

## **Satyam imbroglio: Surprised? Shocked? Stunned?**

The big daddies of accounting – better known as the Big Four – have had more than fair shares of fraud, fudging, fiddling et al.

In contrast to the public image each of them enjoys, (especially in the media) of being a sophisticated, high end accounting and consulting player at a global level, a brief perusal of the history of these firms would reveal that these firms have not been all that honourable and in fact had indulged in all these with an uninhibited brazenness or remorse. And more. They are viewed with awe and respect in India. Consider these:

KPMG was reported to be involved in laundering millions of dollars of the corrupt and ill-gotten wealth of Pilipino dictator Ferdinand Marcos. Despite this ‘remarkable’ history behind it, KPMG, without compunction, conducts annual fraud surveys in India. Corporates are unaware that they are rated by an organisation whose conduct is more than suspect.

Deloitte was penalised for reckless auditing practices, negligence and frauds in several cases. Their negligence in audit is reported to have resulted in many companies going belly-up. Yet, in India even to this day they could be called upon by Insurance companies to conduct their audits or by banks to write secret security codes!

Ernst & Young have their quota of sordid history too but were more in the news for a ‘stink’ operation, as they were caught conducting “Pristine Audits” in 2003 and reported by the Guardian. To the uninitiated, Pristine Audits refers to inspecting toilet seats and U bends – yes inspecting toilets - for stains. Yet, this firm bestows the annual entrepreneur award in a much-hyped annual affair. Most of our entrepreneurs are unaware of this fact.

Price Waterhouse Coopers – They are the guardians of Truth – “Satyam”! Need we elaborate?

Put pithily, the big four accounting firms are globally reputed for fudging and falsification. Put bluntly, only those who need to fudge, falsify and fabricate without any fear of guilt or conscience need these “reputed” firms of accountants. Others don’t.

It may be recalled that a group of Chartered Accountants came out with a White Paper on the functioning of these Multinational Accounting Firms (MAFs) exposing in detail their operating methodologies worldwide. A copy of the same is available at [www.mrv.net.in](http://www.mrv.net.in). All that I have quoted above is from this particular document.

Yet, when la affaire’ Satyam exploded, analysts, media and perhaps the entire corporate and accounting world were stumped, more so, given the fact that the auditor of Satyam happens to be one of the big daddies.

Frankly I am not. Given the lax way we operate our financial system and the efficacy of our regulators it is only surprising to me that it took so long to happen.

Interestingly, as we had warned in the aforesaid White Paper, these firms are Head quartered in some tax havens with the ultimate ownership virtually unknown. And, despite such huge security risks associated with them, we allow these firms to audit our banks, insurance companies and other sensitive sectors either by themselves or through their surrogates.

With the steadfastness of Pakistan which dismisses any evidence provided by the world about its terrorist connections, India Inc. continued to ignore the facts staring at them and continued to appoint them. Media continued to patronise them. Analysts went on believing them. No wonder, all of them collectively are surprised, shocked and stunned.

### **Whither the Regulators?**

The standard operating procedure of these firms is to claim global status whenever it suits them. And having collectivised themselves into a network of firms across countries, in case of any problem, these firms reflexively claim to be separate independent firms, not linked to the other.

In the infamous BCCI case, partners of Price Waterhouse (PW) in US denied any knowledge or responsibility of the audit of BCCI, which was conducted by PW, London, UK. So would PW in US in the extant case involving Satyam and PW India (interestingly, the global head of PwC was reported to travel to India after the news broke out).

This nebulous manner of arranging their network has ensured that they have entered India by networking with existing accounting firms as well as opening separate management consulting companies. Commenting on this arrangement the ICAI stated, in June 2002 *“The Government should review the alternative route of entry of accounting firms in India in the name of management consulting firm, and, circumvention of the law of the land taking place directly and indirectly by performing accounting services by them.”*

Well, much water has flown through the Ganges since then. Yet ICAI has been unable to take action on the alleged “circumvention of the law of the land” by its own members in India.

The reason for the same is obvious. As on date two partners / associates of PW – the firm under cloud – are members of the Council of ICAI, the governing body that is in charge of disciplinary matters of auditors. Normally, basic morality would demand that these members must resign from the Council to ensure a free and fair investigation. But, even to have such high expectations on morality are considered amateurish here!

It is equally interesting to note that some past Presidents of the ICAI went on become partners of these firms that were networked with the MAFs. Naturally, instead of actually using their office to control this illegitimate presence of MAFs, many leaders within the profession actually went on to use their office to legitimise the presence of these MAFs!

The net effect of the rot is there for all to see. All that we have done over the years to import the fraudulent working methodologies of these MAFs into India. In fact, there is extraordinary peer pressure on local firms to adopt these practices, else be condemned to play eternally a secondary role to these biggies.

Remember Greesham’s law when bad circulates with good, bad would drive out good. Yet ICAI chose to remain silent or complacent in this fight against the bad. In the process ICAI itself makes itself “questionable” by many, when a messy affair like Satyam happens.

Be assured that ICAI is known to take tough action against errant members normally but when high profile cases surface, abnormality rules the roost! Yes, beginning from the securities scam in the early 90’s ICAI has been unable to walk its talk of brining erring big players, especially its Council members, to book. When it concerns the MAFs, the hunter becomes the hunted.

## **GTB the cause, Satyam the effect**

What is interesting to know here is that the election to the office of the Vice-President of the ICAI is so bitterly fought by these Council members that every vote of every member becomes crucial.

And that is where the quid pro quo begins, I suspect. Despite the claims of Chinese walls by ICAI, it is well known that till date, the disciplinary case pending against the auditors of Global Trust Bank (presumed to have been initiated on the instructions of RBI itself) is pending resolution.

In all fairness, the enquiry might be going on and probably even in an advanced level but as long as the whole process is decidedly opaque, a normal member keeps his consternation levels high. And, by chance, if the enquiry comes to a culmination anytime now and ICAI comes out with its long awaited decision, the general perception would only be that it needed a Satyam affair to make GTB affair end. A speedier justice dissemination system would have saved the Institute this ignominy!

It may be recalled that in the GTB case RBI initially alleged (as it did in the securities scam in early 90's) violations by auditors. Yet, it did not take the matter to the logical conclusion on both occasions. Given this track record, it is very doubtful whether the errant players, especially the high profile ones would ever be nailed.

So is SEBI or for that matter, the Registrar of Companies or the Finance Ministry or the Ministry of Company affairs. A job offer for the son-in-law of the Joint Secretary here or the daughter of the Assistant Secretary there, preferably in exotic locations that might do the trick.

Even assuming that PWC is not guilty (it is quite possible that it is a victim of circumstance rather than villain of the piece), if justice is to be done and seen to be done, all the partners of PW or associated firms should resign from the council of ICAI forthwith as well as from government sponsored committees. Crucially, men of proven integrity must be in-charge of these probes, not those known to be of easy virtue.

As I write this piece it is disheartening to note some of our corporates are still dithering on the issue of continuing their relationship with PW. It is important to note that capital markets quickly need to restore investor's confidence. Given the magnitude of events it is suggested that PW should volunteer to resign as auditors of listed companies. Believe me; nothing of else will restore confidence in PW, capital markets and lol in audits.

Corporate honchos, media, analysts, ICAI, RBI, SEBI, Government, shareholders and of course you and me are responsible for la affaire Satyam. Therefore, nothing at all will happen to anyone. In future also, do not be surprised if MAFs continue to violate laws of the land. Do not be shocked if managements loot corporates. Do not be stunned by the inaction of our regulators. It is all part of the game, man. Enjoy the show!

Comments are invited at [mrv@mrv.net.in](mailto:mrv@mrv.net.in)