

**Inspection of  
P. Parikh & Associates  
(Headquartered in Mumbai, Republic of India)**

**Issued by the  
Public Company Accounting Oversight Board  
December 23, 2010**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT  
PORTIONS OF THE COMPLETE REPORT ARE OMITTED  
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH  
SECTIONS 104(g)(2) AND 105(b)(5)(A)  
OF THE SARBANES-OXLEY ACT OF 2002**



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify financial statement misstatements or failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

## **INSPECTION OF P. PARIKH & ASSOCIATES**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm P. Parikh & Associates<sup>1/</sup> ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.<sup>2/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>3/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> The Firm has issued audit reports under the name of P. Parikh & Associates Chartered Accountants.

<sup>2/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

<sup>3/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

**PART I**

**INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS**

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from November 9, 2009 to November 13, 2009. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	14 (Ahmedabad, Hyderabad, Mumbai, New Delhi, Pune, and Vadodara, Republic of India; Adelaide and Melbourne, Commonwealth of Australia; Hong Kong Special Administrative Region, People's Republic of China; Zurich, Swiss Confederation; Dubai, United Arab Emirates; London, United Kingdom of Great Britain and Northern Ireland; and New York, New York)
Ownership structure	Partnership
Number of partners	19
Number of professional staff <sup>4/</sup>	88
Number of issuer audit clients <sup>5/</sup>	1

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<sup>4/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

<sup>5/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many,

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.<sup>6/</sup> To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").<sup>7/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

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of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

<sup>6/</sup> This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

<sup>7/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP or IFRS, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

The inspection team identified what it considered to be audit deficiencies.<sup>8/</sup> The deficiencies identified in the audit reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements or internal control over financial reporting ("ICFR").<sup>9/</sup> Those deficiencies were –

- (1) the inappropriate determination, in light of the Firm's limited involvement in the audit and the fact that other involved auditors did not purport to have performed their procedures according to PCAOB standards, to serve as principal auditor of the issuer's financial statements and issue an audit report purporting to have audited the financial statements in accordance with PCAOB standards; and
- (2) the issuance of an opinion on ICFR without having performed any procedures related to ICFR.

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<sup>8/</sup> PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. *See* AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

<sup>9/</sup> In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. *See* AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



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PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED  
FROM THIS PUBLIC DOCUMENT

## PART II

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### B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.<sup>10/</sup> On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

#### Design of Quality Control System\*\*\*\*

##### Audit Policies, Procedures and Methodologies, Including Training

The Firm's system of quality control appears not to provide sufficient assurance that audits of issuers will be conducted in accordance with PCAOB standards and that the relevant staff and partners of the Firm participate in continuing professional education and other professional development activities to enable them to fulfill their responsibilities in audits of issuers. Specifically, the Firm does not use a standard audit methodology or practice aids in performing audits of issuers, and does not have policies and procedures regarding consultations \* \* \* \*. In addition, the Firm does not have a system in place to ensure that individuals assigned to issuer clients receive periodic technical training related to generally accepted accounting principles in the United States, PCAOB standards, and SEC reporting requirements, rules, and regulations.

##### Practice Monitoring

The Firm's system of quality control, as it relates to monitoring, appears not to provide reasonable assurance that the Firm is effectively monitoring its accounting and

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<sup>10/</sup> A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

auditing practice. Specifically, the Firm's engagement performance monitoring program is undocumented, unstructured, lacks practice aids, and has no requirements for reviewers such that compliance with PCAOB standards could be effectively evaluated. Additionally, the Firm's monitoring policies and procedures do not address the performance of procedures to provide reasonable assurance that quality control policies and procedures regarding (1) independence, integrity, and objectivity, (2) personnel management, and (3) acceptance and continuance of clients and engagements are suitably designed and being effectively applied.

#### Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiency described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects \* \* \*

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#### Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism.

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**PART IV**

**RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.<sup>11/</sup>

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<sup>11/</sup> In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

**P. PARIKH & ASSOCIATES**  
**CHARTERED ACCOUNTANTS**

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Web : [www.pparikh.com](http://www.pparikh.com).

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November 23, 2010.

Mr. George H. Diacont,  
Director,  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006.

**Re : Response to Part I of the Draft Report of Inspection.**

Dear Mr. Diacont,

Thank you for the opportunity provided to us for giving our response to Part I of the draft Report dated October 21, 2010 of the Public Company Accounting Oversight Board (PCAOB) on the inspection of P. Parikh & Associates, India.

We request that this letter be made part of the Final Report.

We hereby reiterate that the inspection process helps us to improve the quality of the audit and meet the goal of providing high quality standards and is an effective means of encouraging audit firms to elevate their performance levels. We believe that an inherent part of our audit practice involves continuous improvement.

With reference to the deficiencies pointed out in Part I of the said draft report in case of Issuer "A" [Mahanagar Telephone Nigam Limited – ("MTNL")], we would like to once again reiterate the facts prevalent as per the various statutes/laws of the country (India), as under :

1. Issuer "A" is an Indian Government Company (Public Sector Undertaking) as per section 617 of the Indian Companies Act, 1956.
2. As per section 619 of the Indian Companies Act, 1956, the statutory auditor/s of the Government Companies (Public Sector Undertakings) are being appointed by the Comptroller and Auditor General of India (C & AG), New Delhi.
3. The said statutory auditors appointed by C & AG are the firms of Chartered Accountants in India who are eligible to be appointed as statutory auditors based on their seniority/experience and other parameters as per the norms fixed by C & AG. The said firms of Chartered Accountants need not be registered with PCAOB.
4. US GAAP Auditors are appointed by the Management of Issuer "A". One of the pre-requisite of the US GAAP Auditors to be appointed by the Management of Issuer "A" is that the said firm of Chartered Accountants should be registered with PCAOB.

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**Branch Offices :**

**INDIA** - **Mumbai, Pune, Vadodara, Ahmedabad, Hyderabad, New Delhi.**  
**OVERSEAS** - **Dubai, Hongkong, London, Zurich, New York, Adelaide, Melbourne.**

## **P. PARIKH & ASSOCIATES**

### **CHARTERED ACCOUNTANTS**

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The IGAAP statutory auditors, thoroughly audit the financials of the Issuer "A" and issue their audit report with audit qualifications, if any. The said audit is undertaken keeping in view the various prevailing accounting standards of our country and as per the guidance notes issued by the Institute of Chartered Accountants of India. The said auditors are termed to be 'experts' and reliance can be placed on the audit work undertaken by the said firm of Chartered Accountants (Auditors).

We humbly state that under no circumstances, it can be termed that there was a limited involvement of our Firm in the audit of Issuer "A". Infact, we have obtained all the audit evidences and documents and conducted a full fledged audit taking into account procedures according to PCAOB standards.

After our completion of audit of the Issuer "A" as per US GAAP, the financials as per audited Indian GAAP undergo a sea change, which would not have been possible if we would not have performed our audit taking into account procedures according to PCAOB standards, which can be verified from the reconciliation statement showing the financials as per IGAAP and financials as per USGAAP already submitted to the Inspecting Officers. However, for your ready reference, we give here the final figures of Profit as per IGAAP amounting to (Rs. In millions) 2,117/-, vis-à-vis final figures of Profit as per USGAAP amounting to (Rs. In millions) 1,141/-, showing a net variance of (Rs. In millions) 976/-. (For the total reconciliation statement please refer **Annexure "I"** attached herewith. Hence, it cannot be termed that our Firm had a limited involvement in the audit.

With reference to the aspect of Internal Control Financial Reporting (ICFR), we would like to inform your good offices that we have verified the Sox Files provided to us by the Sox Consulting Firm. In order to identify and assess controls inherent within the Company's processes leading to creation of documents, the following methodology was implemented :

- a. Defining Materiality;
- b. Scoping of accounts to establish materiality of those accounts;
- c. Mapping material accounts to processes and sub processes;
- d. Entity Level Controls (ELC);
- e. Walkthrough for evaluating the design of the controls;
- f. Identifying risks and controls inherent in the process through Management risk and control matrix (MRCM) and process flow;
- g. Testing of controls for evaluating the operating efficiency;
- h. Identifying control gaps existing in the process and remediation.

We had also submitted our query sheets (working papers) to the Inspecting Officers with reference to the various queries we came across during the process of verifying the Sox Files in all the under mentioned processes :

- i. Fixed Assets;
- ii. OPEX;
- iii. Cash Disbursement;
- iv. Inventory;
- v. FSCP;
- vi. Payroll;
- vii. Landline;
- viii. Prepaid;
- ix. Post paid;
- x. Lease Circuit;
- xi. ICB (IUC);
- xii. WLL.

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It is also evident from our report of independent auditor wherein we have mentioned the material weaknesses identified in ICFR.

Hence, we humbly state that it cannot be termed that we issued an opinion of ICFR without having performed any procedures related to ICFR.

We would further like to inform you that we will continue to monitor our quality control systems with the goal of continuous improvement of audit quality.

We appreciate this opportunity given to respond and hope this will suffice your requirements and would be pleased to discuss in case you have any questions on our response.

Sincerely,

For *P. PARIKH & ASSOCIATES*  
*CHARTERED ACCOUNTANTS*

*(Sandeep Parikh, Partner)*

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