maintain two subaccounts under a single company bank account. He and his cronies controlled the main bank account, and the statements of the subsidiary account were under the control of the company's finance and account reconciliation (FAR) team. The accounting team would receive two bank statements for the same account: a genuine set of statements from the bank and a second set of fictitious statements provided by Raju and his team. The FAR team had to accept the fictitious bank statements (and related interest accruals). Allegedly, even the auditors relied on the documents supplied by Raju instead of obtaining third-party verification. The CFO, Srinivas Vadlamani, who was arrested, said he had not been directly involved but knew there had been something suspicious for more than five years. He had been specifically asked not to look at deposits. Vadlamani said the plan was carried out by creating a paper trail of fabricated invoices, forged balance sheets, and counterfeit bank statements in a scheme involving about10 junior staff.

Initial investigations have revealed that an in-house Satyam team developed software to generate altered invoices that included the genuine name of a client and of the client's project manager but with an overstated invoice amount. For example, a Satyam client, XYZ, pays 100 rupees to Satyam's bank account as fees. The original bank statement showed 100 rupees deposited by XYZ, but the statement provided by Raju overstated this figure. Year after year, altered invoices in the name of genuine clients and employees were created and went unnoticed by auditors.

The unrecorded liability of $253m was the amount that private companies owned by Raju lent to Satyam. To keep analysts and investors at bay, the loan amount was not shown in the books. Had it been shown, it would have raised eyebrows. After all, why would a company incur this liability when it had so much cash on its books? (Analysts already had been asking why the company kept so much cash in interest-free accounts.) As the chairman's letter mentioned, this amount had been arranged over the previous two years to fund Satyam's operations.

In addition, the public prosecutor noted that the CFO (Vadlamani) had admitted during interrogation that Satyam had just 40,000 employees versus the 53,000 officially claimed, and the fictitious wages were siphoned off. The prosecutor claims Raju used a fictitious name to divert $4m a month from the company's account for his personal wealth. India's Serious Fraud Investigation Office has found that $100m raised through the issuance of ADRs did not end up in the company's bank accounts and has still not been found.

Although the company's bank balance was fictitious, the employees had to be paid real salaries. To meet these expenses, Raju and his family started pledging their stake in the company. The shares were pledged by a holding company, SRSR Holdings, which in turn had approximately 300 subsidiaries. India's Central Bureau of Investigation (CBI) has found that some of the documents of the companies created by Raju contained land records and names of land mafia agents,[5] indicating that the case may be more than just an accounting fraud.

THE AUDITORS

Even though PWI had been Satyam's auditor since 2000, it resigned. Indian police have arrested two partners of PWI on charges of criminal conspiracy and cheating. PwC may also face class action suits in the United States.

PwC says, "The audits were conducted by PWI in accordance with applicable auditing standards."[6] Vadlamani, the former CFO, said the auditors had not been complicit in cooking the books and had been given forged documents. The auditors had relied on documents provided by management such as account balance statements and letters of confirmation of account balances.

Dennis Nally, global leader of PwC, said to *Business Today:*

> If our job was described as to provide a 100 per cent assurance that there have been no material mistakes and no frauds have been committed, that would require audit firms to significantly increase the amount of work we do today and have much more forensic and different types of auditing. As we all know, when there is a desire at the top of an organization to commit a massive fraud, individuals in the organization that have participated in the fraud can do a lot of different things to keep it away from individuals, including auditor firms, the Board of Directors and the analyst community.[7]

[5] These agents formed a network of mafia-style operators that obtained illegal permits and illegally developed low-priced subsidized land and apartments and sold them to the public for high prices.

[6] Jackie Range and Scott Patterson, "Price Waterhouse Defends Its Audit Procedures," *The Wall Street Journal*, January 9, 2009, p. B5.

[7] ... Certify That There's No Fraud," *Business Today*, July 26, 2009.