

To: Professor Raskin
From: Carlos Contreras
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Benjamin Franklin once said, “In this world nothing can be said to be certain, except death and taxes.” Everyone can agree he wasn’t wrong when he said that, but I personally feel that one thing is missing. I believe that scandals should’ve been on his list of things that are certain in life, I say this because there will always be an unethical person for everything ethical person in the world. Whether it’s an academic scandal, journalistic scandal, religious scandal, financial scandal, or corporate scandals; scandals are here to stay and aren’t going anywhere anytime soon.

The accounting world has seen its fair share of scandals throughout the years which include these dishonorable mentions: the Waste Management scandal (which reported \$1.7 billion in fake earnings), the WorldCom scandal (which inflated its assets by as much as \$11 billion), the Tyco scandal (in which the CEO and CFO stole \$150 million and inflated income by \$500 million), the HealthSouth scandal (which inflated its earnings numbers by \$1.4 billion to meet to stockholder expectations), the Freddie Mac scandal (which misstated \$5 billion in earnings), but the one I’ll be discussing is the Satyam scandal that took place, not so long ago, in 2009.

Satyam Computer Services Ltd. was an Indian IT services and back-office accounting firm until they, per *Forbes*, overstated the company’s revenues and profits and reported a cash holding of approximately \$1.04 billion that simply did not exist. This leads me to ask a simple question: How did this all happen?

Per the *Hindustan Times*, fake invoices and bills were created using software applications such as 'Ontime' that were used for calculating hours put in by an employee, and a secret

program was allegedly planted in the source code of the official invoice management system creating a user id 'Super User' with the power to hide or show the invoices in the system. A web of 356 investment companies was used to allegedly divert funds from Satyam. These companies had several transactions in the form of inter-corporate investments, advances, and loans within and among them. As you can tell this required a lot of work, but why was this even done in the first place? The answer was best explained in the *Hindustan Times*, which explained that this was all done to purchase several thousands of acres of land across Andhra Pradesh to ride a booming realty market. The scandal eventually got out of control and it was too late to close the gap which led the main person behind this, Ramalinga Raju, to say "it was like riding a tiger, not knowing how to get off without being eaten."

In the end Ramalinga Raju, confessed to his crime in a 5-page letter he wrote and was prosecuted. Per *The Hindu*, Raju got sentenced to seven years' rigorous imprisonment and was imposed a fine of Rs. 5.5 crore and the company ended up closing shop in 2013 because of this scandal.

I believe that the CFO shouldn't lower his estimate because it isn't the right thing to do, especially when it's already conservative. The ethical standard that the CFO would be violating, in my opinion, is integrity. The victims of his actions would be the shareholders and everyone who works there because getting caught would mean trouble. The ethical steps for the CFO to take would be to report the CEO to the ethics department or speak up even if he's fired.

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