

Satyam scam of corporate governance

Introduction

- Satyam was established in 1987.
- 4th fastest growing IT Company in India.
- 40,000 employees
- Revenue \$2.1 billion
- It is the first company of India listed in three International Exchanges i.e. NYSE, DOW and EURONEXT.

Satyam Computer Services Ltd was founded in 1987 by B.Ramalinga Raju. The company offers information technology (IT) services spanning various sectors, and is listed on NSE, BSE, the New York Stock Exchange and Euronext.

1987

- Incorporated as private limited company in 1987

1991

- Recognized as a public limited company; debuts on the Bombay Stock Exchange (BSE)
- IPO oversubscribed by 17 times

1993

- Satyam signs joint venture with Dun & Bradstreet for IT Services
- Joint venture with GE announced

1999

- Satyam Infoway (Sify) becomes the first Indian Internet company listed on NASDAQ
- Satyam forms joint venture with TRW Inc.
- Presence established in 30 countries

2007

- Becomes the Official IT Services Provider for the FIFA World Cups, 2010 (South Africa) and 2014 (Brazil)
- Becomes the first Asian company to feature in the Training Magazine's list of Top 125 companies for learning

2008

Awarded with golden peacock award for corporate governance by London council

Table-1: Operating Performance of Satyam

(Rs. in millions)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	Average Growth Rate (%)
Net Sales	25,415.4	34,642.2	46,343.1	62,284.7	81,372.8	38
Operating Profit	7,743	9,717	15,714.2	17,107.3	20,857.4	28
Net Profit	5,557.9	7,502.6	12,397.5	14,232.3	17,157.4	33
Operating Cash Flow	4,165.5	6,386.6	7,868.1	10,390.6	13,708.7	35
ROCE (%)	27.95	29.85	31.34	31.18	29.57	30
ROE (%)	23.57	25.88	26.85	28.14	26.12	26

(Source: www.geogit.com)

CONFESSION:

Ramalinga Raju, chairman

“None of the board members, past or present, had any knowledge of the situation in which the company is placed.”

He INFLATED (nonexistent) cash and bank balance of Rs 5,040 crore (as against Rs 5,361 crore) reflected in the books.

AN accrued interest of Rs 376 crore is non-existent.

He has understated liability to the tune of Rs1,230 crore in accounts of funds arranged by me.

He has over-stated debtors position of Rs 490 crore (as against Rs 2,651 crore reflected in the books.)

FOR sept 2008, we reported Rs2,700 crore revenue and operating margin of Rs 649 crore against actual revenue of Rs2,112 crore and margin of Rs 61 crore.

Vadalamani Srinivas, CFO

“I was asked specifically to not look into bank statement”

AUDITOR never pointed out any “deficiencies” during their discussions. Fixed deposits were unreal and fictitious which were managed with an understanding between the audit section and management.

BANK deposit were handled directly by Raju and the CFO was specially asked for “not to look into it”

“RAJU and his brother used to take decisions and tell us to do as instructed.”

THE CFO admitted that the account were manipulated for about seven years.

PRIOR to quarterly board meetings, Ramakrishna, VP, finance, would prepare the balance sheet. “I do not pay much attention to the details of that balance sheet.”

Methodology used by the Satyam to commit the accounting fraud:

- Senior Management allowed certain employees to have a super user login password to access company’s billing

system who created fake invoices for services not provide and in some cases non existent customers.

- After creating fake invoices and generating false revenues ,it showed falsified bank statements and interest income earned from deposits .
- The scam team forged invoices to show collection of revenue abroad, forged bank statement to show inflow of money, showed transfer of money to fixed deposits (FDs) through forged FD receipts and reflected all this in the final accounts. The assets and liabilities are altered Q2Q to reflect rising income and rig share price.
- Satyam did make money on export. Raju raised invoices for export abroad; money did come through the banking channels and was transferred to long term FDs and reflected in the books. Once the FDs were recorded in the books the deposits were dissolved and money transferred to multiple accounts. The books continued to reflect the FDs as you don't need to surrender certificate anymore. Siphoned money was use to acquire land, property, pay for political patronage for Maytas Infra and Maytas properties.

CG ISSUES

- 1) Small holding of promoters- The initial low share of 8% reduced to 5% which further dropped till 3.8%.
- 2) Failure of Board of Director- Satyam's BOD never questioned Raju on murky group investments. Though there

were six non-executive directors on the BOD, they failed to check Raju's misdeeds.

- 3) Failure of Audit Committee
- 4) Non Disclosure of the pledging of promoters share
- 5) Flaws in External Audit

Aftermath of satyam scandal:

On 9 January 2009, the CLB suspended the Current directors of Satyam and allowed the Government to appoint up to 10 new nominee directors

In April 2009, 46% stake in Satyam was purchased by '**Tech Mahindra**' and both the companies legally merged in June 2013.

Companies Act, 2013 incorporated new provisions:

- ❖ Disclosure of Promoter's Holding
- ❖ Rotation Of Auditors

Limited or other prescribed companies must not appoint or re-appoint-

1. An individual auditor for more than one term of five years.
2. An Audit firm of two terms of five consecutive years.
3. The Joint Auditors in the manner they do not complete their term in the same year.