



CORPORATE FINANCIAL SCANDALS AND ROLE OF E- GOVERNANCE IN INDIA

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Abstract

In the present age of global world it has become decisive for the company to run their business successfully by accessing the pool of capital and to live in accord. As a company is a parishioner for numerous stakeholders and must give factual and transparent vision in its all transactions. Companies needs to identify their growth which involves the support of all the stakeholders and such assistance is enhanced by the corporation adhering to the best corporate governance practices. To handle the large number of corporate scams and scandals shocking the nation, e-governance tools have to be working on a wide scale to recover corporate governance. To study the role of e-governance in ensuring better handling the corporate scandals is the chief aim of this paper. This paper also focused certain major scams happens in India and its causes.

Keywords: Corporate Scandals, E-Governance, Company Law, Mca21.

INTRODUCTION

India is listed amongst the top ten corrupt nations as corruptions are widely spread. In corporate sectors unethical practices are quiet common. Corporate scandals refer to illegal and unethical actions on the part of people within a corporation engaged in it. This often becomes a wide spread public incidents. Some promoters, directors, managers and officers who establish and govern Business Corporation adopt illegal and antisocial practices to fulfill their desire which they prefer a short cut way to have wealth and status in society .There are various types of the corporate scandals such as falsification of accounts, under and over invoicing, Tax evasion etc. Government introduces E- governance in order to improve such scams and unethical behavior of corporate sectors. Electronic governance or e-governance is the application of information and communication technology (ICT) for delivering government services, exchange of information communication transactions, integration of various stand-alone systems which consist of the digital integration services between government-to-customer (G2C), government-to-business (G2B), government-to-government (G2G) as well as back office processes and interactions within the entire government agenda. The concept of e -governance means electronic support and stimulates good governance, and therefore, the objectives of e-governance are similar to the objectives of good governance. In other words E-Governance has made the system more transparency by cutting down the practice of red-tapes, corruption by officials, as now the government can reach the citizen directly. Corporate e-governance can also check the frauds being committed by companies. E-governance is by the governed, for the governed and of the governed.

REVIEW OF LITERATURE

1. As per research paper entitled on “Corporate scandals in India” presented by Sowmya K. (2009), focus on concepts, types of corporate scandals, cases of corporate scandals, causes of corporate scandals and methods to prevent corporate scandals.
2. Shinu V. (2012), presented paper on “Ensuring better corporate Governance through E-Governance” studies the role of e-governance leads to greater transparency and competence. The researcher highlights the present status of the usage of e-governance in administration of company law and corporate governance.
3. Usha L (2013), presented paper on “MCA – 21 E – Governance – An overview” implies the MCA – 21 project will help to improve corporate governance through better scrutiny of company disclosure, better enforcement of corporate laws and paperless working. Ministry of Corporate affairs on the recommendations of department of Information Technology has implement a comprehensive E- governance system and programme through project name MCA – 21. As per researcher, this project is more efficient and successful if the technological and procedural hurdles are removed.

OBJECTIVES OF THE STUDY

The main aims of the paper are to achieve the following objectives:

1. To study various corporate scandals in India and it causes
2. To study the provision of E-governance in terms of Indian companies act, 2013.

SOME MAJOR FINANCIAL SCAMS IN INDIA

The main corporate scandals in India are following as under:

- **2G Spectrum Scam:** Former Telecom Minister A. Raja is the prime accused who is considered to be the mastermind in this Scam by CBI. The 2G spectrum con involved politicians and administration officials in India unlawfully undercharging mobile telephony companies for regularity allocation licenses, which they would use to



create 2G subscription for cell phones. The loss to the national exchequer is pegged by the government auditor at a mind-boggling Rs. 1.76 lakh crore.

- **Satyam Case:** The Satyam Computer Services scandal was a biggest corporate scandal that occurred in 2009 in India. Mr. Ramalinga Raju, the former Chairman and Chief Executive of Satyam Computer Services confessed that the company's accounts had been falsified. With a fraud involving about Rs. 8,000/- crores (Rs. 80 billion) Satyam was heading for more troubles. The company made a window dressing in its Balance Sheet consisting of fictional assets and cash reserves that have been recorded and liabilities that are unrecorded.
- **NSEL Scam:** It is one of the latest scam of Commodity Markets to join the bandwagon. The scam was discovered in July 2013 when NSEL suspended trading in its entire commodity contracts. The total size of scam was Rs 5,600 crore & the mastermind behind this was Jignesh Shah. NSEL which was a spot exchange illegally offered T+25, T+35 settled contracts. It was offering a very lucrative arbitrage opportunity to commodity traders on paired contracts (T+2 & T+25 settled) which were giving almost 15-20% return per annum. The catch was that underlying commodities were missing & money taken from buyers was used by the 24 borrowers, who had no stock in the warehouses to offer. As soon as the news of paper trading touched the markets the stock of Financial Technologies, which is the promoter company of NSEL plunged 60-70% in few sessions.
- **Stamp paper Scam:** Abdul Karim Telgi involved in a racket of manufacturing fake judicial stamp papers, court fee stamps and other stamps. He acquired some old machines from the government's security press at Nasik with the help of a wide network of his associates he created a huge racket. This is Rs. 30,000 crore scam that is estimated to have caused a loss about Rs. 10,000 crores to the exchequer.
- **Indian Coal Allocation Scam:** While many believe that 2G scam remains the biggest one size in India. But this coal allocation scam dwarfs it by the amount involved. This scam is in regards to Indian Government's allocation of nation's deposit to PSU's and private companies. The scam happened under Manmohan Singh government and came out in 2012. The basic premise of this scam was that unlawful allocation of Coal deposits by Government without resorting to competitive bidding, which would have made huge amounts to the Government (to tune of 1.86 Lakh crore). However, the coal deposits were allocated arbitrarily.

CAUSES OF CORPORATE SCANDALS

1. **Eager to earn money by short cut** - The urge to earn money and become rich overnight is the biggest cause of scandals. Many people who boost willingness and not have will to work hard, such people adopt illegal and disruptive practices to fulfill their desire which they prefer a short cut way to have wealth and status in society.
2. **Lack of Ethics:** The deteriorating levels of morality and ethics in society are the major cause of other scams. The role models such as politicians, film stars, and sports stars etc. are indulge in unethical practices, than common people do not mind this as a corrupt behavior.
3. **Poor organization information:** Where a company's management information system fails to produce results that are timely, accurate, sufficiently detailed and relevant; the warning signals of a fraud, such as ongoing theft from the bank account, can be obscured.
4. **Lack of Ease:** When the system is not transparent, fraudulent people get involved in corrupt practices which give them opportunity to achieve their self-seeking goals.
5. **Loopholes in Statute:** Corporate scandals flourished in a society where legal machinery is over laden and the victims get justice after a massive delay. When offenders are not prosecuted for illegal and antisocial actions, they believe that they are better than 'the system', and can get away with anything which consequently encouraged them to break the law.

PROVISIONS OF E-GOVERNANCE UNDER COMPANIES ACT 2013

(A) Maintenance, Security, and Inspection of Books and Records in Electronic Form

The new Companies Act of India has made a proper provisions, suggestions, and recommendations for the account keeping and maintenance of records and books related with the business activities of a company, and the well-rounded security and efficient and transparent inspection of these documents. These prudent provisions and recommendations are provided in the Section 120 of the Indian Companies Act of 2013, and the Companies (Management and Administration) Rules of 2014. The Section 120 facilitates that a company must keep a safe account of all business and management related documents, records,



registers, minutes, etc., preferably in the electronic forms, in such a manner that these could easily be inspected or reproduced whenever necessary.

The Ministry of Corporate Affairs [MCA] vide its Notification dated 24th July, 2014, has substituted the word 'shall' by the word 'may' in Rule 27 of Companies (Management and Administration) Rules of 2014, and thereby, the task of maintaining such records strictly in the electronic form has been made optional, for time being. However, it will be wise to convert these data and records to the electronic form [from the physical form] as quickly as possible.

1. The Rule 28 dictates that the MD, CS, or any other Director or Officer of the company shall be made responsible for proper and safe keeping of all records and documents of the company in electronic or physical form.
2. While the Rule 29 provides provision for inspection of all electronic records and reproduction of these as per requirements, the charge for any such reproduction shall not be more than ten rupees per page.

(B) Service of Documents (Section-20)

This advocates that every presentation, submission, or dispatch of company-related documents should preferably be made through electronic means, to the concerned officials, shareholders, or the Registrar.

(C) Notice of Meetings

The notices of the Board Meetings and the General Meetings are also to be sent by electronic means and in the prescribed manner, as are described in the Section 173(3), and Section 101, respectively. Also, the Rule 18 of the Indian Companies Rules of 2014 recommends that a record of any failed transmissions of such notices and subsequent re-sending of these must be retained by the company as "Proof of Sending". Notices to shareholders, directors, or auditors regarding electronic voting on a resolution and participation in a general meeting, may also be published on the website of the company. In addition to presenting all details about the concerned meeting, the company has also to clearly mention that the facility of voting through electronic means is available.

(D) Payment of Dividend

As per Section 123, any dividend payable in cash can also be remitted in any electronic mode to the entitled shareholders, besides being paid by Cheques or Warrant.

(E) Admissibility of Certain Documents as Evidence

Any document reproduced from returns, or any document related with the administration, management, or business activities of a company formally filed with the Registrar on paper or in electronic form and duly authenticated by the Registrar, shall be admissible to any proceedings of the company, without any further proof or production of the original documents as evidence.

(F) Voting Through Electronic Means (Electronic Voting System)

Voting through electronic means at the general meetings of a company, is one of the highly significant provisions introduced by the new Indian Companies Act of 2013, to support e-management and governance. Section 108, New Revised Clause 35B of the Listing Agreement of SEBI, and the Rule 20 of the Companies (Management and Administration) Rules of 2014, all emphasize that every listed company or a moderately big company with at least 1000 shareholders, should utilize preferably the facility of voting electronically by the shareholders and members at the general meetings of the company, for passing any resolution (Ordinary/Special).

Swift Electronic Voting offers certain exclusive advantages to both the company (and its share transfer agents) and the shareholders, provided it is fully secured and unbiased. Some of the most significant and outstanding advantages of electronic voting (e-voting) are the following:

- It is fast and cost-effective
- Full authenticity
- Reduces paperwork and eliminates the need of storing the physical ballot papers
- Quick and accurate counting of votes
- Votes are not delayed or lost in transit
- Voting from everywhere in any time
- Increased efficiency and transparency



ROLE OF E-GOVERNANCE IN CONTROLLING THE CORPORATE SCANDALS:

1. Introduces prudent provisions, recommendations and performance of Govt. agencies to own clarity in data
2. Digital integrated course of actions take away discretion
3. Entry point for generalization of rules
4. Formulates decisions traceable-tracks procedure
5. Construct accountability-greater access to information through web publishing-role of civil society
6. Provides documentation to citizens for follow up
7. Amongst release channels introduces competition
8. Leads effective supervision-through comparative indicators by standardized documentation of comments/ objections
9. Centralizes and integrates data for better audit and analysis.
10. Enables unbiased sampling for audit purposes
11. MCA -21 projects provide improve corporate governance through better scrutiny of corporate disclosure, and serves as the registry for all filings / public records.

CONCLUSION

Companies that do not follow government procedures will have to pay a major risk premium when competing for scarce capital in today public markets. The scams when cross the crores of rupees may become a symptom of a problem that runs deep into the field of ethics. It poses a biggest challenge for financial industries. The provisions for e-governance specified by the new company law of India, the Companies Act of 2013, widely cover all areas of activities of a company, especially the public limited companies which are really highly elegant for making all vital tasks of a company, such as the proper maintenance, inspection of documents, conduction of efficient business activities, and sound corporate administration and management, rather easy and cost effective, fully transparent, and entirely accountable and trustworthy .E-governance plays a crucial role in monitoring such processes. E-governance is critically encourage good governance practices and to meet the industry compliance standards. It also helps to ascertain that the disclosure of material matters concerning the corporate sectors should be timely and transacted the clear and transparent factual information.

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