison Between Olympus Corporation and Satyam Computers Analysis with Fraud Triangle



Source: Processed by Author using NVivo11

In this financial statement fraud cases from both companies, the only similarity is company's going concern that used as the excuse of each company to did the fraud. In Olympus, the CEOs didn't do the fraud because they wanted to enrich themselves, one of the CEO stated that it was an attempt to keep the company afloat in the market and could compete with other brands. In fact, none of the CEO had taken any yen from the fraud. In Satyam, in which the promoters inflated the financial statement, Ramalinga Raju in his letter stated that if the company's shares were plunging, the result would be a takeover bid, and expose the gap or fraud. This is meant to continue the company's main operational without being claimed. Even though after the fraud exposed Satyam had bought by Mahindra Tech.

There are three differences of rationalization that exist in Olympus but not in Satyam. The first one is market restoration assumption. Olympus assumed that their bad assets could be profitable again but at the same time, Olympus didn't wanted to had a bad face to the investors. In that case, Olympus launched loss separation scheme where the bad assets are transferred to shell companies hoped that the market will be better in the future. This will led to the second rationalization, paid later. Olympus assumed that the loss can be bought back later when the financials inside Olympus had gone better, and while Olympus was trying to do that, the loss kept underwater in the subsidiaries. The third is amortizable over time. Olympus by loss disposition scheme hoping that the purchase of three domestic companies and Gyrus which mainly by goodwill,

thought that goodwill could be amortized over time. Further, the company bought small companies by goodwill and booked their goodwill by over 5 to 10 years.

There are two differences in Satyam's rationalization which do not exist in Olympus' case. The first one is the fear of acquisition. Satyam had done the fraudulent activities for more than five years. So if the acquisition made by the external company to Satyam, it will reveal the fraud and thereby exposing the previous promoters for the scam. As stated in the Ramalinga Raju's letter. The second is temporary recovery. Satyam promoters assumed that the fraud can temporarily recover little by little as Ramalinga Raju also had some agricultural businesses and other businesses that not related to IT, by that money, the promoter hoped that the money that had siphoned off Satyam could be back in future.

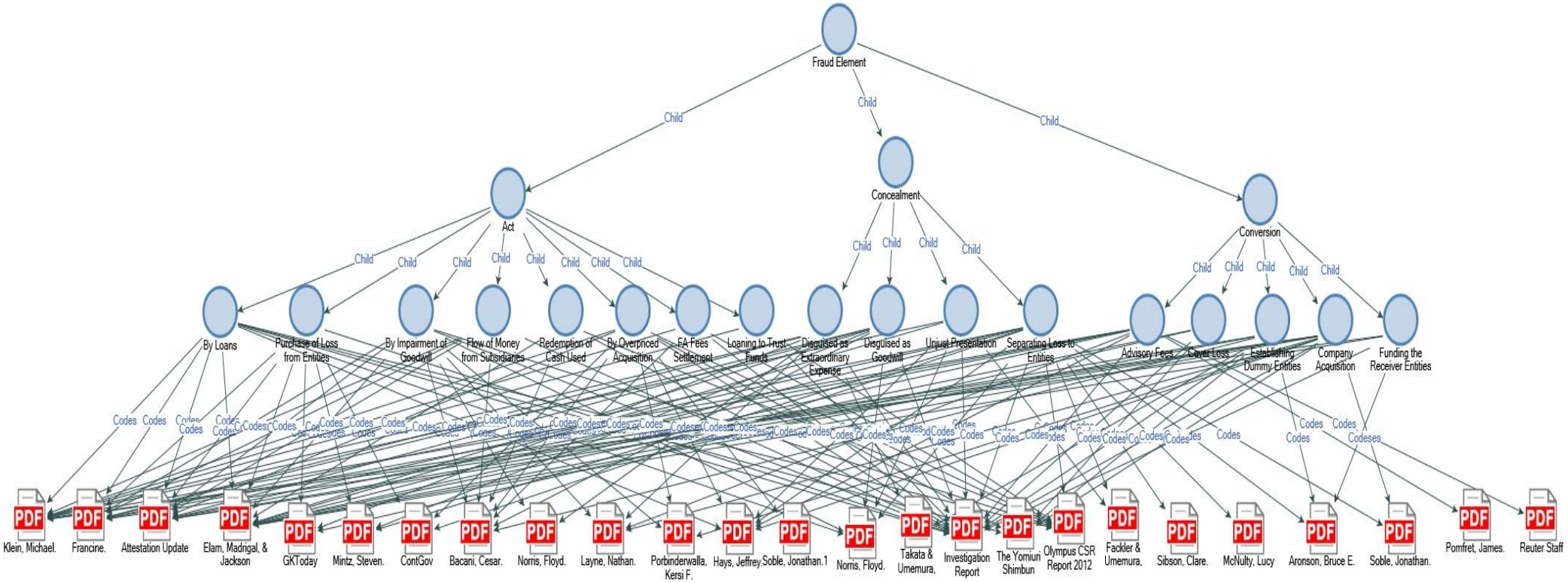
4.4. Olympus Financial Statement Fraud Case Analysis with Fraud Element Triangle and Satyam Financial Statement Fraud Case Analysis with Fraud Element Triangle.

This part will discuss the causal factors that underlie Olympus corporation and Satyam Computers Limited did the fraudulent actions in accordance with fraud element triangle theories as explained in the Fraud Examiners Manual book by Association of Certified Fraud Examiners (2017). The theory will describe how the perpetrator actually took the cash or did the fraudulent actions, how perpetrator attempted to hide or eliminate the evidence, and how perpetrator convert the result of his fraudulent actions.

4.4.1 Olympus Financial Statement Fraud Case Analysis with Fraud Element Triangle

The illustration of Olympus financial statement fraud analysis with fraud element triangle component can be seen in figure 4.6 below :

Figure 4 6: Analytical Map of Olympus Case Analysis with Fraud Element Triangle



Soruce : Processed by Author using NVivo11

4.4.1.1. Act

For the Olympus case, the researcher found nine kinds of acts that showed the way of Olympus in conducted their fraudulent actions, namely : By loans, By Impairment of Goodwill, By Overpriced Acquisition, Financial Advisor (FA) Fees Settlement, Flow of Money from Subsidiaries, Loaning to Trust Funds, Purchase of Loss from Entities, Redemption of Cash Used, and Repurchase from Shell Companies.

i. By Loans

The most crucial in Olympus fraud-hiding schemes is the availability of loans that further utilized as a fuel to conduct the schemes. As a plan had determined to “sell” the bad assets at original cost, Olympus set up shell companies for that purpose. The “sales” were cashed with mortgages from financial institutions, which received cash from Olympus to secure the loans (Norris, 2011).

This started as Yamada and Mori secured financing from a financial institution in Liechtenstein. As collateral to acquire a mortgage to finance this dummy entity, Yamada and Mori deposited Olympus-owned Japanese government bonds worth approximately 21 billion yen with the financial institution in return for 30 billion yen from them. Olympus’ Asset Management additionally invested 35 billion yen in a class fund controlled by this financial institution, which determined its way into this dummy entity as well. Apart from mortgaging from the financial institution in Liechtenstein,

Yamada and Mori utilized a bank in Singapore to get another 45 billion yen into the dummy entity. They utilized a part of the cash that tunneled out of Olympus for those inflated purchases to pay out the mortgage from the banks. Those banks financed the dummy companies and other obligations, after which would deliver back the cash that went into the investment funds (Elam et al., 2014).

Money was mortgaged to the subsidiary and then the bad assets were sold at historical cost, thus moving the impaired investments into an unconsolidated sub. Three various financial institutions, who were asked to mortgage the cash back to an apparently unrelated entity, with the cash deposit as a guarantee, so the subsidiaries can pay back the investment. Banks were requested and conspired to not tell the auditors about the cash deposits being acted as a guarantee (Attestation Update, 2011).

ii. By Impairment of Goodwill

Its all begin from 1999 to 2003, the first phase of the scandal, Olympus eventually get out of some losses because of the accounting rule at the time, or at least to convert them to goodwill (Norris, 2011). Yamada and Mori seemed to believe that this is the way to settle the loss because the goodwill could be amortized over time down to zero. This led to Yamada and Mori to engaged in a scheme to obtain an entity called Gyrus. The meaning of this acquisition was to make another trial to conceal the 62 billion yen represented by the money invested in the fund lent to Easterside as goodwill

(Elam et al., 2014). The result of this was the bad investments were put off into a new subsidiary, converted into goodwill, then vanished as a goodwill impairment. And thus the bad investments would be off the books with the unrecognized loss written off as goodwill amortization or impairment (Attestation Update, 2011).

Furthermore, in line with the investigation results, regarding the Three Domestic Companies, Isaka CPA Office completed the stock value calculation. In addition to giving them an assessment drastically higher than their real worth, it was written down as an impairment loss once the acquisition completed. With respect to EPS as Olympus had acquired the EPS stock at 560 million yen from ITV, which was utilized in the loss disposition scheme, and written as an impairment loss in the account settlement period regarding the acquisition (Olympus Corporation, 2011).

iii. By Overpriced Acquisition

The overpriced acquisition is the main fraudulent action in Olympus' loss disposition scheme. To launch the scheme, Olympus would buy the 'unrelated' company that owned the investments, with the price set at the lower market value and then add huge goodwill to the process of acquisition (Porbunderwalla, 2012). This involved the acquisition of start-ups and entrepreneurial companies at drastically inflated prices. The acquired assets granted Yamada and Mori to have their vast purchase prices recognized as goodwill on Olympus's balance sheet (Bacani, 2011). What Olympus was

trying to achieve was to clean up the past losses in a single action by taking benefit of its merger of overseas and domestic companies (Jeffrey, 2012).

Starting in 2007, a small team of Olympus higher-ups tried to eliminate the losses by distributing a total of ¥135 billion to dispose of the receiver funds, by utilizing the acquisition of 3 domestic companies, Altis, News Chef, and Humalabo, from the Funds at inflated prices (Olympus Corporation, 2011)

iv. Financial Advisor (FA) Fees Settlement

Following the advice of Nakagawa and Sagawa related to the loss disposition scheme, they purchased small companies at drastically inflated prices and also payment of vast advisory fees for M&A deals (Bacani, 2011). The Funds, which were created by Nakagawa and Sagawa, obtained some stock or other cash equivalent then either sold it at a vast amount to Olympus, or invented a method whereby the commision to the FA (the deliberation for obtaining dividend preferred shares or warrants) by Olympus in the payment of foreign corporations flowed back to the Funds, to which the losses had been moved, and finally the losses carried by the Funds were settled.

On the other hand, the total of about 11.5 million dollars (about 1.18 billion yen) received by Axes and Axes Japan has not been used for loss settlement, and it is confirmed that they were acquired as the FA fees for the two companies, which is equal to 0.57 percent of the Gyrus purchase amount. With respect to the Gyrus acquisition, 17.7 billion yen of shares options in

Gyrus were declared to Axes as the FA fee at the time of the procurement in the term ending March 2008, Furthermore, the goodwill that was produced by the Gyrus shares acquisition, about 19 billion yen of goodwill was written. Consequently, in relation with FA fees, the following was written down as goodwill; in the fiscal year ending March 2009, about 5.5 billion yen from the purchase of warrants; and in the fiscal year ending March 2010, 41.2 billion yen from the acquisition of dividend preferred shares. In these lists of transactions, it is confirmed that the judgment was necessary as to what expand a large amount of FA fees would be comprised of goodwill. (Olympus Corporation, 2011).

The payment of advisory fees continues when Gyrus Group PLC was merged, In Gyrus Acquisition, Nagakawa and Sagawa acting as M&A advisors, successfully negotiated a cash payment of US$12 million and the grant of Gyrus warrants and preference shares that Olympus, later on, bought back for US$670 million (Porbunderwalla, 2012).

v. The flow of Money from Subsidiaries

As stated above, Olympus paid enormously higher than the companies worth to acquire and paid vastly for consultants for their service as scouts and intermediaries. The money that used as the consultant's fees, circulated into the currently consolidated subsidiary, which later used the cash to purchase the investment losses from the earlier unconsolidated subsidiary.

The unconsolidated subsidiary then refunded the payable to Olympus (Attestation Update, 2011)

One year later, in 2010, Olympus bought the shares from Axam on the second try for an even higher $622 million. Axam then transfers the cash to entities that had impairment loss on investment so the entities could be repaid the loans (Klein, 2015).

As stated on the investigation report, Regarding the acquisition price of 620 million bucks for the dividend preferred stocks, the funds that were used for shifting funds from Axam to Olympus were GPAI, CD, Easterside and SG Bond. The connection among Olympus, and SG Bond and Easterside, in which the premise was the motion of funds, was that Olympus invested 60 billion yen in SG Bond, and SG Bond then granted bonds equal to more or less 60 billion yen to Easterside. Further, the earlier courting among Easterside, CD, GPAI, and Axam was as follows: Easterside undertook to finance in CD; CD undertook to lend to GPAI in form of accepting the issue of an equity Participation notice and Promissory notice, and GPAI undertook grants to Axam in form of accepting the issue of an equity Participation notice. In different phrases, the motion of funds was carried out in the shape of redemption of the equity Participation Notice and Promissory Notice between Funds, cashback of investment and cashback of the bonds, etc.

Regarding the $620 million for the payment price of the dividend preferred stocks, which in March 2010 was paid from Olympus to Axam, this

cash was returned to Olympus after getting through GPAI, 21C, Easterside, and SG Bond, consequently. Furthermore, concerning the $50 million for the payment price of the guarantees, which was paid in September 2008 from Olympus to Axam, it is confirmed that this cash was coming back to Olympus after getting through GPAI, 21C, Easterside, and SG Bond, consequently. SG Bond undertook the cashback of the investment to Olympus, calculated from actual selling of warrants whose return was accepted from Easterside and converting this to money, and in September 22, 2010, Olympus gained more or less 31.569 billion yen, and on March 24, 2011, more or less 31.569 billion yen, consequently (Olympus Corporation, 2011).

vi. Loaning to Trust Funds

After the disintegrate of the bubble economy, Olympus incurred huge unrealized losses due to its investments in financial property. By the second 1/2 of the 1990s, those losses had reached nearly ¥100 billion. To keep away from the discovery of those unrealized losses following the creation of market value accounting for financial property, Olympus transferred the financial property on which it had incurred unrealized losses up to the year ended March 2000 to more than one funds (receiver funds) at their book cost. This had the impact of casting off these property from the consolidated balance sheet and delaying their inclusion within the accounts.

Olympus did the following: take deposits, government bonds, etc. in an overseas bank, and placed investment to the Funds; Making a mortgage

with the overseas unidentified from the books, with mentioned deposits and government bonds as the collateral; Make Funds or purchase bonds with these funds; the last, hand over these bought bonds to the Funds, and sell it on the market by these Funds, and acquire the payment deal. By the above scheme, Olympus raised the funds for having the Funds bought at book value the financial products, etc. that carried investment losses (Olympus Corporation, 2011).

In its annual statement, Olympus would account for the cash deposits but not inform that the money stated was utilized as security for the mortgages to the trusts. The trusts loaned $535 million, which was adequate to conceal the difference between the market value and the book value of the unrealized loss and moved the cash and their files to several companies in Cayman and the British Virgin Islands. The overseas companies issued units to the tokkin trusts, which became the owners of the Cayman and BVI entities. The connection among these companies due to the fact that the money they held was, in fact, a loan was not informed by Olympus in its accounts (Klein, 2015)

vii. Purchase of Loss from Entities

In 1998, with President Shimoyama's insights and approval, Yamada and Mori undergo a "loss separation scheme" to evade the new market-to-market accounting laws. It would move the bad assets Olympus had obtained to companies whose would not be written into Olympus' financial statements. These companies are named as "shell companies,"

which are off-balance sheet corporations. This scheme involves selling the assets to some organizations that would take them at book cost (Elam et al., 2014). Large number bad assets were moved to an unconsolidated subsidiary. Cash was handed over to the subsidiary and then the bad assets were sold at historical cost (Attestation Update, 2011).

Olympus build up shell companies in the Cayman Islands, and the bad assets were bought by these shell companies at cost value so that the losses vanished, or 'fly away' as the translation of tobashi after (Toto, 2016).

viii. Redemption of Cash Used

Most of this money freed up the lent-out bond holdings of Easterside fund, thus allowing Yamada and Mori to redeem 3.2 billion yen (Elam et al., 2014). Most of the money was used to free up the lent-out bond holdings of SG Bond Plus Fund, thus allowing Yamada and Mori to redeem 63.2 billion yen in March this year. That amount represented the last of the investment losses they had hidden away (Bacani, 2011).

In March 2006, Olympus acquired 6 billion yen, or 20 percent of the funding, as redemption earlier than maturity from GCNVV. In February 2008, Olympus bought Gyrus, which is a clinical tool producer in England. In relation with the acquisition of Gyrus, a large amount of cash was paid from Olympus to the FA from June 2006 till March 2010, and a fraction thereof was moved to the settlement of losses that have been separated. Then, in March 2011, all losses were settled through the termination of the

settlement for SG Bond, which used said cash. Olympus settled the loans and lending transactions by means of those back-flowed finances, canceled the agreements for the deposits or finances that have been installed at the outset, and obtained the redemption thereof.

Eventually, in Olympus' settlement, 35 billion yen of the funds of the Europe path were covered as negotiable securities (authorities short-term securities) from the accounting year finishing March 2001 to the accounting year finishing March 2004, and as deposits (LGT bank) from the accounting year finishing March 2005 on, and the other 15.2 billion yen have been covered as funding securities (New Investments Limited) from the accounting year finishing March 2000, respectively. The deposits in LGT bank had been transferred to Olympus' bank account at Mitsui Sumitomo bank within the accounting year finishing March 2009 (LGT bank deposit voucher dated June four, 2008). The funding securities (New Investments Limited) were assessed at market price based on the stability certificates obtained from LGT bank on the time of the agreement, and the distinction among the purchase price and the market price was covered inside the net assets because the valuation distinction for other negotiable securities, by the application of the financial products accounting standards from the accounting year ending March 2001 on. at the time of the motion of budget transfer of losses cancellation of the settlement within the accounting year finishing March 2009, there was a deposit of 15.9 billion yen at Olympus, and proceeds from settlement cancellation of a distinction of 700 million yen with the book price of 15.2

billion yen were covered (deposit voucher for the cancellation cash of New Investments Limited dated September 12, 2008).

At the time of the cancellation of the settlement in the accounting year finishing March 2011, there was a deposit of 63.1 billion yen at Olympus, and proceeds from settlement cancellation of a distinction of 3.1 billion yen with the book value of 60 billion yen had been covered (deposit voucher for the cancellation cash of SG Bond dated September 22, 2010, deposit voucher for the cancellation cash of SG Bond dated March 25, 2011) (Olympus Corporation, 2011).

4.4.1.2 Concealment

For the Olympus case, the researcher found four kinds of concealment methods that showed the way of Olympus in attempting to conceal the fraud, namely: Disguised as Extraordinary Expense, Disguised as Goodwill, Separating Loss to Entities, and Unjust Presentation.

i. Separating Loss to Entities.

In 1998, a practice acknowledged as tobashi, which translated as 'to make fly away,' the organization utilized overseas company to place bad assets hoped that a market recovery would distinguish losses before they had to be accounted for (McNulty, 2011) with President Shimoyama’s agreement, As an alternative of revealing its losses and strengthening its financial structure, Olympus’ reaction to the new accounting standards was to plot and

enforce a complicated scheme, with the assist of outside monetary advisers, to dispose the bad assets from the balance sheet of Olympus without spotting the losses (Elam et al., 2014). to attain this purpose Olympus install new entities below its management and sold the bad assets to those entities at inflated fees (the assets' original value) to maintain concealment of the losses. Olympus also furnished the cash, either immediately or circuitously, to allow the associated entities to buy the bad assets (Aronson, 2012).

in 1998, Yamada and Mori achieved hiding those bad assets with a cumulative of 64 billion yen book value in Central Forest. Adding one last shell company, Yamada and Mori installed Quick Progress, with a book value of 32 billion yen (Norris, 2011). In 1998 through 2000, about ¥96B ($US1.2 billion) of bad assets were allocated off the books. In 2003 about ¥118B ($US1.5 billion) of bad assets were moved off the books. The year when fraud uncovered. Losses are reported at ¥137B (~$US1.7B) (Francine, 2012).

ii. Disguised as Extraordinary Expenses

As various media sources reported, Olympus Corp. Actual loss is 130 billion yen ($1.7 billion) for the accounting year that finished in March 2001. Instead, the organization posted just 900 million yen, naming them as "extraordinary expenses" (Francine, 2012). With the explanation of KPMG AZSA LLC, the records of the "tobashi" transactions were found on September 30, 1999. Primarily based on the information contained inside the press release of October 7, declaring that a few parts of Olympus' unrealized

losses might be mentioned as extraordinary losses, while around September 1999, it is inferred that Yamada himself should have briefed Kikukawa at the information regarding the existence and launching of the loss separation scheme (Olympus Corporation, 2011).

iii. Disguised as Goodwill

In a very last strive to finish this scheme, Olympus bought Gyrus and booked the investment losses as goodwill. In the meantime, after buying stocks of the three domestic corporations at an excessive rate, Olympus data the distinction from the real company cost of the three domestic corporations as goodwill or impairment losses. Therefore, the separated losses are recorded after being converted into goodwill, and that they may be accounted for publicly (Elam et al., 2014).

Olympus took a part with the consolidation of the three domestic corporations as subsidiaries within the accounting year finishing March 2008, but the acquisition of the stocks of with the three domestic corporations within the accounting year finishing March 2009 was handled as a further acquisition and was blanketed as goodwill of 13.6 billion yen.

In conjunction with the growth in the shareholding within the three domestic corporations, from the accounting year finishing in March 2008, the three domestic corporations were transitioning from affiliated corporations to which the equity technique was implemented to consolidated subsidiaries, and accompanying this a sum of 54.5 billion yen of goodwill was covered for

the three domestic corporations. The dates appeared as the purchase dates were set as October 1, 2007, for Altis and March 31, 2008, for News Chef and Humalabo, and the number of years of the write-off of goodwill were set at 10 years for all three home corporations.

Then, accounting policy was undertaken for the acquisition of the dividend preferred stocks by masking it as a capital transaction that was comprehensively independent of the Gyrus purchase transaction, and of the distinction of 41.4 billion yen among the consideration of 57.9 billion yen (620 million bucks) and the book price of 16.5 billion yen (177 million bucks) for the dividend preferred stocks, 41.2 billion yen was blanketed as goodwill, and 200 million yen was covered as an overseas forex translation adjustment (Olympus Corporation, 2011).

iv. Unjust Presentation

In its financial statements, Olympus accounted the cash deposits but not informed that the money was utilized as collateral for the loans to the funds. He later controlled an Olympus-related company in the time of 2005 and 2010 on behalf of which he acknowledged false agreement to Olympus's auditors (Klein, 2015) KPMG, the auditor, did not alerted, the report stated, in a part due to some of the data it obtained was false (Norris, 2011).

Mori had this purchase demand launched based on an earlier agreement with Axam, but Mori stated a false presentation within the organization that the loss occurred in Axam's other assets because of the

Lehman shock effects, so Axam was urgent for money, as the motives for the fact that the purchase demand was made immediately. Acquiring from Olympus the presentation that this aid had arose to the levels where not initially anticipated, the auditor deemed that such a possibility could not be ruled out absolutely, and finally announced an unqualified opinion (Olympus Corporation, 2011).

4.4.1.3 Conversion

For the Olympus case, the researcher found five kinds of conversions that showed the way of Olympus in converting the act of the fraud, namely: Advisory Fees, Company Acquisition, Cover Loss, Establishing Dummy Entities, and Funding the Receiver Entities.

i. Cover Loss

Recent findings identified that Olympus' Mori suggested the board of CEO to wage a sum of 65 billion yen to the US company as reimbursement. The cash was actually utilized to conceal the losses (The Yomiuri Shinbun, n.d.).

One technique also found was to blanket the losses by earnings on the rate of ITX shares. Furthermore, the acquisition price for EPS shares at ITV was 200 million yen. Moreover, an excess of 360 million yen has been written on its sale, there is a chance that the excess on this sale was utilized to cover losses (Olympus Corporation, 2011).

ii. Establishing Dummy Entities

Regarding the Tobashi scheme, it must find a company which will accept the bad assets in its book value, which is impossible. Then it is decided that Yamada and Mori should make their own companies that are controlled by them, yet not recorded on the balance sheet. The two installed the fund in the Cayman Islands no more than March 1998 (The Yomiuri Shinbun, n.d.). The first "receiver fund," or dummy entity, signed as Central Forest certified in the Cayman Islands, was installed to blanket the losses. Yamada and Mori acquired cash from a bank in Liechtenstein. Yamada and Mori banked Olympus-owned Japanese government bonds priced at around 21 billion yen with the bank in return for 30 billion yen from them as collateral to acquire a loan to fund this shell entity. Yamada and Mori succeeded in concealing these assets with an accumulated book value of 64 billion yen in Central Forest. Further, Yamada and Mori installed Quick Progress, possessing a book value of 32 billion yen. (Elam et al., 2014).

iii. Funding the Receiver Entities

Regarding the loss separation scheme, Olympus also readied the cash to the receiver entities, either directly or indirectly, to enable the related entities to purchase the bad assets (Aronson, 2012). In 1999, through the Singapore path, Olympus acquired from Commerzbank a mortgage of around 45 billion collateralized by its own deposits to a special purpose company. From there, this money was found its way to CFC passing Twenty-First Century Global Fixed Income Fund Ltd. (hereinafter, "21C") and other companies installed by Olympus (Olympus Corporation, 2011).

In 2010, Olympus bought the stocks from Axam on the second attempt for an excessive $622 million deal. Further, Axam wired the money to the numerous overseas companies that owned impaired investments so they could return their mortgages to the banks (Klein, 2015).

iv. Company Acquisition

Olympus bought some tiny companies. They paid humongously more than they were worth and paid big dollars for consultants for their service as finders and intermediaries. The accused Olympus executives covered the losses with 134.8 billion yen made through the acquisitions of the three Japanese companies and Gyrus, which took place between 2006 and 2010. The panel found that part of about 17 billion yen--the difference between the 134.8 billion yen Olympus spent for two corporate buyouts and the amount used to hide the investment losses--was used to pay a former employee of a major securities company who had proposed the cover-up scheme (Jeffrey, 2012).

Two Olympus higher-ups invented a scheme that would hand over funds from company acquisitions by excessive payment for Humalabo, Altis and News Chef. Later in the investigation report stated as Three Domestic Companies (Klein, 2015). Olympus spent $4.1 billion on 57 company overtakes since 2000 reasoned that Olympus would push to diversify its operation overseas. $2.2 billion buyout of British medical equipment company Gyrus in 2008 was the biggest. Olympus has revealed they paid

excessively in this acquisition to blanket the losses stretching back 20 years. Moreover, Olympus purchased ITX, a mobile phone services, for 60 billion yen ($780 million) in parts of payments between 2000 and 2011 (Layne, 2011)

Based on the business plan invented by Axes CEO, Olympus bought the stocks of Three Domestic Companies from Neo and ITV at the excessive rate of 4 million yen to more than 20 million yen per stock. After it undertook the mid-term termination of the agreement for GCNVV, Olympus bought stocks of the Three Domestic Companies which sold by Neo, OFH, and ITV, and OFH bought stocks of the Three Domestic Companies sold by DD and GT, and Olympus bought this at equal price from OFH in March 2008 (Olympus Corporation, 2011).

v. Advisory Fees

In the loss disposition scheme, Olympus moved the money either by transferring cash into the funds etc. by taking over the small companies suggested by the funds at the excessively higher rate than the real values, or by handing over an excessive high commisions to the third-party who acted as the intermediate in the take over process, resulting in write-down of huge amount of goodwill, and by time the goodwill will be amortized, resulting in substantial loss (Attestation Update, 2011).

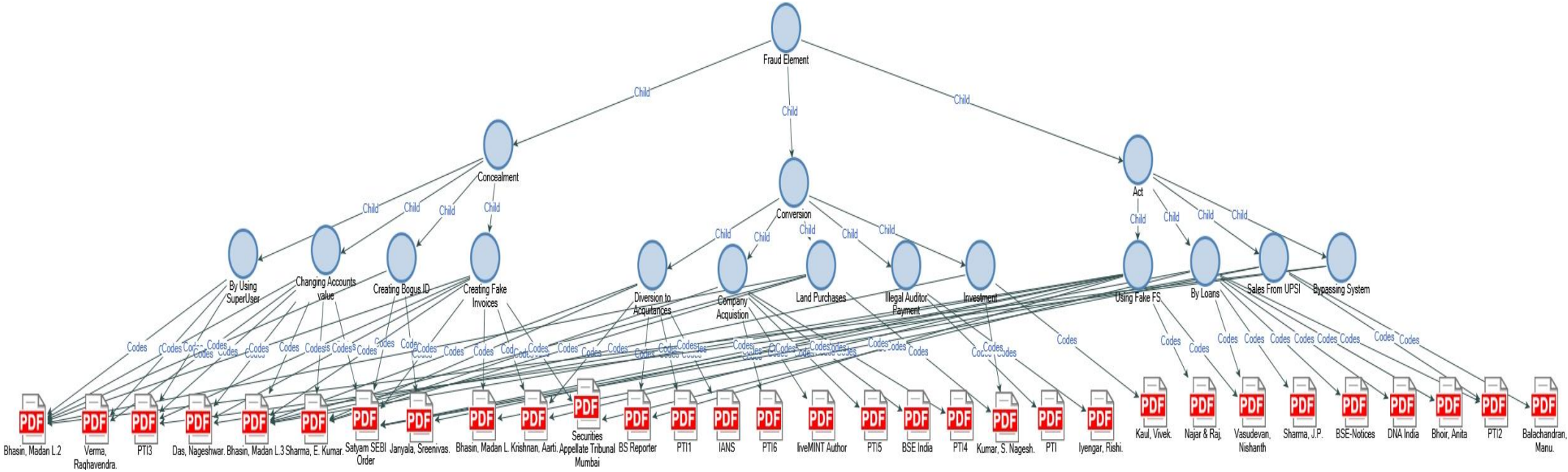
Yamada and Mori then launched a plan to takeover an organization named Gyrus. With this payment, Yamada and Mori thought they would able

to retire the last remaining loss. Because of England's accounting regulation, Yamada and Mori had to excess the payment price, to account for the acquisition of Gyrus. Further, the two men excessing on the advisory fees for this payment. Staged as M&A advisors, CEO of Axes America and Japan arranged a cash acquisition of US $12 million of the allowance of Gyrus warrants and preference stocks (Elam et al., 2014).

4.4.2. Satyam Financial Statement Fraud Case Analysis with Fraud Element Triangle

The illustration of Satyam financial statement fraud analysis with fraud element triangle component can be seen in figure 4.7 below :

Figure 4 7: Analytical Map of Satyam Case Analysis with Fraud Element Triangle



Source : Processed by Author NVivo11

4.4.2.1. Act

For the Satyam case, the researcher found four kinds of acts that showed the way of Satyam perpetrator in conducted their fraudulent actions namely: By loans, Bypassing System, Non-existent Invoices, Siphoning Shares Earning, and Using Fake Financial Statement.

i. By Loans

A set of creditors is aiming for a query on the board of Maytas Infra Ltd, even as a senior Reserve Bank of India (RBI) authority stated that Indian banks and overseas banks working within the country have either lent or supplied guarantees of around Rs8,000 crore to numerous businesses promoted via the family of B. Ramalinga Raju, the jailed former chairman of Satyam Computer Services Ltd. “ICICI financial institution has the biggest exposure to the Raju family promoted companies. This consist of each fund-based and non fund-based, together with guarantees,” stated the RBI authority. “State Bank of India has an exposure of approximately Rs500 crore.”SBI chairman O.P. Bhatt had earlier affirmed in a public announcement that his financial institution has an exposure of around Rs500 crore to Maytas Infra and Maytas properties. The latter is an unlisted real property developer (Bhoir, 2009). The Panel questioned why the authorities positioned Deepak Parikh on its Board despite his HDFC institution being a primary creditor to the organization. The banks that gave loans to Satyam throughout 2000-08 despite the organization claiming huge surpluses were

HDFC Bank (Rs 530 Crore, Citibank (223.87 Crore), Citicorp Finance (Rs222.28 Crore), ICICI Bank (Rs 40 Crore), and BNP Paribas (Rs 20 Crore) totaling Rs 122.161 Crore (Sharma, 2010).

Even as the precise information is not acknowledged, even assuming 30-35% of the debt is with ICICI Bk, it quantities to Rs750850 it would mean npls of <0.05% of IBank's loans. For HDFC Bk, could be equal to 0.06% of loans. Most of its cash balances (that were overstated to the extent of >Rs50bn) had been supposed with overseas banks including Citi, HSBC, BNP and so forth. But again, optimistically, the bank books must be tallied (and this should not immediately effect these overseas banks) (Vasudevan, 2009).

ii. Bypassing System

The payments were generated on Project Bill Management System (PBMS) of the organization using records obtained from the 'Ontime' and rates agreed upon with the client. Based on the billing recommendation generated by PBMS, the Invoice Management System (IMS) generated the invoices.

The Satyam scandal involved this system complexity being bypassed through the abuse of an emergency ‘Excel Porting system’, As a way to cope with any emergency needs, Satyam Computer had another technique through which invoices were immediately generated within the IMS through porting the date directly into the system bypassing the regular application flow (PTI,

2009). It also permits invoices to be generated immediately in IMS through porting the information into the IMS. This system was subverted by the creation of a consumer identity known as ‘superuser’ with “the power to cover/uncover the invoices generated in IMS (Bhasin, 2016b).

iii. Using Fake Financial Statement

According to a charge sheet filed by the Indian Central Bureau of Investigation several months after Mr. Raju’s scandal, the fraud worked over at the very least eight years and involved greater than 7,000 forged invoices, huge amount nonexistent employees payment and fake deposit (Najar & Raj, 2015). Using his private computer, Mr. Raju created several bank statements to improve the fraud. Mr. Raju falsified the bank accounts to inflate the balance sheet with balances that did not exist. He inflated the income statement via claiming interest earnings from the fake bank accounts. Mr. Raju additionally disclosed that he created 6,000 fake earnings accounts during the last few years and appropriated the cash after the organization deposited it. The organization’s global head of internal audit created fraudulent client identities and generated faux invoices towards their names to inflate sales (Bhasin, 2013). The prosecutors also stated the accused have admitted to at the least 400 benami transactions, aside from floating organizations in fictitious names. They added that Ramalinga Raju admitted to having transferred stocks to his brother Suryanarayana Raju and mother Appalanarsamma. The organization's fixed deposits of Rs 3,300 crore, too, were fictitious (Business Standard, 2009).

To achieve the rosy picture of the company, they made deals with fictitious clients, had huge teams handed on these phony ‘projects’ of the chairman, and generated over 7,000 fake invoices into the company’s computer systems to record revenues that obviously didn’t exist. For good measure, profits too were buffed to display a rosy margin (Krishnan, 2014).

iv. Sales from UPSI

Earlier, market overwatch SEBI had found the top directors of Satyam convicted of unfair manipulating share prices and insider training and alleged a fine of Rs. 1,850 crores (Bhasin, 2016b). Satyam Computer’s insiders were under the PIT Regulations and that the suspects had pledged/sold the stocks of Satyam while in possession of UPSI and therefore, they have trespassed the Sebi Act and the PIT Regulations (PTI, 2017)..

Mr. V S Prabhakara Gupta enrolled Satyam Computers in September 1998 and promoted to Head of Internal Audit immediately. He entirely understood that the books of account of Satyam Computers were being exploited over the years. Since March 2001, he hawked a total of 95,064 shares and 4,950 ADS of Satyam Computers while in access to the 'unpublished price sensitive information' at high prices and gained ₹ 512.65 lakh. Mr. G. Ramakrishna and Mr. Vladmani Srinivas also conscious and fully understand that the books of accounts of Satyam Computer had been manipulated through the years. With possession of UPSI, they sold the

Satyam shares and benefited by ₹ 11.50 crore and ₹ 29.5 crores respectively (SEBI Panel, 2014).

4.4.2.2. Concealment

For the Satyam case, the researcher found three kinds of acts that showed the way of Satyam perpetrator in conducted their fraudulent actions namely: By Using Superuser, Changing Cash Flow, Creating Fake Accounts, and Creating Bogus employee ID.

i. By using Superuser

Satyam has a set of system running in order to generate invoices. Namely, the 'Satyam Project Repository (SRP)', which a system to generate project IDs; also an application called 'Ontime' for submitting the time elapsed to done the project by Satyam employees; and a 'Project Bill Management System (PBMS)' for generate billings. An 'Invoice Management System (IMS)' generated the final invoices. As an exclusive application made by Satyam, The company found that in order to perpetrate this fraud, the accused had allegedly planted a surreptitious programme within the source code of the IMS (PTI, 2009). this system has secret access by an ID called 'Super User' with "the power to hide/unhide the invoices generated in the system (Bhasin, 2013). By 'logging in a superuser, the accused were hiding a number of the invoices that were generated via Excel Porting. As soon as an invoice is hidden the same will not be seen to the other

divisions inside the organization but will only be seen to the company's finance division sales team (Verma, 2009).

ii. Changing Account Values

The investigation result announced by CBI resulted in inflation of sales every quarter and the average inflation in sales was about 18%, understated liability of Rs. 1,230 crore on account of funds and inflation of debtors position of Rs. 490 crore (as against Rs. 2,651 reflected in the books) (Bhasin, 2016b). For the September quarter (Q2), the company announced a gain of Rs.2,700 crore and an operating margin of Rs. 649 crore (24% of revenues) as opposed to the actual gains of Rs. 2,112 crore and the real operating margin of Rs. 61 Crore (3% of revenues). This has chain reacted in artificial cash and bank balances going up by Rs. 588 crores in Q2. The gap in the Balance Sheet has arisen purely on account of overstated profits over a period of last several years (restricted only to Satyam standalone, books of subsidiaries reflecting true performance) (SEBI Panel, 2014).

iii. Creating Bogus ID

One of the biggest resources of defalcation at Satyam was the inflation of the number of employees. Founder chairman of Satyam, Raju claimed that the organization had 53,000 personnel on its payroll. But according to investigators, the actual quantity was around 43,000. The fictitious/ghost quantity of employees might be fabricated because payment to the remaining 13,000 personnel was faked year-after-year: an operation

that clearly involved the creation of bogus organizations with a huge quantity of employees.

Employees are simply coded numbers in Satyam system; it could create any quantity of them by creating bogus employee IDs with a fake address, time-sheets, opening fake earnings accounts with banks, and gathering payments through an associate (Bhasin, 2013).

iv. Creating Bogus Invoices

Eager to present a constant rising picture of the company to investors, employees and analysts, the Rajus falsify Satyam's books so that it seemed to be a far larger company than the reality. To achieve this, they made up deals with fictitious clients, had huge teams doing these projects of the chairman, and gained over 7,000 non-existent invoices into the company's computer systems to record sales that didn't exist (Krishnan, 2014). Which were used to present inflated revenues worth Rs 4,500 crore (PTI, 2009). Mr. B. Ramalinga Raju (Chairman of Satyam) had been inflating the books of accounts of Satyam silently from 2001 to 2008 by creating non-existent order receipts and sales invoices (Bhasin, 2013).

Based on SEBI findings in case of Satyam, there were 7,561 fake invoices ("S" Series) created in the IMS, out of 6,603 invoices which had been posted into the Oracle Financials. These invoices were fake since they did not have roots in SPR and Project ID tools and were invisible to company

finance employees. Mr. V.V.K Raju had confirmed about these 7561 invoices as follows:

A. The fictitious invoices are in offshore invoices;

B. There is no connection into PBMS

C. The payment information was found to be different to what is usually given by Satyam Computers in case of authentic invoices

There also invoices in the IMS for the making of some specialized products regarding non-existent customers. These invoices were marked with the letter "H". There were a total of 27 fraudulent invoices (SEBI Panel, 2014)

4.4.2.3 Conversion

For the Satyam case, the researcher found five kinds of conversion that Satyam perpetrator in consuming the cash taken from their fraudulent activities, namely: Company Acquisition, Diversion to Acquitances, Illegal Auditor Payment, Investment, and Land Purchases.

i. Company Acquisition

It seemed that cash was everything for Satyam, Satyam Computers managed to acquire companies from 2005 to 2008, which the funds alleged came from the result of their fraudulent actions (S. Kumar, 2009).

On April 21, 2005, Satyam Computer Services Ltd has obtained Citisoft, an investment management consulting company worth $23.2 million. The Citisoft acquisition consist of a guaranteed payment of $23.2

million, paid over three years, and another performance-based payment of up to $15.5 million, also paid over a three-year period (PTI, 2005).

In the same year, Satyam Computer Services Ltd also acquired Singapore-based Knowledge Dynamics Pvt Ltd, a well-known consulting solutions provider in business intelligence worth $3.3 million. It was all-cash deal consisted of a $3.3 million consideration, of which $1.8 million is first payment and the rest would be paid over two years period. An extra $2.2 million would be made to earn-out payments based on some set revenue and profitability targets for the next 3 years. (PTI, 2005).

Satyam Computer Services Ltd on October 23, 2007, has declared that it has entered into a fixed agreement to obtain 100% shares in Nitor Global Solutions Ltd ("NITOR") of the UK, a consulting company providing Infrastructure Management Services (IMS), for up to GBP 2.76m (US$ 5.5M) in cash. The assignment remarks the second acquisition in Europe by the Indian software company which recorded revenues of US$1.46 billion in the fiscal year ended March 31, 2007 (BSE India, 2007).

On 21 January 2008. Chicago-based management consulting company, Bridge Strategy Group, Acquired by Satyam Computer Services Ltd. (NYSE:SAY), a worldwide business and information technology services provider, announced that it has entered into a fixed agreement to obtain Bridge Strategy Group, a Chicago, Ill.-based management consulting

company worth $35 million, all-cash purchase. Satyam drastically strengthen its strategy consulting and business transformation capabilities (PTI, 2009).

Moreover, in Monday, 21 April 2008, Satyam Computer Services Ltd, India's No. 4 software services exporter said it had obtained Belgium-based S&V Management Consultants for $35.5 million (Rs142 crore) in an all-cash deal (LiveMINT, 2008).

ii. Diversion to Acquaintances

In a fresh order in the nearly seven-year-old Satyam scam case, regulator Sebi on Thursday questioned 10 companies related to the alleged B Ramalinga Raju - including his mother, brother, and son. And decided to hand over Rs 1,800 crore (Rs 18 billion) worth of unjust gains made by them (PTI, 2009).

The prosecutors that handled the Satyam investigation stated that Ramalinga Raju known to have transferred shares to his brother Suryanarayana Raju and his mother Appalanarsamma. Moreover, the accused had also siphoned off Rs 20 crore a month for five years. The general public prosecutors' alleged that the cash has been siphoned off from Satyam to various companies of the promoter family was running (Business Standard, 2009). After intense interrogation, Raju admitted to shiphoned off Satyam funds to his family companies - Maytas Properties and Maytas Infra. He further informed CID officers that this was going on since 2004 (IANS, 2009).

iii. Illegal Auditor Payment

Based on the investigation result, the table below indicates that over a length of four years, 2004-05 to 2007-08, the audit charge expanded by 5.7 times, while overall income elevated by 2.47 times for the duration of the equal period. Although, it is hard to draw any conclusion as to whether the growth in audit charge was justified or not. Suspiciously, Satyam additionally paid PwC two times what other companies would charge for the audit (Bhasin, 2013).

Year	2004-05	2005-06	2006-07	2007-08
Total Income (A)	35,468	50,122.2	64,100.8	83,944.8
Audit Fees (B)	6.537	11.5	36.7	37.3
% of B to A	0.0184	0.0229	0.0573	0.0444

Source: Annual Report of Satyam

The Securities and Exchange Board of India (Sebi) also forced the hand over of Rs13 crore of unlawful gains from the auditing firm and it's two additional partners who stationed on the IT company’s accounts. SEBI stated that these accounting firms will be charged around 130 million rupees ($2 million), plus 12% interest per year for the past eight years (Iyengar, 2018).

iv. Investment

Before the collapse, Satyam Computers announce to acquire a 51% shares in Maytas Infrastructure Limited, a well-known infrastructure development, construction and project management corporation, for $300 million. Here, the Rajus had a 37% shares. The overall turnover was $350

million and a net profit of $20 million. Raju also had a 35% stocks in Maytas Properties, another real-estate investment company (Bhasin, 2016b).

Evidence found by the Registrar of Companies enlighten the scandal further. It unraveled a flow of Rs. 1,230 crore came from 36 agricultural companies to Satyam from November 2006 to October 2008. Mr. Raju flowed this files especially to Satyam's chosen Administrators on December 16, along with his letter of confession (Kumar, 2009).

v. Land Purchases

In Satyam case, later known that the cash that stated to paid ghost employees in actuality diverted to one account belonging to Mr. Raju's brothers and his mother to buy acres of land. This cash was roughly $4 million a month (Bhasin, 2016). Further investigations within Satyam scandal by the Crime Investigation Department (CID) of the State Police and Central companies found that the promoters enrolled in a kind of insider trading of the company's shares to gather money for purchasing a large land bank (Bhasin, 2016).

Additionally, the Inspector-General of Stamps & Registration stated that the investigation resulted in 341 land transactions and in process of verifying whether the person involved was the former Satyam CEO. All this unravel the huge number of land-related files secured during an investigation at Mr. Raju's residence (N. Kumar, 2009).

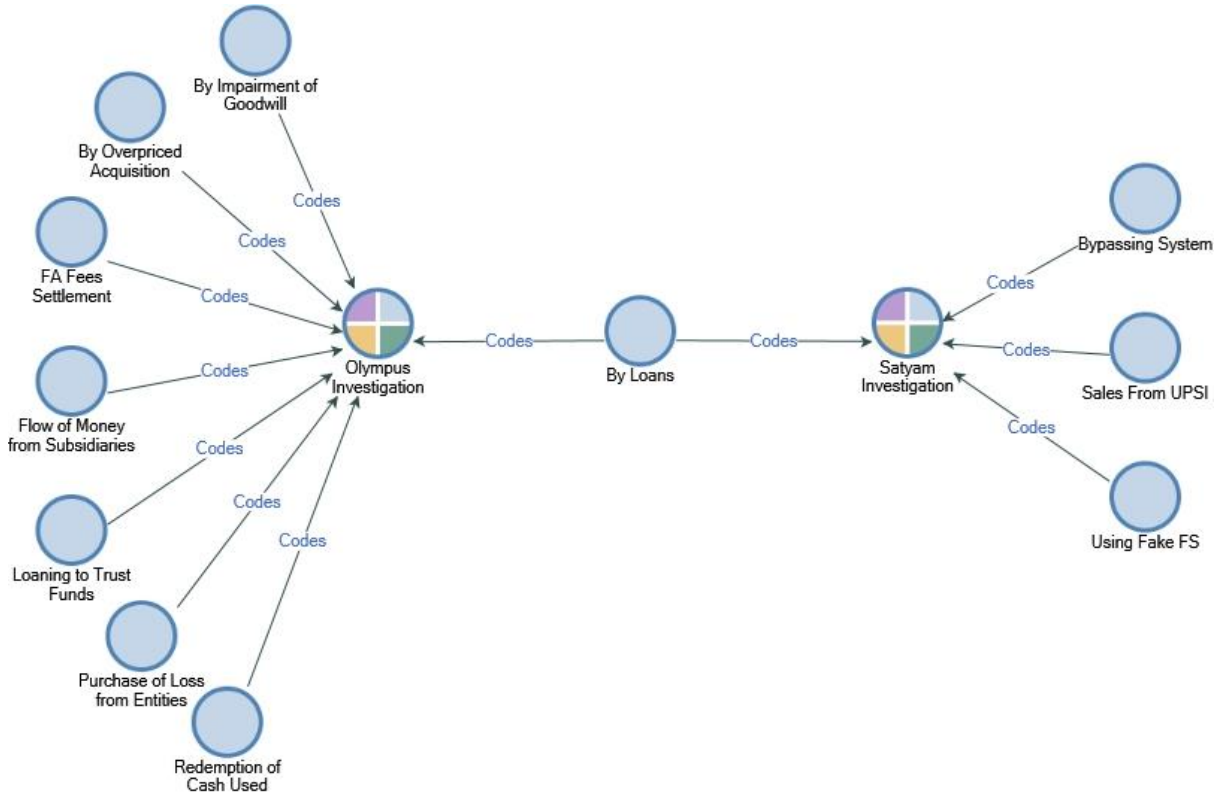
4.5. Differences Between Olympus Corporation and Satyam Computers with Fraud Element Triangle

The researcher identified relations of how the acts are taken for fraud perpetrator each in Olympus and Satyam, the way they covered their fraud, and how each perpetrator converts the gain or benefit from the fraud act. The researcher will break down the relation of each element of fraud element triangle.

4.5.1. Act

The researcher found eight acts in Olympus financial statement fraud case. Whereas in the Satyam case, the researcher found four acts. The researcher found one related act from both Olympus and Satyam cases that can be seen below :

Figure 4 8: Analytical Map of Act Comparison Between Olympus Corporation and Satyam Computers Analysis with Fraud Element Triangle



Source : Processed by Author using NVivo11

In this financial statement fraud cases from both companies, the only similarity is by loans that used as one of the ways to did the fraud. In Olympus, loans were used to fund the shell entities in order to buy the Olympus' bad assets, as the Tobashi scheme suggests. Loans also used to acquire companies promoted by the Funds which after the purchase flowed back to Olympus. In Satyam case, Satyam did loan money from various banks, namely HDFC bank, ICICI Bank, and BNP Paribas. While the true reason is unclear, one of the creditors stated that the money that borrowed by Ramalinga Raju and his promoted companies was utilized to fund their operational activities, which obviously cannot be returned as Satyam itself collapsed.

There is seven kinds of act that Olympus did in their attempted fraud where Satyam didn't do. The first act is loaning to trust funds. Olympus facilitate the Trust funds to withdraw certain amount of cash from designated bank that enough to cover the loss from Olympus. This led to second act, which is purchase of loss from entities. In order to cover the loss that Olympus burdened because of the investment loss back in 1980s. The Funds that received the money would buy the bad assets from Olympus and keep it in order to vanished until the fiscal year is ended. And later as the scheme grow bigger with more companies, these trusts after settle the payment of Olympus' bad assets, further they transferred the money to various companies to buy out the cash from the losing Funds. The third act is by overpriced aquisition. In order to launch the loss disposition scheme, Olympus purchased small companies with the price extremely higher than the book value of the company itself. This act is done because Olympus needed to book goodwill

from the company. Also, the fourth act, by Financial Advisory fees, are also part of the loss disposition scheme. Where in Gyrus purchase, the overpriced acquisition is impossible because Gyrus is a well-known company, thus Olympus excessed the payment in Financial Advisory fees. The advisors were both from Axes Investment, and in the process, the advisors got 85% of Gyrus' shares, which bought back by Olympus as goodwill. This led to the fifth act, by impairment of goodwill. These goodwill that lying in company purchases and buyback of shares from Axes are booked to mature in the next 5-10 years. Which in the process Olympus would account them as 'Impairment of Goodwill.' Where the perpetrators hoped that it would be minimized to zero in that 10 years. The sixth act is flow of money from the subsidiary. The subsidiaries under Olympus moved money from one to another subsidiary companies in order to settle the loss suffered by each of the subsidiary company, which ultimately flowed back to the creditor' bank and the bank reimburse Olympus certain money from its bank deposit. Which later used to purchase Gyrus. The seventh act is the redemption of cash used. In the process with establishing the Funds, Olympus set several agreements which generally to percentage the amount of money that will be taken by Olympus CEO if they redeem the money before the maturity. This is the part where one by one the Funds are collapsing, and moving the money to other Funds until none left.

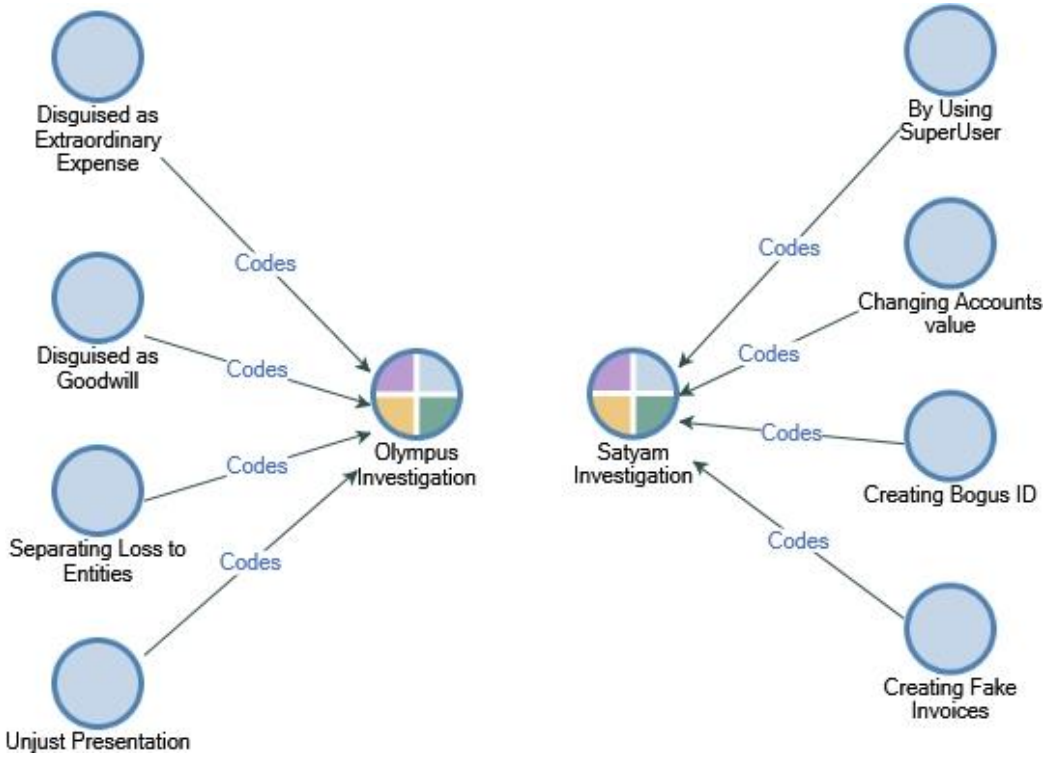
In Satyam case, there are three acts that exist exclusively in Satyam. The first act is bypassing system. Satyam in its regular operation using special billing application. Meanwhile, the perpetrators held a special account called 'superuser'

in order to bypass the system directly. In normal means, in order to create an invoice, there are several procedures that must be taken. By logging in as superuser, the perpetrator should not follow these sorted instruction. This activity called ‘excel porting’ which will enable the perpetrators to freely inflate number as they see fit. The second act is sales from UPSI. Unpublished Price Sensitive Information allowed the possessor of these information to know earlier the financial statement that will be published on the market. The families, promoters, and the perpetrators used this information to sell possessed stocks at Satyam before the price was published on the market, thus gaining huge money from selling the rising stocks. The third act is using fake financial statement. Satyam promoters used the financial statement that had been inflated to deceive the potential investor in order to invest their money on the company. The more investment they took the more money the perpetrators can take.

4.6.2. Concealment

The researcher found four concealment method in Olympus case as well as in the Satyam case. The researcher found no related concealment from both Olympus and Satyam cases that can be seen below:

Figure 4 9: Analytical Map of Concealment Comparison Between Olympus Corporation and Satyam Computers Analysis with Fraud Element Triangle



Source: Processed by Author NVivo11

The researcher found no relation from both cases. The explanation for this is because the financial fraud case from Olympus and Satyam had different *modus operandi*. Which will result in different concealment method.

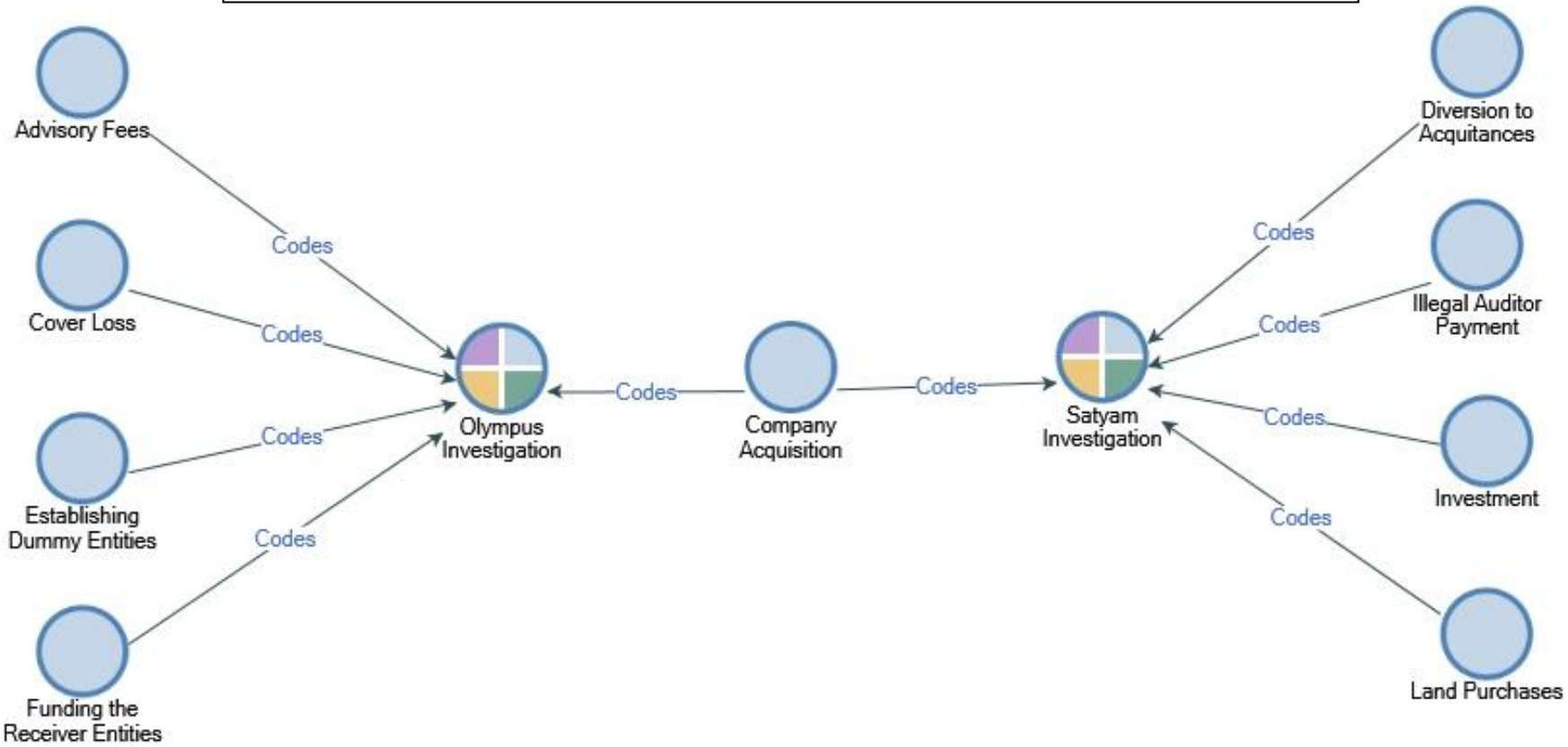
As for Olympus case, there are four concealment methods that used by Olympus to hide the fraud. The first one is separating loss to entities. Olympus used companies that are not reconciled in the financial statement at that time, given the lenient accounting method in Japan at the time. This practice is widely known in Japan as 'Tobashi' in order to avoid the huge amount of loss appearing in Olympus' financial statement. The second concealment method is disguised as extraordinary expense. In the process of the Tobashi scheme, Olympus did included the amount of expense to launch and operate the tobashi scheme, but Olympus included it as 'extraordinary expenses.' And further not explaining what the extraordinary expenses were. The third concealment method is unjust presentation. The CEOs of the Olympus which involved in the loss-hiding scheme, explained to the Board of Directors of Olympus was they need the money to lend Axam, one of the Funds, because of the effect of the Lehman Scandal, which is not true. Whereas it was used to buy out the Gyrus stocks from Axam. KPMG, the external auditor for Olympus, received false information regarding the company's acquisition thus granted Olympus with an unqualified opinion. The fourth concealment method is disguised as goodwill. Each of the company acquisition by Olympus was higher than the price of the company should be. But Olympus conceal the excess by booking goodwill on each of these excessive purchase.

In Satyam case, there also four concealment methods that used by Satyam Computers to hide the fraudulent actions. The first one is by using superuser. Superuser is an exclusive account that only the perpetrators held. This allowed the perpetrators to sneak into the system without passing several programs. This led to the rest of the concealment method used by Satyam. The second is changing accounts. The perpetrators proved that they had inflated sales every quarter by 18%, under-reported liabilities, and overstating debtor position. Which is freely did by the perpetrators because of the superuser account. And this will lead to a rosier picture of Satyam's financial statement. The third is creating bogus ID. One of the biggest causals of the Satyam scandal was the inflation of number of employees, which noted that 13.000 employees were nonexistent. This is done to conceal the money that has been siphoned off the company. The fourth is creating fake invoices. In order to make the sales inflated, the perpetrators must make fake invoices that big enough to conceal the real profit versus inflated profit.

4.5.3 Conversion

The researcher found five conversions in Olympus case as well as in the Satyam case. The researcher found one related conversion from both Olympus and Satyam cases that can be seen below:

Figure 4 10: Analytical Map of Conversion Comparison Between Olympus Corporation and Satyam Computers Analysis with Fraud Element Triangle



Source: Processed by Author using NVivo11

The researcher found one similarity between both Olympus and Satyam cases. Which is the company acquisition. Both companies take over companies that are unrelated to their main business. But, on Olympus case, the companies that are acquired are utilized to their scheme in order to hide the loss. Whereas in Satyam, the company acquisition is purely to invest other sources than computer and IT business.

In Olympus case, there are four conversions that are utilized by Olympus and not in Satyam. The first conversion is to cover the loss. The result of the schemes, which are loss separation and loss disposition schemes. Were meant to cover investment losses back from the 1980s. The second conversion is establishing dummy entities. By using loans from the bank Olympus utilized the cash by building shell companies that are controlled by Olympus but not appeared in Olympus' financial statement. Which are used to do the schemes set by Olympus' perpetrator and outside advisors. The third conversion is funding the entities. After establishing companies, Olympus must lend their money to the subsidiaries and so the subsidiaries can buy out the bad investment carried by Olympus and port it in the subsidiaries. The fourth conversion is advisory fees. As the Gyrus purchase in order to launch the loss disposition scheme, Olympus must convert the money that loaned from banks to Axes, as the financial advisor in Gyrus deal.

Similarly, in Satyam there is four conversions used that is exclusive to Satyam where Olympus did not do the conversion. The first conversion is diversion to acquaintances. As stated before, the payroll of 13.000 ghost

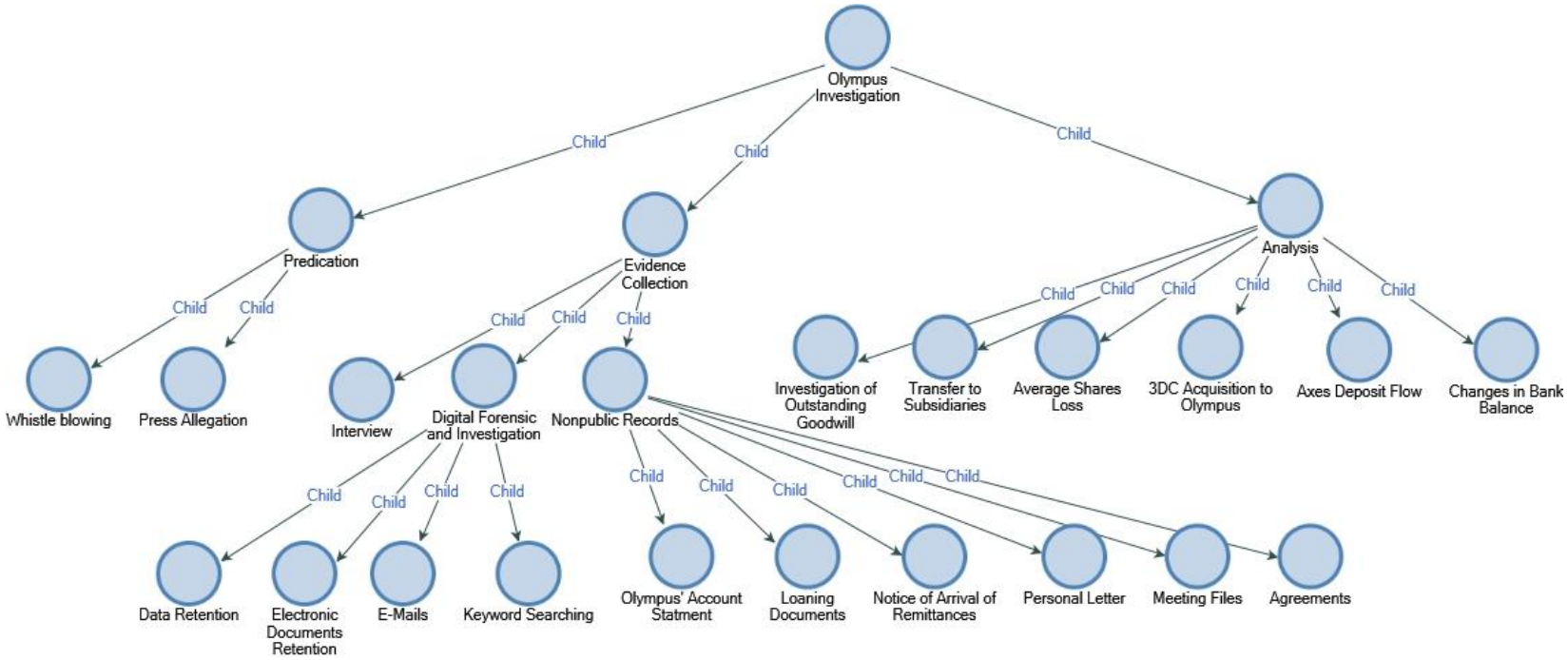
employees in Satyam were diverted by Ramalinga Raju to their acquaintances. Some to his brothers, and some other to his mother. The second conversion is land purchases. By siphoning the ghost employees' payroll, Ramalinga Raju was able to buy acres of land and other agricultural units. Reportedly more or less a thousand acres. The third conversion is illegal auditor payment. It is proven that the PwC acquired increasing number in payment every year by the result of the investigation. Which is further stated that it was hugely excess the normal payment that PwC would take. The fourth conversion is investment. Ramalinga Raju invested his money in various company that he or his acquaintances promoted. With the thought of gaining UPSI access.

4.6 Olympus Financial Statement Fraud Case Analysis Fraud Investigation

This Section will discuss the process of fraud investigator in conducting their fraud investigation in Olympus Corporation as the accused company that contained fraud. The researcher mainly focused on what prejudice that investigator possessed before the investigation, how and what data investigators collected, and what analysis that the auditor possessed to prove that the fraud happens. In this section, The researcher heavily referenced to International Fraud Examiners Manual (2017) as the main literature and Olympus Investigation Report (2011) as the main, but not the only source.

The illustration of Olympus financial statement fraud analysis with fraud investigation can be seen in figure 4.11 below :

Figure 4.11: Analytical Map of Fraud Investigation of Olympus Corporation



Source : Processed by Author using NVivo11

4.6.1. Predication

For the Olympus Corporation case, the researcher found two kinds of predication that used as the basis of engagement by investigators in order to have a strong argument to conduct investigation in Olympus, namely: Whistleblowing and press allegation. Which each will be discussed below.

4.6.1.1. Press Allegation

After dedicated as the Consultant Director and many others of U.K. Organizations that Olympus had become subsidiaries and various agencies affiliated with Olympus, in June 2008, Woodford promoted as an Executive Officer of Olympus, President and Executive Officer of the identical organization in April 2011, and in addition, was appointed as the Consultant Director/ President/ Executive Officer/ COO of the identical organisation in June of the equal year.

On 31 July 2008, Woodford acquired from an acquaintance a translation of an editorial within the August issue of FACTA entitled “Olympus “Reckless M&A” questions of massive Losses” and because of this, became suspicious about the purchase quantity of the 3 domestic agencies (Altis, News Chef, Humalabo) and the advisory rate quantity related with the purchase of Gyrus stocks (Layne, 2011). Regarding to the collection of articles in FACTA, along with this newsletter, due to the fact that Woodford was the individual to sign the declaration of accounts as the Consultant Director, it was essential to acquire enough reports on the problem, which include its heritage, so he wondered the

fact of the FACTA articles to Kikukawa, Mori, and others, but he did not acquire the responses that he was hoping for (Olympus Corporation, 2011).

The mentioned media reports gave stakeholders rising questions. Stakeholders wanted that Olympus could straighten the situation. This event led to a forming of Third Party Committee on November 1, 2011, including of attorneys and certified public accountants with no relation with Olympus (Norris, 2011).

4.6.1.2. Whistle Blowing

The scandal blown on Oct. 14, it was when Olympus fired chief executive Michael Woodford when he questioned the Gyrus rate and the payment of Altis, News Chef and Humalabo (Layne, 2011). Responded to this, Woodford came back to England within the same day and made an inquiry to the Serious Fraud Office for an inspection into the advisory rate quantity regarding the mentioned acquisition of Gyrus shares, as he held consultations etc. with the investigative organizations of every country, he concurrently publicized the M&A suspicions to the mass media. Subsequently, Olympus decided to establish this Committee noted in the beginning, and the Incident was discovered (Olympus Corporation, 2011).

4.6.2. Evidence Collection

In evidence collection, the investigator of Olympus financial statement fraud in the process of obtaining the evidence sourced from three kinds of sources, namely: interview, digital forensics and investigation, and nonpublic records. In

digital forensic and investigation source, the researcher found four activities in order to obtain the electronic data. Whereas in the nonpublic record, the researcher found nine types of documents mainly related to the fraud conducted by Olympus. Which will be explained below.

4.6.2.1. Interview

The Committee additionally performed interviews a sum of 189 times, starting with the higher-ups and stationary personnel of Olympus (along with the ones who have already retired) and, when essential, the accounting auditors who performed audits of the accounting of earlier fiscal years, the individuals in charge at the organizations that were concerned inside the securities investments on the part of Olympus and the acquisitions of Gyrus and the 3 domestic agencies, and so forth, and the licensed public accountants, and so forth. who supplied the enterprise valuation with regards to the acquisitions of the 3 domestic agencies (Olympus Corporation, 2011).

4.6.2.2. Data Retention

A computer forensic inspection including tasks that involved in gathering and confining digital data while keeping its admissibility as evidence, and investigating loads of the gathered digital data. specifically, confinement and recovery of data utilizing certain software, the wanted data is gathered and copied from PCs, and servers. Additionally, data that had been deleted or hidden by perpetrator are regained. The investigator gathered and confined electronic data (e-mail files) in relation with 11 people who have been suspected in the

progress of the investigation. For the gathering and confining of electronic data, we used FTK Imager Lite and EnCase Forensic. Additionally, to regain files that have been deleted by users, the investigator utilized EnCase Forensic and Forensic Toolkit (FTKTM) (Olympus Corporation, 2011).

4.6.2.3. E-Mails

Three ex-workers of investment agency who suggested Olympus Corporation on the tutorial to blanket the losses exchanged greater than 2,000 e-mails with Olympus CEOs and acquired 1.1 billion yen in compensation. Among others, they exchanged electronic mails with and were subsided by Hisashi Mori, ex-vice president of Olympus. A sum of 2,159 electronic mails was in and out among the three and the Olympus' executive (Jeffrey, 2012)

Regarding the discussion of stock buybacks, Mori asked Sagawa that an electronic mail that "The dividends haven't been paid" to be sent, also an electronic mail with the similar content was delivered from Sagawa on February 4, 2010. Replying to this, Mori posted a reply to the effect that he suggested to talk about the handling of the preferred shares.

It was positive that there was a possibility that wired the dividend preferred shares on March 17, 2010, from fixed liabilities to equity interests would be agreed by ShinNihon LLC, an electronic mail asking the payment of dividend preferred shares was again acquired from Axam. At the time of the first payment inquiry in November 2008, the evaluation of dividend preferred stocks by Axam was 530 million dollars to 590 million dollars, but the evaluation of dividend

preferred shares had been raised to approximately 724 million dollars in March 2010 (Olympus Corporation, 2011).

4.6.2.4. Keyword Searching

The investigator typed unique keywords that were acknowledged in the progress of the inspection. The table below contains the most common typed keywords in order to search for evidence needed.

Table 4.1: List of Keyword used

no	Category	Description of Category	Keyword Example	Number of Keyword
1.	General	Keywords that frequently used in the category of "3 domestic companies that under surveillance" and also the keywords that assumed to have been used in relation to the case.	Loss; repay loss; secret; "tobashi"; goodwill; loss diversion, and so forth.	88
2.	Gyrus	Keywords that suspected to have several connections with the deal of Gyrus.	Hajime Sagawa; AXES Japan; Warrant; Options, etc.	38
3.	Three Domestic Companies	Keywords that are suspected to have several connections with the deal of Three Domestic Companies.	Business investment fund; Isaka, CPA; Altis;	24

Source: Olympus Investigation Report (2011).

4.6.2.5. Loaning Documents

In reaction to requests from Olympus, LGT financial institution loaned approximately 18 billion yen to CFC in 1998, its first mortgage collateralized by using the property in Olympus' debts (hereinafter, "account collateral loans"). At that point, Olympus and LGT financial institution concluded a General Deed

of Pledge and statement of project overlaying the money, marketable securities and other property held in Olympus' account at LGT financial institution, and intended to collateralize present day and next day credits to CFC (a file signed by Kishimoto as Olympus' consultant, and by Nakatsuka as CFC's consultant was dated July 14, 2003, as a renewal while the compensation length for the CFC financing was extending to July 2003). While this General Deed of Pledge and declaration of project was signed, LGT financial institution set up a 30 billion yen credit facility for CFC; further to the preliminary mortgage of approximately 18 billion defined above, through late-1998 it lent some other sum of approximately 12 billion (bringing the overall to approximately 30 billion yen) to CFC. Additionally, via the Singapore path and in 1999, Olympus acquired from Commerzbank a mortgage of approximately 45 billion collateralized via its personal deposits to a special usage organization (later this was transformed to a mortgage of approximately 60 billion in bonds). From there, this cash was routed to CFC via the Twenty-First Century Global Fixed Income Fund Ltd. (hereinafter, “21C”) and different funds created by Olympus.

In July 2003, Kishimoto and Kikukawa, as representatives of Olympus, signed the settlement for the extension (to July 2008) of the account collateralized mortgage (30 billion yen) to CFC. At the identical time, Kishimoto, as ex-chairman of Olympus, signed the General Deed of Pledge and Declaration of project with LGT financial institution. Kikukawa, as president of Olympus, signed the identical file as a bystander that Kishimoto had the right

authority to provide the Olympus property as collateral (Olympus Corporation, 2011)

4.6.2.6. Personal Letter

Olympus was concerning to acquire Gyrus with inflated 550 pence per share versus 455 shares in the actual. Gyrus rejected the deal with the reason that it was not reflecting the real value of the company (letter sent to Olympus that was made by Gyrus dated October 5, 2007). Gyrus said in the letter that they could not agree to the deal unless it was a rate that mirrored the share value after the corporate acquisition, not the current stock value.

A letter dated 25 November 2008 was delivered from Axam, and it was a notice of either consent for the wire of the Share Subscription Settlement itself to a 3rd party, or the acquisition of dividend preferred stocks. A price valuation calculation by Axam itself and a Written Calculation of cost evaluation that was acquired from a 3rd party (the assessor is unknown) was glued to the same letter (the valuation was expected at 530 million dollars to 590 million dollars) (Olympus Corporation, 2011).

4.6.2.7. Notice of Arrival of Remittances

Neo offered stocks of the 3 domestic agencies to Olympus on March 26, 2008, and received approximately 31.9 billion yen (Neo's announcement of Account dated April 1, 2008, issued through LGT financial institution), and after it acquired this it remitted at the equal date 30.4 billion yen to QP (Neo's statement of account dated April 1, 2008, issued through LGT financial

institution). Utilizing these funds, QP remitted approximately 30.4 billion yen to CFC in March of the same 12 months, and CFC remitted 30.3 billion yen to LGT financial institution in March of the same 12 months. After receiving this, LGT financial institution paid approximately 35.1 billion yen to Olympus as a repayment from financial institution deposits (the file entitled "Notice of Arrival of Remittances" dated June four, 2008).

ITV offered stocks of the 3 domestic agencies to Olympus in March 2008 and acquired approximately 15.2 billion yen (Olympus' financial Authorization for which the choice date is March 24, 2008). those cash of approximately 15.2 billion yen contains one part of the approximately 15.7 billion yen that ITV paid to Neo in March 2008 on the time it claimed the financing (Neo's announcement of account dated April 1, 2008, issued through LGT financial institution). Those funds of approximately 15.7 billion yen contain one part of the approximately 18.2 billion yen that was redeemed from Neo to TEAO. TEAO utilized this approximately 18.2 billion yen and remitted 16.2 billion yen to GIM, a category Fund of LGT financial institution. GIM used those funds as capital budget and redeemed 15.9 billion yen in September 2008 for Olympus (the file entitled "Notice of Arrival of Overseas Remittances" dated September 12, 2008) (Olympus Corporation, 2011).

4.6.2.8. Agreements

An agreement was made to set up enterprise investment Fund GCNVV with GV—a fund managed with the aid of Olympus and Nakagawa—as a limited associate, and GCI Cayman as a general associate on March 1, 2000. Based on the stated settlement, Olympus invested 30 billion yen on March 14, 2000. Upon expiry of the settlement, net asset price was calculated for every funding target, and if the rate was better than the time of acquisition, the distinction was acknowledged as a profit; 90 % of the earnings was acquired by the limited associates and 10 % by the general associate. Upon expiry of the settlement, net asset price was calculated for every funding target, and if the rate was worse than the time of acquisition, the distinction was acknowledged as a loss, and 100 % of the distinction was paid by the limited associates.

Olympus determined to settle in earnest with the U.S.-based clinical tool producer corporation B (hereinafter, “corporation B”). Corporation B was an exceptional corporation that had been manufacturing and promoting powerful clinical gadgets, but at that point, it was under pressure financially, so the possibilities of a business partnership with Olympus had improved. Consequently, Olympus concluded a monetary consultant agreement (hereinafter, “FA agreement”) with Axes on June 5, 2006 (FA agreement dated June five, 2006).

Given the truth that Olympus was engaged in ongoing negotiations with corporation B, it did not at once embark on agreement negotiations with Gyrus,

but in the due direction, it was notified by organization B that it had no purpose to sell its corporation, so negotiations with Gyrus started in earnest. However, as compared to its estimate of six hundred billion to seven hundred billion yen as the acquisition rate of organization B, it was expected that the acquisition of fee of Gyrus might be approximately 200 billion yen, which was a way lower than the previous. Given the truth that the quantity that would be used for overlaying losses within the occasion that the acquisition price was lower finishing up being worse than the estimate consistent with the preliminary FA agreement, in conjunction with the fact that the target corporation had changed, Yamada and Mori mentioned the problem with Sagawa, and revised the FA agreement, with the date being June 21, 2007 (hereinafter, stated revised settlement is called the "revised FA agreement")

An Agreement with contents that mentioning the agreement status in relation to the share options due to the revised FA Agreement was settled among Olympus and Axes on February 14, 2008 ("Call Option Agreement" dated February 14, 2008). whereas in this Agreement Gyrus was set up as the share issuing corporation, and the launching was set as the 5-year period from the settlement of this Agreement.

A Share Subscription agreement dated September 30, 2008, referring to the granting of preferred share (issue face value of US $176,981,106) to Axam and the acquisition of warrants from Axam, among Olympus, Gyrus, and Axam, became concluded ("Share Subscription Agreement" dated September 30, 2008). The signers were Sagawa (Axam facet), Mori (Gyrus facet) and

Kikukawa (Olympus facet). At the Olympus side, the offshore regulation office undertook a legal evaluation. The contents of the dividend preferred shares issued through Gyrus based on the Share Subscription Agreement are as follows:

- There aren't any balloting rights. □ Has the right to obtain a dividend of 85 % of the balance received via deducting miscellaneous fees the quantity equal to taxes (28 %) from the interest gain generated from Gyrus' money and deposits and inner lending.
- can't be transferred to a 3rd party aside from the Olympus corporations without the consent of Gyrus.
- In precept, there's no right to obtain dividends throughout the payback of Gyrus' capital. However, a complement to the Share Subscription Agreement dated October 3, 2008, was concluded right away after the above-stated Share Subscription settlement, was concluded within the form of a letter, and it was said that Gyrus couldn't interact in the following conduct without Axam's earlier written consent ("complement to Share Subscription Agreement" dated October 3, 2008).
- A primary exchange within the contents or scope of the enterprise that it had been engaged in at the time of the Share Subscription Agreement (material exchange)
- Conclusion, alteration or cancellation of the settlement at phrases and situations aside from the usual exchange terms and situations.

- Disposal or the granting of choice rights or preemptive rights for the assets held through Gyrus at phrases and situations aside from the usual exchange terms and situations for the enterprise that it had been engaged in at the time of the Share Subscription Agreement.

By the approval of the above-mentioned Board of Administrator meeting, on March 22, 2010, a dividend preferred stocks payment settlement was concluded ("Agreement for the sale and payment of stocks in Gyrus Group Limited" dated March 22, 2010). (Olympus Corporation, 2011).

4.6.3. Analysis

In Olympus investigation case, the researcher found nine analysis that was stated in the investigation report published by Third Party Committee. Namely: Three Domestic Acquisition to Olympus, Average Shares Loss, Axes Deposit Flow, Changes in Bank Balance, Investigation of Outstanding Goodwill, and transfer to Subsidiary. Each will be discussed below.

4.6.3.1. Three Domestic Acquisition to Olympus

From 2003 through 2005, Neo and ITV made investments and acquired shares in the Three Domestic Companies based on this sort of loss settlement scheme. As described in the table below:

Table 4.2: Three Domestic Company Shares Acquisition by Neo and ITV

Target company	Timing	Acquired by	Unit price (one share)	Number of shares	Investment amount
Altis	Dec. 2005	Neo	¥50,000	2,880 shares	¥144 million
Altis	Dec. 2005	Neo	¥50,000	60 shares	¥3 million
Humalabo	July 2005	Neo	¥50,000	1,200 shares	¥60 million
News Chef	Dec. 2003	Neo	¥200,000	250 shares	¥50 million
News Chef	April 2004	ITV	¥200,000	1,000 shares	¥200 million
News Chef	Aug. 2004	ITV	¥200,000	500 shares	¥100 million
News Chef	March 2005	ITV	¥200,000	500 shares	¥100 million
News Chef	Dec. 2005	Neo	¥200,000	200 shares	¥40 million
				Total	¥697 million

Source: Olympus Investigation Report (2011).

In March 2006, GCNVV, DD, and GT purchased shares of the Three Domestic Companies from Neo and ITV as explained in the table below.

Table 4.3: Three Domestic Company Shares Acquisition from NEO and ITV by GCNVV, DD, and GT

Target company	Seller	Buyer	Unit price (one share)	Number of shares	Purchase/sale amount
Altis	Neo	GCNVV	¥5,790,000	760 shares	¥4,400.4 million
Altis	Neo	DD	¥5,570,000	530 shares	¥2,952.1 million
Humalabo	Neo	GCNVV	¥14,375,000	320 shares	¥4,600 million
Humalabo	Neo	GT	¥14,100,000	210 shares	¥2,961 million
News Chef	ITV	GCNVV	¥4,450,000	400 shares	¥1,780 million
News Chef	Neo	DD	¥4,450,000	450 shares	¥2,002.5 million
				Total	¥18,696 million

Source: Olympus Investigation Report (2011)

In March 2008, Olympus undertook unfinished termination of the agreement for GCNVV. After that, Olympus bought shares of the Three Domestic Companies from Neo, OFH, and ITV. Moreover, OFH bought shares of the Three Domestic Companies from DD and GT, and Olympus bought this at the equal quantity from OFH. The record of share purchase and sell confirmed that it was related to the settlement of losses is as follows. Based on these facts,

funds of about 31.9 billion yen wired into Neo, of 15.2 billion yen wired into ITV, of about 9.6 billion yen has wired into DD and of about 4.1 billion yen wired into GT.

Table 4.4: Purchase of Thee Domestic Company from Neo, DD, And GT to Olympus.

Target company	Seller	Buyer	Unit price (one share)	Number of shares	Purchase/sale amount
Altis	Neo	Olympus	¥ 11,000,000	1,650 shares	¥18.150 billion
Altis	DD	OFH	¥ 10,500,000	530 shares	¥5.565 billion
Altis	OFH	Olympus	¥ 10,500,000	530 shares	¥5.565 billion
Humalabo	Neo	Olympus	¥ 20,500,000	670 shares	¥13.735 billion
Humalabo	GT	OFH	¥19,500,000	210 shares	¥495 billion
Humalabo	OFH	Olympus	¥19,500,000	210 shares	¥495 billion
News Chef	ITV	Olympus	¥9,500,000	1,600 shares	¥15.200 billion
News Chef	DD	OFH	¥9,000,000	450 shares	¥450 billion
News Chef	OFH	Olympus	¥9,000,000	450 shares	¥450 billion
				Total	¥60.795 billion

Source: Olympus Investigation Report (2011)

Olympus was concerned with the consolidation of the Three Domestic Companies as subsidiaries company in the financial year ending March 2008, but the purchase of the shares of with the Three Domestic Companies in the financial year ending March 2009 was acknowledged as an additional purchase and was written as goodwill of 13.6 billion yen.

4.6.3.2. Average Shares Loss

The per stock disposal rate used for calculating losses is believed to be both the per stock rate effective in March 2005, September 2005, or March 2006 while Olympus and OFH bought stocks in ITX organization from unspecified outdoor parties aside from through a tender offer. Nonetheless, the auditors could not give a certainty to which organization – Olympus or OFH - ITV offered its

stocks, in addition to at what rate these stocks were bought. Consequently, the auditors have got used the average of the relevant per stock rates during each period. The average per stock rate has been calculated as defined beneath.

Calculation of the average disposal price for the shares sold in March 2005, found that the average was 185 thousand yen. The details of the possession were Olympus held 15,000 million yen worth of shares which valued 2,775 million Yen. OFH held 12,000 million yen worth of shares which valued 2,232 million Yen.

Calculation of the average disposal price for the shares sold in September 2005 and March 2006, found the average per share price was 243 thousand yen:

Company Name	Number of Shares	Value
Olympus	20,000 Million Yen	5,551 Million Yen
OFH	24,000 Million Yen	5,160 Million Yen
Total	44,000 Million Yen	10,711 Million Yen

Source: Olympus Investigation Report (2011)

4.6.3.3. Axes Deposit Flow

Based on the Board of the Director's meeting on March 19, 2010, it was decided that Olympus agreed to purchase Gyrus dividend preferred shares from Axes and Axam was 620 million dollars. And later, to eliminate the loss through loss disposition scheme as soon as possible, there was some additional payment that paid by Olympus to Axes and Axam, which is explained in the table below.

Table 4.5: Amounts paid from Olympus or OFUK to Axes and Axam

Date	Recipient	Amount (million dollars)	Yen currency at that time (100 million yen)	Remarks
June 16, 2006	Axes	3	3	Payment regarding the FA Agreement
June 16, 2006	Axes	5	6	Expenses regarding the FA Agreement. Where 3 million dollars were allocated to Axes Japan on July 3, 2006, and the last 2 million dollars had also been transferred to the foreign FA, etc.
June 18, 2007	Axes	2	2	Expenses regarding the FA Agreement
November 26, 2007	Axes	12	12	Fees of cash allocation of the fulfillment fee regarding the FA Agreement. Where 8.50 million dollars were used for the payment of foreign FA, etc.
February 8, 2008	Axes	2	2	Fees of expenses regarding the FA Agreement. Where 1.7 million dollars were used to the payment of foreign FA, etc.
September 26, 2008	Olympus	0.3	0.3	The retained portion of the expenses were returned from Axes
September 30, 2008	Axam	50	53	Payment of warrants
March 23 – March 25, 2010	Axam	620	579	Payment of dividend preferred shares (payment in three steps)
Total		Approximately 693.7	657.7	

Source: Olympus Investigation Report (2011)

Table 4.6: Net amounts received by Axes and Axes Japan

Recipient	Amount (million dollars)	Yen currency at that time (100 million yen)
Axes	8.5	8.8
Axes Japan	3	3
Axam	670	632
Total	Approximately 681.5	Approximately 643.8

Source: Olympus Investigation Report (2011)

The 670 million dollars paid to Axam was applied for loss settlement and flowed again to Olympus through several Funds. Alternatively, the overall of about 11.5 million dollars (about 1.18 billion yen) acquired by Axes and Axes Japan has not been applied for loss settlement, and it is believed that they have been acquired as the FA charges for the two agencies, which is equal to 0.57 percent of the Gyrus purchase quantity (about 965 million pounds, or about 206.3 billion in Yen currency on the time of the acquisition).

4.6.3.4. Changes in Bank Balances

In Olympus' Agreement, the funds of the Singapore path were written as deposits of Commerzbank and SG, from the financial year finishing in March 2000 until the financial year finishing in March 2004, and were written as investment securities (SG Bond) from the financial year finishing in March 2005.

The money for the Europe path started as investments in local Japanese government bonds from 1998. In Olympus' Agreement, 35 billion yen of the funds of the Europe path were covered as negotiable securities (government short-term securities) from the financial year finishing in March 2001 to the

financial year finishing in March 2004, and as savings (LGT Bank) from the financial year finishing in March 2005, and another 15.2 billion yen were covered as investment securities (New Investments Limited) from the financial year finishing March 2000, respectively.

The deposits in LGT financial institution have been transferred to Olympus' bank account at Mitsui Sumitomo financial institution within the financial year finishing March 2009. The investment securities (New Investments Limited) were assessed at market price based at the stability certificate received from LGT financial institution at the time of the agreement, and the distinction among the purchase rate and the market rate was covered in the net assets as the valuation distinction for another negotiable securities, through the application of the financial products accounting requirements from the fiscal year finishing March 2001 on. At the time of the shift of funds transfer of losses cancellation of the settlement within the financial year finishing March 2009, there was a deposit of 15.9 billion yen at Olympus, and proceeds from settlement cancellation of a distinction of 700 million yen with the book rate of 15.2 billion yen were covered.

Table 4 7: Changes in the balance of Olympus' deposits, etc. used for the separation scheme for losses (Europe route) 1

Business year	Account item	Financial institution, etc.	Acquisition cost	Book value (market value)	Valuation difference
March 2001	Negotiable securities	Government short-term securities	350	350	-
March 2002	Negotiable securities	Government short-term securities	350	350	-
March 2003	Negotiable securities	Government short-term securities	350	350	-
March 2004	Negotiable securities	Government short-term securities	350	350	-
March 2005	Deposits	LGT Bank	350	350	-
March 2006	Deposits	LGT Bank	350	350	-
March 2007	Deposits	LGT Bank	350	350	-
March 2008	Deposits	LGT Bank	350	350	-

Source: Olympus Investigation Report (2011)

Table 4 .8: Changes in the balance of Olympus' deposits, etc. used for the separation scheme for losses (Europe route) 2

Business year	Account item	Financial institution, etc.	Acquisition cost	Book value (market value)	Valuation difference
March 2000	Negotiable securities	LGT Portfolio	152	151	1
March 2001	Investment securities	New Limited	152	153	0
March 2002	Investment securities	New Limited	152	154	1
March 2003	Investment securities	New Limited	152	155	2
March 2004	Investment securities	New Limited	152	156	3
March 2005	Investment securities	New Limited	152	157	4
March 2006	Investment securities	New Limited	152	158	5

Source: Olympus Investigation Report (2011)

New Investments limited is a funding trust for making an investment with the focal point on domestic bonds, and a breakdown of the form of assets constituting the funding belongings and the market price substances, etc., had been received in reference to the occasions of operation. As a result, from the financial year ending March 2007, the stocks of the primary assets were disclosed, and the accounting auditors tested the scores, etc. of the individual

funding belongings, and assessed that the valuation of stated investment trust was not unreasonable.

SG Bond was chosen to In Olympus' Agreement, the money of the Singapore route was covered as savings of Commerzbank and SG, from the financial year finishing in March 2000 until the financial year finishing in March 2004, and was covered as investment securities (SG Bond) from the financial year finishing March 2005.

The investment securities (SG Bond) were calculated at fair value based on the Investment Report obtained from the Funds at an agreement, and the distinction among the purchase price and the fair value was covered in the Net Assets as the assessment difference for another negotiable securities. At the time of the termination of the settlement in the fiscal year ending March 2011, there was a deposit of 63.1 billion yen at Olympus, and proceeds from agreement cancellation of a distinction of 3.1 billion yen with the book value of 60 billion yen were covered (deposit voucher for the termination cash of SG Bond dated September 22, 2010, deposit voucher for the termination cash of SG Bond dated March 25, 2011) (Olympus Corporation, 2011).

Table 4 9: Changes in the balance of Olympus' deposits, etc. used for the separation scheme for losses (Singapore route)

Business year	Account item	Financial institution, etc.	Acquisition cost	Book value (market value)	Valuation difference
March 2000	Deposits	Commerzbank	306	306	-
March 2001	Deposits Deposits	Commerzbank SG	150 300	150 300	-
March 2002	Deposits	SG	450	450	-
March 2003	Deposits	SG	450	450	-
March 2004	Deposits	SG	450	450	-
March 2005	Investment securities	SG Bond	600	602	2
March 2006	Investment securities	SG Bond	600	593	7
March 2007	Investment securities	SG Bond	600	603	3
March 2008	Investment securities	SG Bond	600	606	6
March 2009	Investment securities	SG Bond	600	614	14
March 2010	Investment securities	SG Bond	600	618	18

Source: Olympus Investigation Report (2011)

4.6.3.5. Investigation of Outstanding Goodwill

At the end of the financial year finishing March 2009, Olympus settled that there was no further prospect for more income for the Three Domestic Companies due to the downfall of the economic situations, and Olympus embarked out a one-time write-off of goodwill of 55.7 billion yen, and then in March 2010 applied a one-time write-off of goodwill of 1.3 billion yen in the

fiscal year ending. Consequently, some of the losses that it had wired to the Funds ending up written on Olympus' financial statements. The changes in the balance of the affiliate shares and goodwill of the Three Domestic Companies at Olympus will be shown in Appendix 3, along with in the acquisition of Gyrus to Olympus there also exist the treatment of goodwill which shown in Appendix 4.

Further details regarding the investigation concerning outstanding goodwill that Olympus and its affiliates can be seen in Appendix 5.

Table 4 10: Historical Changes in Outstanding Goodwill

Company Name	**March 31, 2007**	**March 31, 2008**	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**	**Remarks**
IT Telecom	24.9	23.0	21.1	19.2	17.3	
ITX	21.6	19.3	0	0	2	Impairment Loss
Broadleaf	14.5	19.3	0	0	0	Disposed
Gyrus	0	168.3	132	160	135.3	
Altis	0	21.6	4.8	3	2.6	Impairment Loss
Humalabo	0	16.9	0	0	0	Impairment Loss
News Chef	0	15.8	0	0	0	Impairment Loss
Others	17.7	21.2	10.8	11.9	18.2	
Consolidated goodwill total	78.7	299.8	180.5	194.1	175.5	

Source: Olympus Investigation Report (2011)

4.6.3.6 Transfer to Subsidiary

Throughout the length from the financial year finishing March 2000 to the half of year finishing September 2004, Olympus held the subsequent term deposits at Commerzbank (Singapore) and SG's Singapore branch (itemized financial statements).

Table 4.11: The transfer of money from Olympus to Hillmore and Easterside

Time	**Depository**	**Amount**
As of March 31, 2000	Commerzbank	¥30,618,250,000
As of Sept. 30, 2000	Commerzbank	¥45,621,962,778
As of March 31, 2001	Commerzbank SG	¥15,000,012,778 ¥30,000,055,556
As of Sept. 30, 2001	SG	¥45,000,000,000
As of March 31, 2002	SG	¥45,000,000,000
As of Sept. 30, 2002	SG	¥45,000,000,000
As of March 31, 2003	SG	¥45,000,000,000
As of Sept. 30, 2003	SG	¥45,000,000,000
As of March 31, 2004	SG	¥45,000,000,000
As of Sept. 30, 2004	SG	¥55,000,000,000

Source: Olympus Investigation Report (2011)

Yamada and Mori, from a certain point in time after October 1999, advised Hillmore—a special purpose organization successfully managed by Yamada and Mori—to borrow as much as the loan restriction quantity utilized as collateral time deposits held by Olympus at Commerzbank. Therefore, while Chan changed jobs to SG in 2000, Yamada and Mori lifted Olympus' time deposits to SG and changed the scheme by advising Easterside, a newly installed fund, to borrow utilizing this as collateral. due to the condition mentioned, from 2000 to 2004, approximately 30.6 billion to about 55.0 billion in cash was

transferred first to Hillmore and then to Easterside.Funds transfers from Hillmore and Easterside to 21C.

Hillmore and Easterside wired cash, acquired from financing secured through Olympus' time deposits to 21C by means of lending to 21C or through bonds (medium-term note) underwritten via 21C (correlation chart made by using the person in charge inside the Finance department). Concerning the switch of cash from Easterside to 21C, at the least about March 2001, a technique was being used wherein Easterside would lend to 21C. Therefore, a technique came for use wherein Easterside would underwrite bonds issued by 21C.

- Money transfers from 21C to Proper and Central Forest Corp.

The utilization of cash acquired via financing from Easterside, 21C transferred 20 billion yen to Proper and 19.3 billion yen to CFC, respectively, through underwriting bonds issued by Proper and CFC, which were set up by Yamada and Mori. Further, 8 billion yen of the 20 billion yen wired from 21C to Proper was then wired from Proper to CFC through Proper underwriting CFC-issued bonds (correlation graph made by the person in charge inside the Finance department).

- Money transfers from Proper and CFC to GV

Proper and CFC each underwrote bonds issued through GV. By doing this, 4 billion yen from Proper and 5.1 billion yen from CFC was transferred to GV, respectively. Whilst GCNV was installed in March 2000, GV has become a constrained associate together with Olympus and invested five billion yen in

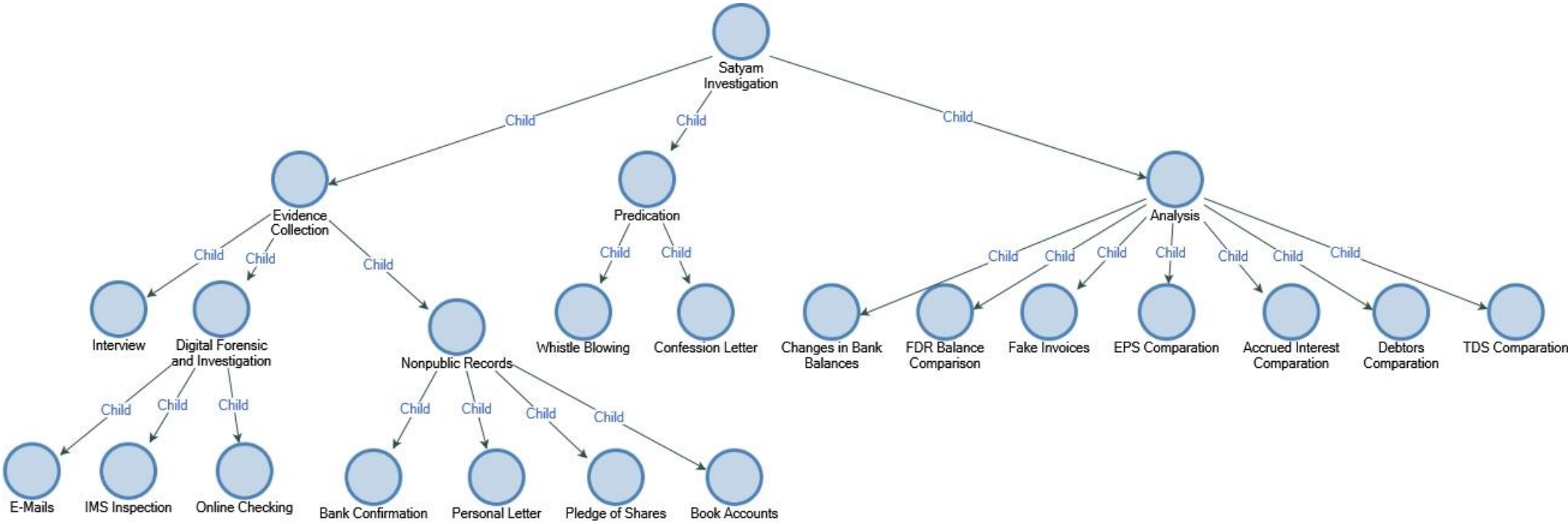
GCNV. This cash identified as having been paid from the 9.1 billion yen transferred from Proper and CFC (Olympus Corporation, 2011).

4.7. Satyam Financial Statement Fraud Case Analysis Fraud Investigation

This Section will discuss the process of fraud investigator in conducting their fraud investigation in Satyam Computers Limited as the accused company that contained fraud. The researcher mainly focused on what prejudice that investigator possessed before the investigation, how and what data investigators collected, and what analysis that the auditor possessed to prove that the fraud happens. In this section, The researcher heavily referenced to International Fraud Examiners Manual (2017) as the main literature and Olympus Investigation Report (2011) as the main, but not the only source.

The illustration of Satyam financial statement fraud analysis with fraud investigation can be seen in figure 4.12 below:

Figure 4.12: Analytical Map of Fraud Investigation of Satyam Computers Limited



Source: Processed by Author using NVivo11

4.7.1. Predication

For the Satyam Computers Limited case, the researcher found two kinds of predication that used as the basis of engagement by investigators in order to have a strong argument to conduct investigation in Olympus, namely: Whistleblowing and press allegation. Which each will be discussed below.

4.7.1.1. Confession Letter

Securities and Exchange Board of India (SEBI) acquired an electronic mail dated January 7, 2009 sent by Mr. B. Ramalinga Raju, the former Chairman of Satyam Computer Services Limited, stated that he was inflated (non-existent) cash and bank balances by 50.40 billion rupees ($1.04 billion) (as in opposition of 53.61 billion declared in the books), adding accrued interest of 3.76 billion rupees which is fictitious, understated liability by 12.30 billion rupees that was set by himself, and inflated debtors position of 4.90 billion rupees (as in opposition of 26.51 billion presented in the books). Furthermore, in September quarter (Q2) Satyam presented a gain of 27.00 billion rupees and an operating margin of 6.49 billion rupees as in opposition to the real gain of 21.12 billion rupees and the real operating margin of 610 million rupees (3 percent of gains) (SEBI Panel, 2014). The original letter by Ramalinga Raju posted by investigation report by SEBI can be seen in Appendix 8

4.7.1.2. Whistle Blowing

On 18 December 2008, 2 days after the decision of Satyam board to acquire Maytas Infra Ltd and Maytas Properties Ltd, Krishna Palepu as the

independent director of Satyam acquired an anonymous letter sent from Joseph Abraham. Which turns out that he was the whistleblower in this case (Sanyal & Tiwari, 2009)

A person who used an anonymous name of Jose Abraham proclaimed as an ex-senior executive in Satyam concerned with its contract with the World Bank, appeared as a whistleblower which triggered a set of occurrences that culminated in ex-chairman Mr. Raju′s final decision to concede to the financial crime. He pointed out that Satyam, in reality, don't have any cash or cash equivalent, and this information could be independently settled from its banks, an official, who is in charge to the confidential SFIO (Sikka & Rai, 2009)

4.7.2. Evidence Collection

In evidence collection, the investigator of Satyam financial statement fraud in the process of obtaining the evidence sourced from three kinds of sources, namely: interview, digital forensics and investigation, and nonpublic records. In digital forensic and investigation source, the researcher found three activities in order to obtain the electronic evidence. Whereas in the nonpublic record, the researcher found four types of records that acquired by Satyam's investigators. Which will be discussed below.

4.7.2.1. Interview

During the investigation, Mr. Ramalinga Raju stated in 6 February 2009 the course of actions was taken because that was the decision where it has no financial impact on Satyam, but satisfy the shareholder's expectations. He

further stated that it was the simplest decision in a way or another. Mr. Ramalinga Raju also stated that it was an attempt to gain extra time to solve issues in Board of meetings. Mr. Ramalinga Raju also aware that Satyam Computers was unable to buy-back the shares outstanding. But he still insisted that he did not know anything regarding the fraud happened in Satyam. He also showing negligence towards various problems which it should be within his control as Managing Director of Satyam Computer.

The statements of Mr. Srinivas, Mr. Ramakrishna, Mr. Prabhakara Gupta and Mr. Venkatapathy Raju suggest Mr. Rama Raju's as well as Mr. Ramalinga Raju's routine orchestration and involvement inside the fraud, within the regions consisting inflation of performance, bogus fixed deposits and account balances, accounting on the premise of altered month-to-month bank statements, obstructing internal audit with a purpose to make certain that faux invoices were not found, and other subjects.

Mr. Malla Reddy had said in his assertion recorded on October 8, 2009, that he was in charge to obtain an excel attachment from Mr. Srisailam Chetkuru, who was his reporting supervisor and was advised by him to cover the invoices stated in the attachment at the same time updating collections inside the IMS. At the end of the month, or mid-month, he was in charge to import excel files from a server folder into the IMS and generate invoices in opposition to the imported information. After he had raised the invoices which he had ported, he used to cover them inside the system. Those invoices were discovered to be fake. This role was corroborated with the aid of the assertion of Mr. P.B.V. Suresh Kumar

(then executive, Finance, Satyam computers). Mr. Suresh Kumar additionally said that he used to put together the excel record from which information was used to elevate the faux invoices. Some numbers were ignored of the series in the Purchase Orders inside the IMS records, which he used to add to the excel record. He would also take, on a random foundation, the names of customers, role players, approvers, enterprise heads, and others, and upload them to the excel record (SEBI Panel, 2014).

4.7.2.2. E-Mails

In his e-mail dated January 7, 2009, Mr. Ramalinga Raju had said that for the September 2008 quarter, Satyam computers had published a sales of ₹ 2,700 crores and a working margin of ₹ 649 crores (24% of sales) as in opposition to real sales of ₹ 2,112 crores and a real working margin of ₹ 61 crores (3% of sales). As consistent with Mr. Ramalinga Raju's e-mail dated January 7, 2009, the balance sheet of Satyam computers consisted accumulated interest of ₹ 376 crore which was non-existent. Further, in his electronic mail, had said that he had organized for funds amounting to ₹1230 crore for Satyam computers during the last two years, which were not mirrored in its books of account.

Furthermore, the e-mail received from Mr. T. R. Anand, ex Business Chief of Satyam computers, enlighten the function of Mr. Rama Raju in the creation of some “H” kind invoices (SEBI Panel, 2014).

4.7.2.3. Online Checking

In an effort to discover the truth about Cellnet Inc., a customer that the product was said to be researched by the staff, internet searching was conducted and resulted that there's no existence of Cellnet Inc. even at its domain address (www.cellnetinc.net) that had given by Mr. John Elite, the said customer. It is concluded that the customer was fictitious. It was mentioned that the finance branch was not capable to get confirmations from the shipping employees as to the shipping status of the product to Cellnet Inc. Consequently, other than the discovery that the invoices generated were faux, it was also discovered that the invoices had manifestly been raised to ramp up fake gains within the books of Satyam Computers for the goods so developed (Olympus Corporation, 2011).

4.7.2.4. Bank Confirmation

As on September 30, 2008, the real balance inside the present-day account of Satyam Computers as accustomed by BoB, New York department was USD 10,836,569, while in the month-to-month bank declaration such balance was exposed as USD 379,612,384. BoB, New York department had affirmed the balances as per the daily bank declaration but not with the month-to-month bank declaration.

Confirmation from the financial institution acquired by Satyam Computers and sent to the auditors but not in the agreed format. This admission would state in a single sentence, the balances of FDRs possessed by Satyam

Computers with the specific bank. From the authorization letters of the banks, as noted, the subsequent emerged:

- Inside the settlement letter of ICICI financial institution dated October 4, 2008, FDR quantity is not stated. The name of the client is lacking. There is no connection to any letter of PW,
- Inside the bank settlement letter of HDFC financial institution, FDR quantity is not stated,
- In the case of HSBC bank, workplace address from which the letter was issued is not stated,
- The letterhead of HDFC is glaringly not its very own, with the financial institution emblem on the opposite side,
- Inside the letter of BNP Paribas, there is no connection to the letter of PW.
- The letterheads were of an earlier period and individuals who had signed the letters were not within the employment of the financial institution as at the date indicated on the letter,
- The issuing of settlement statements was undertaken through the department which served as the primary relationship supervisor for Satyam Computers and that the department indicated in the seemingly forged letter does not ship such affirmation letters

SEBI sought the information from stated banks with a purpose to confirm the equal. Further, the banks of the stated 37 entities were additionally requested to forward copies of the cheques issued through them. On the evaluation of the

records acquired from the banks of Satyam Computers and the 37 entities, it was discovered that Satyam Computers had acquired the stated quantity of ₹1,425 crore through cheques drawn on behalf of the said 37 entities, on numerous dates in 2007 and 2008 (SEBI Panel, 2014).

4.7.2.5. Pledge of Shares

Mr. Rama Raju has sent a letter to the Company Secretary, Satyam Computers, dated December 27, 2008, stated that he wanted to gather all the shares of Satyam Computers possessed by SRSR Holdings Pvt. Ltd. were pledged with institutional debtors over a period of time starting September 2006. He further stated that it is doable that several debtors may experienced or may have exercised their option to sell the shares to cover the margin downfall, and that this would alter the promoter"s holding in Satyam Computers (SEBI Panel, 2014).

4.7.2.6. Personal Letter

It was confirmed that Mr. Rama Raju made letters asking the creation or renewal of fake fixed deposits with financial institutions so as to make such fixed deposits seems authentic. One example was a letter dated October 26, 2006 authorized by Mr. Rama Raju as the MD, sent to HSBC, consist that a wire transfer of ₹ 316.75 crores had been made to the financial institution on October 27, 2006, and asking that the quantity would be placed in fixed deposits of a fixed deposits, along with a fraudulent FDR of HSBC (SEBI Panel, 2014).

4.7.2.7. Software Inspection

The CBI said they had used cyberforensics to learn how in-house computer systems were altered to produce fake invoices (Verma, 2009). It was further discovered that the sales gains were marked up and displayed within the books through the add-on of a vast number of fake invoices consist of fake customer and fake transaction. The fake invoices were inserted into the system through the system also had a function known as “excel porting,” which enabled the user to directly transfer data from MS Excel to the IMS stage without to pass other programs. In this case, the said user was locked for certain Admin ID and Password in order to pass through the excel porting (SEBI Panel, 2014).

4.7.2.8. The Book Accounts and Documents

With respect to the e-mail sent by Ramalinga Raju, SEBI conducted an investigation into the inside of Satyam Computers to make sure that whether the provisions of the SEBI Act, 1992 (hereinafter referred to as “SEBI Act”) and Rules and Regulations have been violated. SEBI also conducted an investigation of the existing books of account of Satyam Computers. As the main subject of the investigation referred to the financial assertion of Satyam Computers, SEBI also investigated the files available with the auditors of Satyam Computers i.e. Price Waterhouse (hereinafter referred to as "PW" or "the auditors") (SEBI Panel, 2014).

4.7.3. Analysis

In Satyam investigation case, the researcher found seven analysis that was stated in the investigation report published by SEBI. Namely: Changes in bank balance, Debtors comparation, Earning Per Share comparation, fake invoices, Fixed Deposit Revenue balance comparation, interest comparation, and Tax Deposit at Source comparation. Each will be discussed below.

4.7.3.1. Changes in Bank Balance

From the books of account of Satyam Computers, it was discovered at some point of investigations that Satyam Computers had greater than 125 financial institution accounts with diverse banks worldwide -. The books contemplated that as on 30th September 2008 Satyam Computers disclosed ₹ 5,312.62 crores (approximately 724 million USD) as cash and bank balance inside the financial statements.

- A quantity of ₹ 1,784.67 crores (243 million USD) or 33.5% was lying in contemporary A/c 120559 of BoB New York department.
- A quantity of ₹ 3,319.17 crores (452 million USD) or 62.5% in Fixed Deposits with 5 banks.

The balances as per assertion of the contemporary account of Satyam Computers furnished by BoB New Yorks department and that provided in books displayed large and extensive variations as defined within the following table:

Table 4 12: Values Written in the Books vs Confirmed Bank Value

Dates	Balance as per the books (in ₹ crore)	Real Balance as per BoB confirmation (in ₹ crore)	The difference in balance (in ₹ crore)
30 Jun 07	543.06	48.89	494.18
30 Sep 07	415.32	29.47	385.86
31 Dec 07	595.79	25.24	570.55
31 Mar 08	855.00	43.85	811.15
30 Jun 08	1275.58	21.89	1253.69
30 Sep 08	1782.60	50.72	1731.88

Source : SEBI Panel Investigation Report (2014).

From these two bank assertions, it was discovered that the ending balances including the quantity of debit and credit entries in the two mentioned assertions diverse substantially as shown in the table below :

Table 4 13: Comparation of Books and value from Bank

Item	Year Ending							
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
a	125.93	229.63	208.05	288.28	373.60	977.56	350.61	872.66
b	5.64	16.09	39.95	16.07	44.95	28.06	49.92	43.74
c	120.29	213.54	168.10	272.21	328.66	949.51	300.69	811.28

Source : SEBI Panel Investigation Report (2014).

A – Balance as per books of accounts of the company

B – Balance as received directly from the bank

C – Difference between A and B (i.e. the overstated balance)

As on September 30, 2008, the real balance inside the present-day account of Satyam Computers as affirmed by BoB, New York department was USD 10,836,569, while inside the month-to-month financial institution assertion such balance was displayed as USD 379,612,384. BoB, New York department had affirmed the balances as per the daily bank assertion but now not with the month-to-month bank assertion (SEBI Panel, 2014).

4.7.3.2. Earning Per Share Comparation

The inflation of Satyam Computers' sales gains by the massive quantity of at minimum ₹ 4,782 crores had an immediate effect on the Earning per Share (EPS), and different ratios and norms used to assess the price of equity stocks within the market. The EPS of Satyam Computers based on the stated profits versus the profits after eliminating the fake invoices throughout the length 2000-2008 is given within the table attached in appendix 6.

If the gains recorded inside the fictitious invoices were excluded, Satyam Computers would truly have stated a loss as early as in the third quarter of the year 2007-08 itself, and the EPS might truly have been terrible in many quarters. Even wherein the revised EPS is a positive figure, it is a lot lower than the posted EPS based on the inflated profits contemplated inside the books of account (SEBI Panel, 2014).

4.7.3.3. Debtors Comparation

As stated in Mr. Ramalinga Raju"s e-mail dated January 07, 2009, the figure of debtors of Satyam Computers shown in the books for the quarter ended September 2008 was inflated by ₹ 490 crores. During investigations, the inflated debtors' figure for the quarter ended September 30, 2008, and the earlier periods was observed as follows:

Table 4 14: Table of Debtors Comparations

INFORMATION OF DEBTORS				
				INR
FY	**Qtr-Year**	**Published**	**'s' invoices posted in Oracle Financials and displaying in debtors as outstanding**	**Debtors after exclude 's' invoices as described in col E**
07-08	Q1-2008	27,542,481,237	5,678,511,382	21,863,969,855
	Q2-2008	28,259,508,992	5,002,091,534	23,257,417,458
06-07	Q1-2007	18,855,651,939	3,252,882,078	15,602,769,862
	Q2-2007	20,911,242,303	3,162,724,160	17,748,518,143
	Q3-2007	22,145,595,494	4,912,738,832	17,232,856,661
	Q4-2007	23,653,855,468	5,711,279,765	17,942,575,703
05-06	Q1-2006	12,929,949,852	32,375,920	12,897,573,933
	Q2-2006	14,584,343,338	537,418,563	12,897,573,933
	Q3-2006	15,401,235,877	1,498,085,795	13,903,150,082
	Q4-2006	17,671,156,252	2,524,401,678	15,146,754,574
04-05	Q3-2005	11,207,565,089	1,136,391,475	10,071,173,615
	Q4-2005	12,266,974,917	1,790,995,723	10,475,979,193

Source : SEBI Panel Investigation Report (2014).

From the above table, it is proved by taking into account the fictitious invoices and no other aspect of the alteration of the books, the inflation of debtors was ₹ 252.44 crores at the end of March 31, 2007, ₹ 571.12 crore at the end of March 31, 2008 and ₹ 500.20 crore at the end of September 30, 2008. It was discovered that the marked-up receivables was made by fictitious invoices as aforesaid had resulted in false debtors being produced and displayed in the books of Satyam Computers (SEBI Panel, 2014).

4.7.3.4. Fake Invoices

Mr. V.V.K Raju the then Senior V.P., Finance of Satyam Computers, provided the information of 7,561 fake invoices ("S" collection) generated inside

the IMS, out of which 6,603 invoices had been published into the Oracle Financials. He additionally said that these invoices were fake due to the fact they did not have roots in SPR and project ID gear and were not seen to enterprise finance employees. Mr. V.V.K Raju had affirmed about those 7561 invoices.

The fake invoices stated above had been inserted into the IMS via the excel porting mechanism and that the sales included through those invoices in the books were fictitious. Further, there were invoices inside the IMS for the improvement of certain custom designed merchandise regarding non-existent clients. These invoices were tagged with the letter "H". There were a sum of 27 such invoices.

The consolidated declaration of sales after eliminating the fake invoices of the sales declared and posted inside the financial statements is given in appendix 6 along with the "S" and "H" collections of fake invoices.

4.7.3.5. Fixed Deposit Revenue Balance Comparison

The comparation among the 2 distant set of FDR balances as on September 30, 2008 is shown in the table below:

Table 4 15: Fixed Deposit Revenue Balance Comparison

Name of the Bank	**Amount as per the books (in ₹ crore)**	**Amount confirmed by banks (in ₹ crore)**
Citibank	613.32	1.32
HDFC Bank	704.16	NIL
HSBC Bank	798.95	NIL
ICICI Bank	725.30	NIL
BNP Paribas	476.64	8.64
Total	3318.37	9.96

Source : SEBI Panel Invevstigation Report (2014).

The previous table displays sharp distinction among the substantially huge figures of Fixed Deposit Revenue balances as shown in the books of Satyam Computers and the real Fixed Deposit Revenue balance asserted by the banks. As per the books, the Fixed Deposit Revenue value on the last day of every six quarters from June 30, 2007, to September 30, 2008, still unchanged for three out of five banks (HSBC, HDFC, and ICICI). There was only a very distant change for the other 2 banks (i.e. Citibank and BNP Paribas).

In view of the settlement given via the banks regarding the real and genuine FDR balances of Satyam Computers, it was determined that the balances of FDRs stated inside the letters of affirmation, in the prescribed layout and tallied with the affirmation of FDR balances dispatched by the banks and contemplated the whole and accurate figures. However, the FDR balances inside the letters of affirmation obtained by Satyam Computers supplied to the auditors were considerably higher than the real FDR balances and were non-existent (SEBI Panel, 2014)

4.7.3.6. Interest Comparison

According to Mr. Ramalinga Raju's electronic mail on January 7, 2009, the balance sheet of Satyam Computers included accumulated interest of ₹ 376 crore which was fictitious. As stated before, the fixed deposits amounted ₹ 3,308.41 crores as on September 30, 2008, were fictitious. Satyam Computers' books of account displayed that Satyam had gained a total accumulated interest of ₹ 376 crores on those fake deposits as on September 30, 2008. Therefore, there was an inflation of accrued interest of ₹ 376 crores as for September 30, 2008. It was further

discovered that the accumulated interest was inflated for previous periods as well, as described in the following table:

Table 4 16: Interest Comparison

Period ended	Published interest figures (₹)	Actual interest figures (₹)	Fictitious interest figures (₹)
Mar-03	18,49,51,538	15,64,674	18,33,86,864
Mar-04	91,45,94,928	10,92,307	91,35,02,621
Mar-05	24,45,89,297	9,31,230	24,36,58,068
Mar-06	110,59,25,443	6,74,594	110,52,50,849
Mar-07	64,82,52,916	20,45,718	64,62,07,198
Mar-08	272,45,18,164	17,33,109	272,27,85,055
Jun-08	324,11,12,920	20,64,452	323,90,48,468
Sep-08	376,33,62,204	23,77,099	376,09,85,105

Source: SEBI Panel investigation Report (2014)

4.7.3.7. Margin Comparation

The quantity of Tax Deposit at Source for the financial year 2008-09 was ₹ 88.73 crores in opposition in the books of account of Satyam Computers, while the picture reflected in the audited balance sheet was ₹61.04 crores, and the real number of Tax Deposit at Source for which the gain was taken in the income tax return arranged by Satyam Computers with the Income Tax Department for the said period was only ₹42.68 crores. Additionally, for the financial year 2007-08, the quantity of Tax Deposit at Source as stated in the books of account of Satyam Computers was ₹51.79 crore, while the audited balance sheet displayed ₹ 37.10 crores, and the real quantity of TDS for which the gain was taken regarding the income tax return was ₹16.63 crore. Same mismatches of Tax Deposit at Source was present for previous years as well. Thus, there were notable mismatches in the numerous TDS which were deceiving.

As stated before, notable mismatches were discovered in the TDS within the books, which were deceiving, to blanket the alteration in the sales. The income tax returns and the audited balance sheets were acknowledged by Mr. Rama Raju in his role as Managing Director. Aside from the fact that heavily inflated figure of TDS existed in the books of account of Satyam Computers, Mr. Rama Raju has signed both the income tax return and the balance sheet in which diverse quantity of TDS was displayed for the same year (SEBI Panel, 2014).

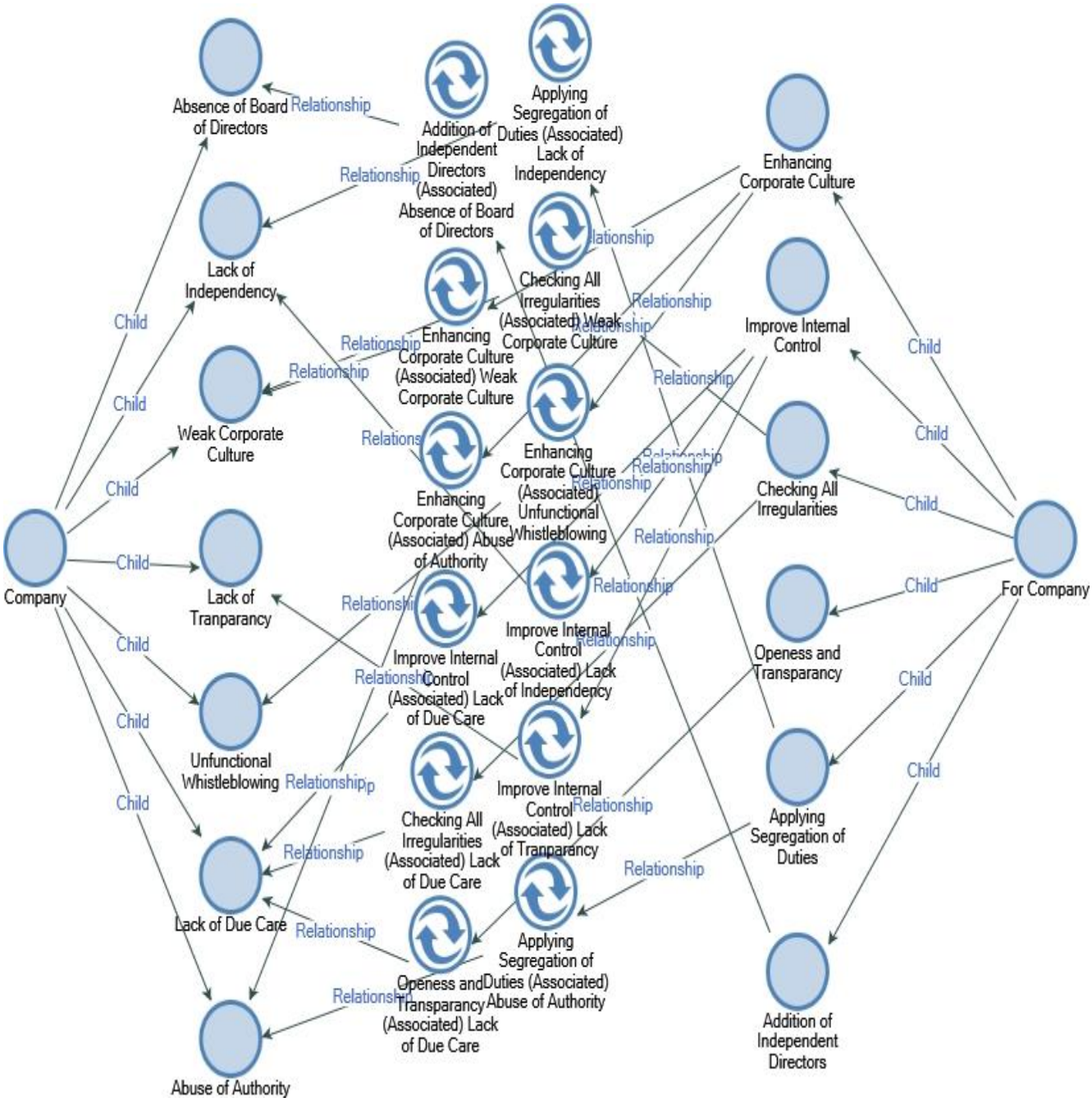
4.8 Prevention for Other Companies and Future Suggestions for Fraud Investigators.

Based on analysis found above, the researcher described preventions that suits to combat the occurrence of cases in both companies. Thus, other companies would not repeat the fraud that happened in Satyam and Olympus. Also, the researcher found some suggestions for fraud investigators especially in writing the report in order to gain a whole understanding to the readers.

4.8.1. Prevention for Other Companies

This sub-chapter will describe what Olympus and Satyam lacking in their companies activities regarding the fraud cases from both companies and what solutions should be given to combat the issues. The researcher found seven lackings that existed in both companies that allowed the fraud to happen. The researcher also suggested six preventions that could be applied to other companies in order to prevent similar fraud case to be happening again. The illustration for this prevention can be seen in Figure 4.16 below

Figure 4.13: Relation of Company Issues in Satyam and Olympus with Fraud Prevention



Source: by Researcher using NVivo11

4.8.1.1. The absence of Board Directors

In both Satyam and Olympus case, the first issue that contributes to the occurrence of fraud is the absence of board directors. In Olympus case, the board directors were unable to carry out their basic duties, such as hiring and firing CEO (Olympus Corporation, 2011). Moreover, they were also too late to act when it was obvious that the company was in financial trouble (Olympus Corporation, 2012).

In Satyam, there are no board of directors, which means that CEO of Satyam held no further responsibilities to any other parties other than shareholders. Thus, held the highest authority.

According to (Aronson, 2012). These issues can be prevented by adding independent directors to these companies. Proper independent directors can play a crucial role. A group of sovereign directors can be effective in the most critical role of controlling self-dealing and top management if the important information can be acquired.

4.8.1.2. Lack of Independency

The second issue is the lack of independency. Both Satyam and Olympus' external and internal auditor and higher-ups are not independent enough to do their jobs. In Olympus, there were many yes people between the administrators, and it ought to be taken into consideration that the Board of administrators had become a mere formality. With respect to the third party directors also, appropriate people had not been elected, and they were not

functioning (Olympus Corporation, 2011). Also, the culture of Japanese company-employees relationship played a role as they tend to believe on private intermediaries and connections in running a business, and rarely have stand-alone boards willing to raise tough questions (Takata & Umemura, 2011).

In Satyam case, every one of the board participants was there on his private invitation and that made them useless. The Board disregarded, or did not act on, they were also extraordinarily sluggish to behave when it was already clear that the corporation was in financial misery (Bhasin, 2013). Moreover, as we can see before in problem formulation 2, the external auditor of Satyam also proven to acquired increased fees for their services from the company.

According to (Nageshwar, 2018). This can be prevented by improving internal control and applying segregation of duties. Every employee must be responsible for their roles. The task of CEO and Chairman of the Board also must be segregated. This will helps prevent alike situations. Also, improving internal control in the respective organization could help to solve the lack of independency. Olympus had initiated a project in order to strengthen its internal control. By clarifying the position of each lead office personnel and its checks and balances. Furthermore, Olympus had built a stronger mechanism, by revising rules and ensuring that those regulations are constantly applied. Olympus also has developed a program to provide a whole control of subsidiaries, related companies and business investments, which also controlled by under recently adopted guidelines. The last one, staffs participated in internal

audits had increased, and closer partnership among audits by Corporate Auditors and audits by certified public accountants (Olympus Corporation, 2012).

4.8.1.3. Weak Corporate Culture

The third issue is weak corporate culture. Both Satyam and Olympus corporate culture had proven not compliance enough with proper corporate culture. At Olympus, the authoritarian management practices prolonged until the fraud uncovered, the admission of information was halted (Jeffrey, 2012). A system was established with the intentional omission of due diligence in the purchase of corporations or checks by the Legal Department were seen as issues, and within the organization, units handling internal control or risk management were not sovereign, and the whistleblower path had not been maintained (Olympus Corporation, 2011). The Third Party Committee also discovered that the Olympus Board of Directors was unsuccessful to accomplish its supervisory duties as the highest of corporate governance, and the Board of Corporate Auditors also unsuccessful to inspect and analyze Olympus' activities as a whole (Olympus Corporation, 2012).

At Satyam, in the process of the fraudulent actions, Satyam had trespassed majority of corporate governance rules. The Satyam scam had been labeled the real example of poor corporate governance practices, where it had unsuccessfully presented the utmost relationship among the shareholders and employees (Nageshwar, 2018). The people involved in fraud are the key people

for the company: if corruption occurred at the higher-ups, it is likely to flow downside (Bhasin, 2013).

This issue can be prevented by enhancing corporate culture. As did by Olympus in their CSR Report (2012) by replacing the old management structure with a brand new formation dedicated to moving Olympus forward. Also, Compliance and governance must be highly applied not just on Executive Officers, but also on their subordinate staff. Formalism and the fear of common unethical beliefs should be eliminated. Personnel also should participate in the decision making to maintain the transparency and reliability of information received (Olympus Corporation, 2011).

4.8.1.4. Lack of Transparency

The fourth issue is lack of transparency. At Olympus, no disclosure on the losses was told to the board of directors, and the CEOs was likely discouraged employees from asking questions relating to the company practices (Aronson, 2012). Moreover, since the Finance Department secured and circulating cash in huge amounts, it is a working unit where the possible risk for the occurrence of fraud is high. Finance Department is controlled over long periods by certain number of people or those under their command, not only increasing the possibility of misconduct, but the risk of being hidden is high (Olympus Corporation, 2011).

In Satyam, one of the Financial Department unit during the investigation confessed that he asked questions relating non-receipt of TDS certificates,

saving money in current accounts, and transactions displayed in the daily bank statements which were displaced in the monthly bank statements. The answer to Mr. Srinivas' questions varied from "money being kept aside for purchases" to "senior management will take care of trouble arising" (SEBI Panel, 2014).

This issue can be prevented by improving internal control and applying openness and transparency. According to Aronson (2012), by applying stronger internal control, automatically transparency within the organization will be increased. This internal control should be monitored by all employees, by doing so will increase the whistleblowing system within the company. Olympus CSR Report (2012) stated they believe that with the installment of honest and highly transparent corporate management, that they will continue to realize healthy growth and the maximization Olympus corporate value. So that Olympus will first build a corporate culture where all decisions are based on fairness, and transparency. This could also be applied to Satyam considering that Olympus and Satyam are both companies with lack of transparency.

4.8.1.5. Unfunctional Whistleblowing

The fifth issue is unfunctional whistleblowing. Both Satyam and Olympus' whistleblowing system are unfuctional, but because of different causes. In Olympus case, according to McNulty (2011), a Japanese predilection of lifetime employment with the single company had resulted in an environment unsuited to whistleblowing. Because of the lifetime employment, the employees that hired by the company also will avoid any actions that resulted in the

‘disregarding’ of himself in the eye of the company that he was working for. Also, the lack of cultural blending boosted the environment. Because there’s little to no foreigner within the organization, the higher ups will be easier to keep the bad company culture going on.

In Satyam case, according to the SEBI Panel (2014), the whistleblower hotline was disabled because Mr. G. Ramakrishna was invited the selected people in the crucial area to join the fraudulent actions, and then pay them accordingly with the result of the fraud. The pay that was given to the perpetrators was in form of raise in salary and shares. This will minimize the leakage of fraud information to outside parties.

This issue can be prevented by enhancing corporate culture. According to (ACFE, 2012), one way to combat fraud is applying the hiring procedures, which means that the company should hire employees not based on the personal relationship instead by actual data that the employee possessed. This can be but not limited to: employee background, education, employment history, and references. Another resolution stated by Olympus Investigators in their Investigation Report (2011) is by replacing the old management with the new management, also formalism inside the organization should be diminished. This will enable the unfunctional whistleblower system because of the cultural barrier.

4.8.1.6. Lack of Due Care

The sixth issue is lack of due care. Both Satyam and Olympus' employees deemed failed in charge in their respective field. In Olympus case, Aronson (2012) stated that the Board of Directors that exist in Olympus was incapable of carrying out basic duties, such as hiring or firing CEO. Furthermore, Norris (2011) stated that the higher-ups of Olympus acknowledged the fraudulent activities that were happening in the organization. Instead of reporting it to the authorities, they chose to keep silent and still accepted the decision made by their former directors.

In Satyam case, similar to Olympus, the Board of Satyam Directors acknowledged but chose to ignore the crucial acts that were happening in Satyam until the scandal was brought to light. Moreover, external auditor of Satyam, PwC, which had been audited Satyam for 9 years didn't found anything related to the fraud, where Merril Lynch only took 10 days to discover the fraud. This also strengthened by the facts that PwC had acquired increased audit payment gradually from Satyam for 4 years (Bhasin, 2013).

This issue can be prevented by checking all irregularities and improving internal control. By checking all irregularities, the fraud can be prevented earlier before it was too late and the numbers inflated were too much to handle. Knowing the fact that most fraud perpetrators would do the fraud little by little until it was unbearable just like the Satyam scandal (Gerard, n.d.). Next, by improving internal control, management should be free to ask any questions

regarding irregularities that happened to the organization. This including asking or suggesting opinions on the decision that made by the higher-ups. This again requires freedom from the personal relationship among coworkers or employees to higher-ups (Olympus Corporation, 2012).

4.8.1.7. Abuse of Authority

The seventh and the last issue that existed is abuse of authority. In both Satyam and Olympus had very thick top-down information flow. In Olympus case, reported by Olympus' Fraud Investigators in their Investigation Reports (2011) stated that Olympus had made a "yes man" culture within the organization which means they could not voice their objections to their higher-ups. This was strengthened by a statement from Aronson (2012) which stated that the loss that occurred on Olympus was never disclosed to the Board of Olympus' Directors, and the higher-ups were discouraging their employees to ask any question regarding the activities. Aside from the internal sector, Norris (2011) stated that the Japanese culture made the authority even worse by applied lifetime work for employees in one place. So the environment was unsuitable to employees to voice their thoughts.

For the Satyam case, the biggest authority was held by Mr. Ramalinga Raju, as the CEO of the company, in the investigation report published by SEBI Panel (2014) the interview conducted by SEBI Panel also found out that the head units of the organisation was knowing that the fraud was happening in the company but they have been pressurized by their respective higher-ups and

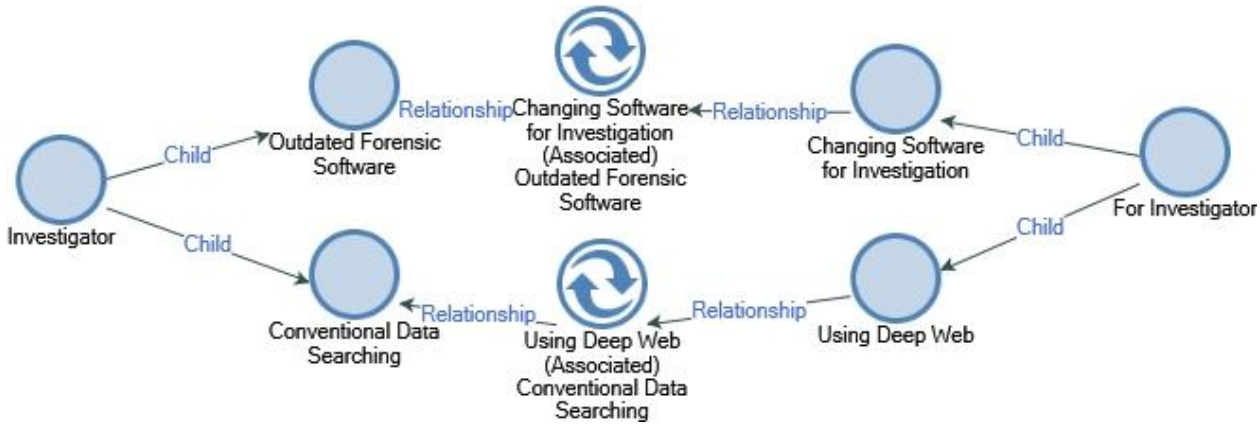
further stated that they stated to SEBI Panel that it was the higher-ups' orders. And they further know nothing about the fraud, and they could not overrule their respective higher-ups.

This issue can be prevented by applying segregation of duties and enhancing corporate culture. The segregation of duties, as stated by Global Corporate Governance Forum (2010) that by dividing roles in the organization, especially in the Directors position was very important. This can be divided into the operational manager and strategic planning manager. This would increase viewpoints from both vital points as well as decreasing internal conflicts or collections. For the corporate culture, the best practices that can be applied for this issue is to build a good compliance program. As stated by Porbinderwalla (2012) that putting compliances or set of rules that applied for all sector of the organization should border within each unit's responsibilities and duties. This will specialize each unit with its respective duties and diminishes authorities as they know better in their respective sectors.

4.8.2. Recommendation for Investigators

This sub-chapter will describe recommendation that given to investigators in Satyam and Olympus for better investigation results. This recommendation doesn't mean that the investigator had the wrong steps in the previous investigation in said companies, but rather to improve efficiency and effectiveness of investigation with today's technology. The researcher found two issues regarding the investigator as well as two recommendations for the investigator. The illustration for this recommendation for investigator can be seen in Figure 4.17 below

Figure 4.14: Relation of Company Issues in Satyam and Olympus with Fraud Prevention



Source: Processed by Researcher using NVivo11

4.8.2.1. Outdated Forensic Software

The first issue is outdated forensic software. In Olympus investigation report published by the Investigators (2011) stated that for the collection and retainment of electronic data, the investigators utilized FTK Imager Lite and EnCase Forensic. Further, to restore data that have been wiped out by users, the investigators utilized EnCase Forensic and Forensic Toolkit (FTKTM).

The recommendation that suggested by Thomas (2018) and Shakeel (2018) in two different websites announced that for the best investigative and forensic toolkit in their opinion was the SANS Investigative Forensic Toolkit (SIFT). It is an Ubuntu-based Live CD that includes all the tools the investigator needed to conduct a focused forensic. Moreover, this software is open source, which means will reduce the cost of an investigation conducted

In Satyam, it is not stated what software that the investigators of Satyam used to retain and collect the data, but it is also recommended to use SANS Investigative Forensic Toolkit as this software was recommended by several experts.

4.8.2.2. Conventional Data Searching

The second issue is conventional data searching, in Olympus' investigation report published by the Investigators (2011) stated that the investigators had retained multiple PCs and recover deleted data and e-mails since Olympus has allowed the investigator to did the online inspection. Whereas in Satyam investigation report published by the Panel (2014) stated that Satyam had built

custom Invoicing Management System (IMS) that used in the fraud scheme, and the investigators also checked the e-mails that exchanged between perpetrators.

As internet technology had risen quickly from year to year, the researcher suggested checking for additional evidence in the deep web. When criminals use online devices to commit fraud, the investigation often to seeking for the latest activity that the perpetrator did. One of the most essential hints in these searches is the Internet Protocol (IP) address. Both law enforcement and private parties might be able to identify a user's IP address with the associated account, which can be utilized as evidence to trace the suspect. However, this cannot be done in any normal online checking or searching (Parks, 2014). The deep web is anonymous and needed a specific browser to access and expertise of how to search it safely. It can be a beneficial resource of information for investigators to find additional dark evidence (Schumacher, n.d.).

CHAPTER V

CONCLUSIONS AND RECCOMENDATIONS

5.1. Introduction

In this chapter, the researcher will discuss the conclusion of the research that had been done by the researcher. The conclusions were drawn from the analysis that had been conducted and discussed in the previous chapter. In this chapter the researcher also described limitations that the researcher encountered during this study and recommendations for further advancement of this topic research.

5.2. Conclusion

Based on the results of the discussion that have been conducted by the researcher, it can be concluded as follow :

1. In casual factor of the fraud that existed in Olympus and Satyam fraudulent financial statement case were both having pressure in competitive pressure; the opportunity that allowed both companies to do the fraud were authority, nepotism, poor corporate governance, and unprofessional external auditor; the rationalization that deemed both companies to allow to do the fraud was company's going concern. The differences between both companies in Olympus case were 1) pressure of national economic fall, loss in investment, and accounting policy change. 2) opportunity of unfunctional whistleblowing, lack of CEO supervision, lenient accounting regulation, and external collaboration connections. 3) rationalization of fear of

acquisition and temporary recovery. Whereas in the Satyam fraud case, the differences were 1) opportunity of unstrict government regulation. 2) pressures of work-related pressures, meeting certain expectation, greed, and attracting investors. 3) rationalization of amortizable over time, market restoration assumption, and can be paid later. In fraud element triangle that existed in Olympus and Satyam fraudulent financial statement case were perpetrated by an act of loaning; and converted to company acquisition. The differences between both companies in Olympus case were 1) act of impairment of goodwill, overpriced acquisition, financial advisor fees settlement, the flow of money from subsidiaries, loaning to trust funds, purchase of loss from entities, and redemption of cash used. 2) concealed by disguising as extraordinary expenses, disguised as goodwill, separating loss to entities, and unjust presentation. 3) and converted to advisory fees, covering loss, establishing dummy entities, and funding the receiver fund. Whereas in Satyam case, the differences were 1) act of bypassing system, sales from UPSI, and usage of the fake financial statement. 2) concealed by using superuser, changing accounts value, creating bogus IDs, and creating fake invoices. 3) converted to diversion to acquaintances, illegal auditor payment, investment, and land purchases.

2. The investigation of fraud in Olympus case found that 1) the predication existed were whistleblowing and press allegation. 2) evidence collected by interview, data retention, electronic document retention, e-mails, keyword searching, Olympus' account statement, loaning documents, notice of

arrival of remittances, personal letter, meeting files, and agreements. 3) analysis regarding the fraud were investigation of outstanding goodwill, transfer to subsidiaries, average shares loss, 3 domestic company's acquisition to Olympus, Olympus' deposit changes, Axes deposit flow, and changes in bank balances. Whereas in Satyam case, 1) the predication existed were whistleblowing and confession letter, 2) evidence collected by interview, e-mails, IMS inspection, online checking, bank confirmation, personal letter, the pledge of shares, and book accounts. 3) analysis regarding the fraud were changes in bank balances, FDR balance comparison, fake invoices, EPS comparation, accrued interest compilation, debtors comparation and TDS comparation.

3. The final result of this study is about recommendation for other companies in order to prevent the case that happened in Satyam and Olympus to happened again, also recommendation for fraud investigator in order to be more updated in future investigations. For the issues and recommendation for other company, there were 1) absence of board of director can be prevented by addition of independent director. 2) lack of independency can be prevented by applying segregation of duties and improving internal control. 3) weak corporate culture can be prevented by enhancing corporate culture and checking all irregularities. 4) lack of transparency can be prevented by improving internal control and applying openness and transparency. 5) unfunctional whistleblowing can be prevented by enhancing corporate culture. 6) lack of due care can be prevented by

checking all irregularities and improving internal control. 7) abuse of authority can be prevented by applying segregation of duties and enhancing corporate culture. Whereas in issues and recommendation for fraud investigators there were 1) outdated forensic software can be prevented by changing software for investigation. 2) conventional data searching can be prevented by using deep web.

5.3. Research Limitation

In the making of this study, the researcher faced with several constraints and limitations which had partially influenced the research. The limitation was as follows :

1. Limited data resources for Satyam investigation reports, it is unclear about the reason behind the restrictions.
2. The researcher used only documentary data sources due to constraints of distance, access, time, and opportunity.

5.4. Recommendation

With the research limitations discussed before, some recommendations were expected to be fulfilled in upcoming studies to improve the result existed. The recommendation gave as follow :

1. Future studies should seek more data sources in order to have maximal output in the research.

2. Future studies should conduct research regarding the fraud triangle and fraud element triangle with another case other than Olympus Corporation and Satyam Limited.
3. Future studies should give recommendation of fraud investigation methods and techniques based on the latest technologies and techniques.

List of References

ACFE. (2012). Five Ways Your Business Can Prevent Fraud Losses, (January 2010), 1–2.

Ahadian, M. (2010). Peranan Audit Investigatif Dalam Mengungkap Kecurangan (Fraud) Dana Bantuan Sosial Pada Lembaga. *Fakultas Ekonomi Universitas Widyatama*, 2010.

Albrecht, W. S., Albrecht, C. O., Albrecht, C. C., & Zimbelman, M. F. (2012). Fraud Examination. *South-Western Cengage Learning*, 696. https://doi.org/10.1017/CBO9781107415324.004

Aronson, B. E. (2012). The Olympus Scandal and Corporate Governance Reform: Can Japan Find a Middle Ground betw een the Board Monitoring Model and Management Model? *Pacific Basin Law Journal*, *30*(1), 85–106.

Association of Certified Fraud Examiners. (2014). Fraud Examiners Manual. *2014 International Edition*.

Association of Certified Fraud Examiners. (2018). Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse. *Global Fraud Study*, *15*(2), 79. https://doi.org/http://dx.doi.org/10.2139/ssrn.2222608

Attestation Update. (2011). Summary of Olympus financial fraud – part 2 | Attestation Update. Retrieved from https://attestationupdate.com/2011/12/07/summary-of-olympus-financial-fraud-part-2/

Bacani, C. (2011). The Olympus Scandal: Now It All Makes Sense. Retrieved from https://www.cfoinnovation.com/accounting-compliance/olympus-scandal-now-it-all-makes-sense

Balachandran, S. (2009). The Satyam Scandal. Retrieved from https://www.forbes.com/2009/01/07/satyam-raju-governance-oped-cx_sb_0107balachandran.html#4bc24a903044

Bănărescu, A. (2015). Detecting and Preventing Fraud with Data Analytics. *Procedia Economics and Finance*, *32*, 1827–1836. https://doi.org/10.1016/S2212-5671(15)01485-9

Bazeley, P., & Jackson, K. (2013). *Qualitative Data Analysis with NVivo*. SAGE.

Bhasin, M. (2013). Corporate Accounting Scandal At Satyam: a Case Study of India'S Enron. *European Journal of Business and Social Sciences*, *1*(12), 25–47. Retrieved from http://www.ejbss.com/recent.aspx

Bhasin, M. (2016a). Fraudulent Financial Reporting Practices : Case Study of Satyam Computer Limited Fraudulent Financial Reporting Practices : Case Study of Satyam Computer Limited, *4*(October). https://doi.org/10.13106/jemm.2016.vol4.no3.12

Bhasin, M. (2016b). Satyam ' s Manipulative Accounting Methodology Unveiled : An Experience of an Asian Economy, *06*(12), 35–54.

Bhoir, A. (2009). Banks have exposure of Rs8,000 cr to Raju family cos. Retrieved from https://www.livemint.com/Home-Page/kppqBqIS4AvUIjF8j8f7nK/Banks-have-exposure-of-Rs8000-cr-to-Raju-family-cos.html

Brumell. (2015). The Fraud Triangle Theory. Retrieved from http://www.brumellgroup.com/news/the-fraud-triangle-theory/

BSE India. (2007). Satyam Announces Acquisition of UK based Nitor Global Solutions Ltd. Retrieved from https://www.bseindia.com/corporates/ann.aspx?curpg=721&annflag=1&dt=&dur=A&dtto=&cat=&scrip=500376 &anntype=A

Business Standard. (2009). "Satyam has 13,000 ghost employees." Retrieved from https://www.business-standard.com/article/companies/-39-satyam-has-13-000-ghost-employees-39-109012301019_1.html

Carter. (2014). The use of triangulation in qualitative research. Retrieved from https://www.ncbi.nlm.nih.gov/pubmed/25158659

Chartered Global Management Accountant. (2012). Fraud Risk Management: A guide to good practice, 48.

Chen, J. (2015). Fraud. Retrieved from https://www.investopedia.com/terms/f/fraud.asp

Clements, D. (2015). Keep calm. *You Think You Have Discovered a Fraud. What Do You Do?*, 6.

Coderre, D. (1999). Fraud Detection and Prevention. Retrieved from https://chapters.theiia.org/ottawa/Documents/Fraud_Detection_and_Prevetion.pdf

Coenen, T. (n.d.). Three Basic Fraud Types. Retrieved from https://www.allbusiness.com/three-basic-fraud-types-2-6635361-1.html

Crook, J. (2011). Down From Olympus: What's Going On At The Beleaguered Camera Company? Retrieved from https://techcrunch.com/2011/12/07/down-from-olympus-whats-going-on-at-the-beleaguered-camera-company/

Dajani, Y. (2015). Global Fraud Report Vulnerabilities on the Rise. *Kroll*, 72–73. Retrieved from http://fraud.kroll.com/report-archive

Doody, H. (2008). Fraud risk management: A guide to good practice. *Chartered Institute of Management Accountants*, 1–80.

Elam, D., Madrigal, M., & Jackson, M. (2014). Olympus Imaging Fraud Scandal: A Case Study. *American Journal of Business Education*, *7*(4), 325–332. https://doi.org/10.19030/ajbe.v9i1.9577

ElBorno, M. (2017). What is an audit? Retrieved from https://www.pwc.com/m1/en/services/assurance/what-is-an-audit.html

Ethiraj, G. (2015). Satyam Fraud Case: Lessons To Be Learnt. Retrieved from https://www.boomlive.in/three-reasons-satyam-case-still-relevant-today/

Exatech. (2013). Fraud Prevention. Retrieved from https://www.exactech.co/fraud-prevention/

Francine. (2012). How Do You Hide A Multibillion Dollar Loss? Accounting For The Olympus Fraud. Retrieved from http://retheauditors.com/2012/01/02/how-do-you-hide-a-multibillion-dollar-loss-accounting-for-the-olympus-fraud/

Gerard, J. (n.d.). 3 Lessons From Satyam's Accounting Fraud Fiasco. Retrieved from https://i-sight.com/resources/satyam-accounting-fraud-fiasco/

Global Corporate Governance Forum. (2010). Business Reporting Beyond Numbers Looking for the Good , the Bad , and the Ugly in Corporate Governance, (April).

Hay, I. (2005). No Title.

IACRC. (n.d.). Guide to Combating Corruption & Fraud in Development Projects. Retrieved from https://guide.iacrc.org/step-five-check-for-predication-get-organized/

IANS. (2009). Raju admits to diverting Satyam money | business. Retrieved from https://www.hindustantimes.com/business/raju-admits-to-diverting-satyam-money/story-sNTtRcheexZU8TjSFzxHNO.html

Iyengar, R. (2018). India bans PwC from auditing listed firms over Satyam case. Retrieved from https://money.cnn.com/2018/01/11/news/companies/pwc-india-audit-ban-satyam-sebi/index.html

Janyala, S. (2009). Their fathers' sons. Retrieved from https://indianexpress.com/article/news-archive/web/their-fathers-sons/

Jeffrey, H. (2012). Investigation of Olympus Scandal: Olympus Management Rotten to the Core. Retrieved from http://factsanddetails.com/japan/cat24/sub157/item2306.html

Jiji. (2017). 20 years after Yamaichi's collapse, Japanese securities industry still grappling with recovery. Retrieved from https://www.japantimes.co.jp/news/2017/12/03/business/20-years-yamaichis-collapse-japanese-securities-industry-still-grappling-recovery/#.W7EN-WgzbIU

Juneja, P. (n.d.). No Title. Retrieved from https://www.managementstudyguide.com/sources_of_data.htm

Kaul, V. (2015). Satyam scam: Ramalinga Raju, the man who knew too much, gets

7 years in jail. Retrieved from https://www.firstpost.com/business/satyam-scam-ramalinga-raju-the-man-who-knew-too-much-gets-7-years-in-jail-2190739.html

Kelton, E. (2012). Olympus fraud shows more countries need whistleblower reward laws. Retrieved from https://www.forbes.com/sites/erikakelton/2012/03/13/olympus-fraud-shows-more-countries-need-whistleblower-laws/#493582126b84

Klein, M. (2015). The Final Chapter in Olympus Scandal. Retrieved from http://www.journal.ky/2015/05/06/the-final-chapter-in-the-olympus-scandal/

Krishnan, A. (2014). Finally, the truth about Satyam. Retrieved from https://www.thehindubusinessline.com/opinion/columns/aarati-krishnan/finally-the-truth-about-satyam/article22985569.ece

Kumar, N. (2009). Land may be the root cause of Satyam scam - Today's Paper. Retrieved from https://www.thehindu.com/todays-paper/Land-may-be-the-root-cause-of-Satyam-scam/article16359808.ece

Kumar, S. (2009). The great Satyam robbery. Retrieved from https://www.businesstoday.in/magazine/cover-story/the-great-satyam-robbery/story/3680.html

Lane, E. (2017). The young Japanese working themselves to death. Retrieved from https://www.bbc.com/news/business-39981997

LAWS. (n.d.). Fraud Investigation. Retrieved from https://fraud.laws.com/fraud-investigation

Layne, N. (2011). Tokyo stock exchange warns Olympus could be delisted. Retrieved from https://www.reuters.com/article/us-olympus-1/tokyo-stock-exchange-warns-olympus-could-be-delisted-idUSTRE7A93FD20111110

Leavy, P. (2014). *The Oxford handbook of Qualitative Research*. *Journal of Experimental Psychology: General* (Vol. 136).

Leonard, M. (2014). The Impact of Fraud Education on Fraud Detection. *British Journal of Psychiatry*, *205*(01), 76–77. https://doi.org/10.1192/bjp.205.1.76a

LiveMINT. (2008). Satyam Computer buys consultancy, Caterpillar arm. Retrieved from https://www.reuters.com/article/satyam-acquisition-idUSBOM17627120080421

MacFarlan, A. (2018). Framework Matrices. Retrieved from https://www.betterevaluation.org/en/evaluation-options/framework_matrices

McCulloch, S. (2009). The family ties to the Satyam scandal. Retrieved from http://www.campdenfb.com/article/family-ties-satyam-scandal

McLannahan, B., & Whipp, L. (2011). Olympus figures fail to hide pressures. Retrieved from https://www.ft.com/content/d8001fe6-0ac5-11e1-b62f-

00144feabdc0

McLeod, S. (2008). Case Study Method. Retrieved from https://www.simplypsychology.org/case-study.html

McNiff, K. (2016). What is Qualitative Research? Retrieved from http://www.qsrinternational.com/nvivo/nvivo-community/the-nvivo-blog/what-is-qualitative-research

McNulty, L. (2011). Olympus accounting scandal: Lessons learnt and questions raised. *International Financial Law Review*, *30*(10), 36.

Monica, P. A. (2015). the Prevention and Investigation of.

Nageshwar, D. (2018). Case Study on Corporate Governance for Satyam Scam! Retrieved from https://www.ilearnlot.com/case-study-on-corporate-governance-for-satyam-scam/

Najar, N., & Raj, S. (2015). Founder of Satyam, Software Outsourcing Company in India, Found Guilty of Fraud. Retrieved from https://www.nytimes.com/2015/04/10/business/international/founder-of-satyam-software-outsourcing-company-in-india-found-guilty-of-fraud.html

Norris, F. (2011). Deep Roots of Fraud at Olympus. Retrieved from https://www.nytimes.com/2011/12/09/business/deep-roots-of-fraud-at-olympus.html

Office of the Auditor General of Canada. (2016). 4045 Evidence-gathering methods. Retrieved from http://www.oag-bvg.gc.ca/internet/methodology/performance-audit/manual/4045.shtm

Olympus Corporation. (2011). Investigation Report, 1–243.

Olympus Corporation. (2012). Rebuilding Trust : The First 100 Days Commitment to Compliance.

Omoye, A. S., & Eragbhe, E. (2014). Accounting Ratios and False Financial Statements Detection : Evidence from Nigerian Quoted Companies. *International Journal of Business and Social Science*, *5*(7), 206–215.

Oxford Dictionaries. (n.d.). Evidence. Retrieved from https://en.oxforddictionaries.com/definition/evidence

Pan, M., & Skeels, A. (2016). Combating Fraud Creates Opportunity: Increase The Bottom Line With Fraud Detection. Retrieved from https://www.forbes.com/sites/riskmap/2016/11/16/combatting-fraud/#2d2ed10523d8

Parks, J. (2014). What Fraud Examiners Need to Know About TOR. Retrieved from https://www.acfe.com/fraud-examiner.aspx?id=4294986115

Pedersen, T. (2018). Rationalization. Retrieved from

https://psychcentral.com/encyclopedia/rationalization/

PInow. (n.d.). Fraud Investigation. Retrieved from https://www.pinow.com/investigations/fraud-investigations

Porbunderwalla, K. F. (2012). The Oylmpus Scandal.

PTI. (n.d.). Satyam acquires Bridge Strategy Group. Retrieved from https://www.business-standard.com/article/press-releases/satyam-acquires-bridge-strategy-group-108012101058_1.html

PTI. (2005). Satyam buys Citisoft for $23.2 mn. Retrieved from http://www.rediff.com/money/2005/apr/21satyam1.htm

PTI. (2009). Raju beat regular system in Satyam to generate fake bills: CBI | business. Retrieved from https://www.hindustantimes.com/business/raju-beat-regular-system-in-satyam-to-generate-fake-bills-cbi/story-I3RLUMejacwKymUqgPCFzN.html

Public Company Accounting Oversight Board. (2010). Auditing Standards Related to the Auditor's Assessment of and response to risk. *Public Company Accounting Oversight Board*, (202), 291. https://doi.org/10.1017/CBO9781107415324.004

QSR International. (n.d.). What is Node. Retrieved from http://help-nv10.qsrinternational.com/desktop/concepts/about_nodes.htm

Rahmawati, F. (2014). Pengaruh Kemampuan Auditor Investigatif dan Pengalaman Auditor Terhadap Efektivitas Pelaksanaan Prosedur Audit dalam Pembuktian Kecurangan. *Proseding Akuntansi*, (2004), 6561. https://doi.org/10.1017/CBO9781107415324.004

Robert Wood Johnson Foundation. (2008). Persistent Observation. Retrieved from http://www.qualres.org/HomePers-3691.html

Sanyal, S., & Tiwari, D. (2009). Ex-insider blew the lid off Satyam scam. Retrieved from https://economictimes.indiatimes.com/tech/software/ex-insider-blew-the-lid-off-satyam-scam/articleshow/4411924.cms

SAS. (n.d.). Fraud Prevention What it is and why it matters. Retrieved from https://www.sas.com/en_us/insights/fraud/fraud-prevention.html

SAS. (2006). Audit Evidence, (31), 1859–1868.

Schumacher, C. (n.d.). Investigating Using the Dark Web. Retrieved from https://i-sight.com/resources/investigating-using-the-dark-web/

SEBI Panel. (2014). Before the Securities and Exchange Board of India, *11*(1), 1–92.

Shakeel, I. (2018). 7 Best Computer Forensics Tools. Retrieved from https://resources.infosecinstitute.com/7-best-computer-forensics-tools/#gref

Sharma, J. P. (2010). What Went Wrong with Satyam?, 1–19.

Sikka, P., & Rai, N. (2009). The three phases of the Satyam scam. Retrieved from https://www.livemint.com/Companies/mWrIvxWkfQqIKjv10BjnBK/The-three-phases-of-the-Satyam-scam.html

Sinha, V. (2009). Satyam Fraud: Why Ramalinga Raju Was Forced to Confess in 2009. Retrieved from https://www.ndtv.com/business/satyam-fraud-why-ramalinga-raju-was-forced-to-confess-in-2009-753607

SIS International Research. (2018). What is Quantitative Research? Retrieved from https://www.sisinternational.com/what-is-quantitative-research/

Soble, J. (2011). Olympus Q&A | Financial Times. Retrieved from https://www.ft.com/content/9196b5f4-0b7b-11e1-9a61-00144feabdc0

Takata, N., & Umemura, T. (2011). Acquisitions at Olympus Scrutinized - The New York Times. Retrieved from https://www.nytimes.com/2011/10/25/business/global/acquisitions-at-olympus-scrutinized.html

The Yomiuri Shinbun. (n.d.). 3 guided Olympus' loss-hiding. Retrieved from http://www.asiaone.com/News/Latest%2BNews/Business/Story/A1Story20111210-315450.html

Thomas, M. (2018). Top 7 Most Popular and Best Cyber Forensics Tools. Retrieved from https://www.hackread.com/top-7-cyber-forensic-tools/

Todd, K. J., & Gill, L. H. (n.d.). Using data analytics in forensic investigations. Retrieved from https://www.accountingtoday.com/opinion/using-data-analytics-in-forensic-investigations

Toto. (2016). About Tobashi - Olympus Scandal. Retrieved from https://sites.google.com/site/contgov2016group10/

Trochim, W. M. K. (2006). Qualitative Validity. Retrieved from http://www.socialresearchmethods.net/kb/qualval.php

University of Missouri. (2004). Writing@CSU: Writing Guide An Introduction to Content Analysis. https://doi.org/10.2307/2288384

Vasudevan, N. (2009). Bank loans to Satyam may turn NPLs. Retrieved from https://economictimes.indiatimes.com/industry/banking/finance/bank-loans-to-satyam-may-turn-npls/articleshow/3947089.cms

Verma, R. (2009). Satyam fraud methodology revealed - Accountancy Age. Retrieved from https://www.accountancyage.com/aa/news/1767094/satyam-fraud-methodology-revealed

Yu, E. (2014). Loyalty among Asian employees no longer valued, but it should. Retrieved from https://www.zdnet.com/article/loyalty-among-asian-employees-no-longer-valued-but-it-should/

APPENDICES

Appendix 1: Framework Matrices

	A : By Impairment of Goodwill	B : By Loans	C : By Overpriced Acquisition	D : FA Fees Settlement	E : Flow of Money from Subsidiaries	F : Loaning to Trust Funds
Attestation Update	And thus the tanked investments would be off the books with the unrecognized loss written off slowly as goodwill amortization or impairment. Therefore the net effect is the bad investments were moved into a new subsidiary, converted into goodwill, then written off as a goodwill impairment. And thus the tanked investments would be off the books with the unrecognized loss written off slowly as goodwill amortization or impairment.	three different banks, who were who was asked to loan the money back to an apparently unrelated entity, with the CD as collateral, so the sub can buy back the investment. Money was loaned to the subsidiary and then the investments that had the huge loss were sold at historical cost, three different banks, who were who was asked to loan the money back to an apparently unrelated entity, with the CD as collateral, so the sub can buy back the investment. Banks were asked, and agreed, not to tell the auditors about the CDs being collateral.	Olympus bought some tiny companies. They paid humongously more than they were worth and paid big dollars for consultants for their service as finders and intermediaries.		This transferred money into the newest consolidated subsidiary, which used the money to buy the bad investments from the older unconsolidated subsidiary. The unconsolidated subsidiary then repaid the note payable to Olympus.	As a result, Olympus did not account for any loss on these “sales” and the bad assets was no longer appeared in Olympus’ financial statements.
Francine.	Resulting in recognition of large amount of goodwill, and subsequently amortized goodwill recognized impairment loss, which created substantial loss.	This is a summary of a complex move - it involved making a CD deposit at several banks, who were asked to loan the money back to an apparently	It would transfer the nearly worthless financial assets Olympus had acquired to entities whose accounts would not be consolidated back into Olympus’ financial statements.		The unconsolidated sub then repaid the note payable to the bank and Olympus pulled back their CD.	

	Also, since those losses were primarily hidden in goodwill according to the report , that loss constitutes 78% of goodwill, after the write-off.	unrelated entity, with the CD as collateral, so the sub can buy investments from Olympus.	Then the money that Yamada and Mori lost on bad assets was transferred to the receiver funds, which could be properly accounted for without anyone's knowledge. (Mc			
Elam, Madrigal, & Jackson	They used part of the money that flowed out of Olympus for these inflated purchases to retire the loan from banks that financed the dummy enterprises and other obligations, and bring back the money that went into the investment funds. The high purchase prices of companies were accounted for as goodwill on Olympus' balance sheet. Yamada and Mori believed they were golden because the goodwill would be amortized over time down to zero. This represented the last of the investment losses they had hidden away. The final step was to book goodwill from the Gyrus deal and to amortize that goodwill over ten to twenty years.	Yamada and Mori obtained financing from a bank in Liechtenstein. As collateral to obtain a loan to finance this dummy entity, Yamada and Mori deposited Olympus-owned Japanese government bonds valued at about 21 billion yen with the bank in return for 30 billion yen from them. Olympus' Asset Management also invested 35 billion yen in a class fund managed by this bank, which found its way into this dummy entity as well. Aside from borrowing from the bank in Liechtenstein, Yamada and Mori used a bank in Singapore to get another 45 billion yen into the dummy entity. They used part of the money that flowed out of Olympus for these inflated purchases to retire the loan from the banks.				

		Those banks financed the dummy enterprises and other obligations, and then would bring back the money that went into the investment funds.				
Porbinderwalla, Kersi F.	• Thereby no loss was recorded by Olympus on the sale of the investment • The losses were eventually recorded as impairment of goodwill		To facilitate this transaction Olympus would buy the 'unrelated' entity that held the investments, with the price set at the lower market value and then add in significant goodwill to the acquisition			
Bacani, Cesar.	At the same time, the acquired assets allowed Yamada and Mori to have their high purchase prices accounted for as goodwill on Olympus's balance sheet. The final step was to book goodwill from the Gyrus deal and to amortize that goodwill over ten to 20 years.		This involved the purchase of start-ups and entrepreneurial ventures at vastly inflated prices At the same time, the acquired assets allowed Yamada and Mori to have their high purchase prices accounted for as goodwill on Olympus's balance sheet.	and payment of huge advisory fees for M&A deals. The two men got around the first problem by focusing their overpricing on the advisory fees. Acting as M&A advisors, their old friends Nagakawa and Sagawa negotiated a cash payment of US$12 million and the grant of Gyrus warrants and preference shares that Olympus later on bought back for US$670 million. and payment of huge advisory fees for M&A deals.	Part of the money that flowed out of Olympus for these inflated purchases, which included three small Japanese companies and Gyrus, was used to retire the loan from LGT Bank and other obligations and bring back the money that went to the investment funds.	

3 : Elam, Madrigal, & Jackson	They used part of the money that flowed out of Olympus for these inflated purchases to retire the loan from banks that financed the dummy enterprises and other obligations, and bring back the money that went into the investment funds. The high purchase prices of companies were accounted for as goodwill on Olympus' balance sheet. Yamada and Mori believed they were golden because the goodwill would be amortized over time down to zero.	Yamada and Mori obtained financing from a bank in Liechtenstein. As collateral to obtain a loan to finance this dummy entity, Yamada and Mori deposited Olympus-owned Japanese government bonds valued at about 21 billion yen with the bank in return for 30 billion yen from them. Olympus' Asset Management also invested 35 billion yen in a class fund managed by this bank, which found its way into this dummy entity as well.	It would transfer the nearly worthless financial assets Olympus had acquired to entities whose accounts would not be consolidated back into Olympus' financial statements. Then the money that Yamada and Mori lost on bad assets was transferred to the receiver funds, which could be properly accounted for without anyone's knowledge. (Mc	Most of this money freed up the lent-out bond holdings of Easterside fund, thus allowing Yamada and Mori to redeem 3.2 billion yen. T	The purpose of this transaction was to make another attempt to disguise the 62 billion yen represented by the money invested in the fund lent to Easterside as goodwill. In a final attempt to complete this scheme, Olympus purchased Gyrus and booked the investment losses as goodwill.	In 1998, with President Shimoyama's knowledge and approval, Yamada and Mori came up with a "loss separation scheme" to work their way around the new market-to-market accounting laws. It would transfer the nearly worthless financial assets Olympus had acquired to entities whose accounts would not be consolidated back into Olympus' financial statements. The This scheme involved selling the assets to parties that would accept them at book value. It would be necessary to create dummy entities.
ContGov	In this case, the losses were paid back over time through exorbitant management and acquisition fees (Soble, 2011).					
Hays, Jeffrey.	This time, the company had different investment funds obtain loans with company savings deposited at overseas banks as collateral. The funds then used these loans to purchase Olympus' financial products with latent losses at book value.	In addition, Olympus tried to mask the losses in one swoop by taking advantage of its acquisitions of foreign and domestic companies and transferring exorbitant acquisition expenses to overseas funds. From 2006 to 2010, Olympus made a total of 134.8 billion yen through				

		acquisitions of three Japanese firms and Gyrus Group PLC, a British medical equipment maker.				
Klein, Michael.		The trusts drew down $535 million, a sum that was large enough to cover the difference between the market value and the book value of the loss-making investments, To pay for these costs, the company would arrange additional loans with the same banks. In its financial statements, Olympus would account for the cash deposits but not disclose that the cash was used as collateral for the loans to the trusts.	Therefore, two Olympus executives devised a plan that would divert funds from corporate acquisitions by overpaying for Humalabo, Altis and News Chef and by paying inflated advisory fees in relation to the purchase of Gyrus to Sagawa and Axam in the Cayman Islands. One year later, in 2010, Olympus purchased the shares from Axam on the second attempt for an even higher $622 million.	As part of Axes's advisory fee, the company was paid $177 million of Gyrus preference shares, which also received a dividend of 85 percent of Gyrus's net profit and as a result were valued at more than $500 million.	Axam then wired the money to the various offshore entities that held the impaired investments so they could repay their loans to the banks.	The trusts drew down $535 million, a sum that was large enough to cover the difference between the market value and the book value of the loss-making investments, and transferred the cash and their portfolios to several entities in Cayman and the British Virgin Islands.
Norris, Floyd.	That "cost" would be put on the company's balance sheet as good will, and eventually written off. When that was done, the balance sheet would show an accurate value for Olympus. From 1999 to 2003, Olympus managed to get out of some losses, or at least to convert them to good will. No one outside the company was the wiser. KPMG, the auditor,					

	did not notice, the report says, in part because some of the information it received was false.					
Soble, Jonathan.1			"It has become clear that advisory fees and funds used to buy back preferred shares in the acquisition of Gyrus, as well as funds used in the purchase of three new domestic businesses . . . were used, among other things, to dispose of unrealised losses on securities, the reporting of which had been put off," Olympus said.			
The Yomiuri Shimbun		About 20 overseas funds and financial firms took part in Olympus' loss-hiding scam.	The accused Olympus executives covered the losses with 134.8 billion yen made through the acquisitions of the three Japanese companies and Gyrus, which took place between 2006 and 2010.			
Investigation Report	In either of the cases, goodwill had been booked at Olympus, and subsequently, a large amount of losses were incurred through the recognition of depreciation/impairment losses. In addition to giving them a valuation significantly higher than their real value, it was recognized as an impairment loss immediately after the acquisition.	Yamada and Mori initiated the transactions between Olympus and LGT Bank by depositing about 21 billion yen in Japanese government bonds at LGT Bank by September 1998. Starting in the fiscal year ending September 2000, Olympus broadened its pool of investment targets to include the class fund investment products set up and administered by LGT	More specifically, there was the situation of providing financing to the Funds by acquiring the venture businesses owned by the Funds at a substantially higher price than their real value, and the situation of making the funds flow back by paying substantially high fees to a third party who acted as the intermediate in the acquisition. In the other scheme, when large sums of money were to	Given that Company B's purchase price was enormous, Yamada and Mori had been thinking from the outset of settling the separated losses by utilizing this purchase, and had been discussing with Sagawa utilizing a portion of the fee to be paid to Axes, the financial advisor (the FA fee), for covering the losses. The Funds acquired some stock or another and either sold it at a high amount to	The funds obtained by Neo et al from the sale of stock is generally a flow like that indicated below, and the funds were moved into several other Funds, and they ultimately flowed back to Olympus while settlement of the losses of Funds that had incurred losses was carried out. Neo sold shares of the Three Domestic Companies to Olympus on March 26, 2008 and obtained	By means of the above process, Olympus raised the funds for having the Funds purchase at book value the financial products, etc. that carried unrealized losses.

	Per the investigation results, Olympus had purchased the EPS stock at 560 million yen from ITV, which was used in the loss disposition scheme, and was recognized as an impairment loss in the account settlement period following the acquisition. In accounting terms, losses eliminated by these means, if Olympus acquired goodwill or other depreciable assets through the process of carrying out the preceding methods, it could add the separated losses based on the separation scheme to those assets, and then later depreciate the watered assets over the permitted number of years. In other words, the losses would not be booked as losses; they would be converted to assets, and then converted to costs in the form of depreciation of depreciable assets. In this way, separated losses could be eliminated. Then, based on the above background, Olympus undertook a major recognition of impairment	Bank. By end-March 2000, apart from its investments in Japanese government bonds and short-term government securities, it invested a total of about 35 billion yen in the class fund GIM, including investment from OAM (about 20 billion yen). On the other hand, at about the same time, the balance of Olympus' "tokkin" accounts was declining. In response to requests from Olympus, LGT Bank loaned about 18 billion yen to CFC in 1998, its first loan collateralized by the assets in Olympus' accounts (hereinafter, "account collateral loans"). Also through the Singapore route and in 1999, Olympus obtained from Commerzbank a loan of about 45 billion collateralized by its own deposits to a special purpose company (later this was converted to a loan of about 60 billion in bonds). It was in this way that Olympus, while holding assets on its balance sheet	be moved for an anticipated corporate acquisition, the losses described above could be buried in those fund flows. As indicated above, owing to the fact that Olympus purchased shares of the Three Domestic Companies at a markedly high price from Neo, et al, a portion of the losses that had 48 been hidden by the loss separation scheme were covered, and in addition the hidden losses were included in the assets as the goodwill of the Three Domestic Companies on Olympus' financial statements. Olympus was considering purchasing Gyrus by the method of a scheme of arrangement, which is a procedure based on the Companies Act of England (The purchase procedure based on the Companies Act of England (Section 425 of the Companies Act). This is a procedure for acquiring 100 percent of the shares with the consideration being the granting of economic benefits such as cash or loan notes,	Olympus, or devised a method whereby the fees to the FA (the consideration for acquiring dividend preferred shares or warrants) paid by Olympus in the purchase of overseas corporations flowed back to the Funds, to which the losses had been transferred, and thus the losses carried by the Funds were settled. On November 26, 2007, Olympus paid Axes 12 million dollars cash as the Completion Fee. The acquisition was to take place February 1, 2008, but according to the agreement the the Completion Fee was to be paid within five business days of the public announcement of the acquisition transaction, and so the Completion Fee payment was made in November 2007.	approximately 31.9 billion yen (Neo's Statement of Account dated April 1, 2008 issued by LGT Bank), and after it received this it remitted on the same date 30.4 billion yen to QP (Neo's Statement of account dated April 1, 2008 issued by LGT Bank). Using these funds, QP remitted approximately 30.4 billion yen to CFC in March of the same year, and CFC remitted 30.3 billion yen to LGT Bank in March of the same year. After receiving this, LGT Bank paid approximately 35.1 billion yen to Olympus as a reimbursement from bank deposits (the document entitled "Notice of Arrival of Remittances" dated June 4, 2008). a portion of those funds paid to the FA were returned to Olympus via several Funds. As is noted in (7) A. below, the 670 million dollars paid to Axam was utilized for loss settlement, and flowed back to Olympus via numerous Funds. SG Bond undertook the payback of the investment to Olympus, based on selling the actuals of the bonds	

	losses of 55.7 billion yen for the goodwill of the Three Domestic Countries for the fiscal year ending 2009. In addition, Olympus undertook recognition of impairment losses of 1.3 billion yen for the fiscal year ending March 2010. By this means, Olympus undertook final recognition of a portion of the losses that had been hidden. Shimoyama also, “we had proceeded with improvements in financial assets in a planned manner, but under 137 the current circumstance of the appreciation of the Yen, we have doubts in terms of our strength to carry it forward to the next term and beyond, and we wish to amortize it (allocation and amortization) at once.”	in the form of deposits, Japanese government bonds, etc., was able to convert those same balance sheet assets to cash by using them as collateral for loans, and release funds to the Receiver funds. In July 2003, Kishimoto and Kikukawa, as representatives of Olympus, signed the agreement for the extension (to July 2008) of the account-collateralized loan (30 billion yen) to CFC. At the same time, Kishimoto, as then-chairman of Olympus, signed the General Deed of Pledge and Declaration of Assignment with LGT Bank. Kikukawa, as president of Olympus, signed the same document as a witness that Kishimoto had the proper authority to offer the Olympus assets as collateral. Undertake deposits, government bonds, etc. in a foreign bank, and implement investment to the Funds;	with the requirement that a special resolution at the General Shareholders meeting is obtained.) Although said price was 43 percent higher than the average stock price in the 6-month period prior to the purchase announcement, there is a Written Opinion by the overseas FA stating that one can conclude that purchasing the shares at 630 pence is fair from a financial standpoint (said Written Opinion prepared by the overseas FA dated November 19, 2007). As part of this plan, Olympus intending to cover losses by paying high prices to buy back the shares issued as the options were exercised, causing a large amount of money to flow back to the Fund. The Olympus acquisition of Gyrus was carried out on February 1, 2008. The total acquisition price was 225.3 billion Yen, of which approximately 965 million dollars (about 206.3 billion yen) was paid for the acquisition of the shares, and about 19 billion yen was paid to advisors etc. as incidental		whose return was accepted from Easterside and converting this to cash, and Olympus received approximately 31.569 billion yen September 22, 2010, and approximately 31.569 billion yen on March 24, 2011, respectively (the document addressed to Olympus dated September 21, 2010 prepared by Strategy Growth Asset Management, the document entitled “Notice of Arrival of Remittances” dated September 24, 2010 prepared by Mitsui Sumitomo Bank KK, the document addressed to Olympus dated March 23, 2011, and the document entitled “Notice of Arrival of Remittances” dated March 25, 2011). As indicated above, concerning the 620 million dollars for the purchase price of the dividend preferred shares, which was paid from Olympus to Axam in March 2010, this money was returned to Olympus after passing through GPAI, 21C, Easterside and SG Bond, respectively. In addition, concerning the 50 million dollars for the purchase price of the warrants, which was paid from Olympus to Axam in September	

		Contract a loan with the foreign bank off the books, with these deposits and government bonds as the security; Olympus took out loans off the books with the deposits at the Commerzbank, SG, LGT Bank, etc. as collateral, and organized Funds with these funds or organized separate Funds with the funds invested in such Funds as SG Bond, New Investments Limited, etc., and then undertook ”tobashi” for the financial products carrying unrealized losses in these Funds, and thereby formed the loss separation scheme. The net assets of the Three Domestic Companies were excess debts of a total 1.2 billion yen as of the end of the fiscal year ending in March 2008, but this had swollen to excess debts of a total 11.2 billion yen as of the end of the fiscal year ending in March 2011. In linkage with this, the lending from Olympus to the Three Domestic Companies was 2.1 billion yen as of the end of the fiscal year ending in March	costs. In order to cover a larger amount of losses, it was necessary to set the stock option price high; to achieve that, it was decided to exchange the stock options for dividend preferred shares rather than cash.		2008, it is believed that this money was returned to Olympus after passing through GPAI, 21C, Easterside and SG Bond, respectively Olympus settled the loans and lending transactions by means of these back-flowed funds, cancelled the agreements for the deposits or Funds that had been established at the outset, and received the redemption thereof. In addition, owing to the acquisition of shares by Olympus, funds in the amount of 31.9 billion yen flowed to Neo, and funds in the amount of 15.2 billion yen flowed to ITV, funds in the amount of 47.1 billion yen flowed back to Funds that carried unrealized losses. As in the case of the fiscal year ending in March 2008, acquisition of shares in the fiscal year ending in March 2009 was carried out with the means being the movement of funds in the amount of 4.1 billion yen to GT and funds in the amount of 9.6 billion yen to DD, which were the Funds related to the series of schemes, and as a result of this funds in	

		2008, whereas it had ballooned to 13.5 billion yen as of the end of the fiscal year ending in March 2011			the amount of 13.7 billion yen flowed back to the Funds.	
Olympus CSR Report 2012	the treatment of "goodwill" in connection with Gyrus and the three domestic subsidiaries in the accounts as assets.	For example, Olympus arranged for banks to provide the receiver funds with loans secured by the company's deposits and other assets, or money was supplied to the receiver funds from business investment funds established by the company.	Starting in 2007, a small group of Olympus executives sought to dispose of the losses by supplying a total of ¥135 billion to eliminate the receiver funds, using methods that included (1) the acquisition of three domestic subsidiaries, Altis, News Chef and Humalabo, from the receiver funds at inflated prices,	the payment of advisory fees when Gyrus Group PLC was acquired,		By the second half of the 1990s, those losses had reached almost ¥100 billion. To avoid the discovery of these unrealized losses following the introduction of market value accounting for financial assets, Olympus transferred the financial assets on which it had incurred unrealized losses up to the year ended.
	G : Purchase of Loss from Entities	H : Redemption of Cash Used	I : Disguised as Extraordinary Expense	J : Disguised as Goodwill	K : Separating Loss to Entities	L : Unjust Presentation
Aronson, Bruce E.					As a result, Olympus did not account for any loss on these "sales" and the bad assets was no longer appeared in Olympus' financial statements.	
Elam, Madrigal, & Jackson	It would transfer the nearly worthless financial assets Olympus had acquired to entities whose accounts would not be consolidated back into Olympus' financial statements. Then the money that Yamada and Mori lost on bad assets was transferred to the receiver funds, which could be properly accounted for	Most of this money freed up the lent-out bond holdings of Easterside fund, thus allowing Yamada and Mori to redeem 3.2 billion yen. T		The purpose of this transaction was to make another attempt to disguise the 62 billion yen represented by the money invested in the fund lent to Easterside as goodwill. In a final attempt to complete this scheme, Olympus purchased Gyrus and booked the investment losses as goodwill.	In 1998, with President Shimoyama's knowledge and approval, Yamada and Mori came up with a "loss separation scheme" to work their way around the new market-to-market accounting laws. It would transfer the nearly worthless financial assets Olympus had acquired to entities whose accounts would not be consolidated back into Olympus' financial statements. The	As a result, Olympus created off-balance sheet entities to hide these losses. In

	without anyone's knowledge. (Mc				This scheme involved selling the assets to parties that would accept them at book value. It would be necessary to create dummy entities that Yamada and Mori could influence in order to continue to hide the losses.	
McNulty, Lucy					In a practice known as tobashi, meaning'to make fly away' - the company used offshore entities to park assets in the hope that a market recovery would erase losses before they had to be accounted for.	
Norris, Floyd.				That "cost" would be put on the company's balance sheet as good will, and eventually written off.	So a plan was developed to "sell" the losing investments, at original cost, to shell companies set up by Olympus for that purpose.	No one outside the company was the wiser. KPMG, the auditor, did not notice, the report says, in part because some of the information it received was false.
Sibson, Clare.					The resulting, accrued losses were taken off balance sheet, via a variety of devices, in a socalled Tobashi scheme. ("Tobashi" means "flying away" in Japanese.) The losses remained off balance sheet until they could eventually be brought back onto the books and eliminated.	
Attestation Update	Money was loaned to the subsidiary and then the investments that had the huge loss were sold at historical			converted into goodwill,	The lost disposition scheme is featured in that Olympus sold the assets that incurred loss to the funds etc. set up by	

	cost, Financial assets that are seriously underwater (probably not the actual general ledger account they used!) Selling underwater investments to new sub				Olympus itself, and later provided the finance needed to settle the loss under the cover of the company acquisitions. The huge losses were transferred to an unconsolidated subsidiary. thus moving the impaired investments into an unconsolidated sub. Therefore the net effect is the bad investments were moved into a new subsidiary,	
Bacani, Cesar.		Most of the money was used to free up the lent-out bond holdings of SG Bond Plus Fund, thus allowing Yamada and Mori to redeem 63.2 billion yen in March this year. Tha		At the same time, the acquired assets allowed Yamada and Mori to have their high purchase prices accounted for as goodwill on Olympus's balance sheet.		
ContGov	Olympus set up shell companies in the Cayman Islands, and the poor investments were purchased by these fake companies at book value so that the losses disappear, or 'fly away' as the translation of tobashi suggests.			Olympus operated a tobashi scheme to hide substantial investment losses dating over 20 years to the 1990's. A tobashi scheme is a way for investment firms to conceal losses by transferring assets and liabilities to companies so the losses are off of the books of organisations, and therefore their financial statements (General Knowledge Today, 2012). The		

				Olympus set up shell companies in the Cayman Islands, and the poor investments were purchased by these fake companies at book value so that the losses disappear, or 'fly away' as the translation of tobashi suggests. It was hoped that these shell companies would hold the losses until the market recovered and then it can sell them back and no money is lost, and the initial losses are hidden from Olympus's financial statements and stakeholders.		
Fackler & Umemura,			That allows the company with the bad assets to temporarily mask losses, said Mitsuhiro Fukao, a finance professor at Tokyo's Keio University. Tobashi was banned in the early 2000s.	In September 1998, three months after the rumors of the colossal trading losses, Olympus said it had written off part of a 45 billion yen investment in emerging market bonds.		
Francine.	Olympus indirectly loaned money to an off-the-books subsidiary and then sold the investments that had the huge losses to the subsidiary at historical cost, eventually paying a huge premium to buy some other small companies and writing off the underwater investments as if they were goodwill impairments.		In 1998 through 2000, approximately ¥96B (~$US1.2B by my calculation) of unrealized investment losses were moved off the books. In 2003 approximately ¥118B (~$US1.5B) of unrealized losses were moved off the books	Also, since those losses were primarily hidden in goodwill according to the report , that loss constitutes 78% of goodwill, after the write-off.	There was ¥214B/ $2.7B moved off the books according to the report, which represents the book value of the investments that were underwater. The current loss being reported is $1.7B. The effect of these transactions was to transfer money into the newest consolidated subsidiary, which used the money to buy	

					the bad investments from the older, unconsolidated subsidiary.	
GKToday	It describes the practice where external investment firms typically sell or otherwise take loss-bearing investments off the books of one Client Company at their near-cost valuation to conceal investment losses from the clients' financial statements. In that sense, the losses are made to disappear, or 'fly away'.		As per various media sources, Olympus Corp. should have reported about 130 billion yen ($1.7 billion) in losses for the year that ended in March 2001. Instead, the company posted just 900 million yen in losses, listing them as "extraordinary expenses.			
Hays, Jeffrey.					The report says Olympus chalked up about 100 billion yen in investment losses due to the burst of the asset bubble and employed tobashi scheme of transferring losses to overseas funds- because the company was required to report latent losses in its earnings after new accounting rules obligating companies to value financial assets at market prices were introduced in 2000	Mori persuaded the board of directors to pay a total of 65 billion yen to the U.S. firm as compensation. The money was actually used to cover the losses.
Klein, Michael.			To avoid a markdown and recognition of the loss-making assets in its financial statements, Olympus executives moved the assets into so-called tokkin trusts, Japanese trusts in which a settler-appointed registered investment adviser instructs			In its financial statements, Olympus would account for the cash deposits but not disclose that the cash was used as collateral for the loans to the trusts. He later managed an Olympus-related entity between 2005 and 2010 on

			the trustee in the investments of the trust assets. The company entered into lending arrangements with a number of banks, which entailed funding a deposit account as collateral for a revolving credit facility that would be used to fund the tokkin trusts.			behalf of which he submitted false confirmations to Olympus's auditors.
Layne, Nathan.			Olympus has admitted it paid excessively in both cases to cover securities losses stretching back 20 years.			
Mintz, Steven.	One of Olympus' ways to manufacture phony profits was to "sell" assets to the offbalance-sheet entities it controlled, and to book profits on those sales.			The "cost" would appear on the company's balance sheet as good will, and eventually written off. From 1999 to 2003, Olympus managed to get out of some losses, or at least to convert them to good will.	To hide the fraud, the company developed a plan to "sell" the losing investments, at original cost, to shell companies (off-balance-sheet-entities) set up by Olympus for that purpose.	
Norris, Floyd.			That year, the company chose to hide losses of nearly 100 billion yen, or about $730 million at the exchange rate at the time			
Soble, Jonathan.					Tobashi - Japanese for "make fly away" - refers to accounting dodges used by companies to disguise investment losses, typically by transferring the lossmaking assets to allied firms or shell companies. Alt	

					Bad assets were passed among allied groups with different reporting dates, parked in off-balance-sheet subsidiaries or sold at book value to brokers to hold until prices recovered.	
Takata & Umemura,			At the time, the loss was partly masked by the global financial crisis, which decimated earnings at many Japanese exporters.			
Investigation Report	From 2003 to 2005, ways were sought for using these Three Domestic Companies to cover losses; in March 2006, the three companies bought stocks through GCNVV, causing 10.8 billion yen to flow to funds with unrealized losses: 9 billion yen to Neo and 1.8 billion yen to ITV.	In March 2006, Olympus received 6 billion yen, or 20 percent of the investment, as redemption before maturity from GCNVV. Like Then, in March 2011, all of the losses were settled by the termination of the agreement for SG Bond, which utilized said money. In Olympus settled the loans and lending transactions by means of these back-flowed funds, cancelled the agreements for the deposits or Funds that had been established at the outset, and received the redemption thereof. (Finally, in Olympus' Settlement, 35	Moreover, through the instructions of KPMG AZSA LLC, the facts of the “”tobashi”” transactions were discovered on September 30, 1999. Based on the facts contained in the press release of October 7, stating that some part of Olympus' unrealized losses would be reported as extraordinary losses, some time around September 1999, it is inferred that Yamada himself must have briefed Kikukawa on the facts surrounding the existence and execution of the loss separation scheme. The investment securities (New Investments Limited) were assessed at market value based on the balance certificate acquired from LGT Bank at the time of the settlement, and the difference between the acquisition price and the	Meanwhile, after purchasing shares of the Three Domestic Companies at a high price, Olympus records the difference from the actual corporate value of the Three Domestic Companies as goodwill or impairment losses. Thus, the separated losses are recorded after being transformed into goodwill, and they can be accounted for publicly. and in addition the hidden losses were included in the assets as the goodwill of the Three Domestic Companies on Olympus' financial statements. In terms of the accounting of the loss settlement scheme, it was crucial for Yamada and Mori that the huge outlays for the payments related to the series of FA	In the other scheme, when large sums of money were to be moved for an anticipated corporate acquisition, the losses described above could be buried in those fund flows. b. I The fact that illicit accounting was being used as “”tobashi”” for these unrealized losses was an extremely grave negative legacy for the management of the company. O Neo and ITV can receive large-sum gains on the stock sales, and some of the losses carried by the funds are settled by circulating money to other funds involved in the loss separation scheme in order to transfer the gains. With the funds raised by (1), the Funds purchased at book value the financial products, etc. that	Mori had this purchase demand executed based on a prior agreement with Axam, but Mori gave a false explanation inside the company that losses had occurred in Axam's other assets due to the effects of the Lehman shock, so Axam was in need of cash, as the background for the fact that the purchase demand had been made suddenly. Receiving from Olympus the explanation that this compensation had risen to levels not initially envisioned, the accounting auditor declared that such a possibility could not be ruled out completely, and ultimately issued an unqualified opinion. in the term ending March 2000, it posted extraordinary

		billion yen of the funds of the Europe route were included as negotiable securities (government short-term securities) from the fiscal year ending March 2001 to the fiscal year ending March 2004, and as deposits (LGT Bank) from the fiscal year ending March 2005 on, and the other 15.2 billion yen were included as investment securities (New Investments Limited) from the fiscal year ending March 2000, respectively. The deposits in LGT Bank were transferred to Olympus' savings account at Mitsui Sumitomo Bank in the fiscal year ending March 2009 (LGT Bank deposit voucher dated June 4, 2008). The investment securities (New Investments Limited) were assessed at market value based on the balance certificate acquired from LGT Bank at the time of the settlement, and the difference between the acquisition price and the market value was included in the Net Assets as the	market value was included in the Net Assets as the valuation difference for other negotiable securities, by the application of the financial products accounting standards from the fiscal year ending March 2001 on. At In addition, the losses of 2.2 billion yen based on the equity method included in the fiscal year ending in March 2007 were assumed as the balance of the retained earnings at the start of the period.	fees and the purchase of dividend preferred shares not be manifested all at once as losses, and as indicated below Yamada and Mori tried to carry out a write-off in stages by utilizing goodwill. Then, accounting treatment was undertaken for the purchase of the dividend preferred shares by regarding it as a capital transaction that was completely separate from the Gyrus purchase transaction, and of the difference of 41.4 billion yen between the consideration of 57.9 billion yen (620 million dollars) and the book value of 16.5 billion yen (177 million dollars) for the dividend preferred shares, 41.2 billion yen was included as goodwill, and 200 million yen was included as a foreign currency translation adjustment. Along with the increase in the shareholding in the Three Domestic Companies, from the fiscal year ending in March 2008, the Three Domestic Companies were transitioning from affiliated companies to which the equity method was applied to consolidated subsidiaries, and	were carrying the unrealized losses held by Olympus. By this means, the losses were moved to the Funds, but the since the Funds fell outside the scope of consolidated accounting, Olympus' unrealized losses disappeared.	losses of 17.0 billion yen as the loss on liquidation of cancelling specified fund trusts. However, in reality, it had approximately 96.0 billion yen at the end of September 1999 in unrealized losses that were unrecognized On this point, with respect to the Three Domestic Companies, the individual disclosure made by Olympus has only been partial in terms of securities reports and timely disclosure to the Tokyo Stock Exchange. With respect to Gyrus, only a minimum disclosure has been made in the notes to the consolidated financial statements in the "Accounting Section" in terms of timely disclosure to the Tokyo Stock Exchange and securities reports, and almost no disclosure in the "Overview of Company" and "Status of Business" sections.

		valuation difference for other negotiable securities, by the application of the financial products accounting standards from the fiscal year ending March 2001 on. At the time of the Movement of funds Transfer of losses 78 cancellation of the agreement in the fiscal year ending March 2009, there was a deposit of 15.9 billion yen at Olympus, and proceeds from agreement cancellation of a difference of 700 million yen with the book value of 15.2 billion yen were included (deposit voucher for the cancellation money of New Investments Limited dated September 12, 2008). [Cha At the time of the cancellation of the agreement in the fiscal year ending March 2011, there was a deposit of 63.1 billion yen at Olympus, and proceeds from agreement cancellation of a difference of 3.1 billion yen with the book value of 60 billion yen		accompanying this a total of 54.5 billion yen of goodwill was included for the Three Domestic Companies. The dates regarded as the acquisition dates were set as October 1, 2007 for Altis and March 31, 2008 for News Chef and Humalabo, and the number of years of write-off of goodwill was set at 10 years for all Three Domestic Companies. Olympus was involved with the consolidation of the Three Domestic Companies as subsidiaries in the fiscal year ending March 2008, but the acquisition of the shares of with the Three Domestic Companies in the fiscal year ending March 2009 was treated as an additional acquisition, and was included as goodwill of 13.6 billion yen.		

		were included (deposit voucher for the cancellation money of SG Bond dated September 22, 2010, deposit voucher for the cancellation money of SG Bond dated March 25, 2011). [Ch In August 2007, Olympus subscribed by actuals to the shares of the Three Domestic Companies (11 billion yen) and loans (3.1 billion yen) held by GCNVV, in order to cancel the agreement with GCNVV. In a The purpose of the above-mentioned stock transaction was to settle the excess debt of News Chef by including the proceeds from the sale of Nihon Ecologia stock, and to avoid the inclusion of a bad loan reserve based on Olympus' non-consolidated settlement. In t At the Business Investment Committee meeting of March 9, 2006, regarding the handling of liquid funds that made up most of the assets of the Funds,				

		consideration was given to repayment based on investment ratios; on the 24th, portions of the Funds were redeemed (20% of total investment), and on the 30th 6 billion yen was returned to Olympus, and on April 3rd, 1 billion yen was repaid to GV. B. On May 31, 2006, Olympus decided to conclude an FA Agreement with Axes, and on June 5, it concluded an FA Agreement with Axes. Basic compensation was 5 million dollars (3 million dollars at time of contract signing, 2 million dollars one year after contract date), with completion fee set at 1% of the acquisition price (20% of which was to be paid in cash, and 80% in stock options in the acquisition vehicle). On June 16, 2006, Olympus paid 3 million dollars (300 million yen) in cash as basic compensation to Axes, which received accounting treatment as shown below.				

Olympus CSR Report 2012		Starting in 2007, a small group of Olympus executives sought to dispose of the losses by supplying a total of ¥135 billion to eliminate the receiver funds, using methods that included (1) the acquisition of three domestic subsidiaries, Altis, News Chef and Humalabo, from the receiver funds at inflated prices, (2) the payment of advisory fees when Gyrus Group PLC was acquired, (3) the treatment of "goodwill" in connection with Gyrus and the three domestic subsidiaries in the accounts as assets.			Olympus transferred the financial assets on which it had incurred unrealized losses up to the year ended March 2000 to multiple funds (receiver funds) at their book value.	
	M : Advisory Fees	N : Company Acquisition	O : Cover Loss	P : Establishing Dummy Entities	Q : Funding the Receiver Entities	R : Authority
Aronson, Bruce E.				To accomplish this goal Olympus set up new entities under its control and sold the bad assets to these entities at inflated prices	Olympus also provided the money, either directly or indirectly, to enable the related entities to purchase the bad assets.	No information on the losses was ever disclosed to the board of directors, and management generally discouraged employees from providing information on questionable company practices.24 H The effectiveness of internal corporate auditors (kansayaku or "company auditor")51 is a fundamental issue underlying this approach.

						They are criticized as lacking authority since they have no vote at board meetings and cannot hire or fire the CEO or directors.52 In addition, they have historically been regarded as lifetime company employees who are not in a good position to question management and do not aggressively pursue their responsibilities.53
Elam, Madrigal, & Jackson	Yamada and Mori had to somehow inflate the purchase price, to account for the purchase of Gyrus; so, the two men overpriced the advisory fees for this purchase.	This involved the purchase of start-ups and entrepreneurial ventures at vastly inflated prices and payment of huge advisory fees for merger and acquisitions (M&A) deals. Yamada and Mori then embarked on a scheme to acquire a company named Gyrus.	They used part of the money that flowed out of Olympus for these inflated purchases to retire the loan from the banks.	It would be necessary to create dummy entities that Yamada and Mori could influence in order to continue to hide the losses. In 1998, the first "receiver fund," or dummy entity, called Central Forest and registered in the Cayman Islands, was set up to hide the losses. Adding one last dummy entity, Yamada and Mori set up Quick Progress, having a book value of 32 billion yen.	Olympus' Asset Management also invested 35 billion yen in a class fund managed by this bank, which found its way into this dummy entity as well.	
Norris, Floyd.						The committee says the top officers of Olympus knew what was going on throughout and that new presidents always accepted the decisions made by their predecessors.
Porbinderwalla, Kersi F.		To facilitate this transaction Olympus would buy the				

		‘unrelated’ entity that held the investments, with the price set at the lower market value and then add in significant goodwill to the acquisition				
Attestation Update	or by paying a substantially high fees to the third-party who acted as the intermediate in the acquisition, resulting in recognition of large amount of goodwill, and subsequently amortized goodwill recognized impairment loss, which created substantial loss.	More specifically, Olympus circulated money either by flowing money into the funds etc. by acquiring the entrepreneurial ventures owned by the funds at the substantially higher price than the real values, Olympus bought some tiny companies. They paid humongously more than they were worth and paid big dollars for consultants for their service as finders and intermediaries.		set up by Olympus itself, and later provided the finance needed to settle the loss under the cover of the company acquisitions.		
Bacani, Cesar.				The Olympus team asked Nakagawa and Sagawa to set up the entities using their expertise and contacts. The first such ‘Receiver Fund,’ as the panel termed it, was called Central Forest, which was registered in the Cayman Islands in 1998.		
Francine.	or by paying a substantially high fees to the third party who acted as the intermediate in the acquisition, They paid humongously more than they were worth and	More specifically, Olympus circulated money either by flowing money into the funds etc. by acquiring the entrepreneurial ventures owned by the funds at the				

	paid big dollars for consultants for their service as finders and intermediaries.	substantially higher price than the real values, Olympus bought some tiny companies.				
GKToday			The scandal surfaced amidst the controversial removal of the newly-appointed chief executive officer of the company and it was revealed that Olympus Corporation had been operating a tobashi scheme in which US$2 billion was said to have been siphoned off to cover bad investments made up to 20 years ago.			
Hays, Jeffrey.	The investment advisory firms received 1.18 billion yen in compensation. "They involved themselves in the scheme, knowing their actions were illegal accounting deals, and helped hide losses for many years," the committee said in its report. panel noted Olympus had also paid off “cooperative individuals” to help hide the losses, and that a great sum of money had “flown outside of the company on a continuous basis."	In December 2011 the Yomiuri Shimbun reported: The panel found that part of about 17 billion yen--the difference between the 134.8 billion yen Olympus spent for two corporate buyouts and the amount used to hide the investment losses--was used to pay a former employee of a major securities company who had proposed the cover-up scheme The accused Olympus executives covered the losses with 134.8 billion yen made through the acquisitions of the three Japanese companies and				In December 2011, the Yomiuri Shimbun reported: Olympus Corp.'s long years of covering up huge investment losses was orchestrated by three consecutive presidents and continued behind closed doors by a handful of executives involved in financial affairs. Thi The report by a third-party concluded that Olympus nurtured a "yes man" corporate culture executives and harshly criticized the optical equipment maker, saying, "The management core was rotten." It also said the company has created "a

		Gyrus, which took place between 2006 and 2010.				lineup of yes men who couldn't voice objections." [Source: Yomiuri Shimbun, December 8, 2011] The head of six-member panel, Tatsuo Kainaka, said, "Because the authoritarian management system continued for a long time and those [involved in the cover-up] were treated well, the flow of information was blocked."
Klein, Michael.	"because the complex nature of the scheme required devoted advisers, lawyers, and bankers to execute it, the fees charged proved extremely costly."	Therefore, two Olympus executives devised a plan that would divert funds from corporate acquisitions by overpaying for Humalabo, Altis and News Chef and by paying inflated advisory fees in relation to the purchase of Gyrus to Sagawa and Axam in the Cayman Islands. One year later, in 2010, Olympus purchased the shares from Axam on the second attempt for an even higher $622 million.			and transferred the cash and their portfolios to several entities in Cayman and the British Virgin Islands. Axam then wired the money to the various offshore entities that held the impaired investments so they could repay their loans to the banks.	
Layne, Nathan.	To date the scandal has centred on a $687 million advisory fee tied to the Gyrus deal and its purchase of three obscure, loss-making domestic firms for $773 milllion between 2006 and 2008.	Olympus and affiliated firms spent $4.1 billion on 57 acquisitions since 2000 in an aggressive push to diversify its operations and grow outside Japan. The largest was its $2.2 billion buyout of British medical equipment firm Gyrus in				

		2008, Thomson Reuters data shows. and its purchase of three obscure, loss-making domestic firms for $773 milllion between 2006 and 2008. Olympus bought ITX, now primarily a mobile phone retailer, for about 60 billion yen ($780 million) in a series of transactions between 2000 and 2011.				
Mintz, Steven.						The report says the top officers of Olympus knew what was going on throughout and that new presidents always accepted the decisions made by their predecessors. It
Pomfret, James.	Akio Nakagawa's boutique U.S. investment firm earned a $687 million fee from Olympus for a 2008 deal that made it the biggest advisory payment in history, and which the Japanese camera maker now admits was used to hide investment losses.					
Reuter Staff	The veteran banker, Hajime 'Jim' Sagawa, owned an obscure U.S. financial firm which was hired by the endoscope-maker five years ago to provide what later turned out to be stunningly					

	expensive advice, a fee of $687 million, the documents show.					
Reuter Staff1						The lack of independent directors supervising management is one of the key factors behind Japan's No. 36 ranking out of 39 countries on corporate governance in the latest survey by research firm GMI .
Soble, Jonathan.		The camera maker says it used four acquisitions - three in Japan and one in the UK - as cover to dispose of securities-related losses it had been hiding since the 1990s.				
Takata & Umemura,				Documents most clearly link the younger Yokoo brother with at least three of the companies he later advised Olympus to acquire between 2006 and 2008 for a total of $773 million.		
The Yomiuri Shimbun		He also proposed that Olympus take over three Japanese companies, acquisitions that were used to make about 73 billion yen to cover the losses. The accused Olympus executives covered the losses with 134.8 billion yen made through the acquisitions of the three	Mori persuaded the board of directors to pay a total of 65 billion yen to the US firm as compensation. The money was actually used to cover the losses.	The two established the fund in the Cayman Islands some time before March 1998.		

		Japanese companies and Gyrus, which took place between 2006 and 2010.				
Investigation Report	With respect to this transaction, OBA posted in its books long-term prepaid expenses of 25 million dollars (approximately 2 billion yen. Conversion at 1 dollar = 80 yen) to an investment advisory firm that made the introduction, and it is scheduled for depreciation up to the year 2018. In 1998 Olympus deposited Japanese government bonds with LGT Bank as collateral for this financing. Yamada and Mori initiated the transactions between Olympus and LGT Bank by depositing about 21 billion yen in Japanese government bonds at LGT Bank by September 1998. At this time, GCI Cayman, the general partner of GCNVV, received fees of approximately 1.7 billion yen as the fee for the mid-term termination of the agreement, the completion fee, etc. (Memorandum for Termination Agreement of G.C New Vision Ventures	Based on this business plan, Olympus purchased the shares of the Three Domestic Companies from Neo and ITV at the exorbitant price of 4 million yen to more than 20 million yen per share. In March 2008, after it undertook the mid-term termination of the agreement for GCNVV, Olympus purchased shares of the Three Domestic Companies from Neo, OFH and ITV, and in addition OFH purchased shares of the Three Domestic Companies from DD and GT, and Olympus purchased this at the same amount from OFH. In February 2008, Olympus purchased Gyrus, which is a medical device manufacturer in England. In connection with the purchase of Gyrus, a huge sum of money was paid from Olympus to the FA from June 2006 until March	Olympus announced that in the course of the cooperation by the Committee with respect to the investigation, it had been discovered that it had been engaging in a deferral of posting losses related to securities investments since the 1990s, and that the fee paid to the FA for the acquisition of Gyrus, the funds for the repurchase of preferred shares, and the funds for the acquisitions of the Three Domestic Companies had been used, among other things, to settle the unrealized losses in invested securities, etc. due to the deferral in posting losses, through a method of circulating the money around among several Funds (“Notice concerning the deferral in posting past losses,” an Olympus release dated November 8, 2011). On the other hand, the acquisition value for EPS stock at ITV was 200 million yen, and while a gain of 360 million yen has been booked on its sale, there is a possibility that the gain on this sale was used	Receiver funds CFC and QP were formed no later than 1998. Create Funds or purchase bonds with these funds; and	From there, this money was routed to CFC through the Twenty-First Century Global Fixed Income Fund Ltd. (hereinafter, “21C”) and other funds created by Olympus.	When Ota was in charge of the Accounting Department, they would seek his approval for purchases; basically, though, Ota would simply approve Yamada and Mori's asset management decisions. Late Based on these requests from Olympus, by March 1998 Sagawa and Nakagawa established the Cayman-based Central Forest Corp. fund (hereinafter, “CFC”). Olympus reported in a Board of Directors meeting the range of the purchase prices of the Three Domestic Companies, and obtained approval to acquire the shares, based on the figures of this Shareholder Value Calculation Report.

	L.P. dated September 21, 2007). On June 16, 2006, Olympus paid to Axes 3 million dollars as a retainer fee out of the basic fee pursuant to the FA Agreement. In addition, on the same date, it paid 5 million dollars temporarily as necessary expenses. Moreover, on July 6, 2007, it paid to Axes 2 million dollars, which was the balance of the basic fee. on November 26, 2007, Olympus paid 12 million dollars as the Completion Fee to Axes, pursuant to the revised FA Agreement.	2010, and a portion thereof was allocated to the settlement of losses that had been separated. by purchasing the preferred stock at an amount of 620 million dollars, it paid to the FA (or the corporation to which the rights to exercise the stock options and warrants had been transferred from the FA) funds equivalent to approximately 30 percent of the purchase price as a consequence, as a result of repeated discussions with Gyrus, agreement was reached that it would purchase them at 630 pence. Although said price was 43 percent higher than the average stock price in the 6-month period prior to the purchase announcement, there is a Written Opinion by the overseas FA stating that one can conclude that purchasing the shares at 630 pence is fair from a financial standpoint (said Written Opinion prepared by the overseas FA dated November 19, 2007).	to cover losses. One method found was to cover the losses by gains on the price of ITX stock.			

		100 percent of the shares of Gyrus, which is a corporation listed on the London Securities Exchange (England), will be acquired, and it will be made into a subsidiary. The purchase price is approximately 935 million pounds (approximately 215 billion yen). Given that it was decided that the final purchase price of Gyrus was 965 million pounds (approximately 206.3 billion yen) After the purchase of Gyrus was completed on February 14, 2008, on February 22 of the same year, at a Board of Directors meeting, a report was made about the fact that the purchase of Gyrus had been completed, the purchase amount (approximately 965 million pounds), The purchase amount approved at this time was 530 million dollars to 590 65 million dollars, based on the Written Calculation of Value Assessment and the Written Assessment				

		submitted from Axam, and the purchase period was the middle of December 2008. Based on these decisions, Olympus purchased the warrants held by Axam for 50 million dollars in cash (about 5.3 billion yen).				
Olympus CSR Report 2012						Vital information has been monopolized by only a few executives and divisions, and our decision-making processes have been gravely deficient in transparency and good faith. This situation was attributed to a corporate culture that was dominated by one person with additional problems relating to the attitudes of corporate officers.
	S : External Collaboration Connections	T : Lack of CEO Supervision	U : Lenient Accounting Regulation	V : Nepotism	W : Poor Corporate Governance	X : Unfuctional Whistle Blowing
Aronson, Bruce E.		In fact, the board's lack of supervision over the CEO, including matters such as hiring and firing, may be the biggest corporate governance problem at traditional Japanese corporations.60				

		In reality however, directors are often selected by the individual they are expected to supervise. Thus, instead of the CEO being accountable to shareholders or a board of directors, the CEO is the person to whom the board is accountable.				
Elam, Madrigal, & Jackson	Olympus asked the President of Axes Japan Securities and the President of Axes America to set up these dummy entities. The president of Axes Japan Securities and President of Axes America were asked by Olympus to set up these dummy entities.		These losses were masked through a Japanese accounting standard that allowed financial assets to be accounted for at historical cost basis versus writing them down to a lower market value. In The company was initially able to hide these losses by booking the assets at historical cost versus fair market value.			
McNulty, Lucy					To that end, they appointed Woodford but when it came down to it they proved themselves to be a very traditional Japanese company. "They couldn't control the foreigner in charge and immediately closed ranks," said the lawyer. If directors and auditors, both internal and external, had done their jobs correctly then this	A cultural predilection of lifetime employment with one company only, had resulted in an environment unsuited to whistle blowing.

					couldn't have happened," he said.	
Norris, Floyd.			At the time, accounting rules in Japan, as well as in other countries, allowed investments to be carried at cost. Under lenient accounting rules, those shell companies would not have to be consolidated with Olympus, so the losses could remain hidden.			
Porbinderwalla, Kersi F.			The transfers, which, like Lehman's Repo 105 operations, were perfectly legal at the time, worked fine as long as everyone - i.e the counterparties - played along.		No Governance, Risk Management or Compliance oversight for the top executives Lacked sense of Transparency & Governance	
Bacani, Cesar.	The Olympus team asked Nakagawa and Sagawa to set up the entities using their expertise and contacts.		They were able to mask the losses because Japanese accounting standards allowed financial assets to be accounted for on historical cost basis.			
Francine.	On the other hand, the report also mentions the fraud was hidden quite well. Three banks were also involved by hiding information from the auditors. The summary report says all three of them agreed not to tell auditors the information that would normally be provided on an audit confirmation. Outside collaborators (this could eventually include three					

	banks and a host of attorneys, intermediaries, finders, and consultants)					
Hays, Jeffrey.	The man was an employee of Nomura Securities Co. and then moved to a foreignaffiliated securities firm. In the 1980s, he was involved in the investment of Olympus' assets. The man introduced Yamada to the head of a U.S. investment advisory firm, who was also a former Nomura Securities employee. In 1998, just before Japan introduced a new accounting rule that requires companies to calculate asset values based on market value, Yamada asked the two to cooperate to transfer Olympus' losses to a fund. The two established the fund in the Cayman Islands some time before March 1998. Another former Nomura Securities official, now president of a business consultant firm, advised Olympus on investments. He left Nomura Securities in 1998 after serving as a branch head. Yamada also asked him					

	to help transfer the losses, and he introduced Yamada to an official of a bank in Liechtenstein. About 20 overseas funds and financial firms took part in Olympus' loss-hiding scam.					
16 : Kelton, Erika.						The company's internal "hotline" for whistleblowers was overseen by the very executives who allegedly designed and carried out the massive accounting fraud. There can be little doubt that if the Securities and Exchange Commission (SEC) or Japan had an effective whistleblower program in place a decade ago --like that created by Dodd-Frank in 2010 -- there is a good chance the investment losses allegedly hidden for 13 years at Olympus would have been exposed much sooner and the damage to the company and its investors would have been far less.
Klein, Michael.	When Commerzbank agreed to pay $1.45 billion in March to settle U.S. allegations of money-laundering and sanctions breaches, the German bank resolved not only investigations into		According to Japanese accounting rules at the time, the losses of assets in a tokkin trust did not need to be disclosed as long as their market value did not decline by more than 50 percent.			

	suspected violations of laws prohibiting transactions on behalf of Iran, Sudan, Cuba and Myanmar, it also closed the final chapter in a multibillion-dollar fraud by Japanese optical equipment maker Olympus Corp. The lawsuit revealed how Commerzbank and other banks together with a number of Cayman Islands registered entities played a part in one of the largest loss-hiding schemes in Japan's corporate history. To avoid a markdown and recognition of the loss-making assets in its financial statements, Olympus executives moved the assets into so-called tokkin trusts, Japanese trusts in which a settler-appointed registered investment adviser instructs the trustee in the investments of the trust assets. The company entered into lending arrangements with a number of banks, which entailed funding a deposit account as collateral for a revolving credit facility that would be used to fund the tokkin trusts.					

21 : Mintz, Steven.			Under lenient accounting rules at the time, those shell companies did not have to be consolidated with Olympus, so the losses could remain hidden.		The ethics lesson to be learned from the Olympus affair is that a lack of underlying ethical values trumps full disclosure even in the post-Enron era of transparency.	
32 : Investigation Report	Yamada and Mori of Olympus asked Sagawa and Nakagawa to set up “”tobashi”” Receiver funds that would not be recorded on Olympus' consolidated financial statements. Yamada and Mori asked Sagawa and Nakagawa to set up “”tobashi”” Receiver funds that would not be recorded on Olympus' consolidated financial statements. The persons inside Olympus who participated in the Europe route were Yamada, Mori, Kishimoto and Kikukawa. Additionally, Nakatsuka and one staffer from the finance group were involved with day-to-day practicalities, such as bank transmission instructions and verifying fund management reports from LGT Bank and the various funds. In the case at issue, there	At Olympus, there was no risk management system in place that anticipated such misconduct would be carried out by the top management and executives of the company, and the monitoring function against such did not work.	Previously, Japanese corporations customarily used Acquisition cost basis. It was accepted that they could choose to apply either a cost basis or a lower of cost or market method basis for financial products, for securities with a market value determined on an exchange, and the same choice for basket methods (evaluation method that views each trust agreement as a single financial unit) for specified money trusts (“tokkin”) and Specified fund trusts (“fantora”). 13 Additionally, Regarding the evaluation of financial products under the Acquisition cost basis, if the market value at term-end was clearly below book value, with little prospect of recovery, it was required that the value of such instruments be marked down to the market value (so-called mandatory reduction in value). As far as what constituted a “clear” decline in market	With respect to the outside directors also, suitable people had not been elected, and they were not functioning. 180 The Board of Auditors had even further become a formality, suitable people had not been elected as auditors, including outside auditors, It should have sought human resources in a timely manner from outside the company, away from the personal connections or interests of the company, and in having them manage the financial aspects etc., it should have swept away the rubbish that might have accumulated until, but they did not, and it was when by chance, a foreigner president was elected, that this was realized. It was a serious flaw that a system had been maintained in which human resources, which should have been fair, was distorted, and those who shared secrets and were		organizations handling internal control or risk management were not whistleblower system had not been properly established. independent, and the internal

	were outside collaborators who knew that the financial processing was illegal, who gave counsel to corporate executives and provided assistance, and participated in the cover-up		value, the generally accepted accounting practice was a benchmark of 50%. H	involved in the cover-up were treated favorably.		
Olympus CSR Report 2012				With respect to the outside directors also, suitable people had not been elected, and they were not functioning. 180 The Board of Auditors had even further become a formality, suitable people had not been elected as auditors, including outside auditors, It should have sought human resources in a timely manner from outside the company, away from the personal connections or interests of the company.	In the past, Olympus has shown weaknesses in the areas of corporate governance and compliance.	
	Y : Unprofessional External Auditor	Z : Accounting Policy Changes	AA : Competitive Pressure	AB : Loss in Investment	AC : National Economic Fall	AD : Amortizable Over Time
Aronson, Bruce E.	The committee released an extensive report in December, 2011 that discussed the schemes in detail and pronounced Olympus' management "rotten to the core."38 T	This event helped trigger both a financial crisis and a significant change in accounting standards in 2000 to require the periodic valuation of assets at market value and disclosure of losses However, a further change in accounting standards				

		following scandals at Kanebo Corporation in 200516 consolidate their financial and Livedoor Corporation in 200617 forced related entities to statements beginning in 2007.				
Elam, Madrigal, & Jackson		In 1997, the accounting laws were modified which forced Japan to adopt the fair value accounting system, or "market-to-market accounting," as part of its implementation of International Financial Reporting Standards. (Mintz, 2012)		By the late 1990s, investment losses at Olympus had reached nearly $100B yen.	In 1980, Toshiro Shimoyama was the president and CEO of Olympus Corporation. Olympus' operating income fell significantly because of the sharp appreciation of the yen. T By the late 1990s, investment losses at Olympus had reached nearly $100B yen. Yet Yamada and Mori continued to bet money in risky investments in a desperate bid to recover losses. The stock price fell from a high of 2,769 yen on July 22, 2011 to a low of 460 yen by November 11, 2011.	Yamada and Mori believed they were golden because the goodwill would be amortized over time down to zero.
Norris, Floyd.	At the time, accounting rules in Japan, as well as in other countries, allowed investments to be carried at cost. The	The report, released by Olympus this week, shows that two changes in accounting rules, one caused by the Enron scandal, eventually led to the collapse of the scheme. A decade later, efforts to force companies to stop		They were not. Over time, the company tried securities speculation and private equity, investing in what it thought were promising start-up companies. None of it worked. Eventually, the losses evidently grew to more than $1 billion.		

		hiding things in off-balance-sheet entities led to the transactions that ended up exposing the fraud. The collapse of Lehman Brothers in 2008 also played a role. But in 2007, the Japanese rules were changed. Those shell companies would have to be consolidated. Olympus had until March 31, 2008, the end of its fiscal year, to clean up its books.				
Sibson, Clare.		In the 1990s, accounting standards changed, requiring those bad investments to be markedtomarket. The resulting, accrued losses were taken off balance sheet, via a variety of devices, in a socalled Tobashi scheme.				
Bacani, Cesar.		That changed in 1997-1998 when Japan adopted fair value accounting as part of its implementation of IFRS. That changed in 1997-1998 when Japan adopted fair value accounting as part of its implementation of IFRS.		Bad move. By the late 1990s, Olympus had piled nearly 100 billion yen in investment losses. Yet like drunk men in a casino, Yamada and Mori continued to bet company money in a desperate bid to recover the losses. Bad move. By the late 1990s,	The six-man committee headed by former Supreme Court judge Tatsuo Kainaka traced the rot to the 1980s, when Olympus's operating income fell significantly because of the sharp appreciation of the yen. The six-man committee headed by former Supreme Court judge	

				Olympus had piled nearly 100 billion yen in investment losses. Yet like drunk men in a casino, Yamada and Mori continued to bet company money in a desperate bid to recover the losses.	Tatsuo Kainaka traced the rot to the 1980s, when Olympus's operating income fell significantly because of the sharp appreciation of the yen.	
Fackler & Umemura,				Until 1990, returns on investments propped up its profit; by 1991, it had written down 2.1 billion yen in securities valuation losses, the first of many write-downs. Olympus said it had written off part of a 45 billion yen investment in emerging market bonds. In its midterm earnings statement in October 1999, the company said it had booked a loss of almost 17 billion yen from trades including interest rate and currency swaps.		
15 : Hays, Jeffrey.				The report says Olympus chalked up about 100 billion yen in investment losses due to the burst of the asset bubble According to the written report, the bulk of the ¥134.8 billion loss came from failed financial speculation which by 2003 totaled ¥117 billion ($1.5 billion).		
Klein, Michael.				These investments suffered substantial losses when the	The losses began in the mid-1980s when a sharp	

				Japanese economy collapsed in 1990. In response, Olympus executives doubled down, increased their risk allocations to the investments and incurred ever higher losses of nearly $700 million by the end of 1990.	appreciation of the Japanese yen against other currencies caused the operating profit of Olympus to fall precipitously	
Layne, Nathan.1			The shares were marked down by their daily limit to 484 yen, a decline on the day of 17 percent. The stock price started falling in October after sacked chief executive Michael Woodford went public with assertions Olympus had improperly accounted for $1.5 billion in payments related to mergers and acquisitions.			
20 : McLannahan & Whipp,			The acquisition spree of the late 1990s, followed by tens of billions of writedowns, has left the company with a worryingly thin equity ratio (net assets as a proportion of total liabilities and net assets) of less than 14 per cent - easily the lowest ratio among its global peer group. The company's shares closed at Y584 on Wednesday, down another 20 per cent on the day.			
Mintz, Steven.		New York Times reporter Floyd Norris points out that a report by an investigating committee shows that two changes in accounting				

		rules, one caused by the Enron scandal, eventually led to the collapse of the scheme.				
Norris, Floyd.	At the time, accounting rules in Japan, as well as in other countries, allowed investments to be carried at cost. Theoretically, there should eventually have been a write-down, but there never was.			Eventually, the losses evidently grew to more than $1 billion.	The strategy worked until the Japanese bubble burst in 1990. That year, the company chose to hide losses of nearly 100 billion yen, or about $730 million at the exchange rate at the time.	
Soble, Jonathan.					Tobashi became a problem in the 1990s after the asset bubble of the previous decade burst, leaving companies that had engaged in speculative real estate and financial investments nursing big losses.	
Investigation Report	The auditing firm pointed out at one point that perhaps a part of the transaction in the case at issue was unreasonable, and while there was the possibility that the check function would work at that time, as described below, they simply relied on the opinion of a Committee of outside professionals that did not fulfill its original function, and in the end was unable to make the correct suggestion. The succession at the time the auditing firms were changed was insufficient, and the evaluation must be made that	Under these circumstances, Olympus had to make market valuations of its financial assets, and it was directly confronted with a situation in which it would have to take valuation losses on an enormous sum of unrealized losses totaling 95 billion yen around 1998. Based on the expectation that mandatory application of market valuation for financial products would be instituted for “tokkin” and swaps in March 2001, and facing that situation, a	Because of the slump in the stock price, an impairment loss of 6.6 billion yen was recorded at OFH in the year ending March 2007, and an impairment loss of 39.5 billion yen was recorded at Olympus in the year ending March 2009.	Initially, although it was also thought that the profits in the listing of the stock would be used to cover the deferred losses, because the stock price stagnated and did not increase in value, the result was a loss of 6.3 billion yen of the investment amount. To cover its losses in the immediate future, it became an active purchaser of financial products that promised to deliver years' worth of interest in advance; what happened, though, is that these were high-risk instruments, and if they	The sharp rise in the value of the yen that began in 1985 was causing an urgent problem for Olympus: its operating profit was falling. In FY1985, Olympus had an operating profit of 6.8 billion yen on sales of 128.6 billion yen, but in FY1986 operating dropped by more than half to about 3.1 billion on sales of 120.9 billion yen. Owing to this, the initially separated losses appeared as expenses on the consolidated balance sheet of Olympus, 7	The consideration for acquiring stock and the FA fees expending by Olympus in order to cover the losses of the Funds was included in the goodwill on the consolidated balance sheet of Olympus, and was to be gradually written off over a period of 10 to 20 years.

	they were unable to sufficiently fulfill their duties However, said report was incomplete and had many qualifying conditions, and was not to be trusted as the opinion of a fair and neutral third party. The Board of Auditors, and further, the auditing firm placed emphasis on the conclusion of this report alone, and did not conduct an intensive review of the content or its qualifying conditions.	scheme was prepared for the separation of financial products with unrealized losses. Owing to the changes in accounting standards in 2007, along with the fact that the Funds became subject to consolidated settlement, the need arose for Olympus to directly incorporate GCNVV and its major investments into the consolidated settlement.		showed losses at maturity, the advance interest was also added to the losses, making the losses even larger. In its interim earnings statement for September 1999, Olympus decided to embark on a solution aimed at ensuring the restoration of financial health regarding funds management using Specified fund trusts and swap contracts, recording, before the contracts were dissolved, a total of 16.8 billion yen in valuation losses (14.1 billion yen on Specified fund trusts, and 2.8 billion yen on swaps; ultimately the company dissolved these contracts in the period of March 2000, recording 17 billion yen in extraordinary losses.)		
Olympus CSR Report 2012				After the collapse of the bubble economy, Olympus incurred massive unrealized losses as a result of its investments in financial assets.	Why did this situation occur? I attribute the errors of judgment made by the previous management team to a flawed perception of society, which led in turn to the distortion of the standards on which management decision-making was based	
	AE : Can be Paid Later	AF : Company's Going Concern	AG : Market Restoration Assumption	AH : 3DC Acquisition to Olympus	AI : Average Shares Loss	AJ : Axes Deposit Flow

McNulty, Lucy		On November 8, Olympus admitted inflated advisory fees paid in the $2.1 billion acquisition of Gyrus were used to conceal soured investments dating back decades.				
Norris, Floyd.		It turns out that it was an effort to make the company's books accurate - at least in terms of its balance sheet				
Sibson, Clare.	The losses remained off balance sheet until they could eventually be brought back onto the books and eliminated.					
Crook, Jordan.		But Harner points out the fact that the motives of the executives involved were that of trying to save the company, not to make themselves rich.				
Fackler & Umemura,	"The idea is that you pay off the losses later, when company finances are better," Mr. Fukao said. "If this was the case at Olympus, the payments it made would have been made to finally settle" the loss, he said.		"The idea is that you pay off the losses later, when company finances are better," Mr. Fukao said. "If this was the case at Olympus, the payments it made would have been made to finally settle" the loss, he said.			
Mintz, Steven.	Instead, the chairman had only tried to clean up an accounting mess without damaging the reputation of Olympus. The					

Soble, Jonathan.			Schemes were simple and temporary at first, since many assumed the market would bounce back.			
Soble, Jonathan.1	In many cases the losses would be paid off over time, in quiet deals with the brokers or third-party investors that saved companies from embarrassing - and in some cases potentially bankrupting - one-time disclosures. That might explain how Olympus was solving a 1990s problem by overpaying for acquisitions in the late 2000s.					
Tabuchi, Hiroko.	The admissions came after Olympus fired its former chief executive, Michael C. Woodford, who had questioned the company's board over a series of unusually large acquisition payouts that were later found to be part of the company's false accounting. Mr. Woodford, who is British, blew the whistle on those payouts, helping to uncover a global scheme that led to public investigations in Japan, Britain and the United States.					
Investigation Report		had deferred losses related to the investment securities, etc. since the 1990s, and used the acquisition projects of the Three		Settlement of losses using the Three Domestic Companies A. Investments into the Three Domestic Companies from Neo, etc. From 2003 through	A. Calculation of the average disposal price for the shares sold in March 2005 Unit: Million yen; shares (number of shares)	Amounts paid from Olympus or OFUK to Axes and Axam] Date Recipient Amount (million dollars) June 16, 2006

		Domestic Companies and Gyrus as a means to settle them. Fro In its interim earnings statement for September 1999, Olympus decided to embark on a solution aimed at ensuring the restoration of financial health regarding funds management using Specified fund trusts and swap contracts, recording, before the contracts were dissolved, a total of 16.8 billion yen in valuation losses (14.1 billion yen on Specified fund trusts, and 2.8 billion yen on swaps; ultimately the company dissolved these contracts in the period of March 2000, recording 17 billion yen in extraordinary losses.). “assuming that we will achieve the sales and profit in the business plans for 2007 after 3 years and for 2008 after 5 years, and that the ordinary profit after 2 years and after 4 years will be of 5 years before that” dollars had also been allocated to the overseas FA, etc.		2005, Neo and ITV made the following investments and acquired shares in the Three Domestic Companies based on this sort of loss settlement scheme	B. Calculation of the average disposal price for the shares sold in September 2005 and March 2006 Unit: Million yen; shares (number of shares) Company Name Number of Shares Olympus 15,000 OFH 12,000 Total 27,000 Average per share price: 185 thousand yen Value 2,775 2,232 5,007 Company Name Olympus OFH Total	June 16, 2006 June 18, 2007 Axes 3 Yen currency at that time (100 million yen) 3 Remarks Basic fee pursuant to the FA Agreement Axes 5 6 Payment of necessary expenses pursuant to the FA Agreement. Of which, 3 million dollars were paid to Axes Japan on July 3, 2006, and the remaining 2 million dollars had also been allocated to the overseas FA, etc. Axes 2 2 Basic fee pursuant to the FA Agreement 70 November 26, 2007

		Axes 2 2 Basic fee pursuant to the FA Agreement 70 November 26, 2007				
	BA : Press Allegation	BB : Whistle blowing	BC : Absence of Board of Directors	BD : Abuse of Authority	BE : Lack of Due Care	BF : Lack of Independency
Aronson, Bruce E.				No information on the losses was ever disclosed to the board of directors, and management generally discouraged employees from providing information on questionable company practices. The effectiveness of internal corporate auditors (kansayaku or "company auditor")51 is a fundamental issue underlying this approach. They are criticized as lacking authority since they have no vote at board meetings and cannot hire or fire the CEO or directors.52 In addition, they have historically been regarded as lifetime company employees who are not in a good position to question management and do not aggressively pursue their responsibilities.	The effectiveness of internal corporate auditors (kansayaku or "company auditor")51 is a fundamental issue underlying this approach. They are criticized as lacking authority since they have no vote at board meetings and cannot hire or fire the CEO or directors.52 In addition, they have historically been regarded as lifetime company employees who are not in a good position to question management and do not aggressively pursue their responsibilities.53	Although Japanese law and practice may be strong in auditing individual transactions, it implementation of the company's is weak in the oversight of formulation and strategic plans, as well as compensation issues related to directors and top management.59 In fact, the board's lack of supervision over the CEO, including matters such as hiring and firing, may be the biggest corporate governance problem at traditional Japanese corporations.60
Elam, Madrigal, & Jackson		Second, the whistle blower was Olympus' own President and CEO, Michael C. Woodford. He			Ernst & Young, in turn, allowed US $177 million to be booked as goodwill on the Gyrus acquisition	First, top management was able to hide $1.7 billion in investment losses for nearly 20 years while external auditors lacked due diligence and failed to uncover all the

						falsified business transactions.
Norris, Floyd.	All this might have gone unnoticed but for a Japanese magazine, which reported in July that the company had overpaid spectacularly for the acquisitions that Olympus made to avoid the Enron-related accounting deadline.			The committee says the top officers of Olympus knew what was going on throughout and that new presidents always accepted the decisions made by their predecessors. It does	The committee says the top officers of Olympus knew what was going on throughout and that new presidents always accepted the decisions made by their predecessors.	
Fackler & Umemura,					The fallout from the scandal could also extend to auditors, who will need to explain why they failed to noticed such big losses for so long, Mr. Fukao said. “You just can’t hide hundreds of millions of dollars in losses on your balance sheet, and for so long,” Mr. Fukao said. “There would have been signs. More people should have known.”	
Hays, Jeffrey.			"Board of directors and auditors meetings became a mere facade and thus could not perform their check functions."	In December 2011, the Yomiuri Shimbun reported: Olympus Corp.'s long years of covering up huge investment losses was orchestrated by three consecutive presidents and continued behind closed doors by a handful of executives involved in financial affairs. This is The report by a third-party concluded that Olympus nurtured a "yes man"		

				corporate culture executives and harshly criticized the optical equipment maker, saying, "The management core was rotten." It also said the company has created "a lineup of yes men who couldn't voice objections." [Source: Yomiuri Shimbun, December 8, 2011] The head of six-member panel, Tatsuo Kainaka, said, "Because the authoritarian management system continued for a long time and those [involved in the cover-up]		
Layne, Nathan.		The scandal erupted on Oct. 14 when Olympus ousted chief executive Michael Woodford after he questioned the Gyrus fee and the purchase of medical waste recycler Altis, cooking container maker News Chef and health food firm Humalabo				
Mintz, Steven.				The report says the top officers of Olympus knew what was going on throughout and that new presidents always accepted the decisions made by their predecessors.		
Reuter Staff1			The lack of independent directors supervising management is one of the key factors behind Japan’s No. 36 ranking out of 39 countries on corporate governance in the			Boards typically stacked with insiders

			latest survey by research firm GMI.			
Tabuchi, Hiroko.		The admissions came after Olympus fired its former chief executive, Michael C. Woodford, who had questioned the company's board over a series of unusually large acquisition payouts that were later found to be part of the company's false accounting.				
Investigation Report	On November 8, 2011, following the press release concerning the loss deferral, Olympus requested that the Committee expressly include in the investigations the facts concerning the loss deferral as well ("Notice on the expansion of the target of investigation by the Third Party Committee and personnel changes," an Olympus release dated November 8, 2011), so that aside from the investigation of facts and the assessment of whether or not there were any fraudulent or inappropriate conduct or unreasonable business judgment on the part of Olympus in relation to any of the transactions during the time period from the planning to the execution of the acquisitions of Gyrus and the	In response, Woodford returned to England on the same evening, and subsequently, made a request to the Serious Fraud Office for an investigation into the advisory fee amount concerning the aforementioned acquisition of Gyrus shares, and while he held consultations etc. with the investigative agencies of each country, he concurrently publicized the M&A suspicions to the mass media. Subsequently, Olympus decided to establish this Committee noted in the beginning, and the Incident was discovered.	When Ota was in charge of the Accounting Department, they would seek his approval for purchases; basically, though, Ota would simply approve Yamada and Mori's asset management decisions. Later, wh Based on these requests from Olympus, by March 1998 Sagawa and Nakagawa established the Cayman-based Central Forest Corp. fund (hereinafter, "CFC"). Olympus reported in a Board of Directors meeting the range of the purchase prices of the Three Domestic Companies, and obtained approval to acquire the shares, based on the figures of this			

	Three Domestic Companies, investigations concerning fraudulent or inappropriate transactions on the part of Olympus suspected to be involved with the above were added to the commissioned work. On July 31st of the same year, Woodford obtained from an acquaintance a translation of an article in the August issue of FACTA entitled “Olympus “Reckless M&A” Mystery of Huge Losses” and due to this, became suspicious about the acquisition amount of the Three Domestic Companies (Altis, News Chef, Humalabo) and the advisory fee amount connected with the acquisition of Gyrus shares. series of unusually large acquisition payouts that .		Shareholder Value Calculation Report. (B)			
	A : By Loans	B : Bypassing System	C : Sales From UPSI	D : Using Fake FS	E : By Using SuperUser	F : Changing Accounts value
Bhasin, Madan L.			Earlier, market regulator SEBI had found the top management of Satyam guilty of unfairly manipulating stock prices and insider training and imposed a fine of Rs. 1,850 crores.			
Bhasin, Madan L.2		The Satyam scandal involved this system			by porting the data into the IMS.” This system was	

		structure being bypassed by the abuse of an emergency 'Excel Porting System', which allows invoices to be generated directly in IMS			subverted by the creation of a user ID called 'Super User' with "the power to hide/unhide the invoices generated in IMS."	The CBI found that "sales were inflated every quarter and the average inflation in sales was about 18%
Bhasin, Madan L.3				The company's global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue.		Satyam also underreported liabilities on its balance sheet. For example, the results announced on October 17, 2009 overstated quarterly revenues by 75 percent and profits by 97 percent. An understated liability of Rs. 1,230 crore on account of funds arranged by me; An over stated debtors position of Rs. 490 crore (as against Rs. 2,651 reflected in the books). we reported a revenue of Rs.2,700 crore and an operating margin of Rs. 649 crore (24% of revenues) as against the actual revenues of Rs. 2,112 crore and an actual operating margin of Rs. 61 Crore (3% of revenues).
Sharma, J.P.	The Panel wondered why the government put Deepak Parikh on its Board despite his HDFC group being a major creditor to the company.					

	HDFC Bank (Rs 530 Crore, ICICI Bank (Rs 40 Crore), BNP Paribas (Rs 20 Crore)					
Balachandran, Manu.			The case, which is also called the Enron of India, dates back to 2009. Six years ago, Raju wrote a letter to the Securities and Exchange Board of India (SEBI) and his company's shareholders, admitting that he had manipulated the company's earnings, and fooled investors.			
Bhoir, Anita	A group of lenders is gunning for a seat on the board of Maytas Infra Ltd, even as a senior Reserve Bank of India (RBI) official told Mint that Indian banks and foreign banks operating in the country have either lent or provided guarantees of around Rs8,000 crore to various companies promoted by the family of B. Ramalinga Raju, the jailed former chairman of Satyam Computer Services Ltd SBI chairman O.P. Bhatt had earlier confirmed in a public statement that his bank has an exposure of around Rs500 crore to Maytas Infra and					

	Maytas Properties. The latter is an unlisted real estate developer.					
BS Reporter				Contrary to the claims of former Satyam Computer Services Chairman B Ramalinga Raju that there were 53,000 associates in the company, only 40,000 exist on the rolls. The company's fixed deposits of Rs 3,300 crore, too, were fictitious.		
BSE-Notices	SRSR Holdings Pvt. Ltd. to disgorge the wrongful gain of Rs. 1258.88 crore jointly and severally with Mr. B. Ramalinga Raju and Mr. B. Rama Raju					
Das, Nageshwar.				An accrued interest of Rs. 376 crores (US$ 77.46 million) which were nonexistent.		An overstated debtors' position of Rs. 490 crores (US$ 100.94 million) [as against Rs. 2,651 crores (US$ 546.11 million) in the books].
DNA India	Private sector lender Axis Bank had advanced a sum of Rs 38 crore to EMRI, floated by the disgraced founder and former chairman of Satyam Computer, for meeting its operational expenses. It has written a letter asking the NGO to provide fresh guarantees to the loan taken in 2006-07 after the arrest of Raju, who provided personal					

	surety for the loan. The bank has invalidated the surety following Raju's arrest by the state Crime Investigation Department after his admission to cooking Satyam's balance sheet for the past 7 years to the tune of Rs 7,800 crore					
Janyala, Sreenivas.				On paper, Satyam's workforce swelled to 53,000, though the actual number was no more than 40,000. 'Salary accounts' however, continued to be opened, and 'salaries' were deposited in them.		
Krishnan, Aarti.				To achieve this, they sewed up deals with fictitious clients, had large teams working on these pet ‘projects’ of the chairman, and introduced over 7,000 fake invoices into the company’s computer systems to record sales that simply didn’t exist. For good measure, profits too were padded up to show healthy margins.		
Najar & Raj,				According to a charge sheet filed by the Indian Central Bureau of Investigation months after Mr. Raju’s resignation, the fraud played out over at least eight years and involved more than 7,000		

				forged invoices, and thousands of overpaid, unnecessary employees.		
PTI2	Sebi had passed an order in July 2014 against B Ramalinga Raju, B Rama Raju, and some top officials, wherein the two brothers were asked to disgorge Rs 543.93 crore made on sale of Satyam shares and an unlawful gain of Rs 1258.88 crore made by pledging the Satyam shares through SRSR Holdings.		"is upheld to the extent that the appellants were insiders under the PIT Regulations and that the appellants had pledged/sold the shares of Satyam when in possession of UPSI and thus, they have violated the Sebi Act and the PIT Regulations".			
PTI3		"In order to handle any emergency needs, Satyam Computer had another method through which invoices were directly generated in the IMS by porting the date directly into the system bypassing the regular application flow,"			The agency found that in order to perpetrate this fraud, the accused had allegedly planted a surreptitious programme in the source code of the IMS creating a user id 'Super User' with the power to hide or unhide the invoices in the system, the official said.	The CBI has found that officials at Satyam Computer have bypassed regular system of creating invoices to generate fake bills, which were later used to show inflated revenues worth Rs 4,500 crore.
Sharma, E. Kumar.						Debtors position of Rs 490 crore is overstated (as against Rs 2,651 reflected in the books) … but if this Rs 7,000-odd crore did not exist…
Vasudevan, Nishanth	"While break up detailsare not known, even assuming 30-35% of the debt is with ICICI Bk, it amounts			"The total secured debt(as of Sep'08) as per Satyam's b/s was Rs2530mn (US$ 55mn)... but given the overstatement in		

	toRs750850mn it would imply npl's of <0.05% of IBank's loans. For HDFC Bk, theamt could be equal to 0.06% of loans. Likely to be less of an NPL issue forthese banks. ...though leaves unanswered questions on due diligence," Varmasaid. "Most of its cashbalances (that were overstated to the extent of >Rs50bn) were supposedly withforeign banks such as Citi, HSBC, BNP etc. But again, hopefully, the bank booksshould be tallied (and this should not directly impact these foreign banks)," headded.			terms of cash balances, the loans could become NPL's. Unsecureddebt was around Rs2350mn (but less likely from banks)," sai		
Verma, Raghavendra.					This system was subverted by the creation of a user ID called 'Super User' with 'the power to hide/unhide the invoices generated in IMS'. By 'logging in a Super User, the accused were hiding some of the invoices that were generated through Excel Porting. Once an invoice is hidden the same will not be visible to the other divisions within the company but will only be visible to the [company's finance division sales team]' concluded the CBI.	Documents released to the general public in India showed how the company's standard billing systems were subverted to generate 'false invoices to show inflated sales,' The value of these fake invoices 'were shown as receivables in the books of accounts of [Satyam] thereby dishonestly inflating the revenues of the company.' The CBI said their inquiries revealed there are 7,561 invoices found hidden in the invoice management system,

						worth INDRupees 51 billion (US$1.01 billion).
Satyam SEBI Order	Thus, SRSR Holdings had pledged shares of Satyam Computers in order to obtain funds in the names of related / connected entities, when Mr. Ramalinga Raju and Mr. Rama Raju were involved in and had full knowledge that the financials of Satyam Computers were being manipulated by them for several years		Mr. Vadlamani Srinivas, being the Head of Finance , was fully aware that the books of accounts of Satyam Computers were being manipulated over the years. Since March 2001, Mr. Vadlamani Srinivas had sold a total of 9,75,242 shares of Satyam Computers while in possession of the 'unpublished price sensitive information' at high price and got unlawful benefit of ₹ 29.5 crore as described in the following table: Mr. G Ramakrishna was fully aware that the books of accounts of Satyam Computers were being manipulated over the years and while in possession of the 'unpublished price sensitive information', he had sold shares of Satyam Computers at high prices and benefited by ₹ 11.50 crore as detailed in the following table: He was fully aware that the books of account of Satyam Computers were being manipulated over the years. Since March 2001, he sold a total of 95,064 shares and 4,950 ADS of Satyam Computers while in possession	It was observed that Mr. Rama Raju generated letters requesting the creation or renewal of fictitious fixed deposits with banks so as to make such fixed deposits appear genuine. One such instance brought out a letter dated October 26, 2006 signed by Mr. Rama Raju as the MD, addressed to HSBC, stating that a wire transfer of ₹ 316.75 crores had been made to the bank on October 27, 2006, and requesting that the amount be placed in fixed deposits of a fixed deposits, along with a forged FDR of HSBC.		As mentioned above, glaring mismatches were observed in the figures of TDS in the books, which were misleading, to cover up the manipulation in the revenues.

			of the 'unpublished price sensitive information' in this case at high prices and benefited by ₹ 512.65 lakh as described in the following table: Mr. G Ramakrishna was fully aware that the books of accounts of Satyam Computers			
Securities Appellate Tribunal Mumbai	During that period Ramalinga Raju, Rama Raju and their wives transferred their shareholding in Satyam to SRSR and SRSR in turn pledged those shares for obtaining loan of ` 1258.88 crore to the group concerns and as the loan was not repaid the pledged shares have been sold by invoking the pledge.					
	H : Creating Fake Invoices	I : Company Acquistion	J : Diversion to Acquitances	K : Illegal Auditor Payment	L : Investment	M : Land Purchases
Bhasin, Madan L.	Mr. B. Ramalinga Raju (Chairman of Satyam) had been fudging and cooking up the books of accounts of Satyam quietly from 2001 to 2008 by planting electronically created fictitious order receipts and sales invoices.					
Bhasin, Madan L.2	Thus, the fake cash flows had led to the bogus bank balances. However, wide gaps can be noticed in net income and cash flow from					The money, in the form of salaries paid to ghost employees, came to around $4 million a month, which was diverted through front

	operation during 2006, 2007 and 2008, respectively. "During 2006 to 2008, cash flows were far less than net income due to accounting manipulations. Indeed, Satyam fra a stunningly and very cleverly articulated comprehensive fraud, likely to be far more extensive than what happened manipulated too. To do that, Raju's team had to forge several big amount accounts receivables,					companies and through accounts belonging to one of Mr. Raju's brothers and his mother to buy thousands of acres of land
Bhasin, Madan L.3	This has resulted in artificial cash and bank balances going up by Rs. 588 crore in Q2 alone.		Satyam planned to acquire a 51% stake in Maytas Infrastructure Limited, a leading infrastructure development, construction and project management company, for $300 million. Here, the Rajus's had a 37% stake. The total turnover was $350 million and a net profit of $20 million. Raju's also had a 35% share in Maytas Properties, another real-estate investment firm.		Satyam planned to acquire a 51% stake in Maytas Infrastructure Limited, a leading infrastructure development, construction and project management company, for $300 million. Here, the Rajus's had a 37% stake. The total turnover was $350 million and a net profit of $20 million. Raju's also had a 35% share in Maytas Properties, another real-estate investment firm.	The fraud took place to divert company funds into real-estate investment, keep high earnings per share, raise executive compensation, and make huge profits by selling stake at inflated price. Investigations into Satyam scam by the Crime Investigation Department (CID) of the State Police and Central agencies have established that the promoters indulged in nastiest kind of insider trading of the company's shares to raise money for building a large land bank.
BS Reporter			They added that Ramalinga Raju admitted to having transferred shares to his			

			brother Suryanarayana Raju and mother Appalanarsamma. The Overall, the prosecutors said, the accused had also diverted Rs 20 crore a month for five years. “The public prosecutors’ accusations that money has been diverted from Satyam to other businesses of the promoter family was playing to the gallery.			
BSE India		Satyam Computer Services Ltd on October 23, 2007 has announced that it has entered into a definitive agreement to acquire 100% stake in Nitor Global Solutions Ltd ("NITOR") of the UK, a niche consulting firm providing Infrastructure Management Services (IMS), for up to GBP 2.76m (US$ 5.5M) in cash. The deal marks the second acquisition in Europe by the Indian software giant which recorded revenues of US$1.46 billion in the fiscal year ended March 31, 2007. NIT				
Das, Nageshwar.	An accrued interest of Rs. 376 crores (US$ 77.46					

	million) which were nonexistent.					
IANS			After prolonged interrogation, Raju finally admitted to diverting Satyam funds to his family firms - Maytas Properties and Maytas Infra. He told CID sleuths that this was going on since 2004.			
Iyengar, Rishi.				SEBI also ordered the accounting firm to relinquish "wrongful gains" of around 130 million rupees ($2 million), plus 12% interest per year for the past eight years.		
Kaul, Vivek.					Further, once fake sales had been recorded, fake profits were made. And fake profits brought in fake cash which needed to be invested somewhere. This led to Raju creating fake bank statements(forged fixed deposit receipts) where all the fake cash that the company was throwing up was being invested.	
Krishnan, Aarti.	To achieve this, they sewed up deals with fictitious clients, had large teams working on these pet ‘projects’ of the chairman, and introduced over 7,000 fake invoices into the company’s computer systems to record sales that simply didn’t exist.		What is more, while being fully aware of the fictitious financials, the Rajus transferred 1.57 crore of their own shares to related entities through off-market transactions. SEBI alleges that these shares, valued at over ₹543 crore, were in turn sold in the stock			

			market, netting a neat profit. The promoters also pledged another 6.2 crore shares to raise loans and cash amounting to ₹1253 crore. Top managers such as Vadlamani Srinivas (CFO), G Ramakrishna (VP-Finance) and VS Prabhakara Gupta (Head-Internal Audit) also sold shares valued at ₹4.5 crore between 2003 and 2008.			
Kumar, S. Nagesh.					It revealed a flow of Rs. 1,230 crore from 36 agricultural firms into Satyam from November 2006 to October 2008. Mr. Raju circulated this document exclusively to Satyam's Directors on December 16, along with his confessional statement. He was trying to drive home his point that he had arranged the money (not reflected in the books) to keep the operations afloat. The names of all these companies had suffixes like "Farms," "Greenfields, "Greenlands" or "Agro farms."	Separately, the Inspector-General of Stamps & Registration said his office had so far traced 341 land transactions and was verifying whether the person involved was the former Satyam chief. All this explains the huge volume of land-related documents seized during searches at Mr. Raju's residence. It revealed a flow of Rs. 1,230 crore from 36 agricultural firms into Satyam from November 2006 to October 2008. Mr. Nearly half of the stocks were in the name of two companies - Bangar Agro and Harangi Agro Farms Pvt. Ltd - owned by Mr. Raju's close relatives. Besides, promoters of Maytas Infra and Maytas

						Properties, the two companies that Satyam Board wanted to buy for U.S. $ 1.6 billion, had floated or invested in 240 companies, all in the area of real estate, investigations show. CPI State secretary K. Narayana alleged that Mr. Rajaiah owned at least 7,300 acres in Rangareddy and Nalgonda districts.
PTI				The Securities and Exchange Board of India (Sebi) also ordered the disgorgement of over Rs13 crore of wrongful gains from the auditing firm and its two erstwhile partners who worked on the IT company's accounts. Sebi noted that the order would not impact audit assignments relating to the fiscal year 2017-18 undertaken by the firms forming part of the PwC network. Besides, Price Waterhouse Bangalore and its two erstwhile partners-S. Gopalakrishnan and Srinivas Talluri-have been directed to jointly and severally disgorge the wrongful gains of "Rs13,09,01,664 with interest calculated at the rate of 12 per cent per annum from January		

				7, 2009 till the date of payment". They have to pay the amount within 45 days.		
PTI1			In a fresh order in the nearly seven-year old Satyam scam case, regulator Sebi on Thursday asked 10 entities linked to the main accused B Ramalinga Raju - including his mother, brother and son -- to disgorge over Rs 1,800 crore (Rs 18 billion) worth of illegal gains made by them			
PTI3	The CBI has found that officials at Satyam Computer have bypassed regular system of creating invoices to generate fake bills, which were later used to show inflated revenues worth Rs 4,500 crore.					
PTI4		"Satyam Computer Services Ltd. (NYSE:SAY), a leading business and information technology services provider, today announced that it has entered into a definitive agreement to acquire Bridge Strategy Group, a Chicago, Ill.-based management consulting firm. In making the $35 million, all-cash purchase, Satyam significantly reinforces its strategy consulting and business				

		transformation capabilities. "Br				
PTI6		Satyam Computer Services Ltd has acquired Citisoft, an investment management consulting firm, for $23.2 million. Citisoft, with presence in London, Boston and New York, has one of the largest business consulting expertise in the world. The consideration for the acquisition consists of a guaranteed payment of $23.2 million, payable over three years, and an additional performance based payment of up to $15.5 million, also to be paid over a three-year period, the Hyderabad-based company informed the Bombay Stock Exchange on Thursday.				
37 : Sharma, E. Kumar.		April 2005 Acquired UK-based Citisoft Plc, a business consulting firm, with operations in investment management. Funding: $38 million paid in tranches July 2005 Acquired Singaporebased Knowledge Dynamics, a consulting solutions provider.	A number of companies, including the Maytas twins, were floated for this purpose.			

		Funding: All-cash deal of $3.3 million October 2007 Acquires a 100 per cent stake in Nitor Global Solutions, a UKbased infrastructure management services and consultancy group. Funding: $5.5 million in all-cash deal January 2008 Acquires Bridge Strategy Group, a Chicago-based management consulting firm, with revenues of $17 million. Funding: $35 million in all-cash purchase				
Satyam SEBI Order	Mr. Suresh Kumar also stated that he used to prepare the excel file from which data was used to raise the fake invoices. Certain numbers were left out of the sequence in the Purchase Orders in the IMS data, which he used to add to the excel file. He would also take, on a random basis, the names of Associates, role players, approvers, business heads, etc., and add them to the excel file. Mr. Malla Reddy and Mr. Suresh Kumar had stated that about 300-400 such fake invoices were generated each quarter					

	resultantly showing inflated revenues in the books. Mr. V.V.K Raju the then Senior V.P., Finance of Satyam Computers, furnished the details of 7,561 fake invoices (“S” Series) generated in the IMS, out of which 6,603 invoices had been posted into the Oracle Financials. He further stated that these invoices were fake since they did not have roots in SPR and Project ID tools and were not visible to business finance personnel. Mr. V.V.K Raju had confirmed about these 7561 invoices as follows: "a. the fictitious invoices are in the nature of off shore invoices; b. there is no linkage into PBMS; c. the payment instructions were found to be different to what is normally given by the company in case of genuine invoices (like asking for a cheque payment instead of the normal wire transfer instructions into a specific bank which is the normal practice)." The fact that these 7,561 invoices were fake was further corroborated by the					

	statement of Mr. Ramarao Remella, AVP (Finance) of Satyam Computers, dated October 8, 2009, wherein he stated that the aforesaid 7,561 invoices were not visible to business finance personnel of Satyam Computers (FICs) after getting them checked and confirmed by each FIC. In addition, there were invoices in the IMS for the development of certain customized products in respect of non-existent customers. These invoices were tagged with the letter "H". There were a total of 27 such invoices, as listed in the following table:					
47 : Securities Appellate Tribunal Mumbai	Satyam without being aware that the bank balances shown in the books of Satyam during the years 20012002 were fictitious. Mr. V.V.K Raju the then Senior V.P., Finance of Satyam Computers, furnished the details of 7,561 fake invoices ("S" Series) generated in the IMS, out of which 6,603 invoices had been posted into the Oracle Financials. He further stated that these invoices were fake					

	since they did not have roots in SPR and Project ID tools and were not visible to business finance personnel					
	N : Authority	O : Nepotism	P : Poor Corporate Governance	Q : Unprofessional External Auditor	R : Unstrict Government Regulation	S : Competitive Pressure
Bhasin, Madan L.		Moreover, they were also extremely slow to act when it was already clear that the company was in financial distress. Her Each of the board members were there on his personal invitation and that made them ineffective. The Board ignored, or failed to act on, critical information related to financial wrong-doings before the company ultimately collapsed.”				
Bhasin, Madan L.3				The large amount of cash thus should have been a ‘red-flag’ for the auditors that further verification and testing was necessary. Furthermore, it appears that the auditors did not independently verify with the banks in which Satyam claimed to have deposits” (Ka Furthermore, PwC audited the company for nearly 9 years and did not uncover the fraud, whereas Merrill Lynch discovered the fraud as part of		

				its due diligence in merely 10 days Table-5 shows that over a period of four years, 2004-05 to 2007-08, the audit fee increased by 5.7 times, whereas total income increased by 2.47 times during the same period.		
Sharma, J.P.				The fraudulent role played by the PricewaterhouseCoopers (PwC) in the failure of Satyam matches the role played by Arthur Anderson in the collapse of Enron. S Goplakrishnan and S Talluri, partners of PwC according to the SFIO findings, had admitted they did not come across any case or instance of fraud by the company. The last straw of deficiencies in statutory standards was despite having observed control deficiencies in the Information Systems and the risk of exposure to frauds, PwC chose to keep silent and did not report the matter to the shareholders. In an admission before the SFIO, VSP Gupta, Global Head Internal audit had said that even though the coverage and resources of internal audit was not commensurate with		

				the size of the business, PwC ignored this fact and certified the company. PwC did not check even one per cent of the invoices, neither did they pay enough attention to verification of sundry debtors, which according to Ramalinga Raju's confession was overstated by 23 per cent (SFIO report says it was overstated by almost 50 per cent).37		
Balachandran, V. Sudhakar						It is usually a response to competitive pressures.
Das, Nageshwar.			In the process, Satyam grossly violated all rules of corporate governance. As well as, The Satyam scam had been the example of following "poor" CG practices. The Satyam case is just another example supporting the need for stronger CG.	Indian authorities also arrested and charged several of the company's auditors (PwC) with fraud.		
Ethiraj, Govindraj.				However tightly knit a company's top management is, it is tough to believe that the auditors - PricewaterHouseCoopers - could not catch the gaps in accounting, including failing to verify the actual bank balances. Whether they willingly overlooked or failed in routine due diligence, they	The matter also raised the larger question for insiders: if you know there is impropriety going on around you, particularly if it's a publicly listed company, should you not blow the whistle? Of course, if you do blow the whistle, then how do you do it and how do you protect yourself thereafter? The answers to these questions are clearer in theory than in practice, even today.	In his five-page letter, Raju had admitted that Satyam's profits had been overstated for years and assets falsified to create a much rosier picture than was the case

				were surely guilty of not doing their job properly.		
IANS				Raju not only diverted funds out of Satyam but is also believed to have misled company auditors PricewaterhouseCoopers (PwC) by submitting fake bank documents.		
Iyengar, Rishi.				PwC overlooked "several red flags.... which were all too obvious for any reasonable professional auditor to miss," the Indian regulator said in its ruling published late on Wednesday.		
Janyala, Sreenivas.		Top investigators in the Economic Offences Wing of the Andhra Pradesh CID told The Indian Express that Raju's youngest brother Suryanarayana Raju was his chief lieutenant in the operation.				
Kaul, Vivek.			Getting back to Raju, in order to record the fake sales he introduced 7000 fake invoices into the computer system of the company. He couldn't stop at this.			
Krishnan, Aarti.	Good question. SEBI's investigations show that many of them did. But they either helpfully supported the cover-up or turned a blind eye, deferring to 'instructions from the Chairman's office'.		Well, the internal auditor hauled up by SEBI has frankly admitted that he did notice differences in the amounts billed to big clients such as Citigroup and Agilent when he scoured Satyam's	As to the external auditors who are supposed to look out for investors, they seem to have been quite a trusting lot. While verifying bank balances, they relied wholly on the (forged) fixed deposit	Unlike Agatha Christie novels, financial crimes in India seldom have a satisfying denouement. Perpetrators often manage to evade the long arm of the law. Where they are brought to book, the actual details of the	Keen to project a perpetually rosy picture of the company to investors, employees and analysts, the Rajus manipulated Satyam's books so that it appeared to be a far

			computerised accounts. But when he flagged this with Satyam's finance team, he was fobbed off with the assurance that the accounts would be 'reconciled'. Later, he was 'assured' that the problems had been fixed.	receipts and bank statements provided by the 'Chairman's office'.	crime get lost in legal technicalities.	bigger enterprise than it actually was.
McCulloch, Scott.		The deal was heavily criticised by investors who said it was driven by nepotism rather than business sense, and the board was forced to abandon the agreement as Satyam's share price plunged.				
Najar & Raj,					One of the causes of fraud, she said, is "the opportunity to commit the fraud and get away with it because the regulatory mechanism is not consistently enforced," adding that many cases go unreported in India	
Satyam SEBI Order	Mr. Ramalinga Raju has himself admitted in his statements that he instructed Mr. Srinivas to „inflate performance‟ so that it was in line with "market expectations". Both he and Mr. Ramakrishna were not convinced of this argument and resisted their directions, but they yielded to their pressure;	On January 21, 2002, a resolution was passed by the Board of Directors of Satyam Computers authorising Mr. Ramalinga Raju and Mr. Rama Raju (i.e., either of them) to make any investment or place any fixed deposit from Satyam Computers‟ funds, without any limit. This resolution gave Mr. Ramalinga Raju and Mr. Rama Raju control over the				Apart from the above, Mr. Ramalinga Raju‟s statements make it clear that his intention was to maintain an artificial and false picture as to Satyam Computers‟ financials and the value of its shares in the market. Mr. Ramalinga Raju and Mr. Rama Raju said that it was very important to show good results to attract customers, employees, etc and that they

	He was, however, directed by Mr. Rama Raju to close the observations pertaining to reconciliation, and Mr. Rama Raju stated that Mr. Ramakrishna would take care of the same. He has stated that he could not overrule the directions from Mr. Rama Raju, and therefore directed his team to close the observation. In his statement recorded on January 10, 2009, Mr. Srinivas stated that deployment of surplus funds was exclusively handled by Mr. Ramalinga Raju/Mr. Rama Raju, and that specific oral instructions were given to him by them that he should not interfere. The material on record clearly indicates Mr. Rama Raju‟s involvement in the fraud, inter alia, by issuing instructions for the use of monthly statements for accounting purposes, taking control of fixed deposits, ensuring that he and Mr. Ramalinga Raju retained control over the account at BoB, New York branch, issuing letters for renewal of	alleged surplus funds of Satyam Computers and has clearly been misused by them, inter alia, through fictitious investments in fixed deposits.				should show inflated results for a limited period of time.

	fake fixed deposits, and various other aspects of the fraud. This shows that Mr. Rama Raju not only had knowledge about the various payments that were being made, but had instructed the finance personnel to record them in a certain manner. employees, etc and that they should show inflated results for a limited period of time.					
	T : Greed	U : Meeting Certain Expectation	V : Work-Related Pressure	W : Company's Going Concern	X : Fear of Acquisition	Y : Temporary Recovery
Bhasin, Madan L.3	Greed for money, power, competition, success and prestige compelled Mr. Raju to “ride the tiger,” which led to violation of all duties imposed on them as fiduciaries-the duty of care, the duty of negligence, the duty of loyalty, the duty of disclosure towards the stakeholders.	Satyam overstated income nearly every quarter over the course of several years in order to meet analyst expectations.				
Sharma, J.P.	The company, apart from this, is also believed to have issued American Depository Shares worth $ 15.2 crore out of which only $ 5.25 crore were brought in to the country. 5					
Balachandran, Manu.					Raju explained his reasons for inflating earning in the letter	

					thus: “As the promoters held a small percentage of equity, the concern was that poor performance would result in a takeover, thereby exposing the gap.” “What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years,” Raju said in the letter. “It has attained unmanageable proportions as the size of the company operations grew significantly.”	
Balachandran, V. Sudhakar						The fiddle is easy to rationalize at first. Managers typically have confidence in their skills and believe that their company is fundamentally sound. Given that, it's easy to rationalize that while we're just a little short on the numbers now, we will make it up in the future, and nobody will know.
Das, Nageshwar.	Deriving high stock values would allow the promoters to enjoy benefits allowing them to buy real wealth outside the company and thereby giving them the opportunity to derive money to acquire large stakes in other firms on another hand					

Ethiraj, Govindraj.			In an interview to this writer at the Satyam HQ in Hyderabad, in 2006, Raju had once said that quarterly earnings were putting unreal pressure on companies. “If you take out weekends and holidays, you are turning around results in less than 150 days,”			
Kumar, S. Nagesh.				He was trying to drive home his point that he had arranged the money (not reflected in the books) to keep the operations afloat.		
Sinha, Varun.				Mr Raju wrote a letter to over 50,000 Satyam employees and said his decisions were intended to bring "Satyam back on track".		
Satyam SEBI Order	The making of the ADS issue was another factor which boosted the image of Satyam Computers and its shares in the mind of the investors	In his statement dated February 6, 2009 during investigation, Mr. Ramalinga Raju stated that it was a decision which had no financial implication for Satyam Computers and, at the same time, was in line with the investors‟ expectations. He also stated that among many demands that investors were making from time to time, this was an easier decision for Satyam Computers to take under the circumstances.	He was, however, directed by Mr. Rama Raju to close the observations pertaining to reconciliation, and Mr. Rama Raju stated that Mr. Ramakrishna would take care of the same. The access of the Internal Audit team to OFF module in the Oracle Financials was also removed after this episode. He has stated that he could not overrule the directions from Mr. Rama Raju, and therefore directed his team to close the observation. Mr. Prabhakara Gupta has also produced the Internal Audit Reports in question. Mr. Rama Raju‟s	As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.		

			intervention and instructions to Mr. Prabhakara Gupta to close the audit observations were in order to ensure that the fake invoices which had been identified by Internal Audit were not exposed. It was observed that Mr. Rama Raju generated letters requesting the creation or renewal of fictitious fixed deposits with banks so as to make such fixed deposits appear genuine. Mr. G. Ramakrishna had admitted fraudulent practices such as accounting on the basis of monthly statements, but had claimed that this was done on the instructions of Mr. Ramalinga Raju.			
	AI : E-Mails	AJ : IMS Inspection	AK : Online Checking	AL : Interview	AM : Nonpublic Records	AN : Bank Confirmation
Verma, Raghavendra.		The CBI said it had used cyberforensics to uncover how in-house computer systems were exploited to generate fake invoices				
Satyam SEBI Order	As mentioned hereinabove, in his e-mail dated January 7, 2009, Mr. Ramalinga Raju had stated that for the September 2008 quarter, Satyam Computers had reported a revenue of ₹ 2,700 crores and an operating margin of ₹ 649 crores (24%	It was further observed that the sales revenues were inflated and shown in the books through insertion of a large number of fictitious invoices raised in respect of fake customers and/or transactions. The fake invoices were introduced	In order to find out about the existence of Cellnet Inc. for which the product was claimed to be developed by Satyam Computers, a search was made on the internet, which did not reveal the existence of any Cellnet Inc. at the aforesaid address. Further, there did not	Mr. Malla Reddy had, inter alia, stated in his statement recorded on October 8, 2009, that he used to receive an excel attachment from Mr. Srisailam Chetkuru, who was his reporting manager, and was instructed by him to hide the invoices mentioned in the		As on September 30, 2008, the actual balance in the current account of Satyam Computers as confirmed by BoB, New York branch was USD 10,836,569, whereas in the Monthly Bank Statement such balance was shown as USD 379,612,384. BoB,

	of revenues) as against actual revenues of ₹ 2,112 crores and an actual operating margin of ₹ 61 crores (3% of revenues). As per Mr. Ramalinga Raju's e-mail dated January 7, 2009 the balance sheet of Satyam Computers contained accrued interest of ₹ 376 crore which was non-existent. Mr. Ramalinga Raju, in his email, had stated that he had arranged for funds amounting to ₹1230 crore for Satyam Computers over the past two years, which were not reflected in its books of account. The email of Mr. T. R. Anand, former business leader, Satyam Computers, has brought out the role of Mr. Rama Raju in the creation of certain "H" type invoices as stated in the paragraphs above.	into the system through the Invoicing Management System ("IMS"). Apart from the above, the system also enabled porting of data through MS Excel directly at the IMS stage. In such a situation, all the fields were entered in the IMS manually, known as "excel porting". When excel porting was done, there was no need for the data to pass through all the stages mentioned above. It was, however, necessary to have the Admin ID to generate invoices through excel porting. In other words, excel porting with the use of an Admin ID and password enabled the generation of an invoice directly at the IMS stage, rather than the data being generated through the various other tools mentioned above.	exist, the website www.cellnetinc.net, which has been given as the URL of Cellnet Inc. in the email of the socalled Mr. John Elite. Thus, this customer was fictitious.	attachment while updating collections in the IMS. At the end of the month, or mid-month, he used to import excel files from a server folder into the IMS and generate invoices against the imported data. After he had raised the invoices which he had ported, he used to hide them in the system. These invoices were observed to be fake. This position was corroborated by the statement of Mr. P.B.V. Suresh Kumar (then Executive, Finance, Satyam Computers). Mr. Suresh Kumar also stated that he used to prepare the excel file from which data was used to raise the fake invoices. Certain numbers were left out of the sequence in the Purchase Orders in the IMS data, which he used to add to the excel file. He would also take, on a random basis, the names of Associates, role players, approvers, business heads, etc., and add them to the excel file. In his statement dated February 6, 2009 during investigation, Mr. Ramalinga Raju stated that it was a		New York branch had confirmed the balances as per the Daily Bank Statement but not with the Monthly Bank Statement. From the confirmation letters of the banks as mentioned in para 29(b) above the following emerged: a. in the confirmation letter of ICICI Bank dated October 4, 2008, FDR number is not mentioned. The name of customer is missing. There is no reference to any letter of PW,

				decision which had no financial implication for Satyam Computers and, at the same time, was in line with the investors‟ expectations. He also		
	AO : Book Accounts	AP : Personal Letter	AQ : Pledge of Shares	AR : Confession Letter	AS : Whistle Blowing	AT : Absence of Board of Directors
Bhasin, Madan L.1						Lax Board of Directors. The Satyam Board was composed of "chairman-friendly" directors, who failed to question the management's strategy and use of leverage in recasting the company. Moreover, they were also extremely slow to act when it was already clear that the company was in financial distress.
Bhasin, Madan L.3					According to 'Investors Protection and Redressal' Forum, "Investment bank DSP Merrill Lynch, which was appointed by Satyam to look for a partner or buyer for the company, ultimately blew the whistle and terminated its engagement with the company soon after it found financial irregularities" (Blakely, 2009).	
Sanyal & Tiwari					A person who used a pseudonym of Jose Abraham, and claimed himself to be a former senior executive in Satyam involved with its contract with the World Bank, acted as the whistleblower	

					whose email to a Satyam board member triggered a chain of events that culminated in erstwhile chairman Mr Raju s decision to confess to the financial crime.	
Sikka & Nyai					On 18 December last year, two days after the Satyam board met and decided to acquire two group firms-Maytas Infra Ltd and Maytas Properties Ltd-independent director Krishna Palepu received an anonymous email. The writer went by an alias, Joseph Abraham, and has been declared the whistle blower in the case. This email laid bare the fraud.	
Satyam SEBI Order	In view of the above, SEBI carried out an investigation into the affairs of Satyam Computers to ascertain, particularly, whether the provisions of the SEBI Act, 1992 (hereinafter referred to as “SEBI Act”) and Rules and Regulations framed thereunder have been violated. SEBI also carried out inspection of the available books of account of Satyam Computers. As the subject matter of the investigation pertained to financial statements of Satyam Computers, SEBI also inspected the documents	It was observed that Mr. Rama Raju generated letters requesting the creation or renewal of fictitious fixed deposits with banks so as to make such fixed deposits appear genuine. One such instance brought out a letter dated October 26, 2006 signed by Mr. Rama Raju as the MD, addressed to HSBC, stating that a wire transfer of ₹ 316.75 crores had been made to the bank on October 27, 2006, and requesting that the amount be placed in fixed deposits	Pledge of shares by SRSR Holdings: 90. Mr. Rama Raju has addressed a letter to the Company Secretary, Satyam Computers, dated December 27, 2008, wherein he has stated that he wished to intimate that all the shares of Satyam Computers held by SRSR Holdings Pvt. Ltd. were pledged with institutional lenders over a period of time since September 2006. He has further stated that it is possible that some of the lenders may exercise or may have exercised their option to liquidate shares to cover the margin shortfall,	Securities and Exchange Board of India (SEBI) received an email dated January 7, 2009 from Mr. B. Ramalinga Raju, Ex-Chairman, Satyam Computer Services Limited, now known as Tech Mahindra Limited (hereinafter referred to as "Satyam Computers"/ "the company") admitting and confessing the following: "I would like to bring the following facts to your notice: 1. The Balance Sheet carries as of September 30, 2008 a. Inflated (non-existent) cash and bank balances of 50.40 billion rupees ($1.04 billion)		Mr. Vadlamani Srinivas had stated in his statement recorded on February 20, 2009 that Mr. Ramalinga Raju, Mr. Rama Raju, Mr. G. Ramakrishna and he himself were aware of the fraud. He has also stated that Mr. Ramalinga Raju directed him and Mr. G. Ramakrishna to show inflated results and that they resisted this, but gave in to the pressure.

	available with the auditors of Satyam Computers i.e. Price Waterhouse (hereinafter referred to as "PW" or "the auditors").	of a fixed deposits, along with a forged FDR of HSBC.	and that this would dilute the promoter‟s holding in Satyam Computers.	(as against 53.61 billion reflected in the books). b. An accrued interest of 3.76 billion rupees which is non-existent. c. An understated liability of 12.30 billion rupees on account of funds arranged by me. d. An overstated debtors position of 4.90 billion rupees (as against 26.51 billion reflected in the books) 2. For the September quarter (Q2) we reported a revenue of 27.00 billion rupees and an operating margin of 6.49 billion rupees (24 pct of revenues) as against the actual revenues of 21.12 billion rupees and an actual operating margin of 610 million rupees (3 percent of revenues). This has resulted in artificial cash and bank balances going up by 5.88 billion rupees in Q2 alone. The gap in the Balance Sheet has arisen purely on account of inflated profits over a period of last several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance). What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained		

				unmanageable proportions as the size of company operations grew significantly (annualized revenue run rate of 112.76 billion rupees in the September quarter, 2008, and official reserves of 83.92 billion rupees). The differential in the real profits and the one reflected in the books.		
	AU : Abuse of Authority	AV : Lack of Due Care	AW : Lack of Independency	AX : Lack of Tranparancy	AY : Unfunctional Whistleblowing	AZ : Weak Corporate Culture
McCulloch, Scott.			The deal was heavily criticised by investors who said it was driven by nepotism rather than business sense, and the board was forced to abandon the agreement as Satyam's share price plunged.			
	Mr. Ramalinga Raju has himself admitted in his statements that he instructed Mr. Srinivas to „inflate performance‟ so that it was in line with “market expectations”. In Both he and Mr. Ramakrishna were not convinced of this argument and resisted their directions, but they yielded to their pressure; (d) He was, however, directed by Mr. Rama Raju to close the observations pertaining to reconciliation, and Mr. Rama		On January 21, 2002, a resolution was passed by the Board of Directors of Satyam Computers authorising Mr. Ramalinga Raju and Mr. Rama Raju (i.e., either of them) to make any investment or place any fixed deposit from Satyam Computers‟ funds, without any limit. This resolution gave Mr. Ramalinga Raju and Mr. Rama Raju control over the alleged surplus funds of Satyam Computers and has clearly been misused by them, inter alia, through fictitious investments in fixed deposits.			

	Raju stated that Mr. Ramakrishna would take care of the same. The He has stated that he could not overrule the directions from Mr. Rama Raju, and therefore directed his team to close the observation. Mr. In his statement recorded on January 10, 2009, Mr. Srinivas stated that deployment of surplus funds was exclusively handled by Mr. Ramalinga Raju/Mr. Rama Raju, and that specific oral instructions were given to him by them that he should not interfere. The material on record clearly indicates Mr. Rama Raju‟s involvement in the fraud, inter alia, by issuing instructions for the use of monthly statements for accounting purposes, taking control of fixed deposits, ensuring that he and Mr. Ramalinga Raju retained control over the account at BoB, New York branch, issuing letters for renewal of fake fixed deposits, and various other aspects of the fraud. This shows that Mr.					

	Rama Raju not only had knowledge about the various payments that were being made, but had instructed the finance personnel to record them in a certain manner. The Mr. Srinivas told him that they should not question the arrangement regarding additional entries in the monthly bank statements; (c) Mr. G. Ramakrishna had admitted fraudulent practices such as accounting on the basis of monthly statements, but had claimed that this was done on the instructions of Mr. Ramalinga Raju.					
	BA : Conventional Evidence Searching	BB : Outdated Forensic Software	BC : Addition of Independent Directors	BD : Applying Segregation of Duties	BE : Checking All Irregularities	BF : Enhancing Corporate Culture
Global Corporate Governance Forum				For example, are the chairman and the CeO positions filled by the same person? Best practice advises splitting the roles to curtail one person's dominance of board deliberations and to have two distinct perspectives-the chairman's more strategic viewpoint and the CeO's operational and managerial insights. advocates for splitting these		

				positions say it minimizes the chances for CeO/ chairman entrenchment, excessive CeO compensation, and other corporate ills.		
Balachandran, Manu.					“What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years,” Raju said in the letter. “It has attained unmanageable proportions as the size of the company operations grew significantly.”	
Das, Nageshwar.				Also, separate the role of CEO and Chairman of the Board. Splitting up the roles, thus, helps avoid situations like the one at Satyam.		The Satyam case is just another example supporting the need for stronger CG. All public companies must be careful when selecting executives and top-level managers.
D'Monte, Leslie.						Fifth, half measures and indecision do not pay--it’s important to get rid of a bad apple in entirety. It was the integrity and brand reputation of the Mahindra and Mahindra group that ultimately restored clients’ faith in the company. Eventually, the merged entity that is now called Tech Mahindra did away with the Satyam name that is not only associated with the scam but also a host of class-action suits that had to be settled out of court. Tech Mahindra, in

						its new avatar, is now aiming to almost double its revenue to become a $5 billion company by fiscal 2015. Sixth, good leaders need to be consistently good. Raju was hailed a good leader but failed the very company he founded, and betrayed the trust of his employees, the IT industry and a whole nation that looked up to him.
Gerard, Joe.					Investigate All Inaccuracies The fraud scheme at Satyam started small. Sound familiar? A lot of fraud schemes start out small, with the perpetrator thinking that small changes here and there won't make a big difference - and are less likely to be detected. This sends a message to a lot of companies: if your accounts aren't balancing or if something seems inaccurate, even just a tiny bit, it's worth investigating. Break down tasks so that there are checks in each area. Dividing responsibilities across a team of people makes it easier to detect irregularities or misappropriated funds.	

Silicon India					5. Investigate All Inaccuracies A lot of frauds start out small, with the doer thinking that small changes here and there won't make a major difference- and cannot be detected. Similar thing happened in the case of Satyam. The fraud started small and eventually grew into a 1.04 billion pound. The lesson to be learnt is that if your accounts aren't balancing or if something seems inaccurate, even a tad bit, it's must be investigated. Break down tasks so that there you can have a check in each area. Dividing responsibilities across a team of people makes it easier to detect irregularities or misappropriated funds.	
Silicon India1				Each employee must be accountable for their actions, even if he is a new one. The role of CEO and Chairman of the Board must be separated.		Entrepreneurs must be careful when selecting executives and top level managers. These are the foundation of a company and if there's corruption at the top, it surely will be duplicated down. Each employee must be accountable for their actions, even if he is a new one. The role of CEO and Chairman of the Board must be separated. When the same person takes

						on both roles, there is no one to check up on the CEO. 1. Build Relationships The most important thing for an entrepreneur to understand is that business is people. He needs to understand which people are critical to the healthy performance of relationships and stay in close communication.
Verma, Raghavendra.	The CBI said it had used cyberforensics to uncover how in-house computer systems were exploited to generate fake invoices.					
Satyam SEBI Order	It was further observed that the sales revenues were inflated and shown in the books through insertion of a large number of fictitious invoices raised in respect of fake customers and/or transactions. The fake invoices were introduced into the system through the Invoicing Management System (“IMS”). Apart from the above, the system also enabled porting of data through MS Excel directly at the IMS stage. In such a situation, all the fields were entered in the IMS manually, known as “excel porting”. When excel porting					

	was done, there was no need for the data to pass through all the stages mentioned above. It was, however, necessary to have the Admin ID to generate invoices through excel porting. In other words, excel porting with the use of an Admin ID and password enabled the generation of an invoice directly at the IMS stage, rather than the data being generated through.					

Appendix 2 : List of Searched Keyword

No.	Category	Keyword
1	General	“21st Century”
2	General	“Akio Nakagawa”
3	General	“AXAM Investment Ltd.” OR “AXAM” OR “AIL”
4	General	“AXES America LLC”
5	General	“AXES Japan”
6	General	“Banque AIG CD”
7	General	“Commerzbank” OR “Commerz”
8	General	“Dynamic Dragon”
9	General	“EasterSide”
10	General	“Genesis”
11	General	“Global Target”
12	General	Gyrus Group Limited” OR “Gyrus” OR “GGL” OR “[Company] G” OR “Gyrus”
13	General	“Hajime Sagawa”
14	General	“ING Bank Tokyo Branch”
15	General	“IT Ventures”
16	General	“Jim Sagawa”
17	General	“Kikukawa” AND “Mori”
18	General	“Kikukawa” AND “Yamada”
19	General	“LGT Bank” OR “Liechtenstein ” OR “Liechtenstein Global Trust”
20	General	“Neo Strategic Fund”
21	General	“New Investments Limited”
22	General	“Ota” AND “Mori”
23	General	“Ota” AND “Yamada”
24	General	“Quick Progress”
25	General	“SG Bond Plus Fund”
26	General	“Societe Generale”
27	General	“Teao”
28	General	“Woodford”
29	General	“Yamada” AND “Mori”
30	General	“Axes Japan”
31	General	“Woodford”
32	General	“Commerzbank”
33	General	“Liechtenstein”
34	General	“Nakagawa” AND “AKIO”
35	General	“Kikukawa” AND “Yamada”

36	General	“Kikukawa” AND “Mori”
37	General	“Sagawa” AND “Jim”
38	General	“Sagawa” AND “Mori”
39	General	“Yamada” AND “Mori”
40	General	“Ota” AND “Yamada”
41	General	“Ota” AND ”Mori”
42	General	“Advisory Fee”
43	General	“corrup*”
44	General	“embezzl*” OR “misappropriat*”
45	General	“FA fee”
46	General	“fraud*” OR “illegal*”
47	General	“gift”
48	General	“M&A fee settlement method”
49	General	“off the book”
50	General	“off the record”
51	General	“rebat*” OR “kickback”
52	General	“Olympus Hong Kong”
53	General	“gift” OR “gift” OR “reward” OR “gratitude OR “endowment”
54	General	“charitable trust” OR “charitable trust”
55	General	goodwill AND “impairment loss”
56	General	“fund”
57	General	“fund trust”
58	General	“money laundering”
59	General	“rebate” OR “kickback”
60	General	“management condition”
61	General	“management performance”
62	General	“corruption”
63	General	“misappropriation” OR “accomplice” OR “mix work and private matters” OR “bribery” OR “conspiracy”
64	General	“financial asset liquidation loss”
65	General	“impairment/market value”
66	General	“zaiteku (speculative investment)” OR “massive losses” OR “bad debt” OR “massive fee”
67	General	“specified fund trust” OR “specified money fund”
68	General	“market value accounting”
69	General	“market value method”
70	General	“beneficiary rights”
71	General	“beneficiary rights repurchase and resale scheme”
72	General	“contingency fee”

73	General	“loss” AND “make up for losses”
74	General	“loss” AND “cover losses”
75	General	“loss deferral”
76	General	“Asahi Auditing Corporation” AND “loss” AND “approval”
77	General	“special purpose company”
78	General	“breach of trust” OR “aggravated breach of trust”
79	General	“secret” OR “sensitive” OR “confidential” OR “internal use only” OR “mum’s the word”
80	General	“”tobashi””
81	General	“valuation amount”
82	General	“valuation loss”
83	General	“fraudulent” OR “unlawful
84	General	“corrupt practice”
85	General	“accounts rigging” OR “cover-up” OR “hidden loss” OR “antisocial” OR “whistle-blowing” OR “fictitious”
86	Gyrus	“off-the-book” OR “off-the-book funds”
87	Gyrus	“20 billion” OR “200 billion”
88	Gyrus	“Amendment to the Engagement Letter in respect of Warrants”
89	Gyrus	“Call Option”
90	Gyrus	“Cash Settlement of Option”
91	Gyrus	“ITX”
92	Gyrus	“Olympus Finance Hong Kong Limited” OR “OFH”
93	Gyrus	“Olympus Finance UK Limited”
94	Gyrus	“Olympus UK Acquisitions Limited” OR “OUKA”
95	Gyrus	“Olympus UK Loan Notes Limited”
96	Three Domestic Companies	“Project Gold” OR “PJ Gold”
97	Three Domestic Companies	“Share Subscription Agreement”
98	Three Domestic Companies	“Valuation on Preferred Shares of Gyrus Group Limited”
99	Three Domestic Companies	“biotech”
100	Three Domestic Companies	“repurchase of dividend preferred shares”

101	Three Domestic Companies	“share” AND “preferred” OR “option”
102	Three Domestic Companies	“Warrant” AND “Option”
103	Three Domestic Companies	“warrant” AND “option” ”
104	Three Domestic Companies	“share” AND “preferred” AND “option”
105	Three Domestic Companies	“Altis”
106	Three Domestic Companies	“Exempted Limited Partnership Agreement”
107	Three Domestic Companies	“Global Company” OR “GC” OR “GCI”
108	Three Domestic Companies	“Head of Agreement for Termination of GC New Vision Ventures L.P.”
109	Three Domestic Companies	“LGT Portfolio Management”
110	Three Domestic Companies	“News Chef”
111	Three Domestic Companies	“Shuichi Takayama”
112	Three Domestic Companies	“Shuntatsu Isaka”

Source: Olympus Investigation Report (2011).

Appendix 2: Changes In The Balance Of The Affiliate Shares And Goodwill Of The Three Domestic Companies

Item			Period ending in 03/2007	Period ending in 03/2008	Period ending in 03/2009	Period ending in 03/2010	Period ending in 03/2011
Affiliate shares (unconsolidated)	A	Book value at the start of the period	-	3	597	48	30
	B	Amount of increase during the period	3	594	137	-	-
	C	Valuation loss	-	-	686	18	-
	A+B-C	Book value after subtraction	3	597	48	30	30
Goodwill (Consolidated)	A	Book value at the start of the period	-	-	543	48	30
	B	Amount of increase during the period	-	543	136	-	-
	C	Write-off amount	-	2	75	5	4
	D	Impairment loss amount	-	-	557	13	-
	A+B-C	Book value after subtraction	-	543	48	30	26

Source: Olympus Investigation Report (2011).

Appendix 3: Developments in Consolidated Goodwill Related to the Gyrus Acquisition

	Main portion	FA commissions portion			Total
		Basic compensation / performance incentives	Warrants	stock options / preferred dividend shares	
Financial year finishing March 2008 New issues	1,492 Note 1	13 Note 2	0	177 Note 2	1,683
Write-off	0	0	0	0	0
Balance (end-March 08)	1,492	13	0	177	1,683
Financial year finishing March 2009 New Issues	2	0	53 Note 3	0	55
Other adjustments	14	0	0	0	14
Write-off	84	0	1	3	88
Impairment losses, etc.	0	0	36 Note 4	119 Note 4	155
Monetary exchange modification	143	2	4	12	162
Balance as of the end of Financial year finishing March 2009	1,254	11	13	42	1320
Fisnancial year finishing March 2010 New Issues	0	0	0	412 Note 5	0
Write-Offs	64	0	1	2	67
Impairment losses, etc.	0	0	0	0	0

Monetary exchange adjustments	68	1	1	3	64
Balance as of the end of Fiscal year ending March 2010	1122	10	13	455	1600
Financial year finishing March 2011 New Issues	0	0	-	-	-
Write-offs	59	0	(1)	(23)	(83)
Impairment losses, etc.	0	0	-	-	-
Monetary exchange adjustments	109	1	(3)	(52)	(164)
Balance as of end of Fiscal year ending March 2011	955	8	10	380	1353

Source: Olympus Investigation Report (2011)

Note 1: In the acquisition of Gyrus, goodwill valued 149.2 billion yen was written, the distinction among the 206.3 billion yen purchase price and the net asset worth acquired.

Note 2: Stock option portion cash acquired as basic compensation was 12 million dollars (1.3 billion yen), and performance incentives 177 million dollars (17.7 billion yen), for a total of 19 billion yen.

Note 3: Money cashed for warrant acquisition (50 million dollars, 5.3 billion yen) and activities funds cashed (200 million yen) were written as a total 5.5 billion yen in goodwill.

Note 4: Of the 24.5 billion yen in compensation cashed through Financial year finishing March 2009, 15.5 billion yen, the quantity exceeding 5% of the acquisition price, was written as an altering loss amount for the previous financial year. In the table, comparation of book worth for warrants and stock options at the time of purchase are appointed pro rata to the adjusted profit/loss figures for the preceding fiscal year.

Note 5: OFUK cashed 620 million dollars (57.9 billion yen) for the acquisition of dividend preferred shares, book worth of 16.5 billion yen; 41.2 billion yen of the 41.4 billion yen distinction was included to goodwill, and 200 million yen was written as a monetary exchange modification.

Appendix 4: Investigation Details Concerning Outstanding Goodwill

Filtering Source	Issue	Filtering Criteria	Counterparty from which Shares were Acquired		Third Party Opinion		Key Acquisition Fee, etc.	
			Counterparty	Investigation Method	Availability	Investigation Method	Amount	Investigation Method
Olympus	ITX	Impairment loss	Investigated pursuant to the findings of loss settlement scheme (3-11).					
Olympus	IIEC II (Alta Sens)	Impairment loss	Capital increase provided to Alta Sens, and purchase of shares from Rockwell Scientific and others.	Inspection of the RSCIS, Inc. Series A Preferred Stock Purchase Agreement, and other relevant contracts, etc. dated Feb. 11, 2004	Information unavailable	-	Information Unavailable	-
Olympus	Altis	Impairment loss	Investigated pursuant to the findings found in Three Domestic Company acquisitions (4-3).					
Olympus	Humalabo	Impairment loss	Investigated pursuant to the findings found in Three Domestic Company acquisitions (4-3).					
Olympus	News Chef	Impairment loss	Investigated pursuant to the findings found in Three Domestic Company acquisitions (4-3).					
Olympus	OVC	Impairment loss	Investigated pursuant to Other related transcations of importance (4-6).					
Olympus	Japan Medical Data Center	Impairment loss	X1	Inspection of the Stock Transfer Agreement dated nov. 28, 2007	Yes	Inspection of the Stock Value Calculation dated nov. 28, 2007	100 million yen	Inspection of the Advisory Service Agreement dated Dec. 3, 2007
Olympus	Gyrus	Impairment loss	Investigated pursuant to the findings found in Gyrus acquisition (4-5).					
Olympus	OLYMPUS CYTORI, Inc.	Impairment loss	Merger with CYTORI, with a capital increase provided	Inspection of the Joint Venture Agreement dated Nov. 4, 2005.	-	-	-	-

Olympus	Japan Ecologia	Impairment loss	Investigated pursuant to Other related transcations of importance (4-6).					
OFH	ITX Convertible Bond	Loss on disposal of securities recorded	Underwriting of the ITX Bond	Inspection of the Purchase Agreement dated Jan. 20, 2003	-	-	-	-
ITX	IT Telecom	X	Nichimen	Inquiries; no contracts, etc. available for inspection	No	Inquiries	None	Inquiries
ITX	Broadleaf	X	Acquistion of shares from Tsubasa System, with a capital increase provided	Inspection of the Stock Transfer Agreement dated Jan. 15, 2006	Yes	Inspection of the reference materials accompanying the New Business Valuation Report Dated Nov. 2, 2005	200 million yen	Inquiries
ITX	Quatro Media	Impairment Loss	Split-Off from a subsidiary, with a capital increase provided	Inspection of the spin-off Plan dated Aug. 10, 2004 X3	No	Inquiries	None	Inquiries
ITX	Ai- Medic	X	Individual (owner)	Inspection of the Stock Transfer Agreement dated Jun. 26, 2007	No	Inquiries	20 Million yen	Inquiries
OBCC	Net Protection	X	Acquisition of Nichifutsu Boeki and others, with a capital increase provided	Inquiries, and inspection of the Stock Transfer Agreement dated Oct. 29, 2001 X4	No	Inquiries	None	Inquiries

Source: Olympus Investigation Report (2011).

X : The filtering procedures clssified those shares that displayed a distinction of more than 1 billion yen (8,7 million USD) among each investee's year-end net assets equivalent to the interest gain of Olympus, OFH, ITX, or OBCC, and the year-end book worth of the said interest gain.

X1 : These shares were primarily obtained by ITX from 1TMCAP2000, UTEC I Limited Partnership, Tokyo Small and Medium Business Investment and Consultation co., Ltd., NIF-one(1), and other shareholders of Japan Medical Data Center, and were consecutively wired to Olympus.

X2,3,4 : Investigators were unable to acquire contracts, agreements, etc. with concerning to the capital increase.

Appendix 5: EPS Comparation

FY	Qtr-Year	Published Sales (In ₹cr.)	Published PAT (In ₹cr.)	Published EPS (basic)	Equity Share capital (In ₹cr.)	Face Value	Fictitious invoices "S" type (In ₹cr.)	Diff between col2 and col 4	% fall in net profit as per col.5	Estimated EPS based on profit after deducting col. 4
		(1)	(2)	(3)			(4)	(5)	(6)=(2-5)/2	(3)*(6)
03-04	Q1	559.65	121.49	3.86	63.18	2	67.58	53.91	55.63%	**1.71**
	Q2	598.49	147.59	4.25	63.18	2	4.85	142.74	3.29%	**4.52**
	Q3	662.70	145.87	4.63	63.18	2	40.25	105.62	27.59%	**3.34**
	Q4	720.71	140.84	4.46	63.25	2	100.54	40.3	71.39%	**1.27**
03-04 Total		**2,541.55**					**213.21**	342.58	38.36%	**10.83**
04-05	Q1	771.50	173.48	5.48	63.36	2	86.37	87.11	49.79%	**2.75**
	Q2	848.10	188.79	5.95	63.52	2	40.71	148.08	21.56%	**4.66**
	Q3	891.26	174.78	5.49	63.77	2	49.55	125.23	28.35%	**3.93**
	Q4	953.36	213.21	6.68	63.85	2	132.81	80.4	62.29%	**2.52**
04-05 Total		**3,464.23**					**309.45**	440.81	41.25%	**13.81**
05-06	Q1	1,034.43	206.54	6.44	64.14	2	154.71	51.83	74.91%	**1.62**
	Q2	1,117.27	250.73	7.80	64.39	2	134.46	116.27	53.63%	**3.61**
	Q3	1,222.63	286.88	8.89	64.66	2	159.85	127.03	55.72%	**3.93**
	Q4	1,259.97	289.90	8.95	64.89	2	213.05	76.85	73.49%	**2.37**
05-06 Total		**4,634.30**					**662.07**	371.98	64.03%	**11.46**
06-07	Q1	1,386.86	360.09	11.05	65.26	2	184.44	175.65	51.22%	**5.38**
	Q2	1,537.71	322.34	4.93	130.93	2	201.6	120.74	62.54%	**1.84**
	Q3	1,594.87	343.3	5.24	131.42	2	257.1	86.2	74.89%	**1.31**
	Q4	1,709.03	397.50	6.04	133.44	2	308.87	88.63	77.70%	**1.33**
06-07 Total		**6,228.47**					**686.19**	737.04	48.21%	**11.05**
07-08	Q1	1,759.08	389.14	5.83	133.53	2	322.62	66.52	82.91%	**1.00**
	Q2	1,948.24	417.15	6.24	133.71	2	320.56	96.59	76.85%	**1.44**
	Q3	2,110.58	441.00	6.59	133.91	2	525.82	-84.82	119.23%	**-1.27**
	Q4	2,319.38	468.45	6.99	134.10	2	565.30	-96.85	120.67%	**-1.44**
07-08 Total		**8,137.28**					**1,734.30**	-18.56	101.08%	**-0.28**
08-09	Q1	2,526.90	575.91	8.58	134.50	2	588.94	-13.03	102.26%	**-0.19**
	Q2	2,700.52	597.43	8.88	134.70	2	588.60	8.83	98.52%	**0.13**
08-09 Total		**5,227.42**					**1,177.54**	-4.2	100.36%	**-0.06**
Grand Total							**4,782.75**			

Source: Satyam Investigation Report (2014)

Appendix 6: Comparison of Fictious Revenue vs Revenue After Removing Fake Invoices

Financial Year	Qtr-Year	Published revenue	Fictitious revenue	Revenue after removing fake invoices
03-04	Q1-2004	5,596,526,429	675,773,058	4,920,753,371
	Q2-2004	5,984,910,228	48,458,754	5,936,451,473
	Q3-2004	6,626,964,057	402,460,265	6,224,503,792
	Q4-2004	7,207,052,473	1,005,375,943	6,201,676,530
03-04 Total		**25,415,453,188**	**2,132,068,021**	**23,283,385,166**
04-05	Q1-2005	7,714,982,873	863,744,227	6,851,238,646
	Q2-2005	8,481,020,068	407,062,948	8,073,957,119
	Q3-2005	8,912,607,209	495,526,123	8,417,081,086
	Q4-2005	9,533,640,185	1,328,135,486	8,205,504,699
04-05 Total		**34,642,250,335**	**3,094,468,784**	**31,547,781,551**
05-06	Q1-2006	10,344,319,499	1,307,021	13,867,355,688
	Q2-2006	11,172,741,301	1,348,426,093	14,028,551,140
	Q3-2006	12,226,317,971	2,423,440,830	13,525,347,098
	Q4-2006	12,599,764,411	3,088,720,571	14,001,586,708
06-07 Total		**46,343,143,181**	**6,861,894,516**	**55,422,840,634**
07-08	Q1-2008	17,590,803,808	3,226,186,008	14,364,617,799
	Q2-2008	19,482,347,157	3,205,579,254	16,276,767,903
	Q3-2008	21,105,870,222	5,258,217,184	15,847,653,038
	Q4-2008	23,193,796,290	5,653,003,861	17,540,792,429
07-08 Total		**81,372,817,477**	**17,342,986,307**	**64,029,831,170**
08-09	Q1-2009	25,268,988,058	5,889,432,614	19,379,555,444
	Q2-2009	27,005,155,581	5,885,986,975	21,119,168,607
08-09 Total		**52,274,143,639**	**11,775,419,589**	**40,498,724,050**
Grand Total		**302,332,542,970**	**47,827,504,654**	**254,505,038,316**

Source : Satyam Investigation Report (2014)

	INVOICES (with S series) RAISED IN INVOICING MANAGEMENT SYSTEM (IMS)		IN VOICES (with S series) ENTERED IN ORACLE FINANCIALS		INVOICES (with S series) RECONCILED IN ORACLE FINANCIALS	
	No. of Invoices Raised	Invoices Amount in INR	No. of Invoices entered	Invoice Amount in INR	No. of invoices for which receipts shown	Invoice Amount shown as received in INR
Q1 (Apr 03-Jun 03)	97	675,773,058	97	675,773,058	99	655,402,055
Q2 (Jul 03-Sept 03)	8	48,458,754	8	48,458,754	8	48,776,309
Q3 (Oct 03-Dec 03)	50	402,460,265	50	402,460,265	49	398,273,916
Q4 (Jan 04-Mar 04)	112	1,005,375,943	112	1,005,377,693	111	1,041,036,044
Total	**267**	**2,132,068,021**	**267**	**2,132,069,771**	**267**	**2,143,488,323**
Q1 (Apr 04-Jun 04)	112	863,756,818	111	863,656,833	111	891,163,007
Q2 (Jul 04-Sept 04)	64	414,972,335	63	407,071,698	62	391,741,949
Q3 (Oct 04-Dec 04)	73	502,355,438	69	495,526,123	69	481,194,041
Q4 (Jan 05-Mar 05)	217	1,423,958,105	208	1,328,135,486	208	1,288,458,799
Total	**466**	**3,205,042,696**	**451**	**3,094,390,141**	**450**	**3,052,557,796**
Q1 (Apr 05-Jun 05)	249	1,547,384,062	249	1,546,913,816	249	1,494,243,548
Q2 (Jul 05-Sept 05)	243	1,344,669,701	242	1,344,637,972	238	1,334,649,309
Q3 (Oct 05-Dec 05)	296	1,634,775,652	291	1,501,734,841	262	1,414,381,192
Q4 (Jan 06-Mar 06)	400	2,133,425,996	398	1,934,497,015	361	1,840,686,424
Total	**1,188**	**6,660,255,411**	**1,180**	**6,327,783,645**	**1,110**	**6,083,960,473**
Q1 (Apr 06-Jun 06)	25	7,564,980	12	1,307,021	11	1,139,585
Q2 (Jul 06-Sept 06)	101	1,417,512,548	30	1,348,426,093	20	1,326,829,000
Q3 (Oct 06-Dec 06)	385	2,839,480,411	237	2,423,440,830	237	2,273,743,060
Q4 (Jan 07-Mar 07)	457	3,405,583,824	375	3,019,854,978	373	2,499,668,381
Total	**968**	**7,670,141,763**	**654**	**6,793,028,922**	**641**	**6,101,380,025**
Q1 (Apr 07-Jun 07)	680	3,941,982,560	473	3,226,186,008	473	2,890,777,863
Q2 (Jul 07-Sept 07)	741	4,151,276,136	486	3,205,579,254	485	2,772,499,610
Q3 (Oct 07-Dec 07)	889	5,987,744,197	730	5,258,217,184	728	4,836,825,391
Q4 (Jan 08-Mar 08)	794	5,653,003,861	794	5,653,003,861	794	5,401,277,947
Total	**3,104**	**19,734,006,754**	**2,483**	**17,342,986,307**	**2,480**	**15,901,380,811**
Q1 (Apr 08-Jun 08)	791	5,889,432,614	791	5,889,432,614	791	5,483,034,760
Q2 (Jul 08-Sept 08)	777	5,885,986,975	777	5,885,986,975	150	1,067,531,809
Total	**1,568**	**11,775,419,590**	**1,568**	**11,775,419,590**	**941**	**6,550,566,569**
GRAND TOTAL	**7,561**	**51,176,934,235**	**6,603**	**47,465,678,376**	**5,889**	**39,833,333,996**

Sl no.	Invoice no.	Date of invoice	Invoice Amount (USD)	Name of customer
1.	OFF-0607-1859.	31-May-06	3,800,000	AutoTech Service, Inc
2.	OFF-0607-1900.	31-May-06	3,250,000	AutoTech Service, Inc
3.	*OFF-0607-12733*	*26-Oct-06*	*1,350,000*	*Cellnet, Inc*
4.	*OFF-0607-1946.*	*31-May-06*	*2,800,000*	*Cellnet, Inc*
5.	*OFF-0607-2135.*	*31-May-06*	*2,500,000*	*Cellnet, Inc*
6.	*OFF-0607-3860*	*30-Jun-06*	*1,320,000*	*Cellnet, Inc*
7.	*OFF-0607-9204*	*31-Aug-06*	*1,850,000*	*Cellnet, Inc*
8.	OFF-0607-11765	30-Sep-06	2,900,000	eCare Inc
9.	OFF-0607-2038.	31-May-06	2,150,000	eCare Inc
10.	OFF-0607-2170.	31-May-06	1,650,000	eCare Inc
11.	OFF-0607-4229	30-Jun-06	1,300,000	eCare Inc
12.	OFF-0607-7050	31-Jul-06	1,850,000	eCare Inc
13.	OFF-0607-2044.	31-May-06	3,300,000	Hargreaves, Inc
14.	OFF-0607-5049	30-Jun-06	2,050,000	Hargreaves, Inc
15.	OFF-0607-7099	31-Jul-06	1,500,000	Hargreaves, Inc
16.	OFF-0607-9323	31-Aug-06	2,800,000	Hargreaves, Inc
17.	OFF-0607-12729	26-Oct-06	1,780,000	Mobitel, Inc
18.	OFF-0607-1944.	31-May-06	1,825,000	Mobitel, Inc
19.	OFF-0607-2067.	31-May-06	2,325,000	Mobitel, Inc
20.	OFF-0607-4145	30-Jun-06	1,750,000	Mobitel, Inc
21.	OFF-0607-7975	31-Aug-06	1,960,000	Mobitel, Inc
22.	OFF-0607-2370.	31-May-06	2,150,000	NorthSea Inc
23.	OFF-0607-4868	30-Jun-06	1,750,000	NorthSea Inc
24.	OFF-0607-2502.	31-May-06	1,850,000	NorthSea Inc
25.	OFF-0607-6300	31-Jul-06	1,550,000	NorthSea Inc
26.	OFF-0607-1997.	31-May-06	2,750,000	Synony Inc.
27.	OFF-0607-5425	30-Jun-06	2,100,000	Synony Inc.
	TOTAL		5,81,60,000	

Source : Satyam Investigation Report (2014)

Appendix 7: Confession Letter of B. Ramalinga Raju

I would like to bring the following facts to your notice:

1. The Balance Sheet carries as of September 30, 2008 a. Inflated (non-existent) cash and bank balances of 50.40 billion rupees ($1.04 billion) (as against 53.61 billion reflected in the books).

b. An accrued interest of 3.76 billion rupees which is non-existent. c. An understated liability of 12.30 billion rupees on account of funds arranged by me. d. An overstated debtors position of 4.90 billion rupees (as against 26.51 billion reflected in the books)

2. For the September quarter (Q2) we reported a revenue of 27.00 billion rupees and an operating margin of 6.49 billion rupees (24 pct of revenues) as against the actual revenues of 21.12 billion rupees and an actual operating margin of 610 million rupees (3 percent of revenues). This has resulted in artificial cash and bank balances going up by 5.88 billion rupees in Q2 alone.

The gap in the Balance Sheet has arisen purely on account of inflated profits over a period of last several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance). What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly (annualized revenue run rate of 112.76 billion rupees in the September quarter, 2008, and official reserves of 83.92 billion rupees). The differential in the real profits and the one reflected in the books was further accentuated by the fact that the company had to carry additional resources and assets to justify higher level of operations -thereby significantly increasing the costs.

Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.

The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. Maytas' investors were convinced that this is a good divestment opportunity and a strategic fit. Once Satyam's problem was solved, it was hoped that Maytas' payments can be delayed. But that was not to be. What followed in the last several days is common knowledge. I would like the Board to know:

1. That neither myself, nor the Managing Director (including our spouses) sold any shares in the last eight years -- excepting for a small proportion declared and sold for philanthropic purposes.

2. That in the last two years a net amount of 12.30 billion rupees was arranged to Satyam (not reflected in the books of Satyam) to keep the operations going by resorting to pledging all the promoter shares and

raising funds from known sources by giving all kinds of assurances (Statement enclosed, only to the members of the board). Significant dividend payments, acquisitions, capital expenditure to provide for growth did not help matters. Every attempt was made to keep the wheel moving and to ensure prompt payment of salaries to the associates. The last straw was the selling of most of the pledged share by the lenders on account of margin triggers.

3. That neither me, nor the Managing Director took even one rupee/dollar from the company and have not benefitted in financial terms on account of the inflated results.

4. None of the board members, past or present, had any knowledge of the situation in which the company is placed. Even business leaders and senior executives in the company, such as, Ram Mynampati, Subu D, T.R. Anand, Keshab Panda, Virender Agarwal, A.S. Murthy, Hari T, S.V. Krishnan, Vijay Prasad, Manish Mehta, Murali V, Sriram Papani, Kiran Kavale, Joe Lagiola, Ravindra Penumetsa; Jayaraman and Prabhakar Gupta are unaware of the real situation as against the books of accounts. None of my or Managing Director's immediate or extended family members has any idea about these issues.

Having put these facts before you, I leave it to the wisdom of the board to take the matters forward. However, I am also taking the liberty to recommend the following steps:

1. A Task Force has been formed in the last few days to address the situation arising out of the failed Maytas acquisition attempt. This consists of some of the most accomplished leaders of Satyam:, Subu D, T.R. Anand, Keshab Panda and Virender Agarwal, representing business functions, and A.S. Murthy, Hari T and Murali V representing support functions. I suggest that Ram Mynampati be made the Chairman of this Task Force to immediately address some of the operational matters on hand. Ram can also act as an interim CEO reporting to the board.

2. Merrill Lynch can be entrusted with the task of quickly exploring some Merger opportunities. 3. You may have a restatement of accounts' prepared by the auditors in light of the facts that I have placed before you.

I have promoted and have been associated with Satyam for well over twenty years now. I have seen it grow from few people to 53,000 people, with 185 Fortune 500 companies as customers and operations in 66 countries. Satyam has established an excellent leadership and competency base at all levels. I sincerely apologize to all Satyamites and stakeholders, who have made Satyam a special organization, for the current situation. I am confident they will stand by the company in this hour of crisis.

In light of the above, I fervently appeal to the board to hold together to take some important steps. Mr. T.R. Prasad is well placed to mobilize support from the

government at this crucial time. With the hope that members of the Task Force and the financial advisor, Merrill Lynch (now Bank of America) will stand by the company at this crucial hour, I am marking copies of this statement to them as well.

Under the circumstances, I am tendering my resignation as the chairman of Satyam and shall continue in this position only till such time the current board is expanded. My continuance is just to ensure enhancement of the board over the next several days or as early as possible.

I am now prepared to subject myself to the laws of the land and face consequences thereof."