

**FORENSIC ACCOUNTING: A CASE STUDY ON RICOH INDIA**

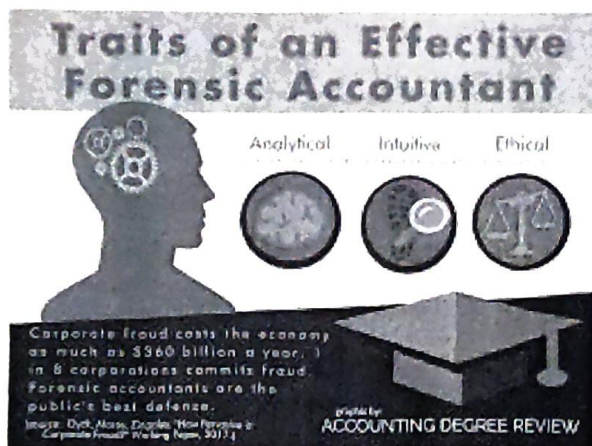
**Archana Vishnu Pawar**

Assistant Professor, BAF/BMS Department, Sonopant Dandekar Arts, V. S. Apte Commerce and M. H. Mehta Science College, Palghar

**ABSTRACT**

*The integration of accounting, auditing and investigative skills yields the specially known as Forensic Accounting. The digital era has made it easier than ever before for criminals to tamper with business accounts and generally defraud others. Of the many new businesses that are established every year, the overwhelming majority rely on computers and the internet. Each time security experts intensify their efforts to minimize external risks, hackers push back with equal force. Research has also shown that internal 'white collar' crime is also a growing problem, contributing to more than \$1 trillion in combined losses every year. The contemporary fraudster has a tendency to be highly capable in covering their tracks and leaving little to no evidence behind. Conventional accountants and business managers alike simply do not have the knowledge, the specialist skills or the available time to carry out comprehensive financial audits and investigations. By taking a proactive approach to accountancy, a business is able to safeguard itself from both devastating losses and dire legal consequences. Forensic accountants investigate financial activities and records in comprehensive detail, searching for any evidence whatsoever of fraudulent or unusual activity. Where detected, the required evidence is gathered, collated and ultimately presented in a clear and concise manner – often in a court setting.*

*Keywords: Yields, Forensic accounting, Defraud, White Collar, Conventional accountants*



**METHODOLOGY**

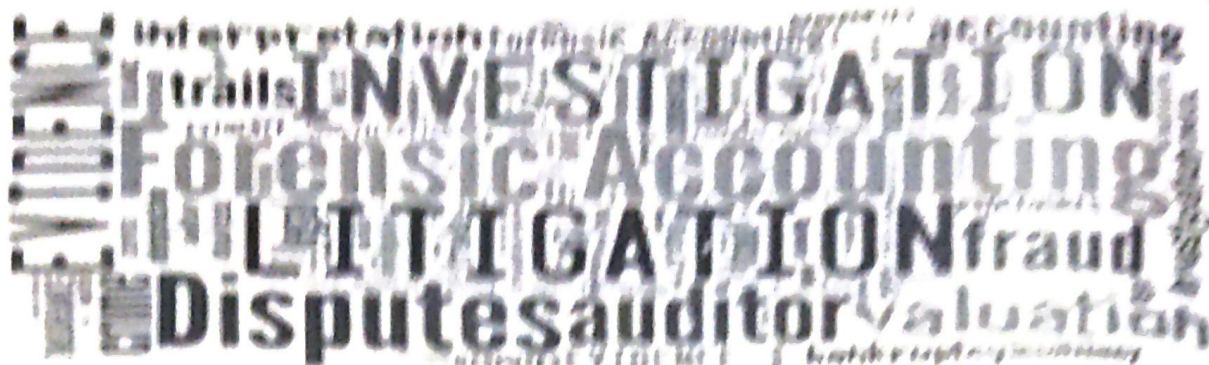
In this research data is collected from secondary resources, some reference book and newspaper.

**OBJECTIVE**

- ❖ The main objective to study is to understand what forensic accounting is
- ❖ To study How fraud is investigated
- ❖ To study types of Forensic Accounting
- ❖ To study how RICOH INDIA corporate scandal as a case study

**INTRODUCTION**

Investigating fraud is a growing industry. The more fraud that occurs, the more the need for forensic accountants expands. In its annual report, the ACFE estimated the cost of fraud in 2009 to be \$2.9 trillion and reported that nearly a quarter of those fraud cases involved losses of \$1 million or more. Forensic accounting utilizes accounting, auditing and investigative skills to conduct an examination into a company's financial statements. Forensic accounting provides an accounting analysis suitable for court. Forensic accountants are trained to look beyond the numbers and deal with the business reality of a situation. They are frequently used in fraud cases. Forensic accountants are often engaged to quantify damages in instances related to fraud and embezzlement as well as on matters involving insurance, personal injury, business disputes, business interruption, divorce and marital disputes, construction, environmental damages, cyber-crime, products liability, business valuation and more.



### THE IMPORTANCE OF FORENSIC ACCOUNTING

#### > Enhanced Efficiency

Forensic accountants play a key role in examining and investigating current financial processes and standards, which can help in the identification of more effective and efficient solutions. The whole process is one of detecting problems and areas of improvement for the benefit of the business.

#### > Aids Businesses in Managing Finances

Businesses can use forensic accounting to detect anomalies among their staff and with third parties they are working with. For instance, a company can ask a forensic accountant to check an employee's purchasing records to see if all of his purchases were for business use or if he diverted some for his personal use.

#### > Minimal Losses

The primary benefit of strong forensic accounting is the way in which it can help minimize and prevent unnecessary loss. Fraudulent activity and general financial discrepancies cost the business community extraordinary sums of money, every hour of every day. The forensic accountant ensures this isn't allowed to happen.

#### > Reduces Risk of Exploitation

By proactively patching any obvious 'gaps' in current financial operational standards, the forensic accountant can ensure that risk of future exploitation is significantly reduced. It's a case of protecting the best interests of the business before fraudulent activity can take place.

#### > Enhanced Authority and Better Brand Reputation

A brand that leaves itself wide open to manipulation and fraud is a brand that is very difficult to respect, trust and work with. Fraud can do the kind of reputational damage that is borderline impossible to repair. Therefore, the importance of thorough and ongoing forensic accountancy cannot be denied.

#### > Helps in Avoiding Legal Issues

Dealing with instances of fraud (internal or external) can be spectacularly disruptive and costly for the business. In an ideal situation, forensic accountancy can be used to avoid such scenarios from ever occurring by both preventing fraudulent activity and nipping any problems detected in the bud.

#### > Can be used to Monitor Professionals

Forensic accounting can be used to assess the work of professionals, including accountants themselves. The findings from this assessment, in turn, can be used to file professional negligence claims against those who have been proven to have made critical errors (whether intentionally or not).

### THE RICOH SCANDAL

A look at the publicly available accounts of Ricoh India Ltd, the company in which auditors have raised questions about accounting inconsistencies, reveals several odd or inconsistent entries. The total value of cheques which have not been encashed increased by almost 17 times in a year from Rs.2.17 crore in 2013-14 to Rs.40.43 crore in 2014-15, according to the company's balance sheet. The Companies Act, 2013, allows showing cheques on hand in the balance sheet under the head "cash and bank balance", but the usual industry practice involves preparing a bank reconciliation statement (BRS) to adjust the bank balance. In the same period, Ricoh India's cash and bank balance increased from Rs.38.34 crore to Rs.70.39 crore. The company mentions in its statement in the annual report that "the increased collection activity at the end of the current year ended 31 March 2015 helped to augment cash and bank balance". However, the company's debtor/accounts receivables turnover ratio, or how many times a business can turn its accounts receivable into cash during a

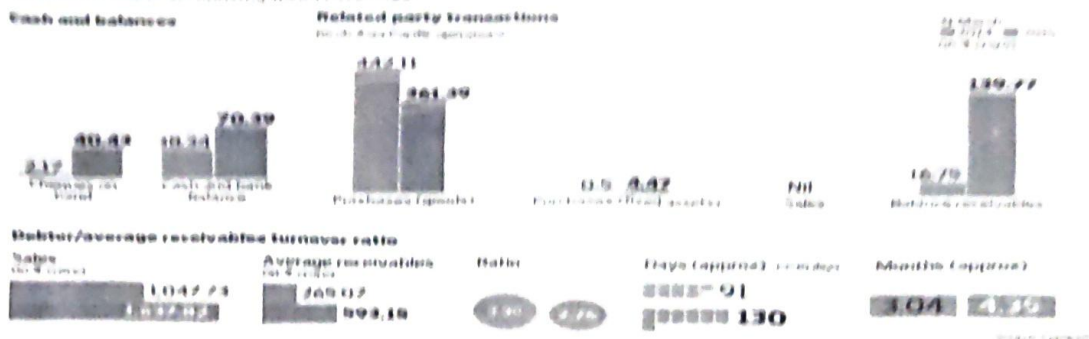
period, signalled otherwise Ricoh India's debt-to-equity ratio (excluding lease liabilities) declined to 1.1x in the current year from 1.9x in the previous year. So, if a debt-to-equity ratio is 1:1, it would mean that the debtors would buy and repay six times in the said period and the company's credit sales would be repaid in 60 days from the date of sale on an average. In Ricoh India's case, the number of days to convert credit sales into cash has increased from 91 days in 2013-14 to 130 days in 2014-15. This means there is a delay in collection and so company's number of debtors are rising in its balance sheet, showing its assets in good health. The debtors' turnover ratio is poor and may be the company is not writing off the debtors," said an accountant, who also requested not to be named. Further, the company has 'loans & receivables' from its fellow subsidiary company Ricoh Asia Pacific Operations Ltd, to the tune of Rs 197.77 crore in the year 2014-15 which was only Rs 16.75 crore in the previous year.

The absence of any sales in the past two years to Ricoh Asia Pacific raises the question as to what transactions are giving rise to the huge sum standing in accounts receivables for Ricoh India, net profit almost doubled to Rs 33.90 crore for the year ended 31 March 2015 from Rs 17.23 crore in the previous year. However, in the announced results of the company for the six months ended 30 September 2015, the company reported a net loss of Rs 146.98 crore. In reply to a detailed questionnaire, a spokesperson for Ricoh India said that the financial statements for the quarter ended 30 September 2015 "have been prepared based on all information currently available with us, as well as the preliminary findings of the investigation, a summary of which is included in the disclosure to BSE."

The company is in the midst of a detailed internal investigation basis concern areas highlighted by the auditors and the findings of the independent agency's review, the spokesperson said. "Given the challenges of the present situation, we are unable to share any further financial details until the completion of the ongoing internal investigation," the spokesperson added.

**KEY CONCERNS**

On scrutiny of the accounts of Ricoh India, the company's audit firm has raised questions about accounting inconsistencies.



**FACTORS CONTRIBUTING TO FRAUD**

Ricoh India Ltd, the Indian arm of Japanese firm Ricoh, has said the company's accounts have been falsified and accounting principles and standards have been violated, leading to a loss of Rs 1,123 crore.

The suspected accounting fraud at Ricoh India is one the biggest corporate frauds involving a local company after the Satyam scandal came to light in 2009.

"Such acts of omission and commission have caused a grave loss to the company and its shareholders," it said in a stock exchange filing.

The negligence of India Ratings as the agency had upgraded the rating for both long term bond to AA- from A and gave commercial paper (CP) an A+ rating in January without having any account of the Ricoh's numbers after March 31, 2015. This case also, is no further than Satyam because it is all padded up. The revenues are padded up, the receivables are padded up, the inventory is padded up. Satyam was also completely padded up on revenue side and on receivables side. There are only one or two points which one has to just look at it. The total borrowing two years back in March, 2014 was Rs 367 crore which went up Rs 716 crore last year, that is March, 2015. And now, it is Rs 1,300 crore. A company which does not incur a single rupee as a Capex, the loans going up from Rs 300 crore to Rs 1,300 crore and the parent company has provided Rs 500-600 crore. They have given Rs 200 crore of non-convertible debentures (NCD) and Rs 270 crore of commercial papers (CP). The rating agency, on January 22, 2016 have upgraded the rating of both the instruments, the long-term bonds and CP from A to AA minus. Without having any accounts available after March 31, 2015, on what basis were the upgradation done from A to AA minus? There was no inquire done as to why do the company needed

money and such a large amount of money when your turnover has not gone up so substantially and why are your receivables going up? This was the job of the ratings agency which was neglected on their side.

Talking about auditors, M/s Sahni, Natarajan and Bahl, Chartered Accountants conducted the audit and the audit report of March, 2015 submitted by them was clean, as clean as possible. Another issue was that Ricoh India Ltd. announced that the Board of Directors of the Company at its meeting held on July 10, 2015, have appointed M/s. BSR & Co. LLP, Chartered Accountants, as the new Statutory Auditors of the Company for a period of five years in place of retiring Auditors M/s. Sahni Natarajan and Bahl, Chartered Accountants. The AGM of the company was going to be held in the month of September, 2015, so the question here arises that why was there an urge to change the auditor. Who will be responsible for conducting the audit of 1<sup>st</sup> quarter of the F.Y. 2015-16.

Another factor that took the case to more limelight was that Ricoh India said in a BSE filing "it has terminated employment of its CFO Arvind Singhal and Senior Vice-President and COO Anil Saini on finding that they have "caused grave loss to the company". Ricoh India has also accepted resignation of MD and CEO Manoj Kumar. "Pursuant to the investigations carried out by the company, it has emerged that the above-stated officials of the company were in breach of the statutory duties assigned to their office. The acts and omissions of such employees have caused great loss to the company."

### CONCLUSION

Nowadays Forensic Accounting plays an important role in economy and in an organization also and about The scandal of Ricoh led to the statement that "Suspension of rating is a violation as per SEBI regulations". Even if a company is not disclosing relevant information pertinent to the rating, an agency is required to assign a rating based on available information, with a caveat that there is lack of information. The regulator is looking into that aspect to while SEBI is investigating individual agencies; it is also in the process of tightening rules and disclosure norms for rating agencies in general.

### REFERENCES

1. The Economic Times "<http://economictimes.indiatimes.com/ricoh-india-ltd/stocknews/companyid-8269.cms>"
2. Money Control "<http://www.moneycontrol.com/news/tags/sahni-natarajan-and-bahl.html>"
3. "<http://www.moneycontrol.com/news/trends/current-affairs-trends/ricoh-india-case-identical-to-satyam-fraud-anil-singhvi-997046.html>"
4. The business line "<http://www.thehindubusinessline.com/markets/stock-markets/ricoh-india-limited/article8706092.ece>"
5. "<http://www.livemint.com/Money/wCOP9C63UmWF1e4X6pgsyK/Amtek-Auto-case-Sebi-may-take-action-against-CARE-Crisil.html>"
6. The Indian Express "<http://indianexpress.com/article/business/companies/ricoh-india-admits-to-falsified-accounts-rs-1123-cr-estimated-loss-2924743/>"
7. "<http://indianexpress.com/article/business/companies/accounting-fraud-ricoh-sacks-two-accepts-ceos-resignation-4398396/>"