

Sebi ban on PwC: Revenues to take a hit and clientele to shrink, but tax, accounting won't be impacted, says audit firm

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New Delhi: Scores of listed companies will soon have to scout for new auditors with markets regulator Sebi banning firms in the Price Waterhouse network from issuing audit certificates for two years in the multi-crore Satyam case.

A major player in the auditing space, Price Waterhouse Coopers (PwC) has a total of 11 network firms and employs around 3,000 people in India.

In a significant order on Wednesday, Sebi barred PwC network firms from issuing audit certificates to any listed company in India for two years after finding the audit major guilty in the multi-crore Satyam Computer Services scam that came to light in January 2009.

Besides, the watchdog has directed the audit major and its two erstwhile partners who worked on the IT firm's accounts to disgorge wrongful gains worth over Rs 13 crore.

Currently, PwC network firms carry out auditing activities for about 75 listed companies, an official in the know said.



These companies would soon be required to look for new auditors in the wake of the Sebi order even though the regulator has made it clear that the ruling would not impact audit assignments relating to the financial year 2017-18 undertaken by the PwC network firms.

While there would be no direct impact, Sebi's ruling could also raise questions about PW network entities' auditing of unlisted and other entities.

A senior chartered accountant said impact of the Sebi ruling on auditing business of PW network firms and others cannot be assessed immediately. It needs to be seen whether it would benefit the smaller firms or not, he added.

Sebi has imposed a two-year ban on entities/firms practicing as chartered accountants in India under the brand and banner of PW from directly or indirectly issuing any certificate of audit of listed companies, compliance of obligations of listed companies and intermediaries registered with the regulator.

Besides, Price Waterhouse Bangalore and its two erstwhile partners -- S Gopalakrishnan and Srinivas Talluri -- have been directed to jointly and severally disgorge the wrongful gains of "Rs 13,09,01,664 with interest calculated at the rate of 12 percent per annum from 7 January, 2009 till the date of payment".

Further, Gopalakrishnan and Talluri have been restrained from directly or indirectly issuing any certificate of audit of listed companies, compliance of obligations of listed companies and intermediaries registered with Sebi for three years.

PwC to contest Sebi ban

PwC on Thursday said there has been no intentional wrongdoing by its firms in the Satyam case and expressed confidence of getting a stay on the Sebi order. It said it will contest a two-year auditing ban by SEBI over a fraud nearly a decade ago at a company it audited, but even if it succeeds in preventing the move Indian business experts expect damage to the auditor's business.

The firm, which audited software services exporter Satyam Computer Services during the period in which the \$1 billion fraud took place, said it was disappointed by SEBI's 108-page order on Wednesday.

Satyam founder and former chairman Ramalinga Raju stunned Indian markets and investors in 2009 when he admitted that it had overstated earnings and assets for several years, in a fraud sometimes referred to as "India's Enron".

There was no "intentional wrongdoing by PwC firms in the unprecedented management perpetrated fraud", Price Waterhouse said in a statement after the SEBI order, adding that it had "learnt the lessons of Satyam" and invested heavily to build a high-quality audit practice.

Experts, however, said even if PwC manages to get a court to issue a stay order on the SEBI ban, it faces the risk of losing clients. In India, court processes often take years and there could be multiple courts involved.

"Listed companies who are being audited may think of moving to other auditors due to the uncertainty, even if Price Waterhouse manages to get a stay order," said Shriram Subramaniam, who is founder of proxy advisory InGovern.

He said he expected the SEBI order to potentially impact 20-30 percent of PwC's Indian revenues and benefit its rivals.

PwC India's network is made up of 11 chartered accountant firms with about 3,000 employees, and has around 75 listed companies as clients, a PwC spokesman said. These include Tata Steel and Piramal Enterprises, which did not immediately respond to requests for comment on the SEBI action.

Global repercussions

In India, all audit functions within the group are conducted under the Price Waterhouse (PwC) brand, with a network of local firms operating under the banner. The broader PwC entity handles consulting, tax advisory and other businesses.

There could also be a knock-on effect on PwC's businesses in other parts of the world, said Pratibha Jain, a partner at law firm Nishith Desai Associates.

"They might lose a lot of business on the other sides, not just audit, and they have to report it in other jurisdictions. It's a global conglomerate and this may have global repercussions for them," she said.

In its order, SEBI said while PwC's "loose-knit network arrangement" enabled partner firms to derive the advantage of its global brand value but did not lay down any supervisory mechanisms to check the quality of the performance of the firms.

The United States Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) had also pointed at failure of quality control in PW India, it said.

SEBI also ordered 'Price Waterhouse, Bangalore' and two of its former partners to jointly forfeit "wrongful gains" of about 131 million rupees (\$2.1 million) plus interest within 45 days.

Satyam, which was bought by Indian IT firm Tech Mahindra in an auction in 2010, and PricewaterhouseCoopers agreed in 2011 to pay a combined \$17.5 million to settle U.S. probes into the fraud.

Big 4 and Big 8

Last year at the foundation day of chartered accountants' apex body ICAI, Prime Minister Narendra Modi had called for creating four big Indian accounting firms that are counted among the world's Big-8 even as he cautioned CAs against misuse of their all-powerful signature.

Referring to the 'Big 4' -- a term used for the world's four biggest audit firms -- the prime minister had said there are so many accounting firms in India but none of them has managed to find a place among the top global players.

"People talk of the Big 4 accounting firms. Sadly, there is no Indian firm there. By 2022, let us have a Big 8, where 4 firms are Indian," Modi had said.

The top global accountancy firms include PwC, Deloitte, EY and KPMG.

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