Satyam Computer Services Ltd.—India's Enron

Imagine that you are on the board of directors of a company and you receive a letter from the chairman of the board that starts, "With deep regret and tremendous burden that I am carrying on my conscience[1]" and goes on to say that the company's balance sheet carries inflated cash of more than $1 billion, $77 million (m) of accrued interest that is nonexistent, $253m of understated liability arranged by the chairman, and overstated receivables of $101m and that the income statement shows overstated profits for the last several years. Imagine that you were the audit partner, or if you had just awarded the company your global award for excellence in corporate governance (since rescinded)! This is what happened on January 7, 2009, to the board of directors of **Satyam Computer Services,** its auditor **Price Waterhouse India** (PWI, the Indian arm of PricewaterhouseCoopers International, PwC), and Ola Ullsten, former Swedish prime minister and chairman of the Golden Peacock Awards.[2] As for the shareholders, the value of shares dropped about $2 billion the very next week.

HISTORY OF SATYAM

Satyam, which means "truth" in Sanskrit, was founded by B. Ramalinga Raju in 1987 and grew to be a leading outsourcing firm used by major international companies. India's fourth-largest software and services firm, it reported revenue of $555m (actual revenue of $434m) and had 53,000 employees in 2008 (or did it? Stay tuned).

Chairman of the board Raju's confession seemed to spring from the board of directors' denial of the purchase of Maytas (Satyam spelled backward), a Raju family-controlled company owning thousands of acres of property. Apparently, Raju planned to use Maytas assets to offset the fictitious assets at Satyam.

The press had noted the company's related-party dealings. Raju's family members were on the Satyam board and friends were in senior management. Even though it was a large company, no financial experts were on the audit committee.

INDIAN ACCOUNTING ENVIRONMENT

Indian accounting standards are broadly similar to international standards, and the Indian accounting profession is largely self-regulated. Traditionally, general standards of corporate ethics and accounting have been suspect in India. Many companies had been created during License Raj, a period of government intervention in which businesses had to work with politicians and pay bribes. In India "promoters,"[3] who include business families and other corporate insiders, held almost half of the shares on the National Stock Exchange. However, because of its listing on the NYSE, Satyam was subject to the Sarbanes-Oxley Act, which should have induced stricter governance.

Although the Big Four accounting firms have been eagerly touting the growth potential in India, development there has been hampered by heavy national restrictions on the size and number of audit clients a partner can serve. The relationship between PwC and PWI underlines what many see as the patchwork nature of the big accounting firms. Each is a collection of national partnerships under a global umbrella organization. The profession has tried to standardize practices and ethics across the firms, but senior partners privately admit that quality can still be patchy. Some say the Big Four firms in India rely on trainee chartered accountants and sometimes accountants simply copy the previous years' audits and the internal auditors' work because they have limited time to complete the current audit.

THE FRAUD

India's biggest corporate fraud apparently started in April 2002 when IT companies' American depository receipts (ADRs)[4] were popular among foreign investors. At that time, Raju decided to

[1] "In India, Crisis Pairs With Fraud'" Joe Nocera: January 9, 2009, www.nytimes.com/2009/01/10/business/10nocera.html?ref=ramalingaraju (accessed September 14, 2011).