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# Q+A - How did Satyam pull off India's biggest corporate fraud?

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(Reuters) - India vowed to strengthen laws to prevent corporate fraud after Satyam Computer, the country's fourth-largest software company, shocked investors by revealing profits had been falsely inflated for years.

Chairman Ramalinga Raju resigned on Wednesday after revealing India's biggest corporate scandal in memory, sending the company's shares plunging nearly 80 percent.

The following is an overview of how the fraud escaped detection for so long and what compelled a soft-spoken man born into a family of farmers to risk all.

**Q:** How did Satyam escape detection?

**A:** On the face of it, New York-listed Satyam did everything by the rulebook, with an international firm auditing its books, declaration of accounts in accordance with Indian and U.S. standards, and the requisite number of independent directors with excellent credentials, including a Harvard business school professor and a former federal cabinet secretary.

Raju, in his now famous 5-page letter outlining the deception, said no other board member -- past or present -- was aware of the financial irregularities.

Regulators were blindsided, and analysts and experts say there are "systemic flaws" in accounting and audit practices.

About \$1 billion (656 million pounds), or 94 percent of the cash, on the company's books was fictitious, Raju said, and manipulation of the cash flow may be a reason why the fraud was undetected.

"Companies have manipulated P&L (profit and loss) accounts before, but cash flow is the Holy Grail -- you don't tamper with it," said Saurabh Mukherjee, an analyst at UK-based research firm Noble Group.

"Auditors generally assume if there is cash, things are OK. But there are plenty of accounting and governance loopholes."

India also lacks a culture of dissent, with shareholders and independent directors reluctant to question company founders.

**Q:** What was the motive?

**A:** India's \$50-billion information technology industry -- the poster child for India's economic liberalisation and rapid growth -- expanded at a scorching pace on the back of outsourcing demand from Western firms.

At the height of the boom, top software firms Tata Consultancy Services, Infosys Technologies, Wipro and Satyam consistently reported annual 50-percent increases in profits every quarter.

Pressure to maintain this pace of growth, please investors and shareholders and justify inflated P/E multiples during a six-year bull run on the stock market have all been cited as reasons why Satyam cooked the books.

Some news reports say Raju was an aggressive investor in failed dotcoms, and the family also put money in real estate.

Raju, in his letter, said he had "not benefited in financial terms" as a result of the inflated accounts.

**Q:** Are there other Satyams out there?

**A:** Most certainly, say analysts and industry experts.

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While there has been a plea from chief executives across the board against painting all of corporate India with the same brush, Noble Group estimates at least a fifth of the top 500 listed companies practice "creative accounting."

"At its most innocent it is not illegal, but account manipulation is very pervasive," said Mukherjea.

Q: What needs to be done to prevent another Satyam?

A: Tighter rules for accounting and corporate governance, including appointment of independent directors by selection committees, and greater oversight from regulatory and government authorities.

Noble Group also suggests separation of audit and consultancy functions at companies, and quicker publication of annual reports.

(Compiled by Rina Chandran; Editing by Mark Williams and Sugita Katyal)

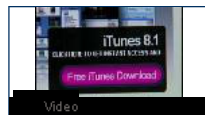
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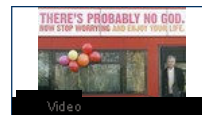
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