

Voice of Change

PKF SRIDHAR &
SANTHANAM
Chartered Accountants

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"The views expressed herein are those of the authors of the article and do not represent the views of the firm. This Newsletter is mainly for educating the staff."



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Partner Speaks...

Frauds too start small

Everything begins small.

All the big and famous personalities you see and are awestruck with started off as small babies.

In the corporate world also, every new business starts small. Every new successful entrepreneur starts small and grows up.

Every new fraud discovered started off small and then became too large to hide! Every failure started with small issues not addressed and left to grow.

What we shape when things are small determines what it turns out to be.

It's just the way one grooms a child or a small plant.

It's just the way one can guide a budding business or a growing industry.

Similarly, it is critically important that when control weaknesses are seen, these are addressed when they are small or inappropriate claims are addressed then and there when they are small. If these are not addressed

at that time, it grows to be a menace later.

By the time, it is acted on the damage may be so severe and cripple the entity itself.

I am sure you have all read what Mr. Ramalinga Raju wrote about the excess billings they were accounting - it started with a small amount, but then had to be kept on growing to meet the expectations - to such gargantuan size, when it became almost impossible to hide any further!!!

This is the story with most frauds.

Let me tell you one more story from the practical experience we have had.

In one of our clients, they had moved over to RTGS payments also in addition to payments through cheques. As you all are aware, cheques are serially numbered and are thus controlled to ensure each cheque issued is actually getting recorded in the books of accounts. RTGS payments were made against filled up application forms / letters to the bank. We had been insisting that the letters requesting for RTGS

payments must be serially numbered and controlled so that there can be a trail to ensure that all the letters issued are getting recorded in the books of accounts.

Take it for granted, clients do not like such mundane controls to be harped on and there was always argument about this in the discussions.

Six months went by.

And then in one month they found a duplicate payment by RTGS - only one was accounted and another letter was also signed and sent later to the bank, based on which the bank effected the transfer twice!! That's not it.

Next month, there was a very large amount paid twice - for similar reason!!

Now, it's no longer mundane control issues!! It's a serious financial risk - perceptions change and people clamor for controls on RTGS...

This case has been produced to point out to:

Mainly - Small things do seem to be harmless - but these same things could grow to be a menace - act in time

Well, as an aside - Clients generally do not see merit in controls - but, when you point out such controls having led to loss / fraud - then, they sit up.

I do hope this small thing of mine, blossoms out to be a large thought process in you all whenever you approach controls and weaknesses / gaps.

All the very best



Musham Panchakshar

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Insider Trading in India:

Dear Friends,

Belated happy new year to all.

A Few days back I was going through some news articles (past dated) and found one interesting article saying "SEBI barred POLARIS Chairman and M.D for 2 years on charges of INSIDER TRADING".

Before getting in to the case, let us understand what insider trading is all about.

As per the SEBI's Prohibition of Insider Trading Regulations rules, 1992 an insider means a person who "Is or was connected with the company or is deemed to have been connected with the Company and is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company",

Or

"Has received or has had access to such unpublished price sensitive information"

In simple words insider traders are those persons who use the price sensitive information for their financial benefits. i.e., these persons who have sensitive information about the

company try to fluctuate the price of the securities and get the benefits out of them.

This is a Financial Crime in India and SEBI being the sole regulatory body of all the securities listed in India has come out with rules named "Prohibition of Insider Trading Regulations rules, 1992". These rules were amended to stringent the rules when necessary. The main provisions of the rules are as follows:

A. For companies Listed with SEBI:

1. Every listed company has to appoint a Compliance officer (usually the company secretary of the company) who shall report to M.D/ C.E.O.
2. He shall be responsible for drafting & implementation of policies, rules, procedures for the preservation of "price sensitive information".
3. He shall maintain a record of Designated Employees (directors & employees) of the company.
4. All the Price sensitive information relating to the company should be kept

secured and to be communicated only to those persons within the company to discharge their respective duties.

5. The company will specify a period called "Trading Window" during which the designated employees are supposed to trade the securities. Before the information mentioned in Para 3.2.3 of SEBI's "Prohibition of Insider Trading Regulations rules, 1992" (occurrences like declaration of financial results, declaration of dividends, amalgamations, bonus issue, etc. - which have a direct impact on price of share in the market), the company shall close the Trading period which will be reopened 24 hours after the information mentioned in Para 3.2.3 of SEBI's "Prohibition of Insider Trading Regulations rules, 1992" are made public.
6. Exception to the above rule is that Exercise of ESOP can be made but Sale of the

same is restricted by SEBI's rules.

7. If any designated employee (including their dependants) intends to trade the securities of the company above 2,00,000 per trade should pre-clear the transaction from the Compliance officer who in turn gets the clearance from M.D/W.T.D.
8. All the designated employees who entered pre-cleared transactions shall not enter in to opposite transactions (e.g. If one sells the securities he should not buy the securities again) during the next 6 months of the transaction.
9. If it is found by the compliance officer that there is contravention of code of conduct prescribed by SEBI, company may levy penalty and take appropriate action which cannot be enough ground for SEBI for not taking any further actions.

B. For Entities registered with SEBI:

For entities registered with SEBI, the code prescribed is similar to the code

prescribed for Companies registered with SEBI except for the following:

1. To prevent the misuse of confidential information, the company may adopt Chinese wall methodology in which the information relating to company is divided in to two areas called as "Inside Areas" and "Public Areas" having access to confidential data and routine data respectively.
2. The company may also separate both the categories of employees physically if needed and supply the information of INSIDE to those in PUBLIC only on
3. In order to monitor Chinese wall procedures and trading in client securities based on inside information, the company shall restrict trading in certain securities and designate such list as RESTRICTED OR GREY LIST which can be maintained by compliance officer to be highly confidential.

In the above case of Polaris, the facts of the case are as follows:

Arun Jain, the Chairman of Polaris Software Lab Ltd dealt with 15080 shares of the company on behalf of PHPL (Polaris holding Pvt. Ltd) on the basis of unpublished price sensitive information.

SEBI started investigating the matter following media reports that Polaris, which had called off its plan to acquire US-based Data Inc., informed the stock exchanges after a delay. During that period, SEBI noted that a Chennai-based broking firm dealt in Polaris shares on behalf of Polaris Holding.

Agarwal, member of SEBI noted in his order that there was a decline in the shares of the company after the information was disclosed to stock exchanges on 30 September, 2000. The order said the shares dropped from Rs595 on 29 September, 2000, to a low of Rs390 on 23 October, 2000.

Later, Arun Jain agreed during the investigation that he had instructed his chartered accountant to sell around 15000 shares at a price of Rs.700 per share to purchase of a plot in Gurgaon.

Conclusion:

Despite of voluminous rules made by SEBI, in my opinion it is very difficult to determine the practice of Insider Trading because it involves extreme dog watching of trading the securities. The practice of insider trading can be avoided only by adopting Fair ethical practices at all levels of management.

*Too Many..Too Good..kudos
people*



Congratulations to the following persons for their excellence in audits:

- 1. Ankush Mittal for his work in project audit.***
- 2. Kudos to the team for their in depth understanding and commendable standard of work. The team members are:***
 - Shankar Ganesh***
 - Jeyavijayan***
 - Muhammed Sajeer***
 - Narender Choyal***
 - Muhammed Rizwan***
 - Gourav bora***
- 3. Vijay K and team, for their performance in a statutory audit, the members being:***
 - Preethi Srinivasan***
 - Shahim Mukadam***
 - Hema Damodaran***
 - Vaibhav Tholiya***
 - Neerja Aiyer***
- 4. Raman Gupta for a good performance in a project audit***
- 5. Shreyas Venkatesh for great work in a Non- Profit organization audit***
- 6. Narender Choyal and Kalyanraman for a great performance at a new internal audit.***
- 7. Shravanthika & Chandrasekar for excellent work in an international internal audit.***
- 8. Ali Agsar for smart handling of Limited review and interim audit of an enormous public sector company.***
- 9. Anand Martal & Vikas Jha for fantastic performance and neat documentation in a statutory audit.***
- 10. Tushar Kumar, TL for consistent contribution and quality delivery in all audits handled.***
- 11. Appreciation to Favas,Sashang & Divya for handling a new client in an internal audit.***

Birthday Bash

Sl.no.	Name	Date of Birth	Office
1	Biswajeet Satapathy	31 st March	Chennai
2	Ramyaa T	20 th March	Chennai
3	Muhammed Sajeer N	3 rd March	Chennai
4	Ram Mohan	11 th March	Chennai
5	Harish MC Ranganathan & Co	2 nd March	Chennai
6	Vinayasree V PKF Sridhar & Santhanam	2 nd March	Chennai
7	Ankit N Jain	15 th March	Hyderabad
8	Anoop Kumar Shah	20 th March	Hyderabad
9	Nilesh Jain S.Charanya	4 th March	Hyderabad
10	Vasudevan Santhanam	30 th March	Delhi
11	Jagdeep	17 th March	Delhi
12	Valliyappan C	11 th March	Bangalore
13	Divyashree	8 th March	Bangalore
14	Sarath Babu	4 th March	Bangalore

Fun Corner



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