

# Leading up to the numbers



By

CA. Santhanakrishnan.S

# It all started in 1494



- ∞ When a Friar and mathematician codified double entry book keeping for the first time
- ∞ In his fifth book **Summa de Arithmetica, Geometria, Proportioni et Proportionalita (Everything About Arithmetic, Geometry and Proportion)**
- ∞ It was just one of five topics covered
- ∞ Thus was born
  - ∞ accounting as we know today



# Things were quite simple

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- ∞ Things were quite simple till very recently
- ∞ In fact when I did my CA articles it was a great achievement to ‘Tally the Trial Balance’
- ∞ In fact Luca had warned in his book
- ∞ **(Accountant) should not go to sleep at night until the debits equalled the credits!**
  - ∞ Many an accountant spent sleepless nights those days trying to tally the stubborn trial balance
- ∞ And then the computers came and the world of the accountant changed totally!

# Frenetic changes



- œ Moore's law is still valid and we are seeing exponential growth in computing
- œ Just in 1980, IBM introduced 1 gigabyte storage device the size of a refrigerator which cost \$100,000
- œ You can get a pen drive with many times that storage capacity costing a fraction of that now!
- œ Whole company accounts can be taken out using these!
- œ So everyone's job has become different/ more difficult!

# 7 Deadly sins of Board room



∞ Haste

∞ Stubbornness

∞ Rigidity

∞ Assumption

∞ Naiveté

∞ Complexity

∞ Hubris

# Your job is not easy



- œ Your short list of things that keep you awake at night
  - œ Mistakes at the speed of light
  - œ Scams and frauds
  - œ Data Deluge
  - œ Internet security
  - œ Insider trading
  - œ Ever changing laws and too many of them (you are not even sure company knows about all the laws that apply) -and scary penalties!
  - œ Corruption
  - œ Complexity

# Mistakes @ the speed of light

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- ∞ Transactions happen and are recorded at the speed of light!
- ∞ Mistakes also happen at the same speed if not faster!
  - ∞ Recently some one punched 17 lakh baskets instead of Rs 17 lakhs and one order of Rs 974 crores was created by a brokerage firm called Emkay in NSE! The stock market went into a spin!
  - ∞ In Japan someone punched Billion instead of Million and the stock exchange went haywire!
  - ∞ A typo added \$10B to Spanish debt -some one entered 99.8% instead of 98.9%!
  - ∞ Paypal credited \$92 trillion to Chris Reynolds and made him the richest man ever for a few minutes!

# Scams and frauds galore!

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- œ Every day you hear about scams
- œ Scams are secular and occur everywhere
- œ For every JP Morgan Chase London Whale abroad, there is a NSEL scam here!
- œ Scamsters are getting smarter by the minute!
  - œ Recently robbers stole gold and then poured 'Sambar' in the cupboard -erasing all finger prints and leaving no scent for dogs to sniff around!



# Data Deluge



- œ We are all sinking in data
- œ More data has been created in last one year than all of human history!
- œ In 60 seconds it takes us to discuss this , there are:
  - œ 2 million searches in Google
  - œ 72 hours of Video uploaded into YouTube
  - œ Facebook gets 2.46 million posts equal to 350 GB
  - œ 70 new domains are registered in WWW

# Internet security



- œ Kevin Mardia is an internet security expert who found out about Chinese attacks on USA computer installations
- œ He says:
  - œ “Only 5% of corporate America gets an “A” on internal security”
- œ That is not very assuring!
- œ Recently we read about Stuxnet virus which wiped out Iran’s nuclear reactors remotely!
  - œ Now everyone from North Korea to Syria has declared a different type of war with no blood being shed!

# Insider trading



- ∞ Even USA has no clear definition of Insider trading
- ∞ E.g : Dorozhco case
  - ∞ If a person uses a misrepresented id to steal data that is fraud
  - ∞ If a person just exploits a weakness in the electrical code , it's not a fraud!

# Corruption



- œ Former German President is before a court
  - œ On charges of corruption
  - œ Of accepting a bribe by way of a hotel payment of a whopping sum of 770 Euros
- œ He could get a prison sentence of upto 3 years!
- œ I am sure in India lot of politicians would die of laughing hearing this!
- œ In a country way way below in transparency index of World bank, how do we deal with this issue!?

# Complexity



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- ∞ Complexity has increased manifold
  - ∞ Facts are buried in jargons
  - ∞ People fall prey to glib talking bankers  
/professionals
  - ∞ Almost everything is outsourced
    - ∞ Ubiquiti networks is a \$1B company with just 100 employees and outsources everything
    - ∞ Nike does not make a single shoe!

# Your problems



- ∞ You get tons of paper or Gigs of data on your iPad
  - ∞ Survey of midwives in UK:
    - ∞ “We spend longer hours doing paperwork than delivering babies”
- ∞ You get very limited time
- ∞ Lot of your time is wasted
- ∞ The cycle shed syndrome is always there and time spent is not proportionate to importance of agenda item
  - ∞ How to find solutions to all this?

# Suggestion-1



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- œ Keep your focus
  - œ Follow 80: 20 rule always
  - œ Devise simple rules
  - œ For instance:
    - œ No presentation over 30 minutes
    - œ Min font size for PPTs
    - œ No figures less than say 5% of profit or 1% of Turnover
    - œ All figures to be rounded off to lakhs or crores
    - œ Not more than 6 rows and 3 columns
  - œ Listen to HBR ideacast: “Make time for things that matter”

# Suggestion-2



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- œ Use Hawthorne effect to your benefit
  - œ If you just watch something , it gets better.
  - œ So select critical things , key risks and watch them closely and keep asking questions often
  - œ Demand discussion on such topics often
  - œ Insist on full day meetings if matter is important



# Suggestion-3



- œ Follow KISS-keep it simple stupid
- œ If you don't understand something, may be no one has understood –say so and others will join you
- œ If things are complex and too many jargons are used –demand simple English
  - œ Say an exotic derivative is discussed, ask for 'what if' situations and the breaking point where the derivative fails;
  - œ Ask what is the worst case scenario

# Suggestion-4



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- œ Accounting is estimate; cash flow is real
  - œ Always insist on cash flow
  - œ SEC is working on AQM (Accounting quality model) which looks at:
    - œ Material differences between net income and actual cash flow
    - œ Off Balance sheet items
    - œ Change of accounting policies and
    - œ Change of auditors

# Suggestion-4



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- ∞ There is no better tool than Common sense
  - ∞ That will never become out-of-fashion
  - ∞ Just see if what is presented/ discussed makes sense
  - ∞ **Ask when profit is made** -how and why?
  - ∞ That itself will open a lot of doors
    - ∞ In Satyam some one should have asked why keep Rs 7000 cr in bank deposits?
    - ∞ In Reebok someone should have asked how can book debts be 90% of sales?
    - ∞ In JP Morgan chase when \$1B plus profit was booked on derivative trading, someone should have asked what is the worst case scenario?
    - ∞ In NSEL all they needed was periodical physical count in warehouses....

# Suggestion-5



- œ Warren Buffet 4 questions to auditors –
  - œ ask these of your auditors:
- œ 1. If the auditor were solely responsible for preparation of the company's financial statements, would they have in any way been prepared differently from the manner selected by management?
- œ This question should cover both material and non-material differences. If the auditor would have done something differently, both management's argument and the auditor's response should be disclosed.
  - œ The audit committee should then evaluate the facts.

# Suggestion-5 contd.



- ∞ 2. If the auditor were an investor, would he have received -in plain English - the information essential to his understanding the company's financial performance during the reporting period?
- ∞ 3. Is the company following the same internal audit procedure that would be followed if the auditor himself were CEO? If not, what are the differences and why?
- ∞ 4. Is the auditor aware of any actions - either accounting or operational - that have had the purpose and effect of moving revenues or expenses from one reporting period to another?

# The Power of One!



- œ If someone who can shape the company
  - œ Its in your hand as a Director / Independent Director
- œ History has time and again shown the power of one!
  - œ One person can and does make all the change!
  
- œ One Class Can change the future of the Corporates
  - œ Its you - Directors!