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## United Spirits: Dr. Mallya must step down, but is Diageo really a victim?

*Directors hold a fiduciary responsibility towards the company and all its stakeholders. Given this, IiAS believes Dr. Mallya must step down until he is cleared of all allegations. Notwithstanding, IiAS questions the role of auditors in discerning the alleged financial irregularities, and Diageo's management of the acquisition.*

IiAS believes that Dr. Vijay Mallya must step down from the board of United Spirits Limited (USL), till the recent allegations of financial improprieties, and the cloud over his being named as a wilful defaulter over Kingfisher Airlines (KYA) are both cleared.

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Dr. Mallya has been defiant, saying that he has a contractual agreement with Diageo to hold his position on the board. But, Dr. Mallya forgets that directors have a fiduciary responsibility towards shareholders and the company itself. A board position cannot be a goal in itself – it must serve the interest of the company and its stakeholders. Therefore, Dr. Mallya must ask himself – does fighting to stay on the board serve the company or its stakeholders at this stage?

Stepping down and allowing an independent and unbiased investigation into the allegations is the right thing to do. Once cleared of these charges, and of the wilful defaulter tag, Dr. Mallya would be welcome to join back the board: under the current circumstances, continuing on the board is deleterious for USL.

While Dr. Mallya claims to be a victim of false allegation, IiAS questions whether there are any victims in this saga. Can Diageo claim to have not known about intra-group transactions? IiAS asks the following questions of Diageo:

- What compelled Diageo to not run a thorough due diligence, and miss asking the obvious questions?
- Why did Diageo vote its shares in favour of reappointing Dr. Mallya at a time when he was named as a wilful defaulter (See IiAS Report: [Mallya's reappointment and Diageo's silence!](#))?
- What prompted Diageo to nominate PA Murali (USL's CFO who resigned earlier this month) to the board as their representative? If PA Murali was Diageo's representative, can Diageo claim they were not in the know?

IiAS believes that auditors must be asked to justify their audit quality. Auditor rotation typically brings fresh oversight thereby enhancing the quality and objectivity of the audit process. However, in USL's case, the two changes in auditors yielded no results. Moreover, the audit firm that conducted the forensic audit was the auditor for the period within which the alleged irregularities occurred! Do shareholders rely on PwC's statutory audit or PwC's forensic audit?

While there are several questions, more will unfold as findings of the forensic audit come to light and USL restates its books.

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