Deloitte.

The CFO Program

CFO Perspectives

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CFO Speaks

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1. What were your key expectations from Budget on infrastructure segment? What is your view on the current budget?

Pre budget expectations: The key expectation from the budget was on the real asset creation. We have seen the right intention of the government through announcement of high spending plans on various infrastructure segments last year as well but the real execution will be important and relevant for the growth of the infrastructure segment. The asset creation on the segments including roads, rail network, boost to private railway network like Mumbai metro, and airport development would create more employment and thus the overall development and growth in GDP. We would also like to see more policies and plans for the execution of smart cities along with the development of low cost housing. The increased investment in cement and steel will help create more opportunities for growth in the economy.

Post budget views: Budget for the infrastructure segment has been positive and adequate thrust has been given to the much required low cost housing and funding for the infra projects.

- Infrastructure status awarded to affordable housing sector – Realty sector would be able to source funds at cheaper rates and also would become eligible for all infrastructure related benefits. Dream of PM of "house for all" may become reality.
- TDS on ECB and Masala Bonds retained @ 5% on all borrowings made till July 31, 2020. Further, Masala Bonds made more attractive for non-residents by stating that transfer of the bonds from one non-resident to another would not be counted as a "transfer" for the purpose of capital gains. Moreover, gains due to appreciation in rupee for Masala Bonds made exempt even to bonds purchased in secondary market by non-residents. These measures would possibly increase the popularity of Masala Bonds in foreign shores which in turn would help Indian entities to source cheap funds abroad

2. Based on the government plan to spend $14.5 B to expand the country's network of roads and ports, your company is looking for innovative ways to raise money like masala bonds and then sell bonds up to $1B. Do you think masala bonds or other innovative finance tools can be a game changer for the infrastructure sector given that it eliminates currency risk? As a Group CFO, what are the learnings in managing the internal and external stakeholders during such events?

Bond market in India is developing well. Local bonds vs masala bonds is hardly any difference. The currency fluctuation risk gets adjusted through the premiums in masala bonds. Infrastructure debt funds (IDFs) is a good way of financing today. With the growing awareness and the proper monitoring of bonds, the investors are having increasing confidence in IDFs. External Commercial Borrowings (ECBs) are another good tool to raise finance and are available at competitive rates. The soft loans are also available for infrastructure projects from World Bank and countries like Germany, Japan at competitive rates. **The game changer for the infrastructure segment could be availability of longer term hedging instruments and preferred rates for better rated institutions.**

As a CFO, it is important to have full disclosures to all the stakeholders, internal or external. Company's standard operating procedures (SOPs) need to be in place. Timely and accurate information needs to be updated to the company's board as well. As a Group CFO, we consolidate project by project update and company by company update on regular basis and update the board and management periodically along with the action taken reports.

3. CFOs need to keep a personal track of new laws and regulations in force, and the effect of new laws can have a serious consequence to the firm's strategy. How do you manage these complexities and regulatory changes?

Regulatory compliance is non-negotiable. For a company like IL&FS which is diverse and have multiple companies and units, we have strong internal audit processes and a unified approval process. We have designated risk management and compliance cell which helps all the entities to cope up with the changing regulations and processes in time. We have a defined escalation matrix where each and every possible issue is highlighted, escalated adequately. The efforts are put in to identify why it happened, what is the action taken to correct it and the entire report is submitted to the Board of the company. We have regular updates on internal controls, internal audit, due diligence and the consolidated review is done at the Group CFO level before presenting it to the Board.

4. Being a Group CFO, lot of your responsibilities would be towards aligning and communicating with the multiple group entities. What, in your view, are the key things which a Group CFO needs to do differently than an entity CFO?

With varied businesses, there are different issues, opportunities and areas of focus that a Group CFO needs to focus on.

- Identifying the different needs of the entities, prioritizing issues giving right importance and guidance to the entities is the key task at hand for a Group CFO.
- Aligning the goals of the organization with the goals of each of the entities, working with the businesses to inter weave the same and have a common approach as an organization is another herculean task for the Group CFO.
- It is important as a Group CFO to keep abreast with all the changes in laws and regulations and update the teams in advance as per the applicability and criticality to the entity.
- Another important aspect includes setting up Standard Operating Procedures (SOPs) across the organisation, regularly review them and help various entities adopt these SOPs.

5. What are the 3 key challenges you face as a CFO in the current environment?

As a key management personnel, there is a lot of responsibility which is being put on the CFO. A CFO has to sign off on everything which in turn is then reviewed by internal stakeholders like Board, management and external stakeholders like regulators, investors and rating agencies. A CFO needs to be focussed on the key strategy and objectives of the organisation and need to not go overboard on each and every issue and prioritize and not get distracted from the key strategy. A CFO has to tactfully handle all the stakeholders, provide information and update them regularly. It is extremely critical for a CFO to have the best internal controls and systems in place.

Expert Views

Managing Fraud: Different, disjointed approaches by organizations not curbing fraud

Corporate India believes fraud will rise in the coming years, according to majority of respondents to the India Fraud Survey, Edition II, by Deloitte. About 70 of respondents representing large organizations (multinationals and domestic companies), 54% of respondents representing small and medium enterprises, and 65% of working professionals indicated corporate fraud would rise in the future.

'Diminishing ethical values' was identified as the most common cause for fraud by respondents across categories. Respondents continued to identify known frauds such as bribery and corruption, diversion/theft of funds and vendor favoritism (only large organizations) and conflict of interest (only small and medium enterprises) as top fraud schemes that their organizations had experienced in the last two years.

While concerns around fraud appeared similar, the methods employed to mitigate fraud reveal vast differences in approach within organizations, signaling that fraud is complex and organizations have a long way to go in effectively mitigating fraud.

Large organizations continue to focus on well-known frauds, unprepared to tackle new frauds

In the area of fraud prevention, large organizations appeared to be focused on preventing only historically known frauds, and appeared inadequately prepared to tackle new frauds such as social media and anti-competitive behavior. For instance, on social media, the majority of respondents did not share an opinion on how their organizations would handle smear campaigns, which is a potential reputational risk. About 68% respondents also believed there was misuse of intellectual property by unauthorized users and another 65% said there was use of fake profiles masquerading as the company to fool customers. Many organizations have been unable to keep up with the advancements in the hacking ecosystem and remain equipped with old cyber security models designed to keep the 'hacker-of-the-90s' out. In line with this, about one third of survey respondents said they didn't discuss cybercrime incidents internally for fear of tarnishing their reputation.

Fraud was mostly detected through whistleblower hotlines. Response to fraud was complex and determined on a case to case basis – 43% of respondents said investigations were commenced based on the severity of fraud; 36% said the fraudster was allowed to resign in lieu of pressing legal charges; and 33% said fraud was communicated to employees, the board and regulatory agencies.

It is disconcerting to note that large organizations do not appear to be stepping up to face the challenge of mitigating new fraud and noncompliance risks. While we observe increased adoption of automation and continuous monitoring as part of fraud risk management, it appears that these initiatives may be unable to detect new and emerging frauds. New frauds call for new preventive measures such as having a cyber incident response plan to tackle large scale hacking or managing employee accessibility to social media at work (to safeguard against social media fraud), or undertaking specific training programs to sensitize employees to the risk of anti-competitive behavior.

Small and medium enterprises indicate lack of commitment to tackle fraud

About 48% of respondents representing small and medium enterprises felt there wasn't enough commitment to tackle fraud. In line with that 42% felt there was inadequate budget and resource allocation to prevent fraud. About 32% felt complying with anti-fraud regulations placed additional burden on them. The top three measures undertaken to prevent fraud included: Independent Audits (71%), implementing a code of conduct (62%), and regular monitoring and assessment of fraud risks (52%). Fraud was most likely to be detected by accident.

Around 25% of respondents indicated that their organizations reviewed fraud risk management frameworks only upon an incident occurring and 23% addressed fraud observations within 1-2 months of the incident. Deploying technology to curb fraud appeared to be a challenge with 17% of respondents citing budgetary constraints, and 23% claiming lack of clarity around the utility of such tools. Response to fraud continued to be driven by the materiality of fraud (19%).

Small and medium organizations appear to be struggling to mitigate even well-known frauds such as bribery and corruption. Given the inherent limitations of these organizations, there is need for government intervention to help tackle fraud. In this regard, increased digitization in all spheres of business combined with strong enforcement of anti-fraud laws may benefit small organizations.

Working professionals want to be part of organizations' fraud risk management efforts

A majority of working professionals believed that the primary responsibility to fight fraud remained with them (56%). They also remained optimistic about the effectiveness of laws in curbing fraud (47%).

About 70% of respondents felt that their employers provided enough opportunities for them to share instances of unethical behavior. To better tackle corporate fraud, working professionals favored the following options: openly discussing fraud and educating employees (61%); recognizing and rewarding ethical behavior (59%); and naming and shaming wrong doers (57%).

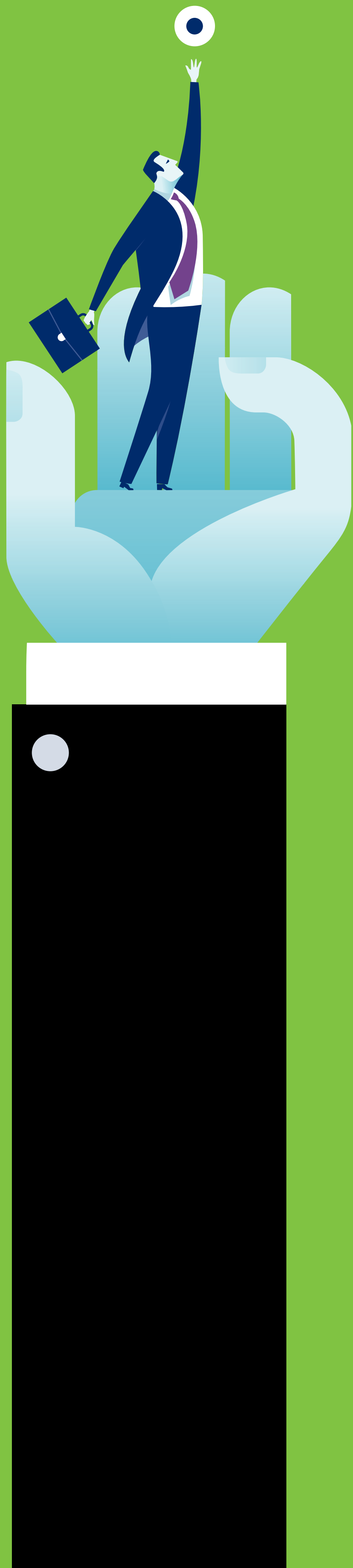
In our view, successful fraud risk management efforts tend to go beyond strong internal controls or the presence of policies. Employees can play an influential role in the success of fraud risk management efforts. Nurturing a community of 'employee influencers' can help reinforce ethical behaviors and mitigate fraud. We are seeing several organizations designate certain employees as ethics champions to encourage other employees to demonstrate ethical behaviors.

Business developments will significantly impact the nature of fraud in the future

As organizations move towards embracing new technologies and business models, we are likely to see new potential exposures to fraud. For instance, the adoption of block chain technology in some organizations globally has resulted in significant changes to the way security departments are structured. The Internet of Things (IoT) paradigm has exposed the inability of sensors to ascertain the genuineness of data provided to it for processing, leading to fraud. Portals enabling cashless transactions are exposed to hacking, and phishing, whereas online market place models have seen frauds such as site replicating and sale of counterfeit items. Tackling such frauds would be possible only if organizations understand them and design a robust mitigation plan.

About the Fraud survey

Deloitte conducted three separate surveys that saw a total of 309 responses and focused on three target groups – Large organizations, small and medium enterprises and working professionals - and collated the responses into a report. The India Fraud Survey report, edition II, has been developed on the basis of responses received to a questionnaire that was circulated to leading CXOs across all major sectors and companies working in the area of fraud risk management, as well as working professionals, in October and November 2016. For more information on the India Fraud Survey, edition II, you may access the full survey report here.



About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information feedback or suggestions, please write to us at: incfo@deloitte.com

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