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SATYAM COMPUTER SCAM-PRE AND POST ANALYSIS- A CASE STUDY

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ABSTRACT--*Scandals are regularly a "glimpse of something larger". These speak to the approvable " disastrous disappointments. Satyam Computers seemed to be at one time the diadem gem associated to India's Industry Technology Organization, however were taken to the lower part because of the originators after 2008 because of money related wrongdoing. An endeavor is built right now being watched at the uppermost to the lower part Satyam up and down. Their embarrassment/extortion has put an unavoidable issuing marking over the whole corporating administration framework belongs to Indian region. The trick brought to the light the main of corporating administration in molding the conventions identified with the working of review councils and obligations of board individuals. Embarrassments have demonstrated that —there is a critical requirement for good direct dependent on solid corporate administration, morals and bookkeeping and reviewing benchmarks. After takeover by Tech Mahindra in April 2009, the firm was at first worked as independent element Mahindra Satyam. In 2012, Mahindra Satyam was converged with Tech Mahindra. About the turnaround at Satyam Computer, Tech Mahindra cases to have conveyed around eight-overlap come back to little speculators who had contributed with the organization at the hour of takeover. In this way, major money related announcing fakes should be read for exercises scholarly' and methodologies to-follow' to diminish the episodes of such fakes later on. The expanding pace of salaried wrongdoings —demands firm punishments, commendable disciplines, and powerful requirement of law with the correct soul.*

Keywords-- *Corporate accounting scandal, Satyam Computer India, corporate governance, Accounting and auditing standards.*

I. INTRODUCTION

The corporate sector in India is governed by the Companies Act of 1956 which aims to ensure adequate protection of the interests of creditors and shareholders and regulates the issue, transfer and allotment of securities; the Securities Contracts (Regulation) Act of 1956 which covers all aspects of securities trading and regulates the operations of the stock market; the Securities and Exchange Board of India (SEBI) Act of 1992 which protects the interests of shareholders and promotes and regulates the securities markets; and the Sick Industrial Companies (Special Provisions) Act (SICA) of 1985 which deals with the financial reorganization (including bankruptcy procedures) of distressed companies. India's corporate sector consists of private limited and public limited companies. The Indian corporate sector has seen substantial and significant changes since 1993 when the phrase corporate governance came to prominence. Since then, a series of legal and regulatory reforms have transformed the corporate governance framework and improved the level of accountability and

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responsibility of insiders, fairness in the treatment of minority shareholders and stakeholders, board practices and transparency. Over the last few years, a series of corporate governance committees were appointed by the Confederation of Indian Industry (CII), the Department of Company Affairs (DCA) and the SEBI.

Most recently in the year 2005, the Ministry of Corporate Affairs, in partnership with the CII, the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI), has set up the National Foundation for Corporate Governance (NFCG) with the goal of promoting better corporate governance practices. In its assessment report comparing the observance of corporate governance in India with the OECD Principles of Corporate Governance, the World Bank (2004) finds that in India 10 of the 23 OECD Principles are observed, six are largely observed, six are partially observed, and only one is materially not observed. The 10 principles that were found to be observed were; protection of basic shareholders' rights; right to participate in fundamental corporate decisions; shareholders' AGM rights; functioning of markets for corporate control; respect of stakeholders' rights; a performance enhancement mechanism for stakeholder participation; stakeholders' participating in the corporate governance process to have access to relevant information; fair and timely dissemination of information; compliance with applicable law; and board members' access to accurate, relevant and timely information. The six principles which were found to be largely observed were; disapprotionate control disclosure; disclosure standards; high quality standard of accounting, financial and non-financial disclosure, and audit; boards to act with due diligence and care in the best interests of the company and the shareholders; boards to treat all shareholders fairly; and boards to fulfill certain key functions. The partially observed principles relate to the equal treatment of all shareholders; prohibition of insider trading and abusive self-dealing; disclosure interests of members of the board and managers; effective rederessal for violation of stakeholder interests; annual audit by an independent auditor; and the boards' ability to exercise objective judgment on corporate affairs independent from management. The only principle which was found to be materially not observed relates to shareholders' including institutional investors' consideration of the costs and benefits of exercising their voting rights, as pension funds seldom exercise voting rights, instead they exert influence through nominee directors on the board of their portfolio companies.

II. Fall of Satyam

A company named "Satyam" (truth, in Sanskrit) inspired trust. The IT boom in India, was fuelled by young, middle-class, educated, building Indian entrepreneurs and Western firms anxious to outsource to take advantage of high-skill, low-wage worker. This trend created a new breed of businessman for the 21st century and generated many fortunes literally overnight. Byrraju Ramalinga – Raju – founder and former chairman of Indian IT giant Satyam Computer Services – was one of these new millionaires. The son of a farmer from a middle class family with an American MBA degree and a 1999 Ernest & Young Entrepreneur, Raju started Satyam and worked his way to make the company a top 5 Indian IT firm with clients in 60 countries. Satyam is listed on the New York Stock Exchange (NYSE) and the Bombay Stock Exchange. Satyam was the 2008 winter of the covered Golden Peacock Award for Corporate Governance under Risk Management and Compliance Issues, which was stripped from them in the aftermath of the scandal.

About the fraud**:** Nature & Dimension: The Satyam Computer Services scandal was publicly announced on 7 January, 2009, when Chairman Ramalinga Raju confessed that Satyam's accounts had been falsified. Company Chairman Ramalinga Raju resigned after notifying board members and the Securities and Exchange Board of India (SEBI) that Satyam's accounts had been falsified. Raju confessed that Satyam's balance sheet of 30 September 2008 contained:

Inflated figures for cash and bank balances of Rs. 5,040 crore (US $ 1.04 billion) (as against Rs. 5,371 crore (US $ 1.1 billion) crore reflected in the books).

An accrued interest of Rs. 376 crore (US $ 77.46 million) which was non-existent.

An understated liability of Rs. 1,230 crore (US $ 253.38 million) on account of funds was arranged by himself.

An overstated debtors' position of Rs. 490 crore (US $ 100.94 million) (as against Rs. 2,651 crore (US $ 546.11 million) in the books).

Raju claimed in the same letter that neither he nor the managing director had benefited financially from the inflated revenues. He claimed that none of the board members had any knowledge of the situation in which the company was placed. He stated that: "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 promotions as the size of the company operations grew significantly (annualized revenue run rate of Rs. 11,276 crore (US $ 2.32 billion) in the September quarter of 2008 and official reserves of Rs. 8,392 crore (US $ 1.73 billion). As the promoters held a small percentage of equity, the concern was that poor performance would result in a takeover, thereby exposing the gap. The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. It was like ridding a tiger, not knowing how to get off without being eaten."

Although B. Ramalinga Raju has sought to take full responsibility for cooking Satyam accounts, it is now clear that 'operation fudging at the company was a complex exercise and was meticulously planned and executed with precision. There were scores of meetings with dozens of people to falsify the accounts of the company that was listed on the New York Stock Exchange. Talluri Srinivas and S. Gopalakrishnan, the two Price Water House auditors arrested in the scam, have told cops that the agenda used to be clear in the meetings though the word fudging was not used. Everyone present was aware of the motive of the meetings which was to falsify the accounts, they said during their interrogation. The meetings were usually chaired by Ramalinga Raju himself but in his absence Rama Raju, his brother, or Srinivasa Vadlamani, the chief financial officer, would officiate. It is not known whether the PW auditors told police the identity of other company managers who were regular at these meets. But the auditors said that the internal audit department of Satyam with qualified chartered accounts was sully aware of the goings on. The fudging of accounts had been on for the last six years, the auditors reveled. The two external auditors are also believed to have confessed that it was because of this environment that instead of independently verifying Satyam's balance with the banks they accepted written Statements by the company management. The statement, in the form of a letter was usually signed by Rama Raju or Vadlamani. They also told the Crime Investigation Department (CID) sleuths that they approved the accounts of Satyam because of Ramalinga Raju's 'towering presence' and did so without ever questioning him. "We did not dare raise questions when the client was a reputed company. Moreover, Ramlinga Raju himself took personal interest in the accounts," one of the auditors told CID sleuths. The investigating agency arrested Srinivas and Gopalakrishnan on January 23 on the charges of cheating and criminal conspiracy after the falsification of accounts of Satyam

Computer Services Ltd. came to light.

The CID posed over 100 questions including whether they were aware of the falsification of accounts, how long the fudging of accounts happening, the role of former chairman, managing director, chief financial officer, and whether the company offered them bribes to certify accounts and if Ramalinga Raju forced them to sign on audit report and why the remuneration of PWC had shot up in the last few years.

After commitment in falsification of accounts: After the scandal broke, then-board members elected Ram Mynampati to be Satyam's interim CEO. Mynampati's statement on Satyam's website said: "We are obviously shocked by the contents of the letter. The senior leaders of Satyam stand united in their commitment to customers, associates, suppliers and all shareholders. We have gathered together at Hyderabad to strategize the way forward in light of this starting revelation." On 10th January, 2009, the Company Law Board decided to bar the current board of Satyam from functioning and appoint 10 nominal directors. "The current board has failed to do what they are supposed to do. The credibility of the IT industry should not be allowed to suffer" said the then Corporate Affairs Minister. Chartered accountants regulator ICAI issued show-cause notice to Satyam's auditor Pricewaterhouse Coopers (PwC) on the accounts fudging. On the same day, the Crime Investigation Department (CID) team picked up Vadlamani Srinivas, Satyam's then CFO, for questioning. He was arrested later and kept in judicial custody. On 11th January, 2009, the government nominated noted banker Deepak Parekh, former NASSCOM chief Kiran Karnik and former SEBI member C. Achuthan to Satyam's board. Analysts in India have termed the Satyam scandal as India's own Enron scandal.

Immediately following the news, Merrill Lynch (Now with Bank of America) terminated its engagement with the company. Also Credit Suisse suspended its coverage of Satyam. It was also reported that Satyam's auditing firm Price water house Coopers will be scrutinized for complicity in this scandal. The New York Stock Exchange has halted trading n Satyam stock as of 7th January, 2009. India's National Stock Exchange has announced that it will remove Satyam from its S&P CNX Nifty 50-share index on January 12. The founder of Satyam was arrested two days after he admitted to falsifying the firm's accounts. Ramalinga Raju is charged with several offences, including criminal conspiracy, breach of trust, and forgery.

The Indian Government has stated that it may provide temporary direct or indirect liquidity support to the company. However, whether employment will continue at pre-crisis level, particularly for new recruits, is questionable. On 14th January, 2009, Price water house, the Indian division of Price water house Coopers, announced that its reliance on potentially false information provided by the management of Satyam may have rendered its audit reports "inaccurate and unreliable. On 5th February, 2009, the six-member board appointed by the Government of India named A.S. Murthy as the new CEO of the firm with immediate effect. Murthy, an electrical engineer, has been with Satyam since January, 1994 and was heading the Global Delivery Section before being appointed as CEO of the company. The two –day-long board meeting also appointed Homi Khusrokhan (formerly with Tata Chemicals) and Partho Datta, a Chartered Accountant as special advisors.

Role of Auditors: There is intense debate about the role of Price water house Coopers, the external auditors of the company in clearing the accounts of Satyam. Auditors are supposed to have checked, verified cash balances, bank statements, assets with relevant confirmations. Satyam was a large company, not a street store; Price water house Cooper is a globally reputed firm. Professional accounting bodies and police are currently examining the role of auditors in this incident minutely.

Role of Directors: The Companies Act in India has stringent corporate governance requirements of board members. Yet Raju was able to steer the fabricated accounts through this board members for 6 –years! This has bewildered the corporate sector and regulators. At times, the company was holding excessive cash, as per the books. This should have invited questions by board members. The Indian Government specifically delineates the role of independent directors in safeguarding the interests of the organization and the shareholders.

It is fair to expect independent directors, like Harvard Professor Krishna Palepu, the former, non-executive director of Satyam, to be more guardians of corporate governance. It is unfair to expect independent directors, meeting monthly or quarterly to be undercover detectives or crops! An independent director would normally assume that audited accounts have been rigorously examined. This is more so when an internationally credible firm like Price water house Coopers- has audited the numbers. But, they need to still ask the right questions and probe. Corporate governance goes hand-in-hand with the mitigation of risk, and effective risk management.

The questions, which have been raised are what role were independent directors playing in the process of the functioning of Satyam and how far was the audit committee effective in the transparent disclosures of financial of the company? An important gap in the whole process of corporate governance has been the weakness in accountability of the board through disclosures, which have become very crucial today in the current environment when a multiple of creative accounting practices involving inevitably ambiguities and many alternative methods of report the financial effects of transactions used largely and routinely by the promoters to mislead rather than inform the shareholders and the public. In this regard the composition of the board and the monitoring role of independent directors should be the corner stone of SEBI's regulatory check.

Any community that encourages, directly or indirectly, a feudal structure or dictatorship is bound to result in disaster. On the other hand, any community (company, city, town, nation etc.) that spouses the cause of democracy committed with fair, balanced, transparency and accountability will never see a disaster. What happened in Satyam is that it was a huge scandal. Nobody could stand up and say what is happening is wrong. Even those who thought what was happening was wrong did not have the courage and were not in an environment to say that it was wrong.

III. Satyam after scam

After the scam, the condition of Satyam went from bad to worse. Hence, the Government seceded to appoint four directors for Satyam till someone took over Satyam and made conditions better for Satyam. Later, the Government held a bid for the takeover of Satyam Computers. Tech Mahindra had won the bid for Satyam Computer after bidding at Rs 58 per share. Tech Mahindra would pay Rs 1,757 crore for a 31 per cent stake in Satyam. Satyam would operate as a special purpose vehicle until Tech Mahindra raises its stake to 51%. After Tech Mahindra won the bid for Satyam Computers, Anand Mahindra, the owner of The Mahindra Group revealed the motive behind the takeover saying, "We want to be the leader in the IT field and that is our vision for Mahindra Satyam. But right now, the immediate task is to bring the company back on track." A decade might have passed after the infamous Satyam Computer scam and subsequent regulatory actions but Tech Mahindra chief C P Gurnani feels systems still take long time to detect discrepancies at corporates and better data analytics are needed to plug the loopholes. Effective July 2009, Satyam rebranded its services under the new Mahindra management as "Mahindra Satyam". After a delay due to tax issues Tech Mahindra announced its merger with Mahindra Satyam on 21 March 2012, after the board of two companies gave the approval. The companies are merged legally on 25 June 2013. Tech Mahindra lost two years in getting things on track after the acquisition. It had to ensure cultural synergies between the organizations, while simultaneously fighting class action lawsuits in the United States and other legal battles in India related to the Satyam takeover.

Through this takeover, Tech Mahindra has become the 4th largest IT service firm in India only behind Tata Consultancy Services, Wipro Technologies and Infosys Technologies. Prior to this takeover, Tech Mahindra drew almost 50% of its revenues from a single client- British Telecom plc. But with the takeover of Satyam, they are servicing the customers of Satyam like Ford, Opel, etc. who require designs, drawings, etc. from the engineers of Satyam. Mr. C.P. Gurnani, the to-be CEO of Mahindra Satyam said that it was beneficial for Satyam to be associated with the 65- year old Tech Mahindra. This is because of the fact that the company has got 110 of Tech Mahindra's customers for the Enterprises Services business.

About the turnaround at Satyam Computer, Tech Mahindra claims to have delivered around eight-fold return to small investors who had invested with the company at the time of takeover.

"For an initial investment of Rs 830.45 crore in April 2009, we have returned Rs 6,614.80 crore, including dividend of Rs 332. This is nearly an eight-fold return for small investors,". Total client base has grown over three-fold from 300 clients to 930 at present. Only big client of Satyam Computer -- British Petroleum -- had snapped contract because of their cost cutting measures.

There are around 1,20,000 people, which is, almost three times the size since 2009. A lot of that growth has been in the BPO business in addition to the performance in the traditional IT business.

IV. CONCLUSION

Corporate governance is a multi-faceted subject that covers the structural framework covering stakeholder relations, within which corporate decisions are taken. While most of the scholarly debates on corporate governance are fuelled by shareholder activism in developing economics like India, much of it has highlighted the symptoms rather than the causes. The entire corporate governance premises is very crucial as it is the foundation of the institution of Joint Stock Companies which has led to global economic development since last century.

The lesson of the scandals is that there are multiple things that can go wrong in modern economies built on complex financial systems. Negligence needs to be distinguished from structural failure. And it needs to be recognized that these problems can arise in the private and the public sectors. Solutions have to be matched to the nature of the cause and its institutional location. Bleeding the patient cannot be the treatment for every disease (Nirvikar Singh, 2009].

The current framework of corporate governance emphasizes on compliance, leading thus a checklist mentality. Performance oversight can be added to the compliance dimension of corporate governance. The Raghuram Rajan Committee on financial sector reforms has stressed the need for a regulatory review of accounting statements. In view of the Raghuram Rajan Committee's recommendations and experience in Western countries, especially in the US, it behoves the Governments and SEBI to start the process of setting up an appropriate accounting review board. The questions that need to be asked are: Can we prevent another one? And what are the lessons we would learn after the floor has been swept clean?

It scams and accounting scandals are breaking out often, why are regulators unable to spot it? Well, the regulators cannot do much. Regulators and their agencies have to peer into the rear-view mirror while laying out the law. Whenever a scam occurs, both investors and regulators are put on guard against that particular kind of scam. But the next one turns out to be quite different, exploiting a different loophole in the law. Regulators, by virtue of the urgency with which they are required to act, cannot place a fielder on every inch of the boundary. When they move one fielder, they are opening potential gaps for an expert batsman (the scamster) to score. The investor's cause is not helped when the boundary is thin and subject to interpretation.

The Satyam scandal also effected sweeping changes in auditing practices. In the case of Satyam, four auditors who were then working with Price Waterhouse (PW), part of PwC India, were convicted along with Raju (they are all currently out on bail).Big Four -Deloitte, PwC, EY and KPMG- and other major auditors now conduct a risk assessment before accepting an audit. Auditors are increasingly dropping companies as clients when they discover dirt. Many auditors are also using algorithms to help discover "unusual patterns" in the books. That's not all. In the Satyam scandal, auditors relied on bank statements worth Rs 3,800 crore provided by the company. It turned out be fabricated. Under the new rules, auditors are required to check the authenticity of bank statements. Raju had also disguised the pledging of Satyam shares. Today, promoters who pledge shares must disclose it to Sebi. The Companies Act has forced companies to embrace a whistleblower policy. Indian companies are roping in specialists to manage their whistle-blowing mechanisms.

IFC too has improved oversight. Under the Companies Act, an auditor is required to state whether a company has an adequate internal financial controls system in place and its operating effectiveness. Companies themselves are doing their bit. In an attempt to usher more transparency, many are reducing human interference and turning to technology. Some bring in their risk assessment teams before they make strategic decisions like acquisitions and expansion.

Mritunjay Kapur, head, risk consulting, KPMG India, says there are now several safeguards available to investors through The Companies Act, including the area of Internal Financial Control and related party transactions. Despite the checks and balances frauds are happening, which keeps forensic audit teams busy.

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