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Corporate Sustainability with Forensic Auditing: An Evidence from India

Meenu Gupta[1*], Pradeep Kumar Aggarwal[2] and Rekha Gupta[3]

[1]Department of Commerce, Sri Guru Gobind Singh College of Commerce, University of Delhi, Delhi-110034, India & Research Scholar, Sharda University, India; [2]Head of Finance, School of Business Studies, Sharda University, Plot No. 32-34, Knowledge Park III, Greater Noida, Uttar Pradesh 201310, India; [3]Assistant Professor, Department of Commerce, Swami Shraddhanand College, University of Delhi, Delhi-110034, India

E-mail/Orcid Id:

MG, meenugupta@sggscc.ac.in, https://orcid.org/0000-0003-1762-3135; *PKA*, pradeep.aggarwal@sharda.ac.in, https://orcid.org/0000-0002-4104-8188; *RG*, rrekha_gupta@yahoo.com, https://orcid.org/0000-0003-1866-0560

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Abstract: The repercussions of fraud are huge and sufferers are many. An organisation's very existence and sustainability of an organisation is threatened by frauds, which remain unchecked due to weak corporate governance norms and inadequacy of audit function in detection of financial statement frauds. This culminates in the closure of the entity at the cost of the interests of various stakeholders. Forensic accounting and auditing not only help detect fraud but can also prevent fraud by strengthening the corporate governance practices in an organisation. ABG Shipyard Ltd., belonging to one of the oldest and most prestigious ABG groups in India, building warships and other vessels for the Indian Navy, was once considered to be the largest private shipping yard. The Global Financial Crisis hit the company in 2008, and the consequent failure to repay the loans led to the corporate failure and liquidation. The fraud at the company was detected through a forensic audit at the State Bank of India's behest in 2019 and the Central Bureau of Investigation (CBI) was able to register the case by 2022. This study tries to understand what went wrong and how, by analysing the annual reports, audit reports and financial statements and computing of Beneish M-score and Altman Z-score. The study finds that the erring auditors, self-dealing promoters and faulty management are the root causes of this fraud.

Introduction

Frauds have become almost perennial in nature. They have occurred in all eras and countries. An organisation's very existence and sustainability of an organisation is threatened due to frauds, which remain unchecked due to weak corporate governance norms and inadequacy of audit function in detection of financial statement frauds. This culminates in the closure of the entity at the cost of interests of various stakeholders. The recent ABG Shipyard Ltd. (ABG SL) fraud of INR 22,892 crores has outnumbered all the previous frauds that occurred in India in magnitude. It involves the sum exceeding Vijay Mallya and Nirav Modi case taken together. The questions were raised against the government and the banks as to why there were delays in filing complaints against the defaulting company. The law enforcement agency of the country, CBI (Central Bureau of Investigation), took over one and half years in acting over the complaint, explanation offered was that the case involved massive data and the involvement of 28 banks and thus, a thorough scrutiny was needed to act upon the complaint before registering the FIR (First Information Report) (Times of India, Feb 2022). There is an urgent need to understand and analyze the whole gamut of

*Corresponding Author: meenugupta@sggscc.ac.in

complexities involved and the various irregularities on the part of management over a considerable period, which remained unnoticed and escaped from the eyes of regulators and enforcement agencies, and thus, culminating into such a disaster costing many their life-earnings. Insights must be drawn to prevent such yet another failure after Enron, the typical case of agency problem and tunneling effect (Shirur, 2011).

This study has been undertaken to analyse the recent fraud case of ABG SL (ABG Shipyard Ltd.), which outnumbered all the previous cases of fraud in India in magnitude and impact. One of the lenders, the SBI, had identified the fraud in January 2019, which was revealed through the forensic audit conducted by EY LLP (Ernst and Young Limited Liability Partnership). Though, the first complaint was filed by it in November 2019 and then again in December 2020, a fresh and more comprehensive complaint was filed after deliberating the circumstances of fraud and the requirements of CBI by the joint lenders. On 7 February 2022, CBI registered the case and various charges were levied against the company and its holding company ABG International Private Ltd., on account of cheating and criminal conspiracy, diversion of funds, misappropriation of assets and money laundering ABG SL and its holding company ABG International Private Ltd. we (Bhardwaj, 2022).

An effort has been made to analyse why a healthy and highly prosperous company went into liquidation and was hit by fraud. In 2013 itself, the company was declared a non-performing asset(NPA). But there were delays in filing complaints by the bankers against the defaulting company. The action on such complaints was also delayed on the part of the law enforcement agency. This study is undertaken to understand and analyze the whole gamut of complexities involved and also to examine the role played by forensic audit in the case.

Recent literature and research gap

Financial Statements Frauds

According to a survey conducted by Deloitte in 2021, financial statements frauds (20.96%) are likely to be most prevalent amongst various kinds of frauds after cybercrimes (23.90%) (Chatterjee, 2021). Beasley (1996) found that there are generally two ways to conduct financial statements fraud- showing excessive income and assets. A financial statement fraud can occur in various ways, like using of special purpose vehicles for the concealment of huge debts, showing fictitious revenues or excessive recognition of revenues and non-writing of bad debts to present a rosy picture of the financial condition to mislead the investors, non-recognition of goodwill in merger and its improper accounting, inflating the figures of cash in hand, overvaluation of assets, showing non-existent expenses and losses and many others (Zopounidis et al., 2000).

Inadequacy of Audit Function and the emergence of forensic accounting

"An audit is an independent, objective and expert examination and evaluation of evidence", (Hayes et al., 2007). However, an auditor can only check the compliance of financial statements with the company's applicable accounting standards and accounting policies, and the legal determination of the occurrence of fraud lies beyond the scope of his duties (Vanasco, 1998). It is extremely difficult to unearth financial statement fraud through a routine auditing procedure (Cynthia, 2005). It has been observed in many cases of fraud that while the auditors duly approved the financial statements, they contained material omissions and misstatements, which ultimately led to bankruptcy and sinking of the corporation, leading to massive losses to the poor investors and other stakeholders (Owojori and Asaolu, 2009).

Fanning et al. (1995) gave three reasons for the inadequacy of audit function to detect frauds- insufficient knowledge about forensic accounting techniques, lack of experience in fraud detection and use of newer methods and schemes by managers to conceal the crucial information. Moreover, the huge remuneration packages offered to auditors to provide a clean chit has proved to be the reason behind the ineffective discharge of duties by the auditors in many cases of fraud (Ozili, 2020). The role of even Big Four auditors and many reputed auditing firms have been questioned in several fraud cases worldwide. The role of Deloitte in fraud cases of WGTC (Walsh Greenwood Trading Company) and Longtop Financial Technologies Ltd., PWC in the case of the Satyam scandal, KPMG in the case of Xerox scam and Arthur & Anderson for the frauds in Enron, World com, and Adecco were highly criticized (Blythe, 2020). Forensic accounting tools are being used exponentially to detect fraud because of the insufficiency of the conventional accounting and auditing function (Oyedokun, 2015).

Early detection and Timely Prevention of fraud

Early detection and prevention of fraud are always desirable to take timely actions and minimise the brunt of losses. Beneish and Nichols (2007) suggested that investors do not make use of publicly available information to detect fraud. Amongst the various forensic accounting tools available, Beneish M-Score indicates the manipulation in financial statements and

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Altman Z-Score helps in predicting the likelihood of bankruptcy of the organisation, based on the information contained in financial statements and computation of various ratios in the process. One of the oldest types of research on predicting insolvency through the use of financial ratios was conducted by Beaver (1966). He mentioned the 'trend effect', which means the signs of failure are indicated in ratio analysis as early as before five years of failure and become increasingly apparent each succeeding year.

Given the above, it is important to have a framework to analyse the specific patterns present in virtually every fraud case. ABG SL fraud case is the most recent and the biggest fraud case in the history of India. This study is the first attempt to analyse this fraud and draw implications for the future. This will help in indicating the modifications required in the structural patterns of audit and corporate governance to root out the possibilities and temptations of fraud. Timely measures taken will ensure corporate sustainability and, thus, very important to ensure the protection of the stakes of various parties having interest in the corporation.

Materials and Methods

The recent fraud case of ABG SL is the subject matter of this paper. The company's financial reports for nine years prior to going for liquidation, from 2007-08 to 2015-16, have been studied along with the information obtained from various news articles about the fraud. After a preliminary discussion about ABG shipyard and the said fraud, a content analysis of audit reports for the said period is done. This is followed by the computation of the Z score for various years to assess whether the financial data in the financial statements already indicated the company's likely insolvency. M scores are also calculated to hint at any possibilities of earnings manipulation in the financial statements. A thorough discussion about various components stated in the annual reports of various years has been taken up to gain insights.

While the Z-score predicts bankruptcy, the M-score reveals any 'Earnings manipulation' to deceive the stakeholders. These are forensic accounting tools that employ a variety of financial ratios to calculate the score.

Edward Altman created the Z score in 1968; an updated model was proposed in 2002.

"$Z = .012X_1 + .014X_2 + .033X_3 + .006X_4 + .999X_5$"

Here, X_1, X_2, X_3 and X_5 are given by dividing the working capital, Retained earnings, Earnings before interest and taxes and the Sales value, respectively, by the company's Total assets. Meanwhile, X4 is given by dividing the market value of equity by the book value of total debts. If the Z-score does not exceed the value of 1.8, it hints towards financial difficulties and a high probability of going bankrupt. A low probability of bankruptcy and operating in "safe zone" is indicated by a score of 3 or higher. Any score between 1.8 to 3 highlights operating in "grey zone", which means that there is a medium insolvency risk.

Given by Professor Messod Beneish in 1999, this score makes use of eight indices:

"M = -4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI – 0.172*SGAI + 4.679*TATA – 0.327*LVGI"

Here, for **DSRI (**Days' Sales in Receivables Index), the current year's net receivables to sales ratio is divided by the last year's ratio. **GMI (**Gross Margin Index) is computed by dividing the previous year's gross margin ratio with the current year's. In **AQI (**Asset Quality Index), we divide the ratio of non-current assets other than plant, property, and equipment to total assets for the current year by the last year's ratio. SGI **(**Sales Growth Index) is simply the current year's sales divided by the previous year's sales. DEPI (Depreciation Index) is given by the previous year's rate of depreciation divided by current year's rate. SGAI **(**Sales, General and Administrative Expenses Index) is computed by dividing current year SGA spending to sales ratio by the previous year's. For LVGI **(**Leverage Index), the current year's total debts to total assets ratio is divided by that of the previous year. TATA **(**Total Accruals to Total Assets) is based only on current year's accruals, given by the difference between Income and cash flows from continuing operations. This difference is divided by total assets.

Results and Discussion

ABG Shipyard

Incorporated in 1985, India (Mumbai) based ABG shipyard company, having a yard at Surat, Gujrat was a leading private shipbuilder belonging to ABG group of companies. It has a prestigious history of providing ships to the Indian Navy. The company was doing fairly well and was considered India's largest private sector shipyard, with a strong client base worldwide in 1991. It acquired another shipyard at Dahej, Gujrat and a Goa-based ship repair yard, Western Shipyard. This shipyard was in the process of financial restructuring at the time of its acquisition. According to the company's perspective, even if this ship repair business were under financial distress, it would bring more consolidated margins due to generating higher operating margins compared to the shipbuilding business. A massive opportunity came its way in 2010 when it was announced by the International Maritime Organization (IMO) that all the single-hull tankers were to be replaced by double-hull tankers to reduce pollution (Nair, 2022).

The Rise and the Fall

According to a report online by ICRA Ltd. (Investment Information and Credit Rating Agency), the company's total revenue grew at a CAGR (Compound Annual Growth Rate) of 35 percent during FY06-FY10. At EBIT (Earnings Before Interest and Taxes) levels, the company was commanding slightly better margins than the closest competitor Bharti Shipyard. The EPS (Earning Per Share) grew from Rs.19.8 to Rs.42.80 in the said period. The debt-equity ratio for the said period increased from 0.21 to 1.93 gradually. The interest coverage ratio fell from 8.2 to 2.7 over the five years, while the dividend pay-out ratio increased from 12 % to 40 % in 2009-10 and was the same in 2010-11. The highest turnover was recorded in 2010-11 at Rs.114 crores, but the net profits fell by 11% in 2010-11 from the previous year and by 4% in the next year (2011-12) and thus, EPS came down to Rs.38.10 and then to Rs.36.49 in the said two years. The company continued employing more debts in its capital structure. The debt-equity ratios for the years 2011-12 and 12-13 were still within range, being debt twice the equity. However, then it started getting out of proportion, 4.05 in 13-14, and completely blew out in 2014-15 arriving at 14.42. The profits were sustained until the end of 2012-13 (Rs.107 crores), but started falling thereafter. A loss of Rs.199 cores was incurred in 2013-14, Rs.897 core in 2014-15 and massive Rs.3704 crores in 2015-16. No dividends were paid from 2011-12 onwards.

The company attributed the failure to the cancellation of new orders, expiration of the government subsidy scheme, high costs of financing, and low-capacity utilization of its Dahej Shipyard at Surat. However, huge remunerations to directors were paid for all these years and was on a steady rise even in the phase of losses. Remuneration of Rs.1.16 crores was paid in 09-10, which doubled after a few years (Rs.2.32 crores in 14-15) with hefty increases every year despite the fall in profits and severe financial difficulties. Quite shockingly, in the next year, 15-16, it grew to Rs.3.06 crore, another increase of 31 percent, which is totally unjustified in the scenario of continued defaults by the company towards statutory dues and lenders.

The Management's perspective

It is claimed that the company was facing a downturn in the 2008 financial Global depression, as there were no fresh defence orders and the shortage of working capital led it to become a non-performing asset in mid-2013. When the company could not pay its loans in 2013, the lenders granted loan recast, loan moratoriums and credit facilities under the corporate debt restructuring scheme. When the restructuring requirements were not fulfilled, then again in 2015, another attempt toward restructuring was made through Strategic Debt restructuring scheme. As per the terms of this scheme, the lenders were entitled to convert their outstanding debt into equity, and by October 2016, they had acquired 49% of equity. In August 2017, ICICI, the largest lender applied for insolvency resolution (PTI, May 2019) and ABG SL is undergoing a liquidation process before NCLT (National Company Law Tribunal).

The Promoters Group

The figures in the Table 1 below show that the promoters have been holding the majority of company shares throughout. ABG International Private Ltd. is the corporate body in the promoters' group and the remaining shares were held by Mr. Rishi Aggarwal, who acted as chairman and managing director of the company. The sharp decline in shareholding in 15-16 was due to the invocation of pledges by the company's lenders.

Table 1. Shareholding of ABG Shipyard Ltd. by the promoters

Year	Promoters and Promoters' group (in percent)	ABG International Pvt. Ltd. (in percent)
2009-10	57.14	56.40
2010-11	60.72	59.99
2011-12	61.83	61.09
2012-13	66.81	66.08
2013-14	67.92	67.19
2014-15	59	57.97
2015-16	33	32.57

Source: Annual Reports of the company

The Infamous Fraud

The fraud at ABG Shipyard hit the news headlines in February 2022, reporting that the company had defrauded 28 banks of INR 22,482 crores (Bhardwaj, Feb, 2022). In the public domain, the last traceable financial statements of the company for the financial year 2015-16, in which the audit report mentions various judicial proceedings going against the directors and officials of the company for long outstanding statutory dues and continued defaults towards various lenders and creditors. According to newspaper reports, one of the lenders, the SBI bank, had identified the fraud in January 2019, which was revealed through the forensic audit conducted by EY LLP (Ernst and Young, Limited Liability Partnership). It filed the first complaint in November 2019 and then again in

December 2020, a fresh and more comprehensive complaint was filed after deliberating the circumstances of fraud and the requirements of CBI by the joint lenders. The case was registered by CBI on 7 February, 2021 against the company, along with its holding company ABG International Private Ltd. Thirteen company premises in various states were searched and the company's chairman, directors and officers were booked. Various charges are levied against them on account of cheating and misuse of official position, diversion of funds, misappropriation of assets and money laundering (Bhardwaj, 2022).

The Forensic Audit and the Investigation

The 'critical period' of occurrence of fraud was 2005-12 (Ohri, 2022). According to the findings of the forensic audit report by EY, the fraud occurred between 2012 and 2017. It revealed that the bank money was used to pay to the related parties, to pay their expenses and repay their loans and letters of credit. Funds of Rs 101 crores were diverted to Second Land Developers between 2008-14, resulting in undue gains to the promoters. On the basis of inspection of ledgers of the group companies, it came out that in the company's books, there were lots of circular transactions, where the money paid was sent back to the same accounts. In order to divert the loan amounts, the company made use of its related companies situated abroad (approximately 38 companies) and some Indian firms (approximately 60). At various points of time, it had more than 55 subsidiaries. As per the condition of corporate debt restructuring scheme, the company was required to recover its Rs.236 crores which were invested in the units of Standard Chartered Trust by its subsidiary company in Singapore, but it actually invested another huge sum, which was then diverted. After securing permission to invest in overseas subsidiaries, huge sums were siphoned off for some other purposes. The investigations also revealed that back in 2007, the company was allotted a plot at half of the prevailing market price at that time by GIDC (Gujarat Industrial Development Corporation) under a MOU (Memorandum of Understanding) for a maritime University, which was red flagged in the CAG (Comptroller and Auditor General) report tabled in the Assembly in 2014. It was also found that the company did not pay lease rent to Gujarat Maritime Board (GMB) and no action was taken against it (Ohri, 2022).

The Hardest Hit

The most severe blow of the scam is to the company's employees. They were not paid for full five years (2016-2019). In addition, they were not given their PF (provident fund) and gratuity. The work experience certificates, salary certificates or relieving letters were not issued to them either, due to which they remained unemployed or were forced to accept contract jobs, earning significantly less than the earlier amount. The company fired 30-40 % of the workforce in 2015. Out of the claims of Rs.113.6 crores submitted by 873 employees and ex-employees, only INR 88.73 crore was verified and accepted and is still outstanding. Besides these, Rs.16.81 crore are outstanding on account of Provident Fund of employees and TDS (Tax deducted at source). Also, about 4000-5000 vendors were under contract and their case would also be lost (Suresh,2022).

The Role of Auditors

The company's statutory auditors, Nisar and Kumar, were associated with the company for a continuous period of nine years, 2008-16. SEBI called them to explain their failure to report the fund diversion by the company in their audit report. In his settlement application, MN Ahmed, partner of Nisar and Kumar said that the non-disclosure didn't have any wide market impact and he had not derived any personal benefit from this default. He paid a meagre settlement fee of Rs.27.5 lakhs. He also raised the plea that he had ceased to be an Indian Citizen at the time of the case against him and had retired from the profession (The Economic Times, Feb 2022). It is an irony that he was able to make a settlement at such a low fine when he had drawn huge moneys in crores from the company for the audit services, in which he did not do the professional justice. As is clear from the following section, the irregularities in the operations of the company were not fully disclosed until 2015-16, when the situation had completely gone out of control. Audit reports of ABG shipyard for the years 2009-10 to 2015-16 were studied and significant observations have been reported in the following section.

The Highlights of the Audit Reports

For all the years under study, the audit reports expressed full compliance with accounting standards, no discrepancies in assets and inventory records after physical verification, none of the directors being disqualified, non-acceptance of deposits from the public and no fraud reported or noticed for all the years under study. Only for the years 2015-16 was it mentioned that physical verification of inventories could not be carried out for the Dahej shipyard, as these were either with customs or bonded warehouses. A seemingly insignificant disclosure was made for the years 2009, 2010 and 2013 with respect to the non-adoption of AS 30 (Accounting Standard that deals with principles of hedging) by the company, which was defended at the same time by stating that the principles were applied in case of firm commitments due and wherever receivable. For the year 2010, the compliance with the standard was explicitly stated. The material weakness in internal control system of the company was not reported until 2015-16, therein it was stated that there was no internal audit system and there was a lack of trained personnel to ensure abidance with various applicable statutes promptly. But, after mentioning these points, the conclusion drawn by the auditor was that there were adequate internal financial controls in place which were operating effectively.

Huge corporate group guarantees

Auditors reported that the company gave guarantees to secure the credit facilities taken from various banks and financial institutions by the corporate bodies in the same group. These were Rs. 1005.44 crores in 2009-2010, which increased in 2010-11 to Rs. 1800.3 crores. In the next years these continued to increase and stood at Rs. 2,275.76 crores in 2015-16. These were huge sums, but the auditors opined that the terms and conditions were not averse to the company's interests. It was also mentioned that short-term funds, ranging from Rs. 7156.74 crores in 2011-12 to Rs. 122.65 crores in 2013-14 were used for long term purposes for projects under construction.

Loans and advances to related parties

The granting of an unsecured loan of Rs. 369 crores to its fully–owned subsidiary by the company was reported for the year 2009-10, with no stipulations for repayment and chargeable rate of interest. The said company was a related party covered under the ambit of Companies Act, 1956, Section 301. Very conveniently, the auditors opinionated that the terms of loans did not seem prejudicial to the company's interests. At the end of 2011, this amount came down to Rs. 0.002 crores, which, according to them was insignificant and the terms of the loan were not detrimental to the interests of the company. No such loans granted were mentioned in audit report of 2011-12 and 2012-13. Then again, in 2013-14, interest-free unsecured loans of Rs. 296.22 crores were granted to two companies under the purview of the same Sec 301. It had also taken similar loans of Rs. 172.53 crores from two companies covered under the same section. But it was only in 2014-15, that auditors qualified their opinion for giving such interest-free unsecured loans, saying these were prejudicial to the company's interests. Before that, in all the previous years, they invariably maintained that the terms of the loan were not detrimental to interests of the company.

Outstanding statutory dues

A statutory due of service tax related to years 2004-05 to 2008-09, of Rs. 2.58 crores under Finance Act 1994 was reported as outstanding in 2011, which was not reported in any of the previous years shockingly. The paragraph reporting this matter started with disclosing that there were no statutory dues outstanding for more than six months, except a purportedly little amount of Rs. 6775 of profession tax, which was also paid later, it said. The whole idea clearly was to disguise the objectionable aspect of big amount of pending statutory dues. The said due remained outstanding in 2011- 2012 also. In the year 2012-13, defaulted amounts of Rs.21.87 crores of Income tax, Rs. 1.02 crores of TDS, Rs. 2.58 crores of service tax and Rs. 7.65 crores of excise duty were tabulated. For the year 2013-14, it was reported that the company was generally late in depositing the various statutory dues and for two years, it had defaulted in payment of Income tax dues of Rs. 59.20 crores, TDS of Rs. 7.21 crores, Rs. 3.87 crores of provident fund dues and Rs. 0.09 crores of profession tax. It also defaulted in payment of service tax of Rs.13.50 crores (from 2004-05 to 2010-11), income tax of Rs. 3.24 crores (2003-04 to 2005-06) and customs duty of Rs. 14.43 crores (for 2012-13). The same status continued for 2014-15. Figures were changed marginally, in addition, another Gujrat VAT (Value Added Tax) dues of Rs. 3.37 crores were outstanding. In 2015-16, there were continued defaults in such statutory dues and the income tax dues increased to Rs. 44.66 crores.

Mounting Debts

There were no defaults in payments of any loans or interest on any loans in the company's audit reports until 2012-13. For 2012-13, a mention of delay between 1 to 182 days was reported, which increased to 567 days in 2013-14. In 2014-15, it went up to 712 days, and the principal and interest dues were at Rs.260.46 crores and Rs.81.15 crores respectively. And then, for 2015-16, a long list of outstanding amounts to various banks was disclosed, with as big as overdue period of 1078 days towards Deutsche Bank and the highest sum amongst all, Rs. 15.39 crores towards ICICI bank. According to the audit report, a total of Rs. 55.78 crores were due towards 24 banks, Rs. 16.20 crore towards two financial institutions and Rs. 66.33 crore towards debentures issued to LIC. It has been stated above that according to newspapers reports, the company had defrauded a consortium of 28 banks of a voluminous sum of Rs. 22,482 crores in total. Clearly, full disclosures were not made regarding the pending dues. It is difficult to understand how the company could survive without paying such huge statutory dues and how it could obtain such huge loans from multiple banks despite defaulting on existing loans for such long periods.

The Qualified opinion

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Despite the continued and rising defaults in repayment of principal sums and interests towards the lenders and statutory dues and granting of huge loans and advances to related parties, the auditors did not qualify their opinion in any of the audit reports until the year 2015-16, wherein qualified opinion was given for several issues. They reported that the construction activities were stalled for a very long period of time, because of which technical evaluation to determine the impairments in assets could not be taken up. However, the management maintained that the recoverable amount of the assets was more than their carrying value and thus, no impairment losses were there. Auditors also reported the related parties' loans etc., of Rs. 1,756 crores and from the private companies in which directors were directors/members/partners (Rs.165 crores) were long overdue, but management said the balances were good and still recoverable and as such no provisioning was required to be made in respect of these. Loans were interest-free and conditions for repayment were not decided, so according to auditors, these were prejudicial to the interests of the company. Management said that given the nature of the relationship with these companies, charging interest was not expedient.

Attention was also drawn to the subsidy recognised in previous years, out of which Rs. 499 cores were still receivable at the end of 2015-16, which was to be received only after the completion of construction of vessels and fulfilment of other conditions. Given the low-key operations at the Surat plant of the company and no operations at the Dahej plant, there was material uncertainty regarding receiving the subsidy, but no provision was made for this.

The company did not repay the loans and fulfil the conditions of the CDR scheme, due to which many civil and criminal proceedings were going on seeking compensation from the company and its directors and officers. Though it was mentioned that Rs. 220 crores were invested in subsidiaries and related parties, the impairment in the investment value could not be ascertained because the audited financial statements of these companies were unavailable. The management said that these investments were long-term, and as such, no permanent decline in the value was expected at that time, so no provisioning adjustment was required to be made. This was when the company was incurring continuous losses and its net worth was completely eroded.

Table 2. Computation of Z-Score

Year	X_1	X_2	X_3	X_4	X_5	Z-Score
2007-08	-0.30137	0.181561	0.145708	2.440318	0.439853	0.46
2008-09	-0.33255	0.131457	0.108234	0.12828	0.335823	0.34
2009-10	-0.39557	0.14641	0.119163	0.297981	0.335112	0.34
2010-11	-0.08248	0.125552	0.08991	0.232569	0.273123	0.28
2011-12	-0.06063	0.127242	0.078125	0.200605	0.267271	0.27
2012-13	-0.12265	0.116099	0.067738	0.132249	0.195707	0.20
2013-14	0.033066	0.083729	0.080504	0.096081	0.129961	0.13
2014-15	0.046307	0.011367	-0.00251	0.085715	0.031577	0.03
2015-16	-0.21316	-0.32091	-0.13837	0.01385	0.003089	-0.01

Source: 'The authors'

ABG Shipyard's Z score and M score

The scores in this section were generated using financial data of ABG Shipyard Ltd. from 2007-08 to 2015-16. i.e., during a nine-year term. The necessary parameters for calculating the scores were drawn from the CMIE (Centre for Monitoring Indian Economy) database and the company's annual reports.

Table 2 indicates that for all the years under study, the scores so computed for the company were less than 1.8, indicating that financial affairs were not running in the desired direction and the bankruptcy was already in sight.

Beneish M Score

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In Table 3, the M-Score of more than -2.22 for all the years suggests that ABG SL is highly likely to be a manipulator.

Table 3. Computation of M-Score

Year	DSRI	GMI	AQI	SGI	DEPI	SGAI	TATA	LVGI	M-Score
2007-08	0.809571	0.914981	1.321909	1.37265	1.25448	0.713296	0.966697	0.368691	-0.42305
2008-09	3.219937	1.047708	0.6341	1.460655	0.649914	1.238979	1.303192	0.388124	1.486138
2009-10	1.393795	1.024176	0.985063	1.28002	0.659339	1.746462	0.927507	0.402124	-0.12352
2010-11	1.531042	1.031916	1.04236	1.149043	1.240795	0.938638	1.696972	0.083509	-1.62346
2011-12	0.440608	0.996768	0.991891	1.147899	0.757343	0.996723	1.010106	0.315956	-1.41999
2012-13	1.005198	0.897424	1.041401	0.878257	1.032629	0.972057	1.022743	0.20244	-1.67291
2013-14	3.089562	0.465563	0.996324	0.773063	0.945942	3.529301	1.046141	0.152217	-0.78782
2014-15	2.49857	7.208403	1.04608	0.240992	1.034735	2.065135	1.120859	0.10085	1.77145
2015-16	13.7938	-0.00602	1.000695	0.087947	1.1986	4.58172	1.343692	0.064545	7.542249

Source: 'The authors'

Conclusions

Financial ratios models help in the differentiation of financially sound firms from financially distressed ones (Korcan et al., 2013). Bellovary et al. (2007) opined that the focus should be on bankers, auditors, investors, lenders, analysts, etc., using the existing models and not on the development of new models. Some mechanisms should be there to analyse the reliability of the financial statements information and identify the risk points; then, a detailed assessment can be done to check the level of manipulations, if any (Drabkova, 2016).

It can be concluded that the erring auditors, self-dealing promoters, tunnelling and faulty management are the root causes of this fraud. Many unethical practices were going on like granting huge corporate group loans out of the bank money, using long-term funds to finance the working capital, excessive directors' compensation, transfer of the company's assets to affiliated firms at substantially low prices, and diverting funds to shell companies. In the disguise of a diversification strategy, that is, entering into the ship repairs business, a loss-making company (Western Shipyard) was acquired to siphon off the funds. The alarming fact is the long list of over-pending statutory dues for quite a substantial number of years in a row, which surprisingly were ignored by bankers to determine the credit worthiness for granting of loans and approving corporate debt restructuring scheme. The role of auditors is questionable as they turned a blind eye to several objectionable issues, failing to report many and delaying others to the maximum extent possible. Lots of hue and cry was raised for the alleged delay in filing of the complaint by the bankers in the media. It was defended saying that the process of fraud detection usually takes a period of 52 to 56 months to gather the elements of fraud and they were rather early in detecting the fraud. The media also highlighted the delay in registration of cases and taking of action by the law enforcement agencies.

The Z score and M score clearly hint at the earnings manipulation and likely insolvency of the company. These tools should be made use of to detect the destructive self-dealing activities on the part of promoters and management at an early stage. The prosecution of promoters and all others responsible should be carried out in a time-bound manner to prevent other people from similar temptations. The forensic audit report conducted by EY on the behest of SBI is likely to be the key prosecution evidence. The unprecedented growth in frauds has prompted organizations to rethink their attitude and approach towards forensic accounting and auditing, which hitherto was more casual and non-serious. Leaving aside the monetary loss suffered by an organization on account of fraud, the negative publicity by the media and the consequent loss of reputation and confidence of the investors, it is hard to ignore any further. The limited role of auditing and its inadequacy in fraud detection and fraud prevention has been clearly understood by all involved. The high cost of services or the non-availability of adequately trained forensic professionals are no longer plausible reasons for not employing forensic accountants to investigate fraud.

The ever-rising frauds have prompted many policy changes at the national level, like the transfer of authority from ICAI (Institute of Chartered Accountants of India) to NFRA (National Financial Reporting Authority) for the regulation of chartered accountants for improving audit quality, mandating of the risk management committees for a certain class of entities (Times of India, 15 April 22), which at present is limited to top 1000 companies based on market capitalisation under SEBI (Securities and Exchange Board of India) regulations; and tweaking of insolvency laws to shorten the time of insolvency application acceptance (Times of India, 15 April 22), so that the risk of siphoning off by the promoters of the defaulting company is reduced. The conduct of joint audits of holding and subsidiary companies for certain classes of companies and holding

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of forensic audit has also been proposed (Times of India, 20 April 22). Hopefully, these proposed changes will become part of the laws and the interests of various stakeholders will be protected.

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Conflict of Interest

The authors declare no conflict of interest.

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