I THINK
K. JAGANNATHA RAO, CFO,
E&C BUSINESS, HCC P. 12

CFO PROFILE
PAVAN TRIVEDI, CFO,
TATA MOTORS FINANCE P. 22

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NISSA

CFO

INDIA
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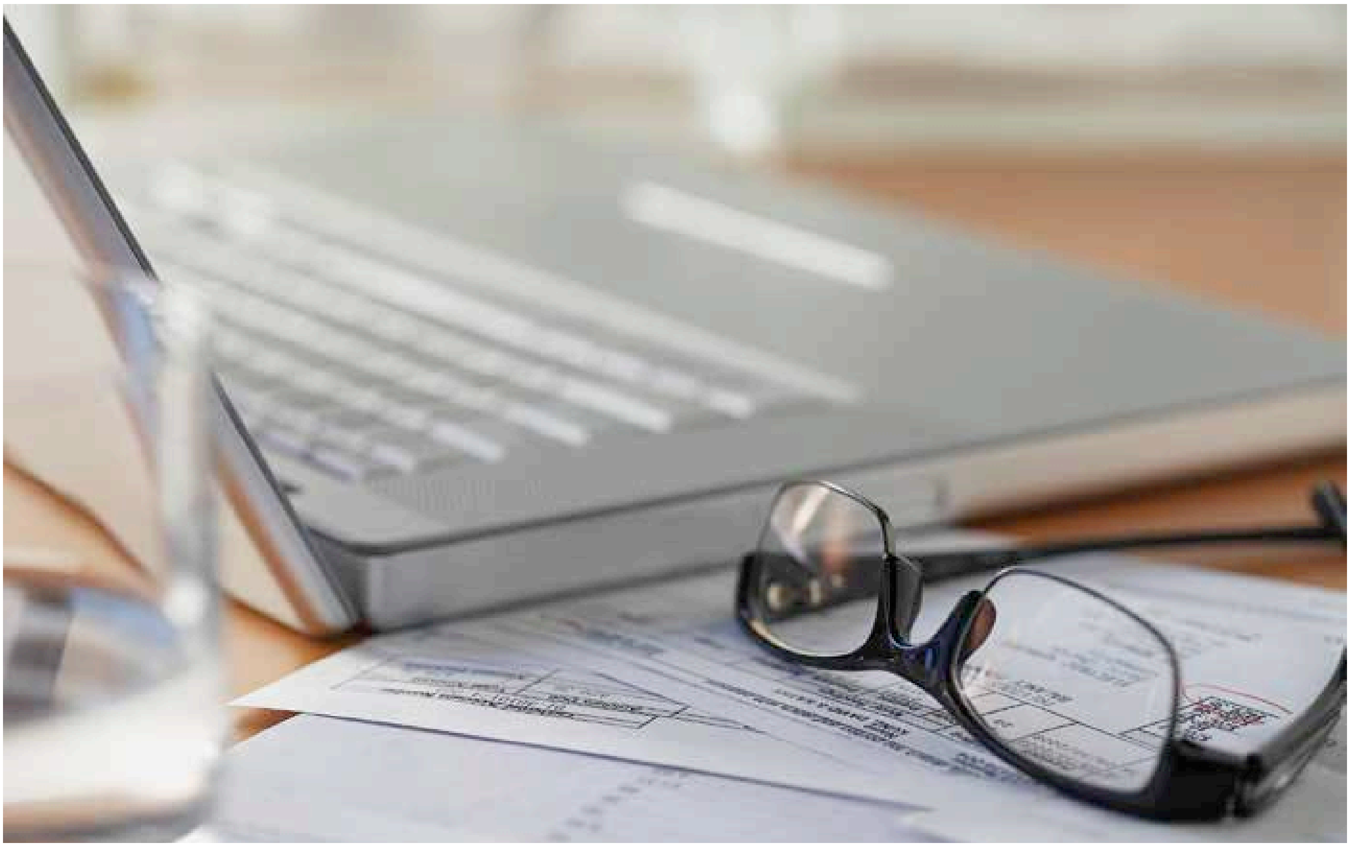
Auditors & CF

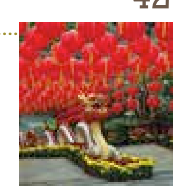
Too close for comf

In changing times, audit firms and CFOs shar
and somewhat controversial equation. CFO In
the changing colours of the relations



CFO INSIDE

AUGUST | 2013



COVER DESIGN PRADEEP G

SHALINI S. DAGAR
shalini.dagar@9dot9.in

Fifty Shades Of Grey?

THIS AUGUST as political and economic heat rises, we at CFO India add some sweltering issues of our own to the pot. We explore a topic which has at its heart a great many shades of uncertainty and controversy —the relationship between CFOs and auditors. Who is responsible for keeping a company virtuous? Is it the CFO or the auditor? Are they allies or adversaries?

In the past decade, the relationship has come under scrutiny globally and in India as accounting and auditing has been at the centre of high-profile scandals. If the heart of capitalism, the United States was rocked by its Enron or WorldCom moments then India had its Satyam moment some years ago. Quite often at the centre of the stories, apart from the top management is the finance function, and in close tandem the audit firms—what they did or did not do.

If outright fraud is a clear case of black and white, the same cannot be said of global tax controversies that seem to involve yet again the audit firms and their variable boundaries of operation. Till some years ago, as the global economy was ambling along, tax avoidance was acceptable. The thin line between avoidance and evasion was only visible to legal and tax experts. Now, stretched public finances across the world have shred this tolerance to bits. And governments, across the world, are happy to get into tax scraps, if the near empty coffers get enriched as a consequence.

India too has had its share of challenges. In the past few years, the corporate-political complex has throw up situations which on paper may be legitimate but smell of lack of ethics. In this grey scenario with shifting boundaries, who draws the firm line in the sand? We have in the cover package an interview with the former CAG of India, Vinod Rai, who does not mind standing out for his convictions and taking some flak. Accused of single-handedly lopping off around 1 per cent of India's GDP by a well-known economist, Rai cooly shrugs off the charge. "I would much rather that India move forward with probity and ethics," he says.

There is a clear demand for transparency, good governance and probity from different sections. Our CFO community is part of the supply side of this much-needed quality and bears great responsibilty. We have tried to bring together various strands of this contentious debate. Do tell us if you found value in our efforts?

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LETTERS

CFO INDIA
AUGUST 2013

Rich Haul

I have gone through a few articles in the current issue of CFO India. The articles being published in your magazine enrich my knowledge and cover the current issues very well. I personally appreciate the coverage. My best wishes for the success of the magazine.
—**Fasihuddin Syed,** General Manager – Finance - Exensys India Limited


The Great BONDsoon

Indian firms were expected to raise $20 billion this year in foreign currency debt before emerging market debt became unpalatable.

08.13

Your voice can make a change: Share your viewpoint on what's happening in the community and your feedback on the magazine at ***editor@cfo-india.in***

ENGAGED READER

I found the latest issue very interesting and informative. Maybe you could add a section on the happenings in the financial world.
— **N. Kumar,** Vice Chairman, the Sanmar Group

GOOD READ!

I was eagerly waiting for my hard copy of the CFO India. I would like to congratulate the CFO team on the brilliant and insightful cover story 'The Great Bond SOON'. The highly volatile and dynamic nature of foreign capital investors and their sensitive relationship with the Indian capital debt market were captured well. The case study on successful ERP implementation and the article 'Board Governance' were also commendable. Overall a balanced issue!

The CFO Lounge section provides a good overall reading experience. Please continue to cover as many as CFOs and CEOs as possible so that we get more of their insights and experience.
— **Dilip Kohli**, Del ZF Director- Finance & Company Secretary Kuehne + Nagel Pvt. Ltd.

KEEP GOING..

I enjoy reading the magazine. It's language, content, presentation everything is very good
—**SR Krishnan,** Company Secretary, Oil India

SUGGESTIONS

The following issues may kindly be considered in structuring future issues of the magazine:

- Current issues relating to Economy, presently the falling rupee, its root cause and probable solutions.
- Common corporate issues such as manpower and its efficacy in finance department
- Freedom and responsibilities of CFOs
- Governance standards including issues affecting listed companies–precedents and prospects
- Latest news bulletin board–a gist of latest developments in finance in India and across globe
- How far it is right to hold CFOs responsible for business results (not financials) when CFOs have not too much of a say on them?
- Opinions of celebrity CFOs and Director Finance across India and even some times in Asia.
- Now days a CFO became a buzz word rather than actual function in the company. Roles/jobs offered and compensation would be interesting
- Is CFO equated with a Chief Accountant? Is the idea new wine in old bottle? And so on.

— **Prasad Jahagirdar,** former CFO, CMI FPE Ltd.

INFORMATIVE READ

I found the issue online to be very informative.
— **Nitin Agarwal,** AVP- Finance & Accounts, Godawari Power & Ispat Ltd.

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O-Zo

08.13

ORGANISATIONS

What ants can teach us..

ANTS HAVE BEEN around for almost 130 million years. How do ants deal with variability and constraints set by specific environments? Deborah M. Gordon, biology professor at Stanford should know. She studies the evolution of collective organisation by investigating the ecology and behaviour of ant colonies. According to Gordon and her group of researchers, ant colonies use dynamic networks of brief interactions to adjust to changing conditions. No individual ant knows what's going on. Each ant just keeps track of its recent experience meeting other ants, either in one-on-one encounters when ants touch antennae, or when an ant encounters a chemical deposited by another.

In an article published in Wired, Gordon points out the remarkable and close parallels between ant colonies' networks and human-engineered ones. One example is "Anternet", where the researchers found an algorithm desert ants use to regulate foraging is like the Traffic Control Protocol (TCP) used to regulate data traffic on the internet. Both ant and human networks use positive feedback: either from acknowledgments that trigger the transmission of the next data packet, or from food-laden returning foragers that trigger the exit of another outgoing forager. Such networks have made possible the phenomenal diversity and abundance of more than 11,000 ant species in every conceivable habitat on Earth. So Anternet, and other ant networks, have a lot to teach us. Ant protocols may suggest ways to build our own information networks...

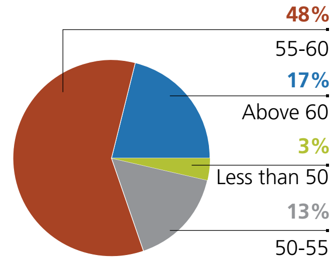
Harvester ant colonies in the desert must spend water to get water. The ants lose water when foraging in the hot sun, and get their water by metabolizing it out of the seeds that they collect. Since colonies store seeds, their system of positive feedback doesn't waste foraging effort when water costs are high — even if it means they leave some seeds "on the table" (or rather, ground) to be obtained on another, more humid day. Thus, high operating costs are tackled. Isn't that smart?

ne

THE CFO POLL

RESULT

Where do you see the rupee against the dollar in the next 6-9 months?



CURRENT POLL QUESTION

Where do you see India's benchmark 10-year bond yield in March 2014?

Vote now at www.cfoinstitute.com/poll

RENEWABLES

World's largest offshore wind farm

A SET OF 175 turbines rising out of the Thames estuary officially became the largest offshore windfarm in the world in early July. It is expected that the London Array, a massive renewable energy project is owned by Denmark's Dong Energy, Germany's E.On and Masdar of Abu Dhabi. Its 630MW capacity, enough to power 470,000 homes, has been fully operational since April. The consortium predicts that the windfarm will save 925,000 tonnes of CO2 a year. The London Array has taken the crown of the world's largest offshore windfarm from the 500MW Greater Gabbard project off the East Anglian coast. The UK currently has more than 3.6GW of offshore wind power capacity, but is expected to have around 18GW by the end of the decade, reveals the Guardian newspaper.

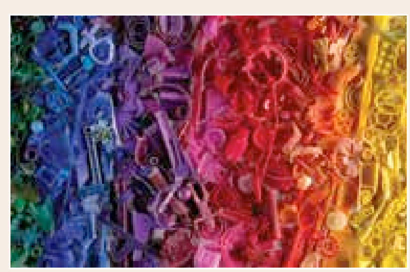
PHOTOS.COM

PLASTICS

Microbes living on Ocean Plastic?

SCIENTISTS have discovered that all the garbage in our ocean has created a new community of microbes that live on our waste. What does this mean for our ocean's ecosystem? Trip on a discarded Happy Meal toy at the beach? You may have just disturbed an entire community of microbes that have found thriving new worlds on the ocean's plastic.

Globally, we produce some 250 million tons of plastic per year, and about 4.7 million tons of it gets dumped into the ocean annually, according to Plastic Oceans, a UK nonprofit. While much research has been dedicated to how ocean plastic can trap, suffocate, and poison marine animals, little had looked at the animals living on the plastic itself. A new study from the Sea Education Association (SEA), Woods Hole Oceanographic Institution, and the Marine Biological Laboratory (MBL) finds that ocean plastic functions as 'artificial microbial reefs,' an ecosystem–a 'plastisphere,' unto itelf. "We saw that nobody had done this before and had a good idea that there could be an interesting signal there," Tracy Mincer, a microbiologist and one of the authors of the report said. "We found some things that were different from what other people have seen."



The researchers, found 1,000 different types of bacteria on ocean plastic, including plants, algae, autotrophs, and predators. Initial investigation showed that these microbes were actually etching away at the plastic, and helping it break down into smaller particles. Still, this does not mean that ocean germs are helping plastic biodegrade.

cfobook

Yogesh Dhingra

Wall | Info | Boxes | +

What's on your mind?

Attach 31 Share

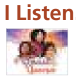
Yogesh Dhingra recently visited Atlanta (USA) to attend hiss son, Sarthak's graduation from Georgia Institute of Technology
July 15 at 06.20 · 18 comments · 24 people like this

Yogesh Dhingra loves to – destress by playing Squash (solo)
July 25 at 17.20 · 21 comments · 32 people like this

Yogesh Dhingra looks forward to – spending time in community outreach initiatives
July 29 at 18.45 · 7 comments · 16 people like this

I Read...
Harvard Business Review, Economist, Reader's Digest

I Listen...



Ghazals and Hindi music
29 comments · 38 people like this

RECENT ACTIVITY
Yogesh Dhingra likes... Reader's Digest and two others
Ghazals, Hindi music

Harvard Business Review and The Economist
July 8 at 10.13 · Comments · 22 people like this

PERSONAL

- Zodiac: Aries
- Views: Liberal

WORK

- Finance Director & Chief Operating Officer, Blue Dart Express Ltd. (2001–till date)
- Corporate Controller, Blue Dart Express Ltd. (1997–2001)
- Manager - Finance, DUMEZ SOWEA BORAE – SAE (1989-1992)
- Deputy Manager - Audit, PRICE WATERHOUSE (1984-1989)

EDUCATION

- Chartered Accountant - ICAI
- B.Com (Hons.)-Delhi University

JARGON BUSTER
THE PHRASE: DRINKING THE KOOL-AID

THE MEANING
American jargon refers to a group's unquestioned belief. It came from a mass suicide by cynaide-laced Kool-Aid in 1978 in Guyana

THE USAGE
In the current economic climate, the saying in the startups could well be 'Just keep drinking the Kool-Aid'

HEALTH

Out with medical files; track your health online

KEEPING RECORDS of piling medical files is always a tough task. To ensure that patients have it easy in locating their health records, three young professionals have launched a website www.arittracares.com to help bridge the gap between patients and doctors.

Absa Bapunhi, one of the three, said, "It was through our personal experiences that we felt the need to digitise 'medical records'. Most patients today find it difficult and cumbersome to keep their medical records organised and readily accessible in times of medical emergencies." Bapunhi said it was common that in the absence of medical records many patients had to repeat diagnostic tests. "Old medical records are many a time relevant. Our website's basic aim was to fill this gap," said Bapunhi.

FUNDS

CAT BONDS FOR UTTARAKHAND FLOODS?

THE AMERICANS have a pat solution, bordering on panacea, for almost all problems: insurance. Obamacare, the universal medical access scheme, is rooted in health insurance for all citizens, with the rich subsidising the poor. There is credit default insurance to guard against the possibility of bond issuers reneging on their promise to pay coupons or redeeming the bonds on maturity.

The formidable AIG was brought to its knees and had to be bailed out with state funds when it mindlessly underwrote even junk bonds backed by mortgages that turned sour. The insurers, however, found the losses emanating from nature's fury too much to bear, especially in the aftermath of Hurricane Andrew in the nineties. Hence they thought of a devious game-plan – divert some of the insurance risks to the market, says S Murlidharan on First Post.

The result was another form of bond made available to the investors – catastrophe bonds, which prey on the greed of investors hungering for higher returns. An insurance company might have insured large properties in Uttarakhand sitting bang on the high seismic zone and prone to flood ravages.

MAPS

Harry Potter on Google Maps!

DIDN'T GET INTO Hogwarts when you turned 11? Don't worry. You can still visit the Wizarding World's main drag, Diagon Alley, from the comfort of your desk. Google added the set of Diagon Alley to Google Street View.

Diagon Alley is the main shopping district in the Harry Potter universe, where wizarding students from the book series go to buy schoolbooks, wands, candy, flying brooms and more. What you can see now on Google Maps is the Diagon Alley set from the eight "Harry Potter" films, housed at the Warner Bros. Studio in London. (After all, the real Diagon Alley only exists in J.K. Rowling's mind.) It may not be as useful as the Marauder's Map, but Google Street View did an excellent job capturing a big piece of the film franchise's set. To see Diagon Alley and other paraphernalia in person, head out to London and take the Warner Bros. studio tour. If you can't make it out to London, though, this is a good substitute for us muggles.

CFO MOVEMENTS

New CFO at Everonn Education

Ganapathy H. Puranik has been appointed as the Chief Financial Officer at Everonn Education Ltd with effect from July 8. Puranik is a qualified cost accountant and law graduate and has 22 years of experience in myriad industries such as banking, finance and realty.

KS Oils, Sakthi Sugars and Hexaware get new CFOs

Davesh Agarwal's appointment as CFO of K.S. Oils was approved by the company's board of directors on July 5. Meanwhile at Sakthi Sugars **M.K. Vijayaraghavan** was appointed the finance head from July 8.
At the IT company and consulting services company, Hexaware Technologies, **Rajesh Kanani** has taken over as the CFO formally after carrying on as interim CFO since September last year.

Akzo Nobel CFO bags new assignment

Partha Sarthi Basu, whole time director and CFO at Akzo Nobel India is moving on to a new global assignment within the company. In August he moves to AkzoNobel NV as Finance Director Operations within the Corporate Control department. He will be based in Netherlands after the AGM in August.

Do you have what it takes to be among the best enterprise software developers in India?

The Developer Premier League is a unique enterprise developer team challenge, with the sole objective of identifying the best of brains and bytes from India. Move over hackathons, and small groups. We're thinking of leagues.

The aim of this contest is to identify and honour enterprise developer teams that have knowledge, flair and ingenuity to plan and develop complex enterprise applications smartly, quickly & correctly.

This unique and rigorous program will keep you crunching code, gulping coke and munching pizza for a little over a month. If you survive the online challenge to prove your mettle, we'd meet you for the final on-ground challenge to be held at New Delhi, Bengaluru and Hyderabad.

Here's your chance to display your talent before friends, colleagues and the software development fraternity in India.

Why
PARTICIPATE

Developer Premier League 2013 is a novel contest that tests your knowledge, recognises your skills as well as business acumen. Come, demonstrate your expertise in enterprise project strategy/planning, development and decision making to your clients, colleagues, peers and the industry as a whole.

You will compete against the best enterprise developer teams across the country! Over 45 days you will have the unique opportunity to enhance your domain knowledge and augment your proficiency of enterprise technology. You get to meet with and interact with top technology consultants, and test your problem-solving skills and hone your teamwork.

You will encounter complicated business problems, lots of information, complex choices and tradeoffs. The pressure will be intense and you will need to produce a winning solution. This contest is a great way to prepare yourself and your team to stay in the forefront of the enterprise development space.

The winning teams and solutions will be featured in print magazines and online via the Digit and devworx network, making them aspirational and lucrative resources in the ever growing tech industry.

Oh, and we have some prizes worth killing for!

Of course, we've heard of the age old adage: all work and no play... The top teams at each location will win a trip to Macau, Hong Kong. The runner-up teams will get weekend holiday packages in or around their location. In addition we have more goodies!

What
TO EXPECT

In the online phase each team will be required to provide comprehensive solutions for a minimum of 10 tasks. Teams will have access to online resources and advice from technology specialists & vendors to develop winning solutions.

Who
CAN PARTICIPATE

Software development professionals involved in developing enterprise applications are eligible to participate in DPL 2013

All participating teams will have a maximum of 4 members. The team, headed by a software architect, may include developers, and/or a UI/UX designer.

All teams must be full time employees of an organisation. Third party consultants, advisors, etc are not eligible to represent the organisation in the DPL 2013.

dpl developers premier league
Smart Solutions, Winning Teams | 2013

PARTICIPATE NOW

visit www.dpl.devworx.in to register

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Lalit Arun | M: + 91 - 9582262959 | Email.: lalit.arun@9dot9.in

>>

K. JAGANNATHA RAO

Facts & Trivia

EDUCATION: B Com

PROFESSIONAL QUALIFICATION: FCS, MBA

FIRST JOB: Began with his independent practice

K. Jagannatha Rao, CFO, E&C business, Hindustan Construction Company believes good governance should be put in place sooner rather than later. He shares the unique challenges faced by the infrastructure sector.

THE INFRASTRUCTURE industry which comprises power, roads, ports, airports, etc. has been experiencing severe pressure in view of economic slowdown and is plagued by multiple challenges over the last three years. Progress of large projects is far from satisfactory. Many are on hold and there is an inordinate delay in finalising the projects, due to land acquisition issues or pending clearances from Ministry of Environment and Forests.

The status of infrastructure in India is yet to keep pace with other developing economies. Cities are crumbling as pace of growth of infrastructure lags urban growth. This has resulted in:

- Slowdown in sectors which were expected to contribute large share of growth in the economy
- Decline in economic growth
- Sluggish investment environment
- Stagnation and slippage in the employment generation momentum
- Defaults in payment of interest and scheduled repayment of principal amount of loan by industry
- Strain on the banking sector. Large number of companies are seeking restructuring or rescheduling of their term debt obligations under the Corporate Debt Restructuring (CDR) mechanism or otherwise
- Slowdown in the participation of Foreign Institutional Investors (FIIs) in the sector to almost nothing leading to scarcity of capital. The infrastructure sector needs a large capital build up
- Pressure on the rupee and the expansion of the current account deficit (CAD)

Indeed, the economic scenario is quite disappointing and discouraging. The central and state governments along with the Public Sector Units have gone into a shell. The collapse of decision making has added fuel to the fire. This has a serious impact on the economy which is already under pressure in view of the global slowdown.

The central and state governments are paralysed by a fear psychosis due to a spate of high profile scams, and damaging reports from the Comptroller and Auditor General of India on the basis of assumptions of estimated future losses.

Industry bodies such as FICCI, CII, and other infrastructure industry bodies have taken up these grave concerns at different levels with the relevant ministries such as those dealing with finance, surface transport, aviation and mining among others. Industry captains have tried to impress upon the need to initiate quick policy redressal.

The dispute resolution framework needs to be strengthened to kickstart large projects which are stuck for various reasons. It is critical to create a friendly environment for investment to ensure the inflow of foreign investments in the infrastructure sectors. Typically, this would be long term money which stays in the country for at least for a decade or more. If encouraged appropriately, these flows could offer a solution for current account deficit problem facing the country. While the government is expressing

JITEN GANDHI

“Signals which denote that the problems of the infrastructure industry are getting due and adequate attention are clearly missing.”

concern on decline in Gross Domestic Product and the negative and large Current Account Deficit (CAD), which reflects the trade deficit, it is a matter of severe concern that there are 440 projects valued at over Rs. 10 lakh crore that have been stalled due to reasons of environmental clearances etc. Indeed, this is a sad reflection of the lack of understanding and initiative on the part of the government.

Though policy initiatives and frameworks are under way to address the concerns of the infrastructure industry, the progress at the ground level is far too little and far from satisfactory. The Central government has constituted the Cabinet Committee on Infrastructure to clear projects worth Rs. 1,000 crore and more on fast track basis. As indicated by the Finance Minister in his Budget speech, state-owned companies and ministries are expected to finalise the bids for new projects in the first six months of the current financial year.

However, these efforts have not shown much by way of progress—at least not at the scale required. This is exacerbated by the absence of signals which denote that the problems of infrastructure industry are getting due attention. Also there is no indication on clearances of new projects as claimed by Finance Minister. We are now well past the first three months of the financial year with almost zero progress.

In order to kick start the economy, increase GDP, the central and state governments must improve the environment to facilitate faster decision making process. Simultaneously, they must also address on an urgent basis the process of settlement of pending dues. Last but not the least, quick environmental clearances are essential so that economic activity could start again.

Let us not forget India is a country of young and impatient people and a total of 1.20 billion population. Therefore, it is imperative that our government rewrite the rules of doing business so as to provide much needed comfort to decision makers. This will enable faster infrastructure build out. Good governance should be put in place sooner rather than later. CFO

Auditors & CFOs
Too close for comfort?

Auditors and CFOs have a complex but close relationship. With the global financial crisis and the spate of scandals in the last decade, the relationship is in transition. CFO India tries to map the road ahead

SHALINI S. DAGAR
DESIGN BY HARIDAS BALAN

"An auditor is someone who arrives after the battle and bayonets all the wounded."
—*Anonymous*

"In India, financial statements are opinions and not facts."
—*Former Indian CFO*

"Questions not just at the intern level but up the ladder too: Are we in the right profession?"
—*Partner with a major audit firm*

Some years ago, Anil Singhvi, formerly CEO and MD of Gujarat Ambuja Cements remembers how when he wanted to change an audit firm, he encountered great resistance. The audit firm wanted to know whether he was unhappy with their performance. He was not. Eventually, the firm told him that if he wanted to change the auditors, he will have to fire them! This incident might show the prevailing ethos of the years gone by, (See *Auditors with Long Tenures*), then it surely is a sign of the changing times that the Companies Bill 2011 which has already been passed by the Lok Sabha, now is mandating auditor rotation.

In the intervening years, the relationship between the CFO and the auditor has undergone a sea change due to some high profile global and domestic scams. If the Sarbanes Oxley Act was the fall-out of the Enron and WorldCom incidents, in India this regulatory push comes as a consequence of the Satyam fraud and some.

The insistent regulatory push amplifies the demands for accountability raised by vigilant investors. Jamil Khatri, global and India head for accounting advisory services, KPMG recounts a recent conversation with a private equity partner, where the client asked him: "We have always believed that auditors as gatekeepers mitigate our fraud and governance risk. Should we question that premise now?"

"We have always believed that auditors as gatekeepers help mitigate fraud and governance risk. Should we question that premise now?"

— PARTNER WITH A PRIVATE EQUITY FIRM

CFO & AUDITORS

Some of these tough questions and possible tough laws arise due to a widespread perception that some finance heads and auditors colluded in the past to present a rosier picture in some cases than the financials warranted.

Since the appointment, fees and often other advisory relationships of the audit firm are often decided by the management, and therefore the CFO, the potential for mischief is huge. Legally though the auditors are appointed by the shareholders. In the past, there have been few instances where the auditors have staked their relationship with the company with adverse comments or qualifications. In recent times, even if such comments are made they are often too late. The relationship is close and incestuous believes Shriram Subramanian, founder and MD, of Bangalore-based proxy advisory firm, InGovern Research Services. The rise of firms such as InGovern and the hawk eyes of financial analysts the world over have focused the lens on this relatonship. Companies such as DLF, Reliance Communications, IndiaBulls, Educomp and Biocon have found themselves at the receiving end of some sharp and critical reports from firms such as Veritas and Espirito Santo.

If the governance issues alone were not enough then tax transactions too have been adding to the heat. India has Vodafone, Shell, Nokia and several other companies in a huge contentious tax imbroglio. Though India's tax problems may seem unique yet at least here India seems to be following the global trend. Regulatory tolerance towards aggressive tax planning is down to historic lows. The lesson that most freshers learnt that tax avoidance was legal, whereas tax evasion was not is now no longer valid. Notice that Apple CEO Tim Cook defended a structure which is considered as the 'Holy Grail of Tax Avoidance.' And Apple is hardly alone wth Google, Amazon and Starbucks for company.

In such as scenario where the norms have changed almost unseen, both the CFO and the auditor are under tremendous pressure. In any case, the relationship between the CFO and the auditor is dichotomous –it needs to be a partnership because they need to work together on a day-to-day basis, yet the auditor clearly needs to be keep a distance and a perspective.

Who has primacy? "They share a close and complex relationship," according to Ravi Sud, senior vice president and CFO, Hero Motocorp but clearly the major share of the responsibility lies with the company and therefore the CFO. Former CAG, Vinod Rai agrees as he believes that the CFO is at the forefront while events are occuring whereas the auditor's role comes in after the event has already occurred. Subramanian of InGovern believes auditors shoulder a greater responsibility as they have a fiduciary duty towards shareholders as well. However, despite Satyam, there seems to be broad concurrence that the auditor is often not equipped to investigate and locate genuine fraud.

AUDITORS BEWARE

Yet, the tougher overall environment and enforcement actions of the past few years has forced the auditing community to tighten up its practices and review its engagements. After all as one auditor mentions, “no client relationship is worth going to jail.” A decade

THINGS CHANGE, BUT THEY ALSO REMAIN THE SAME

“Even client acceptance is now an annual and cross-functional debate where issues are discussed threadbare.”

— Vishesh Chandiok, Grant Thornton

“Collusion, I believe, is a one-off and rare case given the increase in consciousness.”

— Jamil Khatri, KPMG

“Institutional investors often even refrain from voting on contentious issues, whereas they could be whistleblowers."

— Shriram Subramanian, InGovern

AUDITORS WITH LONG TENURES

Company	Auditor/Audit Network	Tenure (years)
Hindalco Industries	Singhi and Co.	> 50
Reliance Industries	Chaturvedi and Shah, Rajendra and Co, Deloitte *	> 35
Larsen & Toubro	Sharp and Tannan	> 30
Jaiprakash Associates	M.P. Singh & Associates	> 25
Grasim Industries	GP Kapadia and Co; Deloitte (joint statutory auditor since 2009)	> 20
Tata Power	Deloitte / A F Ferguson & Co	> 15
Hero MotoCorp	AF Ferguson and Co.	> 15
Tata Steel	Deloitte / A F Ferguson & Co	> 15
Tata Motors	Deloitte / A F Ferguson & Co	> 15
Infosys	BSR and Co.	> 14
Maruti Suzuki	PWC	> 14
Jindal Steel	SS Kothari Mehta and Co	> 14

*Deloitte: Auditor since 2005 | Source: IIAS Analysis, Nov 2012

QUESTIONS AROUND INDEPENDENCE

Some big names and companies have very hazy relationships with audit committee members and chairs. This cloud spreads over even Nifty / Junior Nifty / S&P 500 constituents.*

Company	Director	Audit Committee	Solicitor / C.A. Advisory firm	Pecuniary Relationship
Procter & Gamble Hygiene And Health Care Ltd.	R. A. Shah	Chair	M/s Crawford Bayley & Co.	No disclosure was made of the amount of fees paid.
Pidilite Industries Ltd.	Bansi. S. Mehta	Chair	M/s Bansi S Mehta & Co., Chartered Accountants	Is consulted by the Company for legal/tax advice.
Bharat Bijlee Ltd.	Prakash V. Mehta	Member	Messrs Malvi Ranchoddas & Co.	He is also a member of Remuneration Committee and Shareholders' Grievance Committee. However, no mention in the Annual Report of this pecuniary relationship. Also, no disclosure made of the amount paid to the solicitors during the year.
Clariant Chemicals Ltd.	R. A. Shah	Chair	M/s Crawford Bayley & Co.	He is also the Chairman of the Board. A sum of Rs. 11.62 lakhs (Previous year Rs. 33.07 lakhs) has been paid as professional fees during year ended at December 31, 2010.
Century Enka Ltd.	S. K. Jain	Chair	An Advocate for legal/tax advice	No professional fees have been paid to Mr. S. K. Jain after his appointment as a Director.
The Bombay Dyeing And Mfg. Co. Ltd.	Ishaat Hussain	No	N.A	Directors have booked flats in the residential building being constructed by the Company on its Spring Mills land. No amount is outstanding against their names as on 31st March, 2011.

InGovern Research, March 2012. * This is only an indicative list, not an exhaustive one.

ago, across the accounting profession anybody with a modicum of respectability was welcome as a client. There was no structured discussion. That attitude, it seems, has disappeared. Says Vishesh Chandiok, partner, head of India at Grant Thornton, "Even client acceptance is now an annual, cross-functional debate where issues such as conflict are discussed in detail."

Khatri, Chandiok and others in their profession believe that there has been an increased alertness. And auditors are increasingly considering the option of walking away if there is great discomfort. "Given the increase in consciousness, collusion, I believe, is a one-off and rare issue," says Khatri even as he points out to systemic issues.

For both CFOs and auditors to assert themselves more frequently, the effete corporate governance structure needs to change whether it is through effective functioning of the audit committees or the intervention of the independent directors, especially those from financial institutions. And questions emerge even around good companies.

A case in point is the role of the domestic financial institutions. While foreign investors vote with their feet and their money, domestic investors hardly if ever exercise their influence. InGovern's Subramanian points out, "institutional investors do not communicate any expectations on governance issues to the companies they invest in. They could potentially be whistleblowers but often tend to abstain from even voting on contentious issues."

In India, the regulatory pendulum is still swinging. However, that alone is not sufficient. As Chandiok points out, "there need to be monitoring capabilities behind those rules."

Changes are evident in some boardrooms. We need time and a few landmark cases for wider adoption. CFO

Man of Thin, Fine Lines

"If an auditor is shutting a door, he must open a window as well," says former Comptroller and Auditor General (CAG) of India, Vinod Rai.

SHALINI S. DAGAR

Former Comptroller and Auditor General (CAG) of India, Vinod Rai is the proverbial 'eye of the hurricane'–calm and placid amid all the sound and fury that the CAG reports generated under his guidance. He treads that fine line of being a loyal if somewhat adversarial ally. Excerpts from an interview:

Q In today's fraught times what should be the role of an auditor? Has that role been played out as expected in India?

The auditor's role by definition is an adversarial one because he is supposed to look at everything objectively but also from a contrarian viewpoint. However, at the same time, I do not believe an auditor should be negative. If he is going to object to something or find fault then it is necessary that he does so in a constructive manner.

If he is shutting a door then he needs to open a window as well. If procedures have gone wrong or something is irregular, then he needs to point out how to set it right. The qualitative difference between a good auditor and one not as good would be just this–an auditor who is not able to draw the line between his observations being positively oriented and being simply negative. Auditors sometimes feel that their job is purely fault-finding. And I think that is where some of us auditors are not being qualitatively appropriate.

> "Yes, it is a very thin line, but that thin line should not be a grey area. It should be either black or white. The auditor has to ensure there are no grey areas."

Q In current business environment, governance or rank corruption issues stem from legitimate transactions. How should an auditor react in such a situations?

That is a very fine distinction between a lawyer and an auditor. In legal terms, a transaction can be strictly legal but not ethically appropriate. It is fine for a lawyer to argue in a court of law that a transaction is appropriate. There are no grey areas for an auditor because of the fiduciary responsibility. And in cases of corruption or those transactions which are incorrectly supported by chartered accountants or CFOs, then in those cases the auditor has to point out to the window dressing.

VINOD RAI, former CAG, India

Between a CFO and an auditor who has a greater role and responsibility in preventing mishaps?
It is decidedly the CFO. The auditor, especially the external, supplementary or statutory auditor performs a role which is after the event has occurred, whereas the CFO is doing it concurrently. The responsibility for the health of the company, the advice of that transaction and to ensure that the company remains on the straight and narrow path is that of the CFO. Whilst both have an equally important role to perform, I would say in terms of priority, the CFOs role comes first.

The auditor must also see the macro picture. Sometimes the auditors tend to miss the wood for the trees. Auditors tend to concentrate on the procedures and in the process ignore the objectives to be fulfilled. An auditor should not object if the overall objective has been achieved and in some ways the peripheral parts of the procedure have been ignored or short cuts taken, as long as the core procedure has been followed.

So it is a very thin line there...
Yes, it is a very thin line. However, this thin line should not be a grey area. It should be either black or white. The auditor should make it very clear. The CFO may get into the grey area. He may be legally correct but not ethically so. Ultimately, his job is to ensure development of business. The CFO's job is to ensure that the P&L statement comes out in time or that it is looking healthy. He may even tend to dress up the balance sheet. The auditor has to ensure that there is no grey area.

It is the CFOs, as part of management, that get to appoint auditors.. What of the adversarial role then?
That is where the problem occurred with Satyam. The auditor started auditing the other company of the promoter as well. And he continued to do it for several years. The board used to recommend the auditor and the AGM would clear it without even considering the details of the transaction, seeing the conflict of interest or that good governance principles were given the go by.

JITEN GANDHI

When such things happen, then there is a greater chance of frauds.

Q What are the best practices that could help fix these challenges?

Three things should suffice. Compulsory three year rotation of auditors between companies is important. The supplementary auditor must be independent in every way possible from the management or the statutory auditor. And third now the Company Law Board prescribes that the every corporation beyond a certain turnover must have an audit committee of the board. And that committee's chairman must be an independent director who is a chartered accountant. If these three things are ensured and they are followed properly, I think the health and the ethics of transactions also will be ensured.

Q In case of the 2G report you got a peer review done by colleagues from other countries. How do the Indian accounting and auditing standards compare to the global best practices?

We did not get an external peer review done only for the 2G report. The peer review that we got done from a team of external auditors from Australia, US, UK, Canada and Denmark was for our auditing procedures for performance audits.

Thirty three of our reports were peer reviewed and one of these reports was the 2G report. There we have withstood the scrutiny in terms of auditing principles. The Indian accounting and auditing standards can withstand the test of international scrutiny. We are comparable to whatever are the best practices in the world.

In the CAG we had instituted an internal review as well. For reports which are important or sensitive we had a system of internal review. For example, if I am the auditor for 2G spectrum then I will make a report to five other director generals—my peers—and the report discussed in great detail. The 2G report was peer reviewed before it was put up to the deputy CAG and CAG.

Q One CFO told us that financial statements these days are opinions and not statement of facts. Would you agree?

I will not generalise. Maybe there are a few. I certainly will not doubt that. That is why I talked of window dressing of account books. If it is so, then the fault squarely lies at the doorstep of the CFO. The CFO is the first step of the principle of checks and balances within a company. The auditor has to be totally ruthless.

> "Mid-sized accounting firms are as professional as the Big Four firms. Size is certainly not a stumbling block. It is not the name which makes a difference."

Q An issue which had come up last year was whether an auditor should resist signing a report with several qualifications?

Absolutely. Hundred per cent. He would be failing in his professional integrity if he does not step back and say even with qualifications, I am not going to give a certificate for this report. That is one the cases where he must put his foot down and bring it to the notice of the board and management that the company lacks very basic fundamentals in accounting standards.

Q Is the structure of the audit industry an issue where the Big Four tend to dominate?

I do not support that view at all. It is true that there are four companies which could be considered truly global on the basis of size, scale or capabilities. I sincerely believe that certain mid-sized auditing establishments are equally professional in their approach. In the last ten years we have had many of these mid-sized auditing concerns emerge whose professional competence is as good as anything else. After all what went wrong with Satyam? The team was from PwC. So it is not the name which makes the difference. It is the units which make the aggregate. Size it not a stumbling block. What we had been doing was that even if it is a company as large as ONGC, we may appoint six or eight auditors for different parts. This system is very effective.

Q Are the tax cases a symptom of the challenges facing the industry? What about Vodafone and the like: How much is it evolving regulation?

The CFO may allow laxity in interpretation of the tax laws to slip by but the auditor should never allow that.

I am not very thorough with the Vodafone case, but it seems both the parties will have to be given benefit of doubt. The world is becoming flat. India is plugged into the global economy. And with easy movements of capital or investments in and out, these situations will come up more frequently. This is a very unique case. It will provide clarity for the future.

Q Do you believe auditors and the CFOs have the power to say no?

Yes, they do. The existing laws and regulations are sufficient, if properly implemented.

You may not make an impact a few times. But nobody can keep a good man down forever. CFO

PAVAN TRIVEDI
CFO, TATA MOTORS FINANCE

The Turnaround Captain

From a loss making subsidiary of Tata Motors to a healthy and a growing company, **Pavan Trivedi, CFO, Tata Motors Finance** has been on quite a journey with the vehicle finance company since he took over.

PURVA KHOLE

THERE ARE VERY few people who remain with the same brand throughout their professional lives. Pavan Trivedi surely has to be one of those few. Except for the short stint of five months that Trivedi spent with Reliance Communications, he has been more or less of a Tata person career-wise. After clearing his Chartered Accountancy examinations in May 1995, Trivedi got an offer from Tata Motors, one of India's largest automobile companies, which then was a predominantly a commercial vehicle manufacturer. Trivedi joined the company at the Lucknow plant in November 1995. And has since then made a career of finance at the auto-maker.

At the Lucknow plant, Trivedi initially joined the payment division but was subequently rotated in excise, sales tax, accounting and then to the business planning division. For this last last assignment, he moved to Mumbai from Lucknow in 2004 because he had to work along with the business and activities and support at different level of initiatives and for decision making purposes. His background at the plant in Lucknow helped a great deal. "That understanding of the real ground level activity was very useful. I knew where the costs are

JITEN GANDHI

5

MILESTONES

FIRST JOB
Tata Motors Ltd

BIG BREAK
CFO of Tata Motors Finance

AHA! MOMENT
When my daughter was born

A LESSER KNOWN FACT
His interest in Hindu Mythology

DREAM

To live a retired life in the midst of nature incurred, and where they can be saved." This was also the time that Tata Motors incurred its first time quarter loss of over Rs. 500 crore. As a result, Trivedi got exposure to various aspects such the planning and formulation of strategy and development, identifying problem areas and then coming up with possible solutions.

However, "after working in so many different areas and a few internal discussions, I realised that there weren't too many challenges that were left, I decided to look out for new opportunities." says Trivedi.

After Tata Motors, Trivedi joined Reliance Communications in the Chairman's office in September 2007. At that point, the separation between the Ambani brothers–Anil and Mukesh–was still fresh. The telecommunications business had gone to Anil Ambani. Since many in the top leadership had moved and new businesses had come within the group fold, there was a requirement to set up a corporate centre.

As a quintessential Tata career professional, Trivedi has good memories of his stint at Reliance. His key responsbility was to set up a complete information system for the chairman's office. "Each SMS or call whether it originates or terminates with the carrier is a revenue line item, requiring huge amounts of information," he recounts. "We had to come up with a system where one could receive information earlier so that management can intervene and take action if any sort of corrections were required" recollects Trivedi. He also borrowed the "Lights Off" policy at 8.00 p.m. at Reliance and has modified and implemented it at TMF at 7.30 p.m.

By the time 2008 came around, Tata Motor Finance, a subsidiary of Tata Motors which was set up in 2006 was looking for a CFO as the previous one had quit. Trivedi who had maintained good links with his former company was again invited to consider the opportunity.

When Trivedi came on board, Tata Motors Finance was not making profits. So the primary challenge was clear. In 2008-09, the company was suffering a loss of Rs 162 crore but the next year it was in the black mainly due a combination of leveraging and increase in the book size. "In the finance business, your income comes from your balance sheet while in manufacturing you can only sell what you produce. So loan disbursements last year will lead to income in the current year." Trivedi's gameplan was to increase the size of the balance sheet.

FAVOURITE
PICKS

MAGAZINE
Business Today

HOBBIES
Music

HOLIDAY DESTINATION
Goa

MUSIC
Old Hindi songs

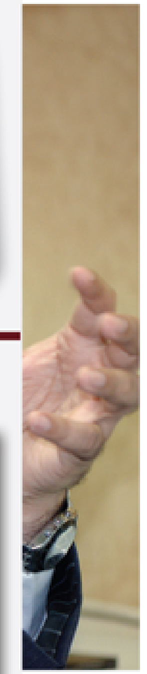
ROLE MODEL
Ratan N Tata

PASSIONS BEYOND NUMBERS
Developing understanding of markets and business environment

TOP WORRIES FOR TRIVEDI INCLUDE A CONSTANT SUPPLY AND REASONABLE COST OF CAPITAL AND THE REGULATORY VIEW ON NBFCS

But those were difficult times. This was in the aftermath of the financial crisis and capital was scarce. Since TMF is a 100 per cent subsidiary of Tata Motors, the only source of money was from Tata Motors. The commercial vehicle business is directly linked to the economy and its health which affected TMF's parent too.

Trivedi says, "At that time, we went to the market. RBI permits you to take certain level of debt from the market which you can use as a part of capital. One is perpetual debt and one is normal NCD which is for 10 years. So we started raising in those areas. We were one of



"We have grown from Rs 5,000 crore to Rs 20,000 crore in revenues in last four years. It will be difficult to grow at the same pace. Growth of 15-20% would be good."

the early companies to raise perpetual debt. We raised Rs 150 crore and that allowed us the flexibility to do business of almost Rs. 750-800 crore."

Subsequently, the company also made efforts towards reducing the non-performing loans–efforts at speeding up the recoveries, greater scrutiny of borrower profiles and differential premium charges. Trivedi believes, "if we charge the same premium from all customers then we are not encashing the opportunity in the risk profile." This philosophy led the company towards a proprietary risk-based pricing model. The company is now at the stage of this exercise. Securitisation was another big strategy deployed by Trivedi to overcome capital constraints but it led to problems as in credit-enhancements locked up cash. "At one point in time, 50 per cent of our revenue was securitised," he recounts. Post-regulatory changes, the company now engages in opportunistic securitisation.

The current scenario presents its own challenges. Trivedi's top concerns include a steady supply of reasonable cost capital to keep the business in growth mode. "As a non-banking finance company, we can raise funds only in the local markets and funds are both the raw material and the finished products for us." Regulatory view of NBFCs as instruments of financial inclusion is another issue that obsesses Trivedi. Yet he understands that the fast clip growth of the past four years (from a Rs 5,000 crore to a Rs 20,000 crore company) will not be possible in the coming years. A healthy 15 per cent growth will keep him satisifed.

It has been a long journey for the young CA from Kanpur who used to go for to watch those thrilling Ramleela sessions back home. Now, of course, life leaves little time between managing the top and bottomlines. CFO

BEWARE OF THE BLACK SWAN

Corporate executives need special protocols for strategic decision-making, including a rigorous system of early warning indicators, flexible planning horizons and strong governance, in a world where black swans materialise unpredictably.

KENNETH A. POSNER

Is that a black swan lurking just around the corner, ready to sow chaos and devastation? Or is it a false alarm? Black swan is the term popularized by the writer Nicholas Nassim Taleb for a seemingly unpredictable surprise with extreme consequences. Many people apply the term to the housing and financial crash of 2007-2009. But the term should not be restricted to global crises. Black swan surprises can impact individual sectors or companies, even when the rest of the market is calm. The real problem with black swans is that, while they may seem obvious in hindsight, they are anything but beforehand. Corporate executives (and risk managers) need a system to help them make decisions before the black swan has arrived, at which point it may be too late to take action. And it had better be a pretty good system, because the consequences are severe: Fail to act and the company could be destroyed. But an executive who jumps at shadows may miss out on the opportunity to invest and grow.

EARLY-WARNING INDICATORS

Once a black swan has arrived, there may be little time to react — it might even be too late. But just because a black swan might be flapping around somewhere off in the distance — that doesn't mean it's time to run for the bunkers. What would help is an early warning system that separates potential risk from imminent danger. This early warning system should have three components. The first component is a process for identifying potential risks. It's fine if this process is largely intuitive. After all, most executives understand the risks unique to their business. Start by writing them down. Then open the newspaper. What macro risk factors are people debating? Add them to the list.

Back in 2007, there was a huge debate about the housing market. With hindsight, we now know that most people were too optimistic, and only a few foresaw just how bad things would get. But housing market risk wasn't a secret. Everyone was talking about it. And therefore it should have been on every executive's list of potential risks. Today, a list of macro risk factors might include economic growth in China, the ongoing debt crisis in Europe and political uncertainty surrounding the United States budget deficit. The second component of an effective early warning system is a list of key risk indicators, i.e., data points that measure the company-specific and macro risks on the list. For example, in 2007 key risk indicators for the housing market could

IMAGING HARIDAS BALAN

have included home sales or home price appreciation, which are published on a monthly basis. Today, key risk indicators might include debt spreads for European government bonds, quarterly GDP growth for China or U.S. Treasury yields. The third component is a set of limits for each key risk indicator. These limits define "normal" and "danger" zones. For example, a limit for Chinese GDP could be set at, say, 7 per cent, in which case, a reading of 8 per cent would be considered normal and 6 per cent would be considered "danger." Indicators in the danger zone should force executives to confront and discuss impending risk. It's like setting off a siren. If a company can afford to invest additional resources into its early warning system, it may be able to design more sophisticated indicators and — possibly — get an earlier warning of impending problems. Such investment consists of hiring research analysts to study and understand the risk factors and their underlying causes and possibly paying for proprietary data sources. For example, a company relying on home price appreciation as an indicator might not have seen the danger of a housing crash until 2008, whereas those monitoring spreads on mortgage securitisations would have heard the sirens in 2007.

Today, if executives are concerned about Chinese economic growth, they could wait for quarterly GDP statistics to be published. Or they could subscribe to publications that track stockpiles of commodities and raw materials in certain Chinese port cities, which might provide an early read on economic growth. No organisation has an unlimited budget. For those that cannot hire analysts, a low-cost alternative is to use market indicators, such as prices for stocks and bonds of companies in relevant sectors of the market. Watching market prices won't provide an early warning, at least relative to investors. But watching the market might save the organisation from being the last to know. One market indicator that all executives ought to watch is the Chicago Board Options Exchange Market Volatility Index (VIX), which measures the volatility implied in options on the stocks of the S&P 500. As such, the VIX is a measure of investor uncertainty. As of Dec. 31, 2012, the VIX was at 18 per cent, close to the average over its 23-year history, above lows of close to 10 per cent, which were seen in the mid-1990s and mid-2000s — which we now realize were boom times — but well below the peaks of the crisis, when the VIX briefly touched 80 per cent. A VIX reading over 20 per cent signals danger.

FLEXIBLE PLANNING HORIZONS

Consider the busy executive sitting at a desk, drinking a cup of coffee, and the early warning report is brought in — with numerous indicators flashing red. Now what? The main difference between decision- making during a crisis and normal times is the length of the planning horizon. In normal times, large companies go through extensive strategic planning processes, which typically produce long-term forecasts. Remember Countrywide Financial Corp., the mortgage company that became the poster-boy for bad lending practices? Prior to the crisis, Countrywide was regarded as a well-run company, and its executives were proud of their five-year strategic planning cycle, which they had followed with success over three decades.

Most companies would go through a one-year budget cycle, but in a crisis, even one year is an awfully long time. Think about what the VIX means. Volatility is shorthand for "standard deviation." Recall from basic statistics, a range of plus or minus one standard deviation is supposed to correspond to a 67 per cent probability. If the VIX is reading 18 per cent, it means investors are betting that a year from now, there is a 67 per cent probability that the S&P 500 will end up somewhere within a range of plus (+) or minus (-) 18 per cent from its current level.

In a crisis, if the VIX is at 80 per cent, then market participants have no idea what is happening. They're braced for the sky to fall. In this kind of environment, does it make sense for a company to look out five years or even one year? The answer has to be no.

In a climate of extreme uncertainty, the executive needs to throw the strategic plan out the window. Survival might hinge on snap decisions made immediately, with only scraps of information to go on. Part of the reason Countrywide failed was that its executives clung tenaciously to their strategic plan, according to which market share was the top priority. Winning market share required offering a wide range of products, including subprime and option ARMs. Countrywide kept originating these loans well into 2007, even as the securitization market froze, forcing the company to keep even more toxic paper on its balance sheet. Bank of America Corp. (BofA), too, got into trouble by sticking to its strategic plan, according to which it was going to build the leading consumer lending business, by snatching up credit card and mortgage companies, like Countrywide, when it stumbled. In contrast, as the crisis raged, some of the smartest hedge fund managers (including those who made fortunes betting against Countrywide and Bankof America), moved completely into cash. Even those operators — whose businesses are built upon exploiting market volatility — found the crisis too much to deal with. Eventually, when key risk indicators return to normal levels, then it's time to climb out of the bunker, dust off the strategic plan, modify it and begin looking further out into the future again.

Remember Countrywide Financial Corp. that became the poster boy for bad lending practices? Prior to the crisis it was regarded as a well-run company.

GOVERNANCE AND DELUSION

Another risk may render these tools useless. Picture the hard-working executive who receives the latest early warning report. What happens if he tosses the report in the trashcan, muttering "bunch of nonsense — that's not what I think!" After all, Countrywide and BofA weren't the only firms that disregarded the warnings. What about the investors who continued buying their stocks — and the stocks of other ill-fated financial firms, like Lehman Brothers, Washington Mutual Inc. and Fannie Mae? The technical name for this flaw in human reasoning is "cognitive dissonance," which describes a pattern where people make poor decisions because of personal issues that cloud their judgment. Another term is "self delusion." The executive who dismissed the early warning report as "nonsense," might be struggling with an uncomfortable implication: if he throws away the strategic plan he had just persuaded the board of directors to endorse, maybe that's a sign he isn't such a skilled executive after all. Maybe the board will will think about replacing him with a rival. Maybe it would be better to ride out the storm. From a purely selfish perspective, these are rational considerations. But they don't help the company face up and take action. In the book by this author, *Stalking the Black Swan: Research and Decision making in a World of Extreme Volatility*, there is a discussion of a number of protocols for managing cognitive dissonance. To some extent, one can train oneself to recognize the symptoms, which could include feelings of anger, irritation or a cold drop of sweat rolling down one's brow. But there is a limit to self-awareness. One technique for combating cognitive dissonance is to bring in teammates. Peer reviews can help shake a person out of a state of self-delusion. Humans are all vulnerable to delusion. That's why corporate governance is so important in organisations. The board of directors should watch executives for signs of self-delusion. Does the CEO get impatient or angry when people discuss risks to the strategic plan? If so, the board may have to exercise its prerogative and replace the CEO with an executive better suited to face a volatile environment. After all, it does little good to replace the CEO after the company has failed.

In summary, it is impossible to know with certainty whether the next black swan is getting ready to strike, or it might not. Honestly, it's hard to tell. But don't wait to find out. Companies should take the time now to invest in early warning systems, flexible planning horizons and strong governance. These tools will give them best odds of making the right decision— while there's still time. CFO

Kenneth A. Posner is Chief of Investment Analytics for Capital Bank Financial Corp. and author of Stalking the Black Swan: Research and Decision-making in a World of Extreme Volatility, (Columbia Business School Press, 2010).

ACHIEVING DATA PRIVACY COMPLIANCE

One of the largest telcos in the country achieved Data Privacy compliance even before it was mandated. There are lessons to be learnt for every industry vertical from this case study.

TEAM CIO & LEADER

PHOTOS.COM

The Telecom Services Sector in India is one of the most complex in the world. The sheer volumes and numbers involved are staggering and the associated complexities are such that they have few parallels in the world. Typical large players, including this organisation, have multiple lines of business, operate across more than a large number of circles and have complex organisational and legal structures.

Infrastructure, including IT infrastructure, varies across circles and businesses. The challenges don't end here. With this scale of operations, there are a vast number of third parties involved in offering and managing various services and other aspects of the business. On one hand there are large Infrastructure and technology partners to whom various segments of the technology management and infrastructure have been outsourced – and who, therefore, need to be managed. And then there is the large base of medium and small players who provide outsourced services from data entry to billing to marketing to support to distribution. Given the sensitive nature and scale of these services, these telecom companies have to comply with a variety of audit, regulatory and compliance requirements.

WHY PRIVACY?

In India, discussions and activities around a privacy-specific legislation have only now begun to gather momentum and the Privacy Rules pertaining to the Indian Information Technology Act 2008, which affect organisations in India have been released in April 2011. Indians as such are not perceived to be "culturally oriented" towards privacy as a concept in the first place. Given this, it is interesting to examine why the organisation in question took up a privacy initiative in the first place, well before regulatory compulsions took priority.The organisation had already begun its privacy journey as part of its PCI DSS compliance requirements. Since PCI DSS deals with payment related information, the organisation had formally initiated a program to ensure the privacy of its subscriber related data in its payment processes.

Meanwhile, privacy compliance requirements were observed to be cropping up in a few other areas too. For example, there were TRAI guidelines to comply with. Or instances where some privacy related norms of certain countries that came into the picture when users travelled to or from those countries. Another area of concern to the organisation was that of handling of personal information during the "reverification" process – which is ascertaining the identity of subscribers at the organisation's end (the first level verification is done at the point-of-sale). Telecom Service providers usually do this via third-party data providers – thus providing ample scope for sensitive data to get out of control.

Seeing such challenges, the CISO, who carries the responsibility for ensuring the organisation complies with all privacy related requirements, adopted a holistic and long term approach. Putting all this together, the CISO thought it was imperative that that a formal privacy program be put in place in and rolled out within the organisation.

CHALLENGES FACED

The challenges of rolling out a privacy program across a vast, complex, dispersed and diversified operation are indeed many. Consider the operating eco-system of a typical large telecom service provider in India – large number of independent circles (which are often run as independent entities), thousands of vendors to whom various activities are outsourced, close to a million points-of-sale from where mobile subscriptions are sold, various Value Added Services offered, numerous mass-marketing services (where specific subscribers are targetted), multiple other lines of business, and so on.

Given the sensitive nature, companies have to comply with audit, regulatory and compliance requirements

Then comes the challenge of arriving at a definition of what information can be actually private. How does one define Personally Identifiable Information (PII) in relation to the business? Where does one draw the boundary? For example, a subscriber's mobile number would need to be classified as a basic identifier in a mobile services business – without which it would be difficult for a business operation to progress. Therefore, classifying it as PII in the telecom business context would not be viable.

Understanding the flow of information within this complex eco-system is by itself a big challenge. Add to this, the challenge of figuring out who has access to what information, who communicates what to whom, who mails/can mail out or otherwise copy and give out sensitive data, etc.

SOLUTIONS

The organisation designed the privacy program in a structured and formal manner, keeping in mind the challenges discussed above. The first step was to get a buy-in from all the stakeholders. They were appraised about what was the essence of the program, the key drivers, the program objectives and what was required from each of them. Then began a round of detailed meetings with various business units to understand and map processes, with flow diagrams etc, and identify the touchpoints for any kind of information. At this stage, the information was not classified at PII / sensitive information – the objective was to just understand the basic flow of information within the eco-system.

After this exhaustive exercise came the critical stage of deciding which information could be defined as PII information and hence would come under the ambit of the privacy program. The team used a formal risk and impact based approach to arrive at this definition.Another case in point was the PAN number of a subscriber – would its leakage have an impact? It certainly would – given how it has become the de-facto identity document for transactions in India. CFO

This article was first published in CIO & Leader. For more stories please visit www.cioandleader.com

MANAGING THE PEOPLE SIDE OF RISK

Companies can create a powerful risk culture without turning the organisation upside down.

ALEXIS KRIVKOVICH AND CINDY LEVY

Most executives take managing risk quite seriously, the better to avoid the kinds of crises that can destroy value, ruin reputations, and bring a company down. Especially in the wake of the global financial crisis, many have strived to put in place more thorough risk-related processes and oversight structures in order to detect and correct fraud, safety breaches, operational errors, and overleveraging long before they become full-blown disasters.

Yet processes and oversight structures, albeit essential, are only part of the story. Some organizations have found that crises can continue to emerge when they neglect to manage the frontline attitudes and behaviors that are their first line of defense against risk. This so-called risk culture is the milieu within which the human decisions that govern the

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day-to-day activities of every organization are made; even decisions that are small and seemingly innocuous can be critical. Having a strong risk culture does not necessarily mean taking less risk. Companies with the most effective risk cultures might, in fact, take a lot of risk, acquiring new businesses, entering new markets, and investing in organic growth.

Those with an ineffective risk culture might be taking too little. Of course, it is unlikely that any program will completely safeguard a company against unforeseen events or bad actors. But we believe it is possible to create a culture that makes it harder for an outlier, be it an event or an offender, to put the company at risk. In our risk-culture profiling work with 30 global companies, supported by 20 detailed case studies, we have found that the most effective managers of risk exhibit certain traits—which enable them to respond quickly, whether by avoiding risks or taking advantage of them. We have also observed companies that take concrete steps to begin building an effective risk culture—often starting with data they already have.

TRAITS OF STRONG RISK CULTURES

The most effective risk managers we have observed act quickly to move risk issues up the chain of command as they emerge, breaking through rigid governance mechanisms to get the right experts involved whether or not, for example, they sit on a formal risk-management committee.

They can respond to risk adroitly because they have fostered a culture that acknowledges risks for what they are, for better or for worse; they have encouraged transparency, making early signs of unexpected events more visible; and they have reinforced respect for internal controls, both in designing them and in strictly adhering to them.

It takes a certain confidence among managers to acknowledge risks. Doing so requires them to work through issues that could lead to crisis or loss.

Acknowledging risk

It takes a certain confidence among managers to acknowledge risks. Doing so—especially to the point of discussing them internally, as well as with shareholders or even regulators—requires that managers rely on their own policies and procedures to work through issues that could lead to crisis, embarrassment, or loss.

The cultural differences between companies that acknowledge risk and those that do not are quite stark. Consider, for example, two global financial institutions that take similar risks and share a similar appetite for risk. The first has built a culture, at all levels of the organization, that prizes staying ahead of the trend. This might mean convening a group of executive peers to discuss issues faced by the entire industry or responding to regulatory trends early—for example, on capital and liquidity requirements or compensation practices. The stance it takes is, "If we see it, identify it, and size it, then even if it's horrible, we'll be able to manage it." Where risks cannot be sized, they are at least discussed in qualitative terms. The institution's candor and its plans to rectify cultural issues in response to a number of risk incidents has won it the respect of regulators and built credibility with investors.

The second institution, in contrast, has a reactive and back-footed culture—one focused more on staying out of trouble, ensuring regulatory compliance, and making sure all the boxes are ticked.

Its managers are generally content to move with the pack on risk issues, preferring to wait for regulatory criticism or reprimand before upgrading subpar practices. They are afraid of knowing what they don't know, and they fear the reaction of the board, regulators, and investors. Many would rather ignore undesirable behaviors because they don't know how to manage them and because managing them would demand time and might affect their cost base. This organization's stance is, "Let's wait until we really need to deal with these unpleasant things, because they're anomalies that may turn out to be nothing at all."

A separate institution had such a mind-set during the mortgage crisis. Managers did not trust their own models, which accurately predicted the severity of the issues to come. They knew that if the models were correct, they would be in more trouble than they knew how to handle, and so they found it easier to assume that the models were wrong—or to hope that the risk would crest and fall before the model's estimates came true. Whether from fear or hubris, managers convinced themselves that they were safer than they really were. Even as the crisis developed, they were confident that they would not experience the mishaps befalling similar companies. In the

In the best of cases, respect for rules can be a powerful source of **competitive advantage. Companies that want to reshape the risk culture must be patient.**

end, the company's refusal to acknowledge and address risk left it far more vulnerable than managers expected, and it was hit particularly hard.

Encouraging transparency

Managers who are confident that their organizational policies and controls can handle—and even benefit from—openness about risk are more likely to share the kinds of information that signal risk events and allow the institution to resolve emerging issues long before they become crises.

This means they spot a risk issue developing and mobilize the organization to analyze and remedy it—at the board level if needed, and often within a few working days. In one situation, a division of an energy-services company was operating a contract in an emerging country in which it had not previously worked. There, the division discovered employment practices among subcontractors that ran counter to its own policies and practices. The operating leadership swiftly escalated the issue to the company's global management board to decide whether specific contractors were acceptable. It was able to reallocate project tasks among contractors, manage timeline slippage and the budget, and consequently reduce the company's employment-practices risk and safeguard project returns.

Companies with a culture that discourages such discussions—as well as those in which overconfidence leads to denial—are prone to ignoring or failing to recognize risks. In some cases, employees fear telling the boss bad news because they worry about the financial downside of slowing commercial progress, they know the boss doesn't want to hear it, or they fear being blamed. As a result, they alert managers to risks only when further delay is impossible.

In other cases, companies promote practices that unintentionally reduce transparency regarding risk. For example, at one global pharmaceutical company, the culture thrives on competitive teams. Competitiveness is so strong that product development teams use subtly different risk classifications so that their respective projects can't be directly compared. To the teams, it can feel like good management to deal with issues close to home rather than raise them to higher levels—especially since revealing their true risks might place them at a disadvantage in the next planning round. For the company, though, this practice has obscured risks that were identified by one unit but went unnoticed by others, which continued to make errors that had been resolved elsewhere. The best cultures actively seek information about and insight into risk by making it everyone's responsibility to flag potential issues. For example, managers at one global oil-exploration company explicitly begin every meeting and interaction with a discussion about safety. Participants know they must be able to make an observation or raise a concern if called on randomly, which keeps them on the lookout for safety issues at all times.

Most of the issues they raise are minor and easily addressed. But bigger questions often lead to longer conversations and inquiries from leadership, which clarify the problem and identify by name those responsible for resolving the issue.

Ensuring respect for risk

Most executives understand the need for controls that alert them to trends and behaviors they should monitor, the better to mobilize in response to an evolving risk situation. And while managers are unlikely to approve of skirting the very guidelines and controls they have put in place, some unintentionally promote situations and behaviors that undermine them. For example, while too few controls can obviously leave companies in the dark as a situation builds, too many can be even more problematic. Managers in such cases mistake more controls for tighter management of risk, though they may be inadvertently encouraging undesired behaviors. In one large hospital system, managers had implemented so many guidelines and controls for ward procedures that the staff saw them as impractical.

As a result, they routinely circumvented them, and the culture became increasingly dismissive of all guidelines—not just the less practical ones—to the detriment of patients. Even companies with the right number of controls in place encounter difficulty if managers do not monitor related trends and behaviors.

Companies often unconsciously celebrate a "beat the system" mindset, rewarding people who create new businesses, launch projects, or obtain approvals for things others cannot—even if it means working around control functions in order to get credit lines or capital allocations, for example. In the best of cases, respect for rules can be a powerful source of competitive advantage. A global investment company had a comprehensive due-diligence process and sign-off requirements for investments. Once these requirements were fulfilled, however, the board was prepared to make large, early investments in asset classes or companies with the collective support of the senior executive team, which was ultimately accountable for performance. Company-wide confidence in proceeding resulted from an exhaustive risk debate that reduced fear of failure and encouraged greater boldness relative to competitors. Confidence also stemmed from an appropriately gauged set of risk controls and an understanding that if these controls were followed, failure would not be regarded as a matter of poor decision making.

BUILDING AN EFFECTIVE RISK CULTURE

Companies that want to reshape their risk culture should be aware that patience and tenacity are crucial. Changing the operating environment of a large organization takes at least two to three years, as individuals come up against specific processes—such as policy decisions, project approvals, or even personnel reviews—that have changed in line with new risk-culture principles.

In our observation, companies wrestle with two challenges: building consensus among senior executives and sustaining vigilance over time.

Finding consensus on culture

Improving a company's risk culture is a group exercise. No one executive—or even a dozen—can sufficiently address the challenge. In most global organizations, CEOs and CFOs who want to initiate the process must build a broad consensus among the company's top 50 or 60 leaders about the current culture's weaknesses. Then they must agree on and clearly define the kind of culture they want to build. This is no small task, typically requiring agreement on four or five core statements of values about the desired culture that imply clear process changes. For example, in one organization, managers often adopted new products or took on new customers without considering whether the company's infrastructure could support them.

Often, it could not; this ran up costs and created huge operational risks. When leaders gathered to define the risk culture they wanted to see, one of their statements was, "We will always understand the infrastructure implications of the risk decisions we make."

Cultures are dynamic by definition, sustaining the right attitudes and behaviours over time requires effort. Sometimes people lose energy over time.

The consequence of committing to such statements is that the company will need to change the way it approves activities, whether those are transactions at banks, capital projects in heavy industry, or even surgical procedures at hospitals. It cannot let them proceed if the risk infrastructure does not support them—and business-unit COOs must be held accountable for risk events related to infrastructure in their areas. To make aspirations for the culture operational, managers must translate them into as many as 20 specific process changes around the organization, deliberately intervening where it will make a difference in order to signal the right behavior. In some companies, this has meant changing the way governance committees function or modifying people processes, such as training, compensation, and accountability. And while finetuning some of these areas may take a fair number of cycles, even a few symbolic changes in the first cycle can have a profound impact on the culture.

For example, in one global organization, a simple announcement that certain risk-related data would be incorporated into one round of promotions radiated through the organization almost overnight, encouraging some behaviors and discouraging others. In the next round of promotions, managers created reports using the data so that every staff member had tangible risk indicators next to his or her name. At that point, the new approach to risk started to become part of the infrastructure—sending loud signals to the organization about what would be celebrated and what would not. Although these were big changes, they were accomplished without turning the organization upside down.

Sustaining vigilance

Since cultures are dynamic by definition, sustaining the right attitudes and behaviors over time requires continuing effort. An ongoing risk committee might start off by keeping on top of key issues but become stale and mechanical as people lose energy over time. Or a discontinuity—new leadership or a new set of market pressures, for instance—could send the culture in a different direction. To monitor for such shifts and make sure things continue moving in the right direction, managers at one pharmaceutical company conduct spot-checks every year on employee attitudes and minor risk infractions.

The responsibility for maintaining the new risk culture extends to boards of directors, which should demand periodic reviews of the overall company and individual businesses to identify areas that merit a deeper look. This need not be complicated. Indeed, most companies can aggregate existing data: a people survey, which most companies conduct, can provide one set of indicators; a summary of operational incidents, information on financial performance, and even customer complaints can also be useful. Combined, these data could be displayed in a dashboard of indicators relevant to the company's desired risk culture and values. Such a review process should become part of the annual risk strategy on which the board signs off.

Obviously, a shortage of risk consciousness will lead to trouble. But it is all too easy to assume that a thorough set of risk-related processes and oversight structures is sufficient to avert a crisis. Companies cannot assume that a healthy risk culture will be a natural result. Rather, leadership teams must tackle risk culture just as thoroughly as any business problem, demanding evidence about the underlying attitudes that pervade day-to-day risk decisions. CFO

The concept of risk culture featured prominently in a 2008 report by the Institute of International Finance on the failings that led to the credit and liquidity crisis among global banks and the consequent bank collapses and losses. See Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations, Institute of International Finance, July 2008, on iif.com.

Actuary's role in pension environment

Chitra Jayasimha,
Senior Actuary, Mercer

— **Chitra Jayasimha,** Senior Actuary, Mercer

Some years back pension or saving for post-retirement was never considered a critical investment by an average Indian worker. This was largely due to the prevailing social family structure, general beliefs and economic situation. Realizing the importance of old age income and security, in the late nineties the Ministry of Social Justice and Empowerment constituted an expert committee to review India's pension system for building up assets for old age income. Continuing on the success of the defined contribution (DC) fully funded individual retirement account pension in Europe and Latin American countries, the World Bank in its solution for pension reforms, advocated this model for complementary pension.

Following this, the Pension Fund Regulatory and Development Authority (PFRDA) was established by the Government of India in August 2003. On its part the PFRDA was entrusted to set up, develop, regulate pension funds and supervise the New Pension System (NPS) and any other pension scheme not regulated by any other enactment.

As a first step , the Government of India moved from a defined benefit (DB) pension to a DC based pension system by making it mandatory for its new recruits (except the armed forces) with effect from 1 January 2004. Starting 1 April 2008 all new recruits were covered by NPS and are being invested by professional pension fund managers in line with prescribed guidelines.

The role of actuaries in a DC pension environment is still emerging unlike their role in DB pensions which is well defined. It is easier to understand this by segregating the DC pensions into two phases- the accumulation (asset management) phase and the de accumulation (pay out) phase.

Actuaries play a major role in the accumulation phase while ensuring that the whole process of limiting the employers' pension liability remains on track and at the same time employees' desired objectives are achieved. This process could include defined benefit to defined contribution conversion process, defined contribution projections, defined contribution investments, range of options, defined contribution - role and responsibilities and possible statutory role in a defined contribution environment. Employers often felt a need and responsibility to reward long serving employees by maintaining a defined proportion of their standard of living into retirement. Typical option suggested by actuaries for existing employees in a DB pension scheme would be to move them to DC pension in view of their future service while retaining the accrued benefits under the DB design.

Alternatively, actuaries will suggest converting the accrued DB pension into 'Transfer Value" (lump sum amount accumulated in a pension fund) and credit the amount to the employee's retirement account.

Actuaries could also carry out projections for different purposes such as to forecast emerging benefits in terms of final salary. The investments of DC pension can be structured individually and could vary from member to member allowing for the member's age, risk appetite, individual circumstances and other individual preferences.

Views expressed here are personal. Chitra can be reached on chitra.jayasimha@mercer.com

Leadership on Everest

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Like in any business environment, the challenges on Everest too keep shifting. What was once benchmark is now run-of-the-mill.

IN THE PREVIOUS issue of CFO India, I explored the key leadership lessons gleaned from 60 years of Everest expeditions. As a leader of two Mt. Everest expeditions myself, and a leadership coach, I find it useful to seek some of the best self and team leadership lessons from such extreme environments. In the first part of this exploration, I covered the more traditional national and 'large-scale' expeditions from the 'Golden Age' of Himalayan exploration. This was a time when most of the 8000-metre peaks (there are 14) were still virgin; and even for those that had been climbed; only one route had been established.

As high altitude mountaineering on Everest progressed into the late 1970s, more complex team dynamics were seen. Almost matrix-like teams began to arrive on Everest, where there was less of a hierarchical structure. Teams could comprise of several 'sub-teams' climbing with their own agenda, and yet still supporting the greater effort. There may also be less of a singular leader.

Perhaps one of the most significant climbs in the 1970s was the small Austrian-Italian "sub-team" of climbing aces Peter Habeler and Reinhold Messner; who in 1978; made the first successful ascent of Everest without the help of supplementary oxygen. Despite various stories of how they would sustain permanent brain damage; and that Everest could not be climbed with such aids; the two demonstrated that self-limiting beliefs do not help in achieving stretch goals, and preparation to the smallest detail underpins all great successes.

"Like low hanging fruit that most businesses enjoy when they begin, what can you do to raise the game and go beyond this level?"

While many thought this achievement relied on a lot of good luck and was a bit of fluke, in reality, Messner and Habeler arrived on Everest with a stellar track record This included climbing the dreaded North Face of the Eiger in record time, as well as climbing Gasherbrum I, a 'smaller' 8000-metre peak in Pakistan; without bottled oxygen. Very much like the myth of the "four-minute" mile barrier that runner Roger Bannister smashed in the 1950s, in reality, the time for breaking this 'barrier' was ripe. Both Bannister and Messner-Habeler just were the right people at the right time to make history.

In 1983, a landmark expedition attempted the then unclimbed Kangshung Face of Everest; a huge, 3000-metre snow and ice covered face, fraught with avalanche risk. As a metaphor, many think business revenues are best obtained from developing new business when in fact existing clients can be explored. In that sense, mountaineering involves the exploration of previously climbed peaks (like Everest); to see what new routes can be attempted. Most peaks are climbed for the first time by the easiest route, followed by (often) successively harder new routes. Like the low hanging fruit that most businesses enjoy when they begin, what can you do to raise the game; and go beyond this level?

In 1983, the small Anglo-American team of just four climbers, no Sherpa support, inched up the massive face until the final barrier was overcome. Then, Stephen Venables and Ed Webster made a dash for the top. Webster suffered frostbite and Venables had to continue alone to the very top. Descending in the darkness, he spent a night out, without a tent or sleeping bag – and survived. He then spent a harrowing few days making his way back to safety.

The 1983 climb further enforced the view that, small, competent teams had the agility that big teams did not have in tackling such routes. No doubt, the route could have been 'forced' by using resource intensive, 'siege' style versus lightweight 'alpine' style approaches, but in my experience, such expeditions suffer from supply chain bottlenecks, and a cumbersome leadership structure.

In many ways, the 1983 team was a team without leaders; each member coming with superb mountaineering skills, a desire to cooperate fully with each other, and knowing always when to lead and when to follow. Perhaps the most critical factor was the ability of each team member to lead themselves effectively.

An Australian team reinforced this approach in 1984. Their new route on the north face of Everest was immortalized as 'White Limbo'. This climb established, for the first time in decades, a totally new route on the north side. More significantly, this 'team of leaders' persisted, despite losing a lot of mission-critical equipment in an avalanche early in the climb, eschewed the typical Sherpa porter support, and used lightweight tactics on a huge objective. That just four climbers could pull off this feat set new standards.

The saddest and most important lessons in the last two decades come from the ascents of 'amateurs' in commercial expeditions. Here, experienced guides, charge top dollar for amateurs to have a crack at the world's highest peak. The dynamics are different. The skill of the guides and their 'system' of setting up a mountain full of camps and oxygen for clients determines the best chance to succeed. What is often lacking is leadership of self and within the team. Here the strong social contracts that exist between climbers who have had a long apprenticeship on other peaks; and have spent time climbing peaks together is rare.

Here leadership in running a 'business', supply chains and client management come to fore. As evident from the now infamous 1996 and 2009 calamities, it seems an eye for detail and a strong sense of anticipation that your clients lack, are key leadership skills needed in the guide or leader of a commercial team to ensure safe ascents. CFO

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August is the time for freedom–freedom from all the trappings of work and success. There is the contemporary **Nissan Micra** to consider. If you have traveled to **China** only on business trips do cut free and do the unexplored. There is much to recommend in this large north-eastern neighbour of ours.

NISSAN MICRA

Time Warp

In its latest avatar, the Nissan Micra sheds its cutesy retro image to adorn a more contemporary look and gets more features. ***Amit Chhangani***

WITH THE NEW MICRA, Nissan, the Japanese car major has replaced the retro-styled template of its entry level hatchback with a fresher, more contemporary design. To make things more interesting, they have also thrown in a more than capable CVT automatic transmission, making the bubbly hatch more appealing to the metropolitan customers. We sampled the new Micra a few weeks back and came away impressed with the changes made by Nissan to the iconic car. Here's why we believe that the new Micra is more than just a facelift.

DID YOU KNOW?

Formally established in Yokohoma City, Kanagawa Prefecture in 1934, Nissan Motor Company ventured into the United States only in the 60s though it had exported Datsuns to Asia and America as early as 1934.

Design

Nissan has brought in a fresher, more contemporary look for the new Micra. By changing the bumpers, the engine hood, headlamps and tail lamps the carmaker has completely changed the character of the hatchback.

The New Micra comes with a bigger front honeycomb grille, a bigger logo and other changes made to the fascia. The chrome surrounds push the triangular fog lamps to the edge in an attempt to use them as a part of design rather than just a functional bit.

The new angular headlamps have been nicely merged with the design, and lead up to the A pillar. The new fenders play an important role in execution of the fresh front end by complementing the headlamps and bumpers which have lent the Micra a smart, assertive and dynamic look.

Cabin

The most noticeable of the changes inside the cabin is the black finish central console with brushed silver surrounding, while the dashboard gets a mushroom-beige dashboard. The central circular vents have been replaced by square ones and there is now a double DIN integrated music system in place of the earlier unit.

The air-con control cluster with amber back lit LCD display has been carried over from the previous version. The new dashboard design makes the interior look more upmarket than before. The chrome door handles also add to the premium feel. Steering wheel on the top variant comes equipped with buttons for audio and telephony control.

The instrument console now gets chrome bezels. The 12v power outlet is stashed away in the passenger side footwell and is not particularly easy to access unlike the USB-AUX ports below the twin glove box which fall within easy reach. We would have loved a bit more assuring build quality on the top glove box which feels a bit flimsy to operate.

THERE ARE SEVERAL CHANGES IN THE INTERIORS AS PART OF THE OVERALL MAKEOVER OF THIS NIFTY CAR

NISSAN MICRA

ENGINE:	1.2 petrol, 1.5 diesel
TRANSMISSION:	X-Tronic CVT (petrol only), 5-speed manual
POWER:	76PS @ 6000 rpm, 64PS @ 6000 rpm
TORQUE:	104Nm @ 4000 rpm, 160Nm @ 2000 rpm
PRICE:	NA

POSITIVES
- Fresh new looks
- Above par CVT auto
- Ease of driving

NEGATIVES
- Nissan's service network still not very widespread
- Petrol engine slightly low on power

Comfort & Performance

The seats on the new Micra offer decent support in the right places and the all-around view is reasonably good too. Rear seat comfort is good, but like most hatches there isn't enough shoulder room for three. Adjustable head restraints complete the cabin which feels airy due to the light colors, big windows and has enough headroom to accommodate an adult of average height. The legroom is just about enough. The boot at 251-litres is surprisingly spacious from what the exteriors suggest. The engines remain unchanged and the new version is offered as before with the DOHC 12v 3 cylinder 1.2 petrol and the SOHC 16v 4 cylinder 1.5 diesel motors. The CVT automatic transmission is the new addition of the Micra. It is an evolved version of the conventional CVT and offers tangible advantages over the regular automatics in the real world. The transmission copes with variations in engine speeds and driving styles rather well. All in all, after being moderately successful in its first stint, the Micra has adorned a more flamboyant and feature–rich avatar this time around. Without its retro style which wasn't to everyone's taste, the Micra most definitely looks mainstream and accessible to a wider audience. In its latest avatar, the Micra looks stronger than ever, no matter which way we look at it. CFO

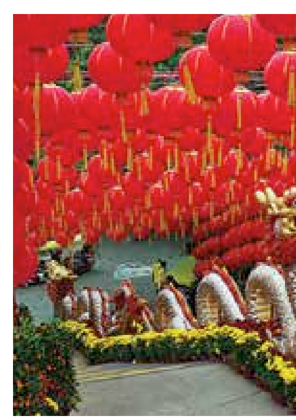
CHINA

On-board the China Express

There's more to China than tall buildings and flashing facades. Have a look.

Jai Venaik

DAY ONE: the otherwise buzzing Indira Gandhi International Airport looked deserted on that "blue" Wednesday morning I was to board a plane to China. There I was, accompanying my father—a businessman with several China offices—on one of his regular business trips. The plan had seemed brilliant when I had first concocted it; emotionally blackmail my businessman father to let me accompany him on one of his trips to China. But there I was second guessing; time in the country also meant hours cooped up in my pater's office; could that be a laugh riot? Not really. Our first stop was to be Guangzhou. When the departure time for the Guangzhou-bound Southern China Airline flashed on board, I was hit by a familiar, pre-flight churning. For a well-travelled boy, I remained, strangely enough, physiologically ill-equipped for air travel. I knew it would not be long till my insides would rise and sink with the plane. I desperately sought for distractions and found it too, as I walked towards the boarding gate where I spotted a bunch of young travellers, who looked as if they were from China (at least, I hoped they would be). The bunch were desperately trying to decipher a Hindi signboard stating prasthan (departure). To earn travel karma, I helped them out. My small gesture led to me to befriend the travelers (indeed from China!). Soon we were talking of the Indian languages—my new-found friends expressed their exasperation and admiration on the number of languages we had. One thing led to another; before we knew it, the conversation had veered towards the Indian Railways (stranger things have happened). Not to be outdone, my friends gave in their two-bits about the China Railways. As our conversation continued on board, soon, I actually had a plan; one which freed me from the confines of my father's office. With my friends' advice, and browsing through a copy of China



LEFT: GUANGZHOU OPERA HOUSE IN SOUTH CHINA

BELOW: CHINESE FOLK CULTURAL VILLAGE, SHENZHEN

EXTREME LEFT: SHIPAI VILLAGE IS FAMOUS FOR ITS LOCAL FLEA MARKET FAMOUS FOR ITS CHINESE ARTIFACTS
LEFT: ENTRANCE TO THE CHINESE FOLK VILLAGE, SHENZHEN

Travel Guide which my father always carried with him, I knew that I would travel on the China Railway and do my own version of a cross-country tour starting from Canton or Kwangchow—a city dotted with skyscrapers.

It is easy to confuse the energy of Canton with the other thriving metropolises of the world; say a New York. But, like most cities in China, Canton, too, manages to keep its "China soul" alive within its mostly westernised districts. I got off at the Tianhenan Metro Station and bought a ticket for Guangzhou Opera House Station where I was to start my journey. The station was dotted with food kiosks and I stopped right in front of good-old McDonalds—I admit that was pretty desi of me. I had just helped myself to some fries and cola when a voice announced that my train was to depart in the next 30 seconds. My journey had started!

WIKI CREATIVE COMMONS

Before we start; facts about the Chinese metro lines; the Zhujiang New Town Automated People Mover System Metro Line was installed two years ago. It is the most expensive one within the network. I boarded my eight-coach, Bombardier-made (yup, like our very own Delhi Metro) train at the Tiahenan Station. My air-conditoned, exceedingly plush coach was deserted, giving me the opportunity to sit in all its seats as the train flitted forward with an incredible speed. Soon, a voice announced my arrival at the Guangzhou Opera House Metro Station. The opera house, right in front of the station, shimmering in the morning light, was rather grand. Designed by Zaha Hadid and Sir Harold Marshall, it is regarded as the most high-tech and bestfacilitated comprehensive performing arts centre in southern China. It has a multiplex of modern amenities—and more importantly, amazing food. Though I did not get a chance to watch a show or sample the fare, the building enchanted me. But, I was not there to satiate my architectural appetite.

I had other err...other frogs to fry! No literally! On board I had heard my friends rant about the Cantonese delicacy of frog legs; steamed or fried. I am an "every-vore" (yes, I coined the term) and I left the opera house on the reverse rail heading to Shipai Village via Tianhenan to the flourishing commercial centre, where the best frog legs were apparently available. The Shipai Village is like a food park meets a flea market. If you like eating, browsing or shopping, you could spend hours there. But I was too hungry to browse.

So my first stop was a Cantonese food kiosk. Without even looking at the menu I ordered steamed frog legs on lotus leaf with a bottle of cola (just in case the first time experiment proved to be unpalatable). When my steaming plate arrived 10 minutes later, I sat admiring it. Though the first bite was hard, the meat was melt-in-mouth, and the taste was reminiscent of my granny's mutton dish—a sumptuous and enjoyable meal. The just-in-case cola stood there untouched, till the very end of the meal, when I sipped on it while staring at the Chinese artifacts.

There were the usual deal; cast iron, stone or Plaster of Paris statues of Lord Buddha, and Ying Yang charms. One of them caught my attention enough to make me part with 27 RMB. The shop lady assured me that the ones selling here were all "real" unlike the other bazaars (especially Wuangzhou) and for the sake of the money, I chose to believe her. I sauntered through the market stopping to drink the refreshing herbal tea and nibbling at plum pork chips. Bliss! The day ended with a drive around Pearl Tower (pater to the rescue). The view from the top of the Pearl Tower was breathtaking. My day ended at the Guangzhou Science City; a township full of towering concrete mountains with corporate logos and digital fairy lights.

ABOVE: THE SKYSCRAPERS IN CHINA DAZZLE WITH THEIR WELL-LIT FACADES

LEFT: THE GUANGZHOU 'THROUGH' INTERCITY TAKES ONE TO HONG KONG IN LESS THAN TWO HOURS

Day Two: Shenzhen. The Guangdong 'through' train connects Guangzhou to Honk Kong via Shenzhen. The early morning first through-train took less than two hours to reach Shenzhen. Before I left, my father warned me that Shenzhen was nothing but a large electronic market. I did not really care; I longed to buy a new iPhone and headed straight for Shenzen Electronic Complex—a small city in its own rights. Crowded with electronic dealers, it had everything. And when I say everything, I mean everything, even a digital bottle opener and an instant dough-maker which I bought for my mother. Shenzhen's e-marts were reminiscent of Chandni Chowk, with salesmen yapping away and making brisk sales in rapid Mandarin. When I finally bought my iPhone, I kept asking whether it was indeed "real" to which there were tremendous amount of eye rolling (I am Indian after all). At the electronic mart, I met Kim (her Chinese name was too complicated and she liked being called Kim). Kim became my impromptu guide and took me to a new part of Honk Kong, integrated with Shenzhen, which had its own little cultural space—the China Folk Cultural Village.

The village was a like a fairground of some 56 ethnic groups in China. It showcased the traditions, art forms, and artefacts of the groups in small kiosks. Finally, my father was there to pick me up; and the two of us bid goodbye to Kim as we boarded the Guangzhou-Shenzhen-Hong-Kong High-Speed Train to the Honk Kong International Airport, which was to be our final destination. A snippet here; as I was browsing books in one of the many stores in the airport, a sign slashed above it. As I struggled to make sense of the Mandarin, a Chinese girl helped me out. She said that the board read "farewell". And I did so with a heavy heart. CFO

HOW TO GET THERE: There are a number of direct flights to Beijing and other Chinese airports from Mumbai and New Delhi.

CLIMATE: China offers a great deal of variety of climate. In the summers it is mostly hot and rainy and in winters it is mostly cold and dry.

HOT SPOT

Asus Taichi

One display is passé! It's time for two

Vishal Mathur

THE ASUS TAICHI is clearly an ultrabook that is meant to stand out in Toshiba's lineup. It's almost nothing like the traditional ultrabooks we've become used to. The brushed aluminium unibidy finish gives it a premium look and feel that is matched only by the Samsung Series 9 ultrabooks. The keyboard deck and the underside are very well put together. However, the same doesn't follow through completely to the lid, which has a bit too much glass because of the two displays. The hinge is quite taut, but you cannot risk applying too much pressure anywhere on the lid.

The dual display is quite neat. Once you have the Asus Utilities set up, you can set the display mode to one or both the 11.6-inch screens. The Full HD resolution does make the text too small in desktop mode, but setting it to 125 per cent makes it readable at least. A by-product of this resolution is very crisp text. Asus has mastered the art of packing in excellent keyboards in small spaces, as they showed us with the VivoBook. The keys on the Taichi are well-spaced with adequate travel allowing for quick typing.

Performance from the Core i7 processor is excellent, and though 4GB of RAM seems a bit low for a machine costing this much, it doesn't create a bottle-neck. The battery will last 4.5 hours with ease, with the brightness set at 60 per cent. You do pay a lot of money for the Taichi, but this machine blends flair with function with aplomb.

SPECIFICATIONS

Processor: Intel Core i7-3517U @ 1.9GHz; RAM: 4GB; Display: 11.6-inches x 2; 1920 x 1080 pixels; Graphics: Intel HD 4000; Storage: 256GB SSD; Connectivity: 2 USB 3.0, mini HDMI, memory card reader; OS: Windows 8 Pro

PRICE: ₹ 1,39,999

NEW LAUNCHES

Sony Alpha A58

Entry level DSLRs often tend to skimp on either the material or the size. With Sony A58, we felt neither to be true. It packs a 20 megapixel APS-C sensor coupled with a Bionz processor that allows it to hit a blazingly fast 8 fps burst mode. If you're looking for image quality, we're glad to say that the A58 is a stellar shooter. It is an excellent beginner's camera. Price ₹ 32,990.

HP Pavilion m4-1003tx

The design elements are very similar to HP's own, more expensive ENVY dv6 laptop. The machine scored 3165 in the PC Mark 07 test, a very good score. The Pavilion m4 packs in an NVIDIA GeForce 730M (2GB) graphics chip. The performance offered by the Pavilion m4 is good and it is built well. Rs. ₹49,000.

Videocon d2h HD DVR

The HD DVR by Videocon has similar specifications as Tata Sky HD+ and Airtel Digital recorders with no noticeable difference in performance. There isn't a notification LED on the Videocon HD DVR to indicate when a recording is in progress–a huge omission. Videocon d2h attracts with sheer channel variety, but UI issues are a turn off. Price ₹ 6,490

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Isolated misdeeds or in their DNA? Reflections on Auditors

In 2002, Arthur Andersen collapsed. The Big Five became the Big Four. But did the loss of Andersen, albeit partly 'accidental', really create a superior environment? Do we genuinely believe we are in a better place because one of the more prestigious accounting firms was eliminated? Are we convinced that it was any better or worse than the four survivors? Should the elimination of such a broad-based player ever be justified by the identification of a single, specific misdemeanour?

Now, for the last few years, after the Satyam scandal broke, PwC has been under a cloud in India. What is the regulator likely to do? Should it rule that PwC be restrained from offering its services in India? Then there'd be three big players, and then what? One day a mere two?

A recent study by Thought Arbitrage Research Institute (TARI) and The Global Compact Network India (both apparently independent bodies neither funded by nor otherwise linked to the Big Four) offers an insight into private sector corruption and fraud in India. Interestingly the report "cannot find a correlation between the occurrence of fraud and the presence of Big Four audit firms."

While this provides grist for the mill for those of us broadly sympathetic to

the larger players, the fact remains that, in point of fact, it is really the legal and moral responsibility of CFOs, in the first instance, to protect their organisations from fraud and corruption.

To my mind, as the custodians of organisations, CFOs should be driving towards solutions that genuinely lead to a superior governance eco-system. Related issues in this context include:

- How do CFOs perceive the current controversies in regard to audit firms and their practices? Do they really fully facilitate CA firms in achieving the highest ethical standards?
- Is there a difference between the Big Four and the accounting firms of Indian origin? Is the criticism coming from the ICAI valid? Is there more than a hint of protectionism about it?
- Does the solution lie in closing down an accounting firm involved in a fraud or seeking to punish individual wrong-doers whilst incrementally strengthening the regulatory regime?
- Are accounting firms not too big to fail?

Having watched the CFO community over the past 15 years, I believe that a good audit firm is certainly no imposition on an enterprise. Most CFOs, if left to themselves would like to oversee transparent and honest businesses. They have too much personally at stake to abet fraudulent practices. Moreover, the overall environment, not least India's gradual move towards international competitiveness, demands ever higher operating standards. At a time like this, to suggest that a globally reputed accounting firm is structurally dishonest enough to be banned outright from practicing in India, would seem counter-productive, if not suspect in itself.

The well-established accounting firms – whether foreign or domestic – by and large operate globally without constant legal challenges and their overall professionalism underpins their success; we must not discount these facts due to isolated instances of malpractice or fraud. Sometimes, human beings will succumb to temptation and participate in fraudulent practices. But is that enough to condemn the DNA of an entire firm?

Once too often, it has been the

refrain of the ICAI that the problem lies with large, foreign, unscrupulous firms. Perhaps the ICAI doth protest too much since a quick scan of the auditors of companies implicated in fraud of all varieties – tax evasion, accounting misdemeanours, etc – puts that allegation firmly to rest. Replacing 'foreigners' with 'domestics', or 'Big' with 'small' – is unlikely to improve the 'misgovernance' we witness.

Meanwhile, most activities and roles which improve control and ethical standards lie within the company and are first under the purview of the CFO rather than the auditor. Hence, to hang the auditor is to lose sight of the forest for the trees. It is in essence a distraction from other failings.

Having said this, auditors and accounting firms underpin the conscience of an enterprise – in some ways they ensure that these organisations continue to breathe easily. Given the criticality of propriety and good governance for enterprises across the world, don't accounting firms (the Big Few that audit the bulk of large transnational corporations) also require the same level of attention that the banks get when caught on the wrong foot? Whilst the reasons to protect them may be different, they may be no less important. If banks are too big to fail, why not accounting firms? Penalties may be entirely fine, but a death sentence? I think not.

Imagine a world without high-quality, reputed, large-scale accounting firms. As a CFO, if you don't voice your opinion on how you depend on their expertise, you may have to learn to live in a world without them. And you may not be in a better place, even then.

So say something. That's my opinion, but what do you think?

Warmly,

Anuradha Das Mathur, Editor, CFO India

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