

**National Foundation For Corporate Governance**  
**National Conclave on Corporate Governance in India:**  
**Transforming Business Environment**  
**30<sup>th</sup> July 2007: New Delhi**

Plenary Session III: Corporate Governance: Trends in Disclosure Practices.

**Address by:**           **Mr. S Mahalingam,**  
Chief Finance Officer, TATA Consultancy Services

---

Mr Manohar, Mr Rajendra Prasad & friends

When I was called for this seminar, I was feeling a bit nervous. I was not nervous because I am the CFO of a small company – Tata Consultancy Services Limited—with a turnover of four billion dollars, as we used to say, no longer dollar is valuable, so over 18,000 crores as the revenue and 4,200 crores as profit—is not a small company. So, that is not the reason I was feeling nervous. I was also not feeling nervous because we are running a small organization or a simple organization, not a small.

TCSs are a global entity. Significant operations in over 30 countries with 56 subsidiaries in different parts of the world and so on; even business model is not a very simple one. We are growing organically as well as inorganically. Organically, we have been buying companies not only in India but also abroad and so on. Our contract itself has great variety and we also have about 90,000 people. The business model was not small one. Also, I was not worried because we don't have a very risky business; everyone has followed the rupee movement. I am not calling it the dollar movement because it is the case of rupee appreciation rather than the dollar depreciation because rupee is appreciated against the pound and the Euro and so on. We seem to be having a roller coaster ride in a sense of, we were at 44 rupees to the dollar in February. It bridged 40 for a short while in May end. We are somewhere in around 40-40½ at this moment. It shows around 7 or 8% drop in a very very short period of time in a very volatile manner. The reason, I was feeling a little worried because I have been in this role as a finance person only for the last four years; prior to that, I was in consulting on software development. We have two stalwarts here to answer all the questions on the areas of accounting standards and many other areas but I thought I'll take this opportunity to talk about corporate governance as we practice and this will give us a forum to raise some issues and so on.

In Tata Consultancy Services, we are listed in August 2004—we are a division of Tata Sons for a very long period of time; it is a pioneering organization. And after we listed, it has become a totally independent company from the governance point of view. In the sense, we have eight directors and six of them are independent; out of those, four are not holding Indian passports and don't live in India.

Right from the beginning, the chairman decided that this board would be engaged and eight meetings would take place during the year. So, almost in every one and a half months, there is a meeting. There are a

number of committees that we have. We have an audit committee; we have an executive committee which essentially looks into various things including the nominations, revenues of many of those committees. Audit committee has three members—Mr Arvind Mehta is the chairman, Mr Naresh Chandra and a person called Tyagrajan, who is GST's senior vice president based in Singapore. We decided right at the beginning, although it was not so before it was listed that we should engage an outside auditing organization; it should not be an internal function. We decided for the outside organization mainly because we felt there is a degree of objectivity that could come in and there is independence in the activities. In any case, we are extremely happy with the kind of interaction that we had so far. Over the period, we felt that the effectiveness of the audit committee really depends on obviously the quality of the internal audit reports, which in this case is the expenses are quite extensive; they go to the subsidiaries, sponsors, of course in India.

It is also the committee's persistence in following up on one implementation of grid improvements in total control. Because it is made up of three people who are extremely conscious of what they are doing and there are not long meetings; in fact, one of the things that I can ask them for 2-3 hours, they do come only for 2-3 hours but 2-3 hours is a very long period of time if it is really devoted to the task man and they are persistent in following up on implementation of agreed improvements and internal controls. The focus in regard to the members of the committee displays their extensive preparations for the deliberations. In fact, in some cases the internal auditor holds a teleconference when he feels that there is a matter that he would like to be fully briefed before coming to the meeting.

There are eight audit committee meetings; four of them spent on review of the quarterly results and so on, and the remaining four are on the various internal audit reports that comes in.

One of the key things that happened in the audit committee meetings, I think it happened in the beginning that it was decided that some sort of ratings would be given to the department managers. There is an overall ratings, in any case, for each area, for improvement required, for significant improvement requirement, etc. That we target on to the appraisal system. We were concerned initially that this might drive some sort of defensive behaviour on people in the sense that they would attempt to argue out many of the points, but that does not turn out that way so long as the relationship was professionally, mutually good.

Over this period they have also recognized and we have also given considerable importance to internal control system; in fact, from that overall perspective, we have operated the chartered authority at the director's level and in fact we followed the same chartered authority for the group. There is standardization across the Tata Group to a large extent. We have not really deviated from that. In addition, we have got a management appraisal chart within the organization which delineates authorities to operating cosmic. We have also got a very detailed policy document for each of the functions like HR and many of those kind of things. Since we are a software company, there is a natural tendency in an automated way. In fact, at times it gets to be little disorganized because no one wants to write down anything. Then there is a question of integrating everything to the overall system that we have.

We will have an extremely good enterprise-wide system; we call it digitization of Tata Consultancy Services. It is called Ultimatix; the great man who has developed this is called Astra Stein—the name was struck.

It has become the live blood of the organization; imbeds a lot of control. It tracks a project code, right from allocation of people to time-sheet submission to calling many of those kinds of things and integrate up to the financial accounting areas and so on.

We have found that over a period of time, this automation has internal control; go ahead and define effectively within the organization because all of us, including the external auditor as well as the audit committee gets worried about the case with which it goes and that's a very detailed plan. We decided on those external companies or outside company for the purpose of internal audit mainly because we wanted the global internal audit methodology, which incorporates elements of risk assessment, planning, execution and reporting. We follow the approach that the preliminary audit plan is developed. There is historical understanding that there is high risk areas, there is considerable inputs from external auditors and the experience of internal audits in the recent past.

We take into account and in fact one of the key things that the audit committee does is to go through that into great amount of depth and approve it, including the sequencing of it. There is an audit calendar. What we do is that after it goes through the various phases, auditing, response, etc., they also go to the head of the particular department and then ultimately they come to me and we have a discussion before it gets into the audit committee. In the process, we also understand what is happening, what kind of issues the earth is going to surface; more importantly, what kind of systematic change we are required to make into the organization. This is something the audit committee gets into going well. In some cases we find that we need an external assistance in the sense that the internal audit team has to bring in people for foreign exchange management. We have one of the most extensive foreign exchange operations amongst companies in India. Therefore, we need this.

There is a need to have specialists who would be looking at application control, who would come from internal audit organization. They of course pay; the external audit organization one of the well known firms, they have been associated with a group; they also have been associated with us for quite some time; they understand us quite well. There is a great deal of management that we have in terms of audit plan. They would like to see that identity matters to be taken up for substantial testing because of material and so on.

In the area of risk, there is a corporate risk officer, it can be a project risk, it can be delivery risk, it can be repetition risk in many many areas, it can be geographic risk. One of the biggest risk that we face in terms of foreign exchange, i.e., the currency fluctuation that is a very important one. That is a fairly important one.

We have a risk management board which concentrates on this and tries to formulate policies which ensures that they are ready to adequately handle that particular risk. We came out quite strongly in the last

quarter; it was the most volatile quarter that anyone will have had; the currency fluctuation risk one could have mitigated and handled fairly well.

We come out with our results by the 15th of the month following the quarter end, so there is a fair amount of activity. It is a complex organization. As I said with about 56 of the risks, most of them are abroad. It is an audited bond; we publish both the Indian GATT as well as the US GATT accounts. The Indian GATT is audited, therefore, there is a phenomenal amount of work that we have to do; quite often we feel that we can leave without some of the complexities that arise towards the end of the quarter.

Mr. Manohar has just taken over as the president of the ICICI. We decided that we should call on him at the inaugural meeting that is going to hold in Bombay. Me and our Vice President, Finance, would meet him. An explanatory memorandum would be put in place around that time; in fact, on the 9th of January as it was around that time he had that meeting some of the complexities keep coming.

Before coming for this meeting, if you have to talk here, what are you going to say? He said, 'Can I list down all the issues relating to accounting standards?' I said, 'Give me a few.' He listed out AS2, AS11, 18, 19, 15 and so on. There are issues that we have to give enough time to debate on this and take a certain position within the organization. I guess life is more or less the same in many parts of the world but there is an issue; there are added complexities we run into, because, as I said we have gone by companies therefore, many of those issues, valuation, intangibles, goodwill and kind of other things that really come in. we run a complex organization, so there are issues we need to take a stand on, with regard to the revenue recognition and many of those kinds of things.

Having gone through the kind of experience that we have had, there are a couple of points that we want to make. As an organization, we took a decision, around the time when we came out with public issues or listed ourselves, that we will not go ahead and give a guidance. There was a period when everyone was very keen about us; many of the analysts were covering us; we were extensively covered as the other IT companies are. We took the decision of not giving guidance but the things that we had to address at that point of time, that if we don't give guidance then how does the market look at us, how do the investors look at us. Therefore, there is a need to discuss extensively whatever we do, in terms of the direction in which the market is going and so on. We find that there is far more recognition of the concept of not giving the guidance now than it used to be three years back.

We also took a decision that we would have a silent period and we would not talk about us, where it should be mandatory or not, it is a different matter but certainly, for our profession it was needed.

One last point in terms of the difficulties that we have. There are so many subsidiaries and the requirement was that we make available annual accounts of all subsidiaries; despite publication of all consolidated accounts, despite exemption being granted by the ministry, we still have problems; because we have too many of them and therefore not that it makes very difficult for us—we do have them and people do get it if they wanted.

In conclusion, I would say that good practices that we follow and there are many companies who follow extremely good practices, at least there are lots of Indian examples for good disclosure requirements, good transparency, and good practices that are being followed. You don't have to look out for but there are many Indian organizations, hopefully that will get reflected as far as the stock market is concerned. Thank you.