

Dr. Kirit Somaiya

Chartered Accountant, Ph.D

Ex Member of Parliament

Dr. Kirit Somaiya met the Corporate Affairs Minister Shri P.C. Gupta today evening at Delhi. Submitted him the report & the list of 15 Cos. manipulating the Financial Result of 2008. The minister assured him to look into the matter. Somaiya also demanded the Govt. must issue directive to the Chartered Accountant Institute to

KS/ICAI/09/12

January 16, 2009

Respected Gupta ji,

Sub: Immediate study/inquiry and clarification/action on misleading Accounting statements, etc., of listed companies

Ref : In the background of Satyam and bursting of the bubble in the Capital Market, window dressing of accounting statements

The SATYAM episode is proving to be a black dot on the image and prestige of Chartered Accountant's profession. Small Investors, common man – everybody is blaming the role of auditor, particularly PWC.

A reputed organization circulated a Research Report on the 15 listed companies about the manipulation/window dressing of financial statements. The conclusion of these companies seems to mislead the country/Small Investors. Our observation :

1. Valuation
2. Window dressing in Accounts
3. Inflation of turnover, revenue, profit
4. Ambiguous/suspicious transaction with subsidiaries, Group companies, closely held companies
5. Rating system

For example :

- I Commercial developer –
Developing a Mall of 7.5 lac sq.ft. in Delhi. Transferred/sold 5.2 lac sq.ft. to its wholly-owned subsidiary. This is 93% of the revenue of the first Quarter of 2008-09 (1.4.2008 to 30.6.2008). This seems to be a dubious sale.
- II A leading Real Estate Developer of the country –
In 2008 actually revenue/sale declined by 44%. Out of total revenue, 40% sale is to a Group entity. 44% of the total debtors is that subsidiary. The company's high level transaction with its subsidiary is needed to be checked and debated.
 - i) The Company incurred loss of Rs.200 crores on a derivative contract 24th March 2008. No provision made .
Another derivative contract mark to market loss of Rs.158 crores as on 30th June not provided with the excuse "it is open".

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- ii) Another Company has not provided Forex losses of hundreds of crores in the financial year 2007-08. Suprisingly, it is likely to provide the same in 2008-09. Is it not arbitrary, non-transparent, manipulative to inflate profit of 2007-08?
- iii) An Airways company (several other companies also) changed the accounting methods to inflate the profit, changing the Depreciation policy to WDV to SLM. Also capitalizing the Forex losses.
- iv) Another developer – Hyderabad-based developer, reporter a loss in its fourth quarter results against expectations of a profit. The company “lost” records for a project worth 40% of its annual revenues at the site office.

The company in its press release said – “After the year end, basic records relating to sale agreements/revenue and construction expenses of one of the Projects of property development were lost at the site office, Vishakhapatnam. The auditors in their report have stated that they were not able to verify the books and records relating to income of Rs.1437.71m and relevant construction cost of Rs.752.654m. Management is making all efforts to locate/retrieve the lost records”.

- v) South Indian developer :
Changed account norm to inflate or show arbitrary profit in 2008-09. Changed its accounting norms in first QFY 2009 for revenue recognition which facilitate revenue being recognized earlier in a project cycle. According to its press release, if the accounting policy had not been changed, the company’s first QFY09 PBT would have been lower by 20%.

I am enclosing herewith a small Research Report by a Financial Services Provider. This seems to be reflection of what is going on in the Corporate segment.

To take shelter of “provisions in the guidelines” is not healthy. It misleads the Market, Economy, Small Investors, common man.

The Siemens episode of yesterday is another eye-opener. The dubious non-transparent, merger, de-merger, valuation, rating is another area which needs immediate attention.

I would request you to do the needful.

Thanking you,

Yours sincerely,



DR. KIRIT SOMAIYA, Ex-MP

**Shri Prem Chand Gupta
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