

Sebi ban to spell trouble for PW business in India, say experts

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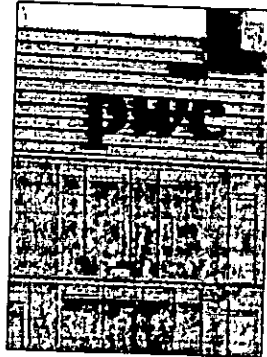
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MUMBAI: The Securities and Exchange Board of India's two-year ban on Price Waterhouse spells trouble for its business in the country, and is also a signal for the auditing profession to pull its socks up, experts said on Thursday.

Price Waterhouse, the auditing arm of consultancy firm PwC India, is the auditor for 77 companies listed on the National Stock Exchange of India, according to data from Prime Database.

Late on Wednesday, the capital markets regulator banned 11 firms in Price Waterhouse's Indian network from auditing the books of listed companies for two years for alleged complicity in the manipulation of accounts at the erstwhile Satyam Computer Services Ltd. The firm showed disregard for stipulated auditing practices, such as independently verifying the company's bank statements, Sebi said.

Price Waterhouse said it would appeal against the ban, which came nine years after Satyam founder B. Ramalinga Raju con-



• PW is the auditor for 77 firms listed on the NSE REUTERS/FILE

fessed to cooking the firm's books in a ₹7,136 crore fraud. Tech Mahindra bought Satyam in an auction.

"It is possibly the beginning of the end of the Price Waterhouse's auditing business in India as the clients will turn elsewhere. Satyam was egregious even by the standards of Indian accounting," said R. Narayanaswamy, professor of finance and control at the Indian Institute of Management Bangalore. "If auditing is not

meant to detect a \$1 billion fraud, I wonder what it is for. In this background, Sebi could not have absolved the accounting firm. The buck stops at the auditor's desk once the financial statements are signed off."

Some listed companies will have to look for replacement auditors. Fifty-four firms hired Price Waterhouse as their auditor in 2017-18 because of mandatory auditor rotation required under the Companies Act. Another 15 had appointed it in 2016-17.

According to the Act, an auditor has to be hired for a fixed term of five years and can be reappointed for another five years.

"Sebi wanted to deter audit firms, not just individual partners, from gross negligence. Though a two-year ban seems harsh, it could deter the Big Four firms from expanding in India and affect their momentum," said Amarjeet Chopra, former president of the Institute of Chartered Accountants of India.

To be sure, the impact would not be seen in the current fiscal year as Sebi's ban exempts audits undertaken for 2017-18.

"Everyone seems to have muddled through—Price Waterhouse in fighting this matter in court when the perpetrator has admitted to wrongdoing; companies in appointing Price Waterhouse when this matter was being investigated; and regulators in saying that you can rely on the Price Waterhouse audit in FY18, and that they are not competent to audit in FY19," said Amit Tandon, CEO of Institutional Investor Advisory Services Ltd.

Price Waterhouse declined to comment on the potential business impact of Sebi's ban. In an earlier emailed statement, the firm said it was disappointed and did not have any knowledge of the scam. It said it was sure to obtain a stay from a higher court before the ban becomes effective.

The Sebi order also asked Price Waterhouse, Bengaluru, and two senior partners—S. Gopalakrishnan and Srinivas Talluri—who had certified Satyam's audit reports in 2000-08, to disgorge ₹13 crore, including interest. The two partners have been barred from auditing listed firms for three years.

Alekh Archana contributed to this story.