



## ORDER

### I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, fair and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1) against the Respondents.

### II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, each Respondent has executed and submitted an Offer of Settlement (collectively, the "Offers," each an "Offer") that the Board has determined to accept. Solely for purposes of this proceeding and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over each Respondent and the subject matter of these proceedings, which is admitted, each Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), as set forth below.

### III.

On the basis of Respondents' Offers in this matter, the Board finds<sup>1/</sup> that:

#### A. Respondents

1. Price Waterhouse, Bangalore ("PW Bangalore") is a public accounting firm organized as a partnership under the laws of the Republic of India, and headquartered

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<sup>1/</sup> The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding. The sanctions that the Board is imposing on Respondents in this Order may be imposed only if a respondent's conduct meets one of the conditions set forth in Section 105(c)(5) of the Act. The Board finds that Respondents' conduct described in this Order meets the condition set forth in Section 105(c)(5), which provides that such sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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in Bangalore, Karnataka, India. PW Bangalore is registered with the Institute of Chartered Accountants of India ("ICAI") (registration no. FRN 007568S). PW Bangalore is registered with the Board under Section 102 of the Act and PCAOB Rules. PW Bangalore is a member firm of PricewaterhouseCoopers International Limited ("PwC IL"). During the relevant time period, PW Bangalore signed the audit opinions on the financial statements of Satyam.

2. Lovelock & Lewes ("Lovelock") is a public accounting firm organized as a partnership under the laws of the Republic of India, and headquartered in Kolkata, West Bengal, India. Lovelock is registered with the ICAI (registration no. FRN 301056E). Lovelock is registered with the Board under Section 102 of the Act and PCAOB Rules. Lovelock is a member firm of PwC IL. During the relevant time period, PW Bangalore used and relied upon Lovelock personnel to work on the audits of Satyam's financial statements.

3. Price Waterhouse & Co., Bangalore ("PW Co. Bangalore") is a public accounting firm organized as a partnership under the laws of the Republic of India, and headquartered in Bangalore, Karnataka, India. PW Co. Bangalore is registered with the ICAI (registration no. FRN 007567S). PW Co. Bangalore is registered with the Board under Section 102 of the Act and PCAOB Rules. PW Co. Bangalore is a member firm of PwC IL. PW Co. Bangalore did not participate in the audits of Satyam's financial statements.

4. Price Waterhouse, Calcutta ("PW Calcutta") is a public accounting firm organized as a partnership under the laws of the Republic of India, and headquartered in Kolkata, West Bengal, India. PW Calcutta is registered with the ICAI (registration no. FRN 301112E). PW Calcutta is registered with the Board under Section 102 of the Act and PCAOB Rules. PW Calcutta is a member firm of PwC IL. PW Calcutta did not participate in the audits of Satyam's financial statements.

5. Price Waterhouse & Co., Calcutta ("PW Co. Calcutta") is a public accounting firm organized as a partnership under the laws of the Republic of India, and headquartered in Kolkata, West Bengal, India. PW Co. Calcutta is registered with the ICAI (registration no. FRN 304026E). PW Co. Calcutta is registered with the Board under Section 102 of the Act and PCAOB Rules. PW Co. Calcutta is a member firm of PwC IL. PW Co. Calcutta did not participate in the audits of Satyam's financial statements.

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6. The five PW India firms, along with five other India-based member firms of PwC IL,<sup>2/</sup> operate a domestic Indian network of related audit firms. PW India and the other members of this domestic Indian network operate their audit practice under resource sharing arrangements that facilitate the provision of audit services as a network of related audit firms. With respect to the PW India firms, pursuant to these sharing arrangements, Lovelock and PW Calcutta have both partners and staff who perform audit procedures, and provide staffing for their own audit engagements as well as for the audit engagements of the other PW India firms. The partners of the remaining three PW India firms, PW Bangalore, PW Co. Bangalore, and PW Co. Calcutta, undertake audit engagements, oversee the audit work conducted by engagement personnel, and sign audit opinions.

7. The assurance practice of the PW India firms has common leadership, including the Assurance Leader, Risk and Quality Leader, Learning and Education Leader, Independence Partner, and Chief Ethics Officer. All of the PwC Network Firms<sup>3/</sup> in India share the same Territory Senior Partner and Managing Partner.

8. The PwC Network Firms located in India share office space and telephone numbers.

### **B. Issuer**

9. Satyam is a corporation organized under the laws of the Republic of India, with its headquarters in Hyderabad, Andhra Pradesh, India. As disclosed in its public filings, Satyam is a global information technology solutions provider. Satyam's American Depositary Shares, evidenced by American Depositary Receipts ("ADRs"), are registered with the United States Securities and Exchange Commission ("SEC" or "Commission") under the Securities Act of 1933. At all relevant times, Satyam's ADRs were traded on the New York Stock Exchange.<sup>4/</sup> Satyam is required to file periodic

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<sup>2/</sup> The five other member firms of PwC IL located in India are not registered with the Board and, therefore, are not within the scope of the term "PW India."

<sup>3/</sup> PwC IL member firms are collectively referred to as "PwC Network Firms."

<sup>4/</sup> On September 24, 2010, Satyam filed a Form 6-K with the Commission in which Satyam disclosed that it had notified the New York Stock Exchange that it planned to delist its ADRs, in light of Satyam's inability timely to file its audited financial



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reports under Section 15(d) of the Exchange Act. During the relevant time period, Satyam was an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

10. PW Bangalore served as Satyam's independent registered public accounting firm from June 30, 2000, until February 12, 2009. During the period that it served as Satyam's auditor, PW Bangalore used Lovelock engagement personnel to work on the audits of Satyam's financial statements. In audit reports dated April 21, 2005, April 21, 2006, April 27, 2007, and August 8, 2008, PW Bangalore expressed unqualified opinions on Satyam's financial statements for the years ended March 31, 2005 ("2005"), March 31, 2006 ("2006"), March 31, 2007 ("2007"), and March 31, 2008 ("2008"), respectively. Each of these audit reports stated that, in PW Bangalore's opinion, Satyam's financial statements presented fairly, in all material respects, the Company's financial position in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). Each audit report also stated that the underlying audit was conducted in accordance with PCAOB standards.

11. On January 7, 2009, Satyam filed a Form 6-K with the Commission in which Satyam disclosed that its founder and then chairman stated that key financial results for Satyam had been manipulated, including overstating cash by \$1 billion, overstating profits for the past several years, overstating the amounts owed to Satyam, and understating Satyam's liabilities.

12. On January 8, 2009, the Board issued an Order of Formal Investigation regarding the audits and reviews of Satyam's financial statements.

13. On January 14, 2009, Satyam reported to the Commission, on a Form 6-K, that PW Bangalore had advised Satyam that all audit reports for the period 2000-2008 should no longer be relied upon.

14. On February 12, 2009, PW Bangalore resigned as Satyam's auditor.

15. On March 16, 2010, the Board issued orders barring two former Lovelock senior managers, who worked on the Satyam audit engagement, from associating with registered public accounting firms, after the senior managers failed to comply with

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statements with the Commission. In October 2010, Satyam's ADRs began being quoted on the OTC Bulletin Board and the Pink Sheets.



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Accounting Board Demands requiring their testimony in the Board's formal investigation of the Satyam audit engagement.<sup>5/</sup>

### C. Summary

16. This matter concerns a billion-dollar overstatement of the assets of Satyam that PW Bangalore (Satyam's independent registered public accounting firm) and Lovelock (the provider of the audit personnel PW Bangalore used on the engagement) failed to discover. PW Bangalore and Lovelock failed to identify this material overstatement of Satyam's assets, in part, because of the flawed audit procedures used to test the existence and valuation of Satyam's reported cash balance. During fiscal years 2005, 2006, 2007, and 2008, Satyam management represented to the PW Bangalore partners and Lovelock staff who worked on the audit (collectively, the "Satyam engagement team" or "engagement team") that the Company had hundreds of millions of dollars in cash held on deposit at six banks. In the most recent audit year, 2008, Satyam represented to the engagement team that the cash on deposit at these six banks exceeded \$1 billion, which constituted approximately half of Satyam's total reported assets.

17. PW Bangalore and Lovelock were required, among other things, to test the existence and valuation of Satyam's reported cash balance. In order to test the cash balance during the 2005, 2006, 2007, and 2008 Satyam audits, the engagement team planned to confirm cash with third parties. The audit procedures that the Satyam engagement team actually performed, however, failed to test the existence and valuation of this asset and, moreover, did not comply with PCAOB standards governing the confirmation process. The engagement team did not make direct contact with the six banks to confirm the bank balances that Satyam reported in its financial statements. Instead, and in violation of PCAOB auditing standards related to confirming cash, the engagement team relied exclusively on information provided by Satyam management. Indeed, the engagement team relied on Satyam management to mail out confirmation requests to Satyam's banks, and to return purported confirmation responses to the engagement team. On January 7, 2009, the chairman and chief executive officer of Satyam admitted that Satyam had been materially inflating its cash balances for several years, and that the 2008 cash balance was just \$70 million.

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<sup>5/</sup> In the Matter of Siva Prasad Pulavarthi, PCAOB Release No. 105-2010-004 (March 16, 2010); and In the Matter of Chintapatla Ravindernath, PCAOB Release No. 105-2010-005 (March 16, 2010).

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18. The failures in the cash confirmation process on the Satyam engagement were symptomatic of a larger problem at PW India. In audit engagements at each of the five member firms of PW India, auditors planned to test the existence and valuation of cash balances by performing confirmations, and then failed to control the cash confirmation process by relying on audit clients to send cash confirmation requests to banks and to return cash confirmation responses to the auditors. PW India's quality control system failed to detect that, for several years, and on multiple audit engagements, personnel at each of the PW India firms were not complying with PCAOB standards governing the cash confirmation process. Despite annual quality reviews at PW India, the first time that PW India's quality control monitoring system detected this non-compliance was in October 2008.

19. This matter also involves the failure of PW Bangalore and Lovelock to audit Satyam's accounts receivable balances in accordance with PCAOB standards. The engagement team relied on Company management to send confirmation requests associated with accounts receivable balances. The engagement team also failed to develop and perform audit procedures adequate to address identified control weaknesses that indicated heightened risks related to accounts receivable.

20. PW Bangalore and Lovelock also violated Section 10A of the Exchange Act, by failing to include in the Satyam audit engagement procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts.

21. Finally, this matter concerns the actions taken by associated persons acting on behalf of PW Bangalore and Lovelock, after learning that the 2007 Satyam audit engagement would be inspected by the Board. Before PCAOB inspectors began their field work, and half of a year after the documentation completion date, as required by Auditing Standard No. 3 ("AS3"), *Audit Documentation*, members of the Satyam engagement team added documents to the audit working papers without disclosing the date the documents were added, the person preparing the documents, and the reason for adding these documents, in violation of AS3. The Satyam engagement team provided these documents to PCAOB inspectors in a misleading manner that suggested the documents were part of the original audit documentation, in violation of PCAOB Rule 4006.

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### D. **PW Bangalore and Lovelock Violated PCAOB Rules and Auditing Standards, and Section 10A of the Exchange Act.**

22. PCAOB rules require that registered public accounting firms and their associated persons comply with the Board's auditing and related professional practice standards.<sup>6/</sup> PCAOB auditing standards require that "[s]ufficient competent evidential matter is to be obtained . . . to afford a reasonable basis for an opinion regarding the financial statements under audit."<sup>7/</sup> PCAOB auditing standards require that "[d]ue professional care is to be exercised in the planning and performance of the audit."<sup>8/</sup> "Due professional care requires the auditor to exercise *professional skepticism*. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence."<sup>9/</sup> PCAOB auditing standards require that the auditor's report contain an opinion on the financial statements taken as a whole and contain a clear indication of the character of the auditor's work.<sup>10/</sup> The auditor can determine that he or she is able to issue an audit report containing an unqualified opinion only if the auditor has conducted the audit in accordance with PCAOB standards, and the financial statements have been prepared in conformity with GAAP.<sup>11/</sup>

### **The Satyam Engagement**

#### **The Audit of Cash**

23. In Satyam's 2005, 2006, 2007, and 2008 financial statements, the Company reported, among other assets, balance sheet line items entitled (a) "cash and cash equivalents," and (b) "investments in bank deposits" (collectively, the "cash" line items). In 2005, Satyam reported cash of \$541 million, constituting 61 percent of total reported assets. In 2006, Satyam reported cash of \$697 million, constituting 59 percent

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<sup>6/</sup> See PCAOB Rules 3100, and 3200T.

<sup>7/</sup> AU § 326.01, *Evidential Matter*.

<sup>8/</sup> AU § 230.01, *Due Professional Care in the Performance of Work*.

<sup>9/</sup> *Id.* § 230.07.

<sup>10/</sup> AU § 508.04, *Reports on Audited Financial Statements*.

<sup>11/</sup> *Id.* § 508.07.



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of total reported assets. In 2007, Satyam reported cash of \$920 million, constituting 57 percent of total reported assets. In 2008, Satyam reported cash of \$1.11 billion, constituting 50 percent of total reported assets. The vast majority of the cash purportedly was on deposit at six banks.

24. PCAOB auditing standards state that the "audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit."<sup>12/</sup> In the course of planning the audits of Satyam's 2005, 2006, 2007, and 2008 financial statements, the engagement team planned to test the existence and valuation of Satyam's reported cash balance by seeking confirmations from third parties, specifically from banks. The audit programs for the 2005, 2006, 2007, and 2008 audits explicitly acknowledged that the engagement team should maintain control of the process of sending confirmation requests and receiving confirmation responses relating to the confirmation of cash. The audit plans for the 2005, 2006, 2007, and 2008 Satyam audits never changed, and the working papers for each of those years document that the engagement team confirmed cash balances for all banks at which Satyam had "major" accounts.

25. Despite the fact that the engagement team planned to confirm cash, and documented in the working papers that it had confirmed cash, the audit work performed by the engagement team did not comply with the PCAOB auditing standards governing confirmations.

26. PCAOB auditing standards include specific requirements relating to an auditor's use of "confirmation," which is "the process of obtaining and evaluating a direct communication from a third party in response to a request for information about a particular item affecting financial statement assertions."<sup>13/</sup> Confirmation "is undertaken to obtain evidence from third parties about financial statement assertions made by management" consistent with the presumption that "[w]hen evidential matter can be obtained from independent sources outside an entity, it provides greater assurance of reliability for the purposes of an independent audit than that secured solely within the entity."<sup>14/</sup> Confirmation may be used for a variety of items including accounts

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<sup>12/</sup> AU § 311.05, *Planning and Supervision*.

<sup>13/</sup> AU § 330.04, *The Confirmation Process*.

<sup>14/</sup> *Id.* § 330.06 (quoting, in part, AU § 326.21).



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receivable, debt and encumbrances, and cash balances. PCAOB standards require that during "the performance of confirmation procedures, the auditor should maintain control over the confirmation requests and responses. Maintaining control means establishing direct communication between the intended recipient and the auditor to minimize the possibility that the results will be biased because of interception and alteration of the confirmation requests or responses."<sup>15/</sup>

27. The engagement team failed to maintain control over the process of sending the confirmation requests to the banks for, among other things, the confirmation of cash. Instead, members of the engagement team signed the confirmation requests, gave the requests to employees of Satyam, and relied on Satyam to send the confirmation requests to the banks. This violated PCAOB standards, which required the engagement team to maintain control of the cash confirmation request process, by establishing direct communications between the auditor and the banks.<sup>16/</sup> These violations of PCAOB standards occurred during the audits of Satyam's 2005, 2006, 2007, and 2008 financial statements.

28. The engagement team also failed to maintain control over the cash confirmation response process. In 2005, 2006, 2007, and 2008, Satyam gave the engagement team what the Company represented to be confirmation responses received from six banks. These confirmation responses covered approximately 93 percent of Satyam's reported cash for each audit year. After receiving the purported confirmation responses from the Company, the engagement team made no attempt to establish direct contact with the banks to confirm the accuracy of the amounts reflected on the confirmation responses, even though the vast majority of Satyam's reported cash was on deposit at these six banks. This violated PCAOB standards, which required the engagement team to maintain control of the confirmation response process, by establishing direct communications between the auditor and the banks.<sup>17/</sup> These violations occurred during the audits of Satyam's 2005, 2006, 2007, and 2008 financial statements.

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<sup>15/</sup> Id. § 330.28.

<sup>16/</sup> Id.

<sup>17/</sup> Id.

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### Potentially Conflicting Audit Evidence and Other Warning Signs Related to Cash

29. The Satyam engagement team also failed to perform any follow-up after receiving potentially conflicting audit evidence. During the 2005, 2006, 2007, and 2008 audits, the engagement team received confirmation responses, in the requested format, directly from the branches of certain banks. The engagement team also received "confirmations responses" purportedly from other branches of the same banks. The purported confirmation responses, however, were given to the engagement team by Satyam management, and were not provided in the requested format. The bank-provided confirmation responses reflected significantly lesser cash balances than Satyam management represented to be held in fixed deposits at the same banks, and significantly lesser cash balances than what was reflected in the purported bank confirmations that Satyam provided to the engagement team. The engagement team could have, but did not, contact the banks directly to attempt to determine the amounts that Satyam had on deposit with the banks. The engagement team took no steps to reconcile this potentially conflicting audit evidence, in violation of PCAOB standards.<sup>18/</sup>

30. For example, during the 2008 Satyam audit, Company management provided the engagement team with what was purported to be a confirmation response from the Mumbai branch of a bank. This document indicated that Satyam had approximately \$176 million of fixed deposits with the bank. During the same audit, the engagement team received directly from the Hyderabad branch of the same bank a confirmation response indicating that Satyam had no fixed deposits with the bank. The engagement team took no steps to investigate further this potentially conflicting audit evidence.

31. Prior to PW Bangalore releasing its opinion on Satyam's 2008 financial statements, a partner from a PwC Network Firm located outside of India, provided the Satyam engagement team with written comments on the Satyam audit working papers which should further have alerted the engagement team to the fact that their cash confirmation procedures did not comply with PCAOB auditing standards.

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<sup>18/</sup> See AU § 326.25, *Evidential Matter* ("auditor should consider relevant evidential matter regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. To the extent the auditor remains in substantial doubt about any assertion of material significance, he or she must refrain from forming an opinion until he or she has obtained sufficient competent evidential matter to remove such substantial doubt").

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32. In May 2008, in response to questions raised by the "foreign filing reviewer"<sup>19/</sup> of Satyam's draft 2008 Form 20-F, partners at PW India, and partners from two other PwC Network Firms suggested that the engagement partner responsible for the Satyam engagement request that a partner from a PwC Network Firm located outside of India (the "PwC Network Firm Partner") review the electronic working papers for the 2008 Satyam engagement.

33. In July 2008, one month before PW Bangalore released its unqualified opinion on Satyam's 2008 financial statements, the PwC Network Firm Partner reviewed the electronic working papers for the 2008 Satyam audit engagement, and provided the Satyam engagement team with written comments based on his review, including comments on the working papers related to the confirmation of cash. Among other comments, the PwC Network Firm Partner advised that the engagement team "can only take credit for [cash] confirmations we send [to] and receive directly [from the banks]." Likewise, the PwC Network Firm Partner noted that the Company had a significant balance of fixed deposits, and advised the engagement team to "document that confirmations have been received [from the banks] for such amounts."<sup>20/</sup>

34. Despite these explicit warnings regarding requirements related to cash confirmation procedures, the Satyam engagement team did nothing further to ensure

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<sup>19/</sup> Under Rule 3400T(b), *Interim Quality Control Standards*, audit firms must comply with portions of the Requirements of Membership of the AICPA SEC Practice Section ("SECPS"). Audit firms associated with international firms are required to seek the adoption of policies and procedures consistent with the objectives set forth in Appendix K, SECPS § 1000.45 ("Appendix K"). See SECPS § 1000.08(n). Those objectives include having policies and procedures for certain filings of SEC registrants which are the clients of foreign associated firms to be reviewed by persons knowledgeable in PCAOB standards. *Id.* § 1000.45.01(a).

<sup>20/</sup> The PwC Network Firm Partner did not share his comments about the cash confirmations on the Satyam engagement with PW India personnel beyond the members of the Satyam engagement team. PW Bangalore and Lovelock's quality control system did not require that someone outside of the engagement team be made aware of such comments in order to ensure that any audit quality issues would be properly resolved prior to the issuance of the audit opinion.

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that the confirmation procedures the engagement team relied upon in auditing Satyam's cash were performed in compliance with PCAOB standards.

### The Audit of Accounts Receivable

35. During the relevant time period, Satyam's former senior management recorded fictitious receivables by exploiting weaknesses in the internal controls of the Company's accounts receivable system. Specifically, the Company's invoicing system allowed for the manual entry of customer invoices via the intervention of a "super user," acting outside the regular controls of the billing and invoicing process. Satyam's former senior management used this super user function to create thousands of false invoices totaling over \$1 billion during the period of the fraud.

36. In connection with the audit of Satyam's 2007 financial statements, PW India's System and Process Assurance ("SPA") personnel, working under the supervision of the Satyam engagement team, tested the Company's internal controls, including the Company's Information Technology ("IT") internal controls. This was the first time that Satyam's IT controls were required to be tested under Section 404 of the Act. This testing revealed over 170 deficiencies in controls, including eight deficiencies that the engagement team determined were "significant." These significant deficiencies should have indicated a heightened risk with respect to receivables. The Satyam engagement team was aware of these control deficiencies during the 2007 and 2008 Satyam audit engagements, but failed to recognize the risk they posed, and did not modify the nature, timing and extent of audit procedures in the 2007 and 2008 audits to take these risks into consideration.<sup>21/</sup> The Satyam engagement team failed to develop audit procedures that addressed the increased risk of a material misstatement of the accounts receivable balance.

37. For both the 2006 and 2007 audits, the Satyam engagement team did not maintain control of the accounts receivable confirmation request process, and instead relied on Satyam's management to send confirmation requests. The Satyam engagement team received no responses to these confirmation requests, but made no attempt to follow up on the nonresponses with second confirmation requests. Although

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<sup>21/</sup> AU §§ 312.16 and 312.17, *Audit Risk and Materiality in Conducting an Audit* (auditor should assess risk of material misstatement and should consider results of this assessment in determining the nature, timing, and extent of audit procedures).

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the Satyam engagement team planned to confirm accounts receivable balances in both 2006 and 2007, the engagement team failed to comply with PCAOB auditing standards governing the confirmation process.<sup>22/</sup>

38. For the 2006-2008 Satyam audits, the Satyam engagement team performed alternative procedures to test receivables through the verification of subsequent receipts. However, no audit procedures were performed to ensure that the subsequent receipts were reconciled to individual invoices outstanding at fiscal year end. Additionally, despite the heightened risk posed by identified internal control deficiencies in both 2007 and 2008, the subsequent cash receipts testing was performed as of a date other than the fiscal year end date. These procedures did not provide the engagement team with sufficient competent evidential matter to verify the existence of receivables at fiscal year end.<sup>23/</sup>

### Section 10A of the Exchange Act

39. The Satyam engagement team received: (1) cash confirmations, in the requested format, directly from certain branches of Satyam's banks; as well as (2) purported confirmation responses from other branches of the same banks, not in the requested format, that were given to the engagement team by Satyam management. The directly-received confirmation responses reflected significantly lower cash balances than the Satyam-provided confirmation responses. The Satyam engagement team, as well, was aware of significant deficiencies in Satyam's internal controls that indicated a heightened risk of fraud existed.

40. These warning signs should have, but did not, cause PW Bangalore and Lovelock to perform additional audit procedures to address the heightened risk of material misstatement of Satyam's cash and accounts receivable balances. PW Bangalore and Lovelock violated Section 10A(a) of the Exchange Act by failing to perform audit "procedures designed to provide reasonable assurance of detecting illegal

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<sup>22/</sup> See AU §§ 330.28 ("auditor should maintain control over the confirmation requests and responses"), and 330.30 (auditor generally should follow up on nonresponses to confirmation requests).

<sup>23/</sup> AU § 326.01.

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acts that would have a direct and material effect on the determination of financial statement amounts."<sup>24/</sup>

### **E. PW Bangalore and Lovelock Violated PCAOB Rule 4006 and AS3.**

41. PCAOB rules require that registered public accounting firms and their associated persons "shall cooperate with the Board in the performance of any Board inspection."<sup>25/</sup> This cooperation obligation "includes an obligation not to provide misleading documents or information in connection with the Board's inspection processes."<sup>26/</sup> Moreover, PCAOB auditing standards include requirements for audit documentation, including a "documentation completion date," which is the date (not more than 45 days after the audit report release date) when a "complete and final set of audit documentation should be assembled for retention."<sup>27/</sup> PCAOB auditing standards require that, after the documentation completion date, documents must not be added to audit working papers unless the additional documentation states the date it was added, the person who prepared the additional documentation, and the reason for adding it.<sup>28/</sup>

42. PW Bangalore released its audit opinion on Satyam's 2007 financial statements on April 27, 2007. The documentation completion date, therefore, was June 11, 2007: 45 days after the report release date.<sup>29/</sup> Following the documentation completion date, information could not be added to the working papers for this audit

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<sup>24/</sup> Exchange Act § 10A(a)(1).

<sup>25/</sup> PCAOB Rule 4006, *Duty to Cooperate with Inspectors*.

<sup>26/</sup> In the Matter of Drakeford & Drakeford, LLC and John A. DellaDonna, CPA, PCAOB Release No. 105-2009-002 (June 16, 2009) ¶ 8. See also In the Matter of Gately & Associates, LLC and James P. Gately, CPA, SEC Release No. 34-62656 at 22-23 (August 5, 2010) (sustaining Board finding that respondents failed to cooperate with Board inspection).

<sup>27/</sup> AS3 ¶ 15.

<sup>28/</sup> *Id.* ¶ 16.

<sup>29/</sup> *Id.* ¶ 15.

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without identifying the date the documentation was added, the person who prepared it, and the reason for adding it.<sup>30/</sup>

43. Five months after the documentation completion date, in November 2007, PW Bangalore and Lovelock learned that the Board intended to conduct an inspection of PW Bangalore, the Board's first inspection of a PW India firm, and that the Board had selected the 2007 Satyam audit engagement for inspection. The field work for the Board's inspection was set to commence in mid-February 2008.

44. During the period of time leading up to the arrival of Board inspectors in India, the engagement team created certain documents, and gathered other documents, none of which previously were in the working papers. The engagement team added these documents to the hard-copy working papers which were made available to Board inspectors. None of the documentation added to the working papers stated the date the documentation was added, the person who prepared it, or the reason for adding this additional documentation, in violation of AS3.

45. In responding to the Board's inspection demands for working papers from the 2007 Satyam audit, members of the Satyam engagement team made available to the Board documents that had been added to the audit documentation only after PW Bangalore and Lovelock learned that the Board would inspect the 2007 Satyam audit engagement. Acting through certain associated persons, PW Bangalore and Lovelock made these documents available to the Board in a misleading manner that suggested the documents were part of the original audit documentation. As a result of this conduct, PW Bangalore and Lovelock violated PCAOB Rule 4006.

### **F. PW India Violated the Board's Rules and Quality Control Standards**

#### PCAOB Standards Governing Quality Control

46. "Because of the public interest in the services provided by and the reliance placed on the objectivity and integrity of CPAs," PCAOB quality control standards require that a registered public accounting firm "have a system of quality control for its accounting and auditing practice."<sup>31/</sup> PW India failed to have a system of quality control

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<sup>30/</sup> Id. ¶ 16.

<sup>31/</sup> QC § 20.02.

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that provided reasonable assurance that audit personnel were complying with professional auditing standards. PCAOB standards state that an audit firm shall have a system of quality control for its audit practice.<sup>32/</sup> A quality control system is a process that provides a firm with reasonable assurance that firm personnel are complying with applicable professional auditing standards and the firm's standards of quality.<sup>33/</sup> A firm's system of quality control should, as well, provide a firm with reasonable assurance that the segments of the firm's audit engagements performed by affiliated firms are performed in compliance with PCAOB standards.<sup>34/</sup>

47. One element of quality control relates to engagement performance, in order to provide reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.<sup>35/</sup> Another element of quality control is monitoring, in order to provide reasonable assurance that the firm's quality control policies and procedures are suitably designed and are being effectively applied.<sup>36/</sup>

### PW India's Quality Control System

48. The five PW India firms participate in a jointly managed system of quality control. During the relevant period, one PW India audit partner was responsible for audit risk and quality throughout PW India (the "Risk and Quality Partner"). In this capacity, the Risk and Quality Partner oversaw the monitoring element of quality control as it related to engagement performance at PW India.

49. Part of the PW India quality control system included inspections and the monitoring of engagement performance. This system included annual quality reviews of selected PW India partners. Each PW India partner was reviewed at least once every three years. The resulting review reports were issued to the Risk and Quality Partner.

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<sup>32/</sup> Id. § 20.01.

<sup>33/</sup> Id. § 20.03.

<sup>34/</sup> Id. § 20.06.

<sup>35/</sup> Id. § 20.17.

<sup>36/</sup> Id. §§ 20.20, and 30.03.

## ORDER

### PW India's General Practice for Confirming Cash

50. In the course of auditing the existence and valuation of cash balances, PW India auditors routinely planned to perform confirmations, but engaged in a practice that was not reasonably assured to provide sufficient audit evidence, and did not comply with PCAOB auditing standards governing cash confirmations. This general practice was followed on one or more occasions by assurance partners at each of the five PW India firms, including the Risk and Quality Partner during the relevant period.

51. Consistent with this general practice, PW India auditors did not maintain control of the cash confirmation process. PW India engagement teams relied on audit clients to send confirmation requests to banks, and to transmit confirmation responses from the banks back to PW India engagement teams.

### PW India's Quality Control System Failed to Detect this General Practice

52. Prior to October 2008, the quality control and monitoring process at PW India failed to detect that the general practice regarding cash confirmation procedures at each of the PW India firms was not in compliance with PCAOB standards. Moreover, at no time did PW India's quality control and monitoring process detect violations related to the cash confirmation process used on the 2005, 2006, 2007, and 2008 Satyam audits.

53. This general practice continued for multiple years, on multiple audits, in multiple PW India firms. Moreover, the Risk and Quality Partner knew that on certain of his own audits, his engagement teams were not controlling the cash confirmation process in compliance with the relevant PCAOB auditing standards. The Risk and Quality Partner understood that this failure was not being identified by PW India's quality control system.

54. By failing to identify this general practice regarding cash confirmation procedures at each of the PW India firms, the quality control system at PW India did not provide reasonable assurance that audit personnel were complying with professional auditing standards.<sup>37/</sup>

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<sup>37/</sup> PW India purported to use the audit methodology employed by PwC Network Firms, which contains written policies and procedures for performing an audit consistent with PW India's standards of quality. This methodology explicitly required that "[c]onfirmations must be sent out under our control, and replies sent directly to us."

## ORDER

### IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. In considering appropriate sanctions, the Board considered PW India's cooperation during the course of the Board's investigation, as well as the remedial acts voluntarily undertaken by PW India prior to the issuance of this Order. The Board also took into account the amount of funds paid by PW Bangalore and Lovelock in the matter of Lovelock & Lewes, Price Waterhouse, Bangalore, Price Waterhouse & Co., Bangalore, Price Waterhouse, Calcutta, and Price Waterhouse & Co., Calcutta, SEC Release No. 34-64184 (April 5, 2011), in determining the appropriate amount of the civil penalty to impose on these firms. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), PW Bangalore, Lovelock, PW Co. Bangalore, PW Calcutta, and PW Co. Calcutta are hereby censured;

B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$1,500,000 is imposed upon PW Bangalore and Lovelock. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. PW Bangalore and Lovelock shall be jointly and severally responsible to ensure the payment of this civil money penalty within 45 days of the issuance of this Order by: (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order, made payable to the Public Company Accounting Oversight Board, delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and submitted under a cover letter which identifies PW Bangalore and Lovelock as Respondents in these proceedings, sets forth the title and PCAOB Release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office of the Secretary, Attention: J. Gordon Seymour, General Counsel and

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In addition to failing to detect violations of PCAOB standards governing confirmations, as described above, PW India's quality control system also failed to detect the same violations of its own standards of quality, as they relate to the confirmation process.



## ORDER

Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and

C. Pursuant to Sections 105(c)(4)(C), (F), and (G) of the Act, and PCAOB Rules 5300(a)(3), (6), (7), and (9),<sup>38/</sup> the Board ORDERS that:

1. Acceptance of New SEC Issuer Audits. From the date of this Order, PW India shall not accept any new SEC Issuer Audits prior to the Interim Certificate of Compliance Date (defined at Paragraph IV(C)(10)). The term "SEC Issuer Audit(s)" is defined to mean an engagement to audit the consolidated financial statements filed with the Commission of an "Issuer" as that term is defined in Section 2(a)(7) of the Sarbanes-Oxley Act of 2002. Following the later of March 31, 2012 or the Interim Certificate of Compliance Date, PW India shall conduct any new SEC Issuer Audit pursuant to the Interim Conditions set forth in Paragraph IV(C)(3) until the Final Certificate of Compliance Date (defined at Paragraph IV(C)(11)). Until the Final Certificate of Compliance Date, PW India agrees that the Lead Engagement Partner ("Lead Partner") on any SEC Issuer Audit must be deemed not unacceptable to the Independent Monitor (defined at Paragraph IV(C)(9)) before PW India commences work on any SEC Issuer Audit.

2. Acceptance of SEC Issuer Referred Engagement Work. PW India shall not accept SEC Issuer Referred Engagement Work for a new client for a period of six months following the date of this Order. The term "SEC Issuer Referred Engagement Work" is defined to mean instances in which PW India: (a) conducts a full scope audit and provides, or should provide, consistent with Applicable Professional Standards (defined at Paragraph IV(C)(3)(a)), an interoffice opinion for an SEC Issuer-affiliated entity in connection with the audit of the SEC Issuer's consolidated financial statements filed with the Commission; or (b) provides audit work for an SEC Issuer-affiliated entity in connection with the audit of the SEC Issuer's consolidated financial statements filed with the Commission that constitutes ten percent or more of the SEC Issuer's consolidated assets, revenues, or expenses, as measured by the SEC Issuer's most recent fiscal year financial statements filed with the Commission. The term SEC Issuer Referred Engagement Work excludes Indian statutory audits for SEC Issuer-affiliated clients, SAS 70 reports (or, after June 15, 2011, SSAE No. 16 reports), and Shared

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<sup>38/</sup> In determining to accept Respondents' Offers, the Board further considered PW India's representation that it has not accepted any new SEC Issuer Audits or SEC Issuer Referred Engagement Work since January 2009.

## ORDER

Service Center Engagements (as defined in Paragraph IV(C)(13)). The term "new client" shall mean an SEC Issuer or a component of an SEC Issuer where PW India: (i) has not provided any audit or review services to the SEC Issuer or any of its components after January 1, 2010 through the date of the Order; and (ii) seeks to provide audit or review services to the SEC Issuer or any of its components after the date of the Order. After a period of six months following the date of this Order and until the Final Certificate of Compliance Date, PW India shall conduct SEC Issuer Referred Engagement Work for new clients pursuant to the Interim Conditions set forth in Paragraph IV(C)(3).

3. Interim Conditions. From April 1, 2011 until the Final Certificate of Compliance Date, PW India shall conduct SEC Issuer Referred Engagement Work for current clients pursuant to the conditions set forth below ("Interim Conditions"). Upon expiration of the relevant restricted periods specified in Paragraphs IV(C)(1) and IV(C)(2) above and until the Final Certificate of Compliance Date, PW India agrees that any new SEC Issuer Audit and any SEC Issuer Referred Engagement Work for a new client shall be subject to the following Interim Conditions:

a. Staffing and Selection of Lead Partners, Engagement Managers, and Quality Review Partners. PW India's Assurance Leadership Team ("ALT"), a group which shall include among others PW India's Assurance Leader and Risk & Quality Leader, shall select, as part of meeting their quality control requirements, the Lead Partner, Engagement Manager, and Quality Review Partner ("QRP"), if required, for each SEC Issuer Audit and SEC Issuer Referred Engagement Work after taking into account his or her respective performance on SEC Issuer Audits, SEC Issuer Referred Engagement Work, and SEC Issuer-related client engagements that do not meet the thresholds described in Paragraph IV(C)(2) (collectively, "SEC Issuer-Related Audit Engagements") as indicated by the results of the Real Time Review and Engagement Compliance Review ("ECR") programs (Paragraph IV(C)(8)) and the real time review program undertaken by PW India during 2010. PW India undertakes to engage the engagement partner from the PwC Network Firm which is the lead auditor of the relevant SEC Issuer client ("Global Engagement Partner") to review the selection of any Lead Partner, Engagement Manager, and QRP before the commencement of any SEC Issuer Referred Engagement Work. PW India shall provide the Global Engagement Partner with a summary of the results of the engagement quality review conducted in October 2010, any ECR conducted subsequent to the date of this Order, and any real time review conducted during 2010 for each engagement on which the partner or manager served as Lead Partner or Engagement Manager and shall provide the Global



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Engagement Partner with access to any other relevant information upon request. PW India agrees that, in the event the Global Engagement Partner informs PW India that he or she objects to the selection of the Lead Partner, Engagement Manager or QRP, to perform such work, PW India will select an alternative candidate that meets the conditions described in this Paragraph.

A QRP shall be assigned for all SEC Issuer Referred Engagement Work that meets the 10 percent of assets, revenues, or expenses threshold in Paragraph IV(C)(2). For SEC Issuer Referred Engagement Work that does not meet the 10 percent of assets, revenues, or expenses threshold, a QRP will be assigned, if requested by the Global Engagement Partner. The scope of the QRPs' role on such work shall be consistent with PCAOB Auditing Standard No. 7, *Engagement Quality Review*.

Any PW India partner or manager who served as the Lead Partner or Engagement Manager on any engagement that received an overall finding of unsatisfactory due to departures from Applicable Professional Standards<sup>39/</sup> in connection with the engagement quality review conducted in October 2010 or any ECR performed subsequent to the date of this Order shall not be permitted to perform any SEC Issuer Audit or SEC Issuer Referred Engagement Work as a Lead Partner or Engagement Manager for a period of two fiscal years following the date of an overall finding of "unsatisfactory." Provided, however, that if PW India believes that an individual partner or manager whose engagement received an "unsatisfactory" rating should be exempt from the two-year practice restriction, then PW India, through its Assurance Leader, may make a written submission to the Independent Monitor explaining the reasons therefore and the Independent Monitor shall have the authority to exempt the individual partner or manager if he or she believes it is appropriate to do so. In no event, however, shall a partner or manager who receives an overall rating of "unsatisfactory" due to departures from Applicable Professional Standards in two consecutive quality reviews be exempt from the two-year practice restriction.

If a partner has an engagement on which he or she served as Lead Partner assessed as unsatisfactory due to departures from Applicable Professional Standards in an engagement quality review or ECR, that partner shall not be permitted to serve as a QRP on any SEC Issuer Audit or SEC Referred Work Engagement for a period of two fiscal years following the date of an overall finding of "unsatisfactory."

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<sup>39/</sup> The term "Applicable Professional Standards" means "professional standards" as defined in Section 2(a)(10) of the Act and PCAOB Rule 1001(p)(vi).



## ORDER

PW India shall comply with the conditions described in this Paragraph on a continuing basis until the Final Certificate of Compliance Date.

b. Training. In addition to the training-based undertakings set forth in Paragraph IV(C)(4), PW India agrees to require the Lead Partner, QRP, and Engagement Manager to complete at least: (a) eight hours of ethics training on an annual basis; and (b) 40 hours of specialized training in U.S. GAAP, PCAOB standards,<sup>40/</sup> and IFRS before initiating any SEC Issuer Audit or SEC Issuer Referred Engagement Work and at least 16 hours of such training in each subsequent year that such work is performed. Training programs completed after June 2010 shall be credited towards satisfying the 40 hour specialized training requirement of this Paragraph. The specialized training requirements of this Paragraph may also satisfy the specialized training hours requirements of Paragraph IV(C)(4)(d). All other PW India audit staff on any SEC Issuer Audit or SEC Issuer Referred Engagement Work shall be subject to the training undertakings set forth in Paragraph IV(C)(4).

c. Consultations. PW India undertakes to review all consultations with PW India's National Office concerning Applicable Professional Standards required by PW India's consultation policy ("Required Consultations") involving any SEC Issuer Referred Engagement Work with the Global Engagement Partner.

Before accepting any SEC Issuer Audit, PW India undertakes to develop a process for review of all Required Consultations by an auditor from a PwC Network Firm outside of India. Such process must be reviewed and deemed acceptable by the Independent Monitor.

PW India further undertakes to resolve all Required Consultations in a manner consistent with PW India policies and procedures prior to the issuance of any opinion, report, or engagement completion document by PW India.

d. Pre-opinion Reviews. PW India undertakes, prior to the issuance of any opinion, report, or engagement completion document by PW India, to: (i) engage the

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<sup>40/</sup> References in Commission rules and staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission. See Release Nos. 33-8422; 34-49708; FR-73 at <http://www.sec.gov/rules/interp/33-8422.htm>.

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Global Engagement Partner, or his or her partner or manager designee, to conduct a review of any PW India SEC Issuer Referred Engagement Work; and (ii) conduct a Real Time Review (Paragraph IV(C)(8)) of all SEC Issuer Audits.

4. Training and Professional Development. PW India shall evaluate its existing professional development policy and shall make such revisions deemed necessary in order to adopt, implement, and enforce written policies and procedures designed to provide its audit professionals with reasonable training and education to minimize the risk of future violations of Applicable Professional Standards and United States federal securities laws and regulations. PW India agrees that such training and education shall include subjects relevant to the audits of SEC Issuer-Related Audit Engagements. To that end, PW India shall require that all audit professionals complete a training curriculum in the areas of traditional core audit and accounting, Applicable Professional Standards, professional skepticism, behavioral change management, technical audit competence, ethics standards, electronic and hard-copy audit documentation standards (including, as they relate to PCAOB inspections), acceptable and appropriate third-party confirmation procedures, and other relevant technical audit training.

a. Training Programs. Prior to March 31, 2011 and until the Final Certificate of Compliance Date, PW India agrees and undertakes to provide annually, two-week training programs covering the above-referenced audit topics as well as training and presentation skills to select PW India audit professionals who thereafter will lead the training of other PW India audit professionals. After March 31, 2011, only PW India audit professionals who have successfully completed a two-week training program will be permitted to lead the training of other PW India audit professionals.

b. Mandatory Annual Training. Prior to December 31, 2011 and until the Final Certificate of Compliance Date, PW India agrees and undertakes to require that all audit professionals complete an annual three-day program that includes training on the following topics: (i) audit basics; (ii) new audit and accounting standards; (iii) emerging issues in the profession; (iv) specific audit and accounting challenges identified in prior years' PW India audits; and (v) the role of the engagement quality reviewer.

c. Professional Skepticism Training. Prior to December 31, 2011, PW India agrees and undertakes to require that all audit professionals complete an eight-hour program that covers acceptable and appropriate professional skepticism and fraud detection. The course will be offered annually thereafter to new hires, through the Final Certificate of Compliance Date.

## ORDER

d. Specialized Training. In addition to the training and education described in Paragraphs IV(C)(4)(b) and IV(C)(4)(c), all PW India audit professionals must complete successfully the following core audit curriculum and specialized training before they commence audit work for any SEC Issuer Audit or SEC Issuer Referred Engagement Work for financial statements after March 31, 2011:

(i) Minimum of 24 Hours of Audit-Related Training. The audit-related training requirement shall address the following topics: (1) assessing risks of material misstatements and developing responsive audit plans; (2) determining and documenting appropriate sampling methods and sample sizes, selecting samples, and evaluating and documenting results; (3) audit documentation; (4) obtaining and evaluating sufficient competent evidential matter; (5) acceptable and appropriate third-party confirmation procedures; (6) professional skepticism and corroboration of management's representations; (7) technical audit training; and (8) fraud detection. Training courses completed after June 2010 shall be credited towards satisfying the specialized audit training requirements of this Paragraph.

(ii) Minimum of 12 Hours of Specialized Training and Examination. Of the 24 hours of required audit-related training described above, a minimum of 12 hours shall involve live training taught by senior audit professionals from PwC Network Firms located outside of India, including those who have been seconded to PW India, who are experienced in auditing SEC Issuers and shall cover U.S. GAAP and PCAOB standards. The live training shall be followed by an examination of the topics covered. PW India audit professional must complete a minimum of six hours of such live training before they commence audit work for any SEC Issuer Audit or SEC Issuer-Referred Engagement work in each subsequent year.

e. Additional Training Programs. PW India agrees to consult with the Independent Monitor in designing its training and education program, and to submit to the Independent Monitor a detailed proposal within 60 days after retention of the Independent Monitor that describes the content and implementation of the training and education program. PW India undertakes and agrees to provide such additional training and workshops for its audit professionals on topics that include, but are not limited to: IFRS training; additional workpaper documentation standards; behavioral instruction; audit planning; PW India audit partner and manager supervisory training; audit quality training for all PW India audit partners; and other training deemed necessary to rectify deficiencies identified during the Quality Control Management Review and Engagement Compliance Review programs (described in Paragraph IV(C)(8)). The Independent

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Monitor shall review PW India's proposal describing the content and implementation of the training and education program; and such program must be deemed not unacceptable to the Independent Monitor.

5. Ethical Code of Conduct and Associated Training. PW India has represented that it has a Code of Ethical Business Conduct (the "Ethics Code") that defines standards of behavior for PW India audit professionals. PW India undertakes to: (a) adopt procedures designed to ensure that the Ethics Code is disseminated to PW India audit professionals; (b) conduct appropriate ethics training; (c) review the Ethics Code on a regular basis and update it as needed; (d) adopt an appropriate system of penalties to discourage and punish any violations of the Ethics Code; and (e) adopt procedures designed to verify, on a regular basis, compliance with the Ethics Code. In addition, PW India shall provide annual ethics training to PW India audit professionals deemed most likely to perform SEC Issuer-Related Audit Engagements.

### 6. Staffing

a. Audit Infrastructure Support. PW India undertakes to increase the size and improve the expertise of its audit support personnel by adding full-time or full-time equivalent senior professionals (*i.e.*, managers and above) trained in and knowledgeable of U.S. GAAP and PCAOB standards from within PW India and from PwC Network Firms located outside of India in all areas of audit support.

b. Engagement Staffing. PW India shall undertake to alter the structure of its engagement teams on SEC Issuer-Related Audit Engagements. Such measures shall include: (i) policies and procedures designed to address the detection and resolution of potential issues concerning the quality of audit work performed by senior audit professionals; (ii) policies and procedures designed to ensure the QRP's role is in compliance with PCAOB Auditing Standard No. 7; (iii) greater emphasis on partner and manager time and attention; (iv) regular coaching of junior audit professionals by experienced senior audit professionals; and (v) as indicated below, recruitment of client service partners and other senior audit professionals from PwC Network Firms outside India to increase the size and improve the expertise of PW India's audit personnel.

c. Secondment. PW India undertakes to increase the number of senior audit professionals seconded from PwC Network Firms located outside of India that are trained in and knowledgeable of U.S. GAAP and PCAOB standards who will, among other responsibilities, be involved in the training of PW India audit professionals most

## ORDER

likely to perform SEC Issuer-Related Audit Engagements. PW India also shall initiate an audit engagement exchange program for junior audit professionals to and from PW India with a particularized focus on the performance of integrated audit procedures on the financial statements of clients affiliated with an SEC Issuer.

7. Undertakings Concerning Audit Quality Management System. Prior to December 31, 2011, PW India shall revise as may be necessary, and then engage in steps to implement and enforce, such policies and procedures so as to provide reasonable assurance that PW India will comply with its obligations under professional, regulatory and firm requirements with respect to SEC Issuer-Related Audit Engagements. To that end, PW India agrees and undertakes to provide to the Independent Monitor for review and recommendation, its policies and procedures, including evidence of their implementation, concerning the following:

a. Completion of Planning Prior to the Commencement of Audit Fieldwork. Such policies and procedures shall provide reasonable assurance that, prior to the commencement of any significant audit procedures: (i) working papers identify all significant risks requiring additional testing; (ii) working papers identify all significant accounts and disclosures and their relevant assertions; (iii) working papers document the risks of material misstatements, and that the planned nature, timing, and extent of testing are finalized and reviewed and approved by the Lead Partner, and, when appropriate, the QRP; and (iv) working papers are tailored to address identified risks of material misstatement.

b. Third-Party Confirmations. Such policies and procedures shall be designed to provide reasonable assurance that all audit personnel perform third-party confirmation procedures in compliance with PCAOB standards.

c. Consultations. Such policies and procedures shall set forth consultation procedures and documentation requirements regarding procedures for the external review of PW India National Office Required Consultations, as well as for the resolution of such consultations.

d. Documentation. Such policies and procedures shall be designed to provide reasonable assurance that PW India's SEC Issuer-Related Audit Engagements comply with AS3. Such procedures shall emphasize that documentation must be prepared in sufficient detail for an experienced auditor, without prior knowledge of the engagement, to be able to reperform the work and require that any additions made after

## ORDER

the documentation date<sup>41/</sup> must identify the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it. Additionally, PW India shall adopt a policy making it mandatory that a Lead Partner on an SEC Issuer-Related Audit Engagement review each audit area designated by the engagement team as having a significant risk of material misstatement (whether due to fraud or error) for compliance with both PCAOB standards and related rules and firm policies and procedures.

e. Detection and Reporting of Illegal Client Activity ("Section 10A Compliance"). Such policies and procedures shall be designed to provide reasonable assurance that PW India complies with Section 10A of the Exchange Act, including without limitation, for each audit subject to Section 10A, procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts, and to comply with all requirements under the standards of the Commission, the PCAOB, and Section 10A to evaluate and report suspected illegal acts.

f. Engagement Quality Control. Such policies and procedures shall be designed to provide reasonable assurance that PW India complies with PCAOB Auditing Standard 7, *Engagement Quality Review*.

g. Audit Opinions. Such policies and procedures shall be designed to provide reasonable assurance that the firm signing the audit report or opinion for an SEC Issuer-Related Audit Engagement shall uniquely identify itself by, at a minimum, its PCAOB-registered name, and the location of the registered office.

### 8. Audit Quality Environment

a. Real Time Reviews. From the date of the Order through at least the Interim Certificate of Compliance Date, PW India shall engage senior audit professionals from PwC Network Firms located outside of India with experience in both U.S. GAAP and PCAOB standards to lead pre-opinion reviews of certain SEC Issuer-Related Audit Engagements ("Real Time Reviews"). All SEC Issuer Audits and a sample of other SEC Issuer-Related Audit Engagements, including at least one other SEC Issuer-Related Audit Engagement for each partner serving as Lead Partner on such an engagement, shall be subject to a Real Time Review each year. These

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<sup>41/</sup> AS3 ¶ 15.

## ORDER

reviews shall be designed to identify areas for improvement and to provide support to PW India audit engagement teams working on SEC Issuer-Related Audit Engagements. SEC Issuer Referred Engagement Work is subject to the pre-opinion reviews described in Paragraph IV(C)(3)(d) and shall be excluded from the Real Time Reviews.

b. Engagement Compliance Review. PW India shall engage senior audit professionals from PwC Network Firms located outside of India with experience in both U.S. GAAP and PCAOB standards to review selected, completed PW India SEC Issuer-Related Audit Engagement working papers as part of the ECR program in order to assess PW India's compliance with Applicable Professional Standards. The ITL will select the engagements for review, which selection shall be part of the ECR planning and scope subject to review and recommendation by the Independent Monitor. As part of their engagement by PW India, these senior audit professionals shall develop an engagement quality review program designed to measure and assess compliance with Applicable Professional Standards and PW India partner performance on SEC Issuer-Related Audit Engagements through annual post-opinion evaluations of selected SEC Issuer-Related Audit Engagements. The ECR program will also identify remedial needs on an ongoing basis. As described further in Paragraph IV(C)(9), the planning and scope of the ECR program shall incorporate recommendations made by the Independent Monitor. The ECR program shall be overseen by an Independent Team Leader ("ITL") experienced in U.S GAAP and PCAOB standards and will continue on an annual basis until the Final Certificate of Compliance Date. All SEC Issuer Audits and SEC Issuer Referred Engagement Work shall be included as part of the annual ECR.

c. Quality Control Management Review. PW India shall engage senior audit professionals from PwC Network Firms located outside of India experienced in PCAOB standards to devise and implement a quality control review program to measure and assess whether, and to what extent, PW India has in place systems, policies, and procedures to provide reasonable assurance that its audit personnel comply with applicable professional standards and PW India's standards of quality as defined by PCAOB Quality Control Standards<sup>42/</sup> when performing work on SEC Issuer-Related Audit Engagements (herein referred to as "Quality Control Management Review or

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<sup>42/</sup> References to "PCAOB Quality Control Standards" mean, collectively, QC § 20, QC § 30, QC § 40, all amendments thereto, and any subsequently enacted related standards of the PCAOB.



## ORDER

"QCMR").<sup>43/</sup> As described further in Paragraph IV(C)(9), PW India's QCMR program shall include an annual review of completed audit work measured against a series of key performance indicators that shall be developed, assessed, and updated on an ongoing basis. The planning and scope of the QCMR shall be overseen by the ITL and shall incorporate recommendations made by the Independent Monitor. The QCMR program shall continue on an annual basis until the Final Certificate of Compliance Date.

### 9. Undertakings Related to Reporting Requirements and the Role of the Independent Monitor

a. Independent Monitor Selection and Retention. PW India shall retain and pay for an independent third-party not unacceptable to PCAOB staff and Commission staff who has experience with public company reporting in the United States and is knowledgeable with Applicable Professional Standards ("Independent Monitor") to review PW India's compliance with the undertakings set forth in this Order. Within 60 days after the entry of this Order, PW India shall submit to PCAOB staff and Commission staff a proposal setting forth the identity, qualifications, and proposed terms of retention of the Independent Monitor. PW India may not retain as the Independent Monitor any individual or entity that has provided legal, auditing, or other services to, or has had any affiliation with, Satyam, PwC IL, or any PwC Network Firm during the prior two years.

PW India agrees that its engagement agreement with the Independent Monitor shall require the Independent Monitor to agree that, for the period of engagement and for a period of two years from completion of the engagement, the Independent Monitor shall not enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Satyam, PwC IL, or any PwC Network Firm, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such, and shall require that any firm with which the Independent Monitor is affiliated or of which the Independent Monitor is a member, or any person engaged to

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<sup>43/</sup> Subject to review and recommendation of the Independent Monitor, PW India also may develop procedures and measurements designed to review and evaluate the firm's quality control compliance with International Standard on Quality Control 1, which PW India represents may prove relevant in determining PW India's overall quality control environment.



## ORDER

assist the Independent Monitor in performance of the Independent Monitor's duties under the Order not, without prior written consent of the PCAOB staff and Commission staff, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Satyam, PwC IL, or a PwC Network Firm, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

The term of the Independent Monitor shall expire upon the Final Certificate of Compliance Date. PW India shall not have the authority to terminate the Independent Monitor before the Final Certificate of Compliance Date without the prior written approval of the PCAOB staff and the Commission staff.

b. Role and Responsibilities Overview. As set forth in this Order, the Independent Monitor's roles and responsibilities shall include: (i) pre-appointment review of new members of PW India's Assurance Leadership Team and Lead Partners on SEC Issuer-Audits – such individuals shall not be unacceptable to the Independent Monitor; (ii) approving the appointment of the ITL; (iii) reviewing and recommending revisions to the audit Quality Management System policies and procedures of PW India; (iv) reviewing and recommending revisions to PW India's ECR and QCMR programs and compliance work plans; (v) reporting upon PW India's progress after review and evaluation of PW India's semi-annual and annual reports set forth herein; (vi) assessing and recommending remedial steps deemed necessary to correct any deficiencies identified in the semi-annual and annual reports; (vii) preparing an annual written report concerning PW India's progress in implementing the undertakings; (viii) making findings as set forth in Paragraphs IV(C)(10) and IV(C)(11); and (ix) taking such reasonable steps as, in his or her view, may be necessary to fulfill his or her obligations set forth in this Order.

c. Monitoring Compliance with Undertakings. Within 60 days after retention of an Independent Monitor, PW India shall submit to the Independent Monitor a work plan that describes the manner in which PW India intends to set forth quantifiable goals in which it may measure its ongoing implementation of, and compliance with, the undertakings set forth in this Order. PW India undertakes to permit the Independent Monitor 30 days to make recommendations to its work plan and agrees to make a good faith effort to address and incorporate all such recommendations. PW India shall work cooperatively with the Independent Monitor to resolve any disagreements to the satisfaction of the Independent Monitor. If a matter that the Independent Monitor

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believes is within his or her responsibility cannot be resolved, at the request of the Independent Monitor, PW India shall promptly provide written notice to the Independent Monitor and the PCAOB staff and Commission staff. Any disputes between PW India and the Independent Monitor with respect to the work plan shall be decided by the PCAOB staff and the Commission staff, and PW India shall abide by their decision.

For the period from the effective date of this Order to the Final Certificate of Compliance Date, PW India agrees and undertakes periodically, at no less than six-month intervals, to provide a written report to the Independent Monitor regarding PW India's progress regarding the implementation of, and compliance with, the undertakings set forth in this Order. On an annual basis, PW India shall provide the Independent Monitor with a written report that explains the circumstances surrounding any failure to meet specific quantifiable goals set forth in the work plan (as well as the specific audit involved, if any) and shall provide a detailed description of what steps, if any, PW India has taken and shall take to remedy any such failure. PW India's follow-up reviews shall incorporate comments provided by the Independent Monitor on PW India's prior reviews and reports. As part of PW India's compliance with the undertakings set forth in this Order, the Independent Monitor shall also assess and report annually to PCAOB staff and Commission staff whether PW India is complying with the undertakings regarding SEC Issuer Audits and SEC Issuer Referred Engagement Work.

d. Monitoring Compliance with PW India's Quality Control Management Review and Engagement Compliance Review. Within 60 days after retention of an Independent Monitor, PW India undertakes to engage the ITL to submit to the Independent Monitor the QCMR and ECR proposed plans.

PW India agrees and undertakes that, until the Final Certificate of Compliance Date, the ITL and the two individuals with direct responsibility for the QCMR and ECR (the "Review Team Leaders") shall be senior audit professionals from a PwC Network Firm outside India with experience in U.S. GAAP and PCAOB standards that has not participated in any quality review of PW India prior to September 2010. The ITL must be approved by the Independent Monitor and deemed not unacceptable to both PCAOB staff and Commission staff.

PW India undertakes to engage the ITL to permit the Independent Monitor 60 days to make recommendations to its QCMR and ECR proposed plans and engages the ITL to make a good faith effort to incorporate all such recommendations. PW India shall engage the ITL to work cooperatively with the Independent Monitor to resolve any



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disagreements to the satisfaction of the Independent Monitor. If the matter cannot be resolved, at the request of the Independent Monitor, PW India, through the ITL, shall promptly provide written notice to the Independent Monitor and the PCAOB staff and Commission staff. Any disputes between PW India or the ITL and the Independent Monitor with respect to the QCMR and ECR proposed plans shall be decided by the PCAOB staff and the Commission staff, and their decision shall be final.

(i) Quality Control Management Review Reports. For the period from the effective date of this Order to the Final Certificate of Compliance Date, PW India agrees and undertakes to provide, through the ITL, an annual written report to the Independent Monitor that assesses – and provides documented and supportable findings – as to whether, and to what extent, there is reasonable assurance that PW India's quality controls with respect to SEC Issuer-Related Audit Engagements are in compliance with PCAOB Quality Control Standards. PW India shall undertake follow-up reviews each year until the Final Certificate of Compliance Date, incorporating comments provided by the Independent Monitor on PW India's prior reviews and reports, to further monitor and assess PW India's quality controls.

(ii) Engagement Compliance Review Reports. For the period from the effective date of this Order to the Final Certificate of Compliance Date, PW India agrees and undertakes to provide, through the ITL, an annual written report to the Independent Monitor that assesses and provides documented and supportable findings as to whether, and to what extent, PW India's audits of SEC Issuer-Related Audit Engagements are compliant with Applicable Professional Standards.<sup>44/</sup> Such assessments and findings shall include, but not be limited to, documents sufficient to support the results developed from all engagement reviews from which the report is based. PW India shall undertake follow-up reviews each year until the Final Certificate of Compliance Date, incorporating comments provided by the Independent Monitor on PW India's prior reviews and reports, to further monitor and assess PW India's engagement quality.

(iii) Independent Monitor Annual Report. Within 90 days of receiving the ECR or QCMR report, whichever is later, and for the period from the effective date of this Order to the Final Certificate Date, the Independent Monitor shall prepare an annual report ("IM Report") that assesses whether the QCMRs and ECRs were conducted according to

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<sup>44/</sup> The ITL may opt to issue a single, aggregate report that covers the annual results of both the QCMR and the ECR.

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reasonable procedures and indicates whether the Independent Monitor supports the findings and conclusions set forth in the QCMR and ECR reports. The Independent Monitor may extend the time period for the IM Report for up to thirty calendar days upon prior written notice to PW India, PCAOB staff, Commission staff, and the ITL. Within 30 days of receiving the IM Report, PW India may prepare a written response to the IM Report. If the Final Certificate of Compliance does not take effect within three years of the date of the Order, each IM Report thereafter shall include an assessment regarding whether, and to what extent, PW India continues to make substantial progress toward satisfying the undertakings set forth in this Order.

(iv) Remedial Measures Resulting from Annual Review Reports. To the extent that the annual ECR and QCMR reports, or the resulting IM Report, identify deficiencies or instances of non-compliance with respect to the standards articulated therein, PW India shall submit to the Independent Monitor a Remedial Plan within 60 days of its receipt of the IM Report. PW India shall permit the Independent Monitor 30 days to make recommendations to the remedial plan. PW India shall require the ITL to consult with the Independent Monitor and make a good faith effort to incorporate the remedial plan recommendations into the subsequent period's ECR and QCMR, as appropriate, and PW India shall require the ITL to work cooperatively with the Independent Monitor to resolve any disagreements to the satisfaction of the Independent Monitor. If the matter cannot be resolved, at the request of the Independent Monitor, PW India, through the ITL, shall promptly provide written notice to the Independent Monitor and the PCAOB staff and Commission staff. Any disputes between the ITL and the Independent Monitor with respect to the remedial plan shall be decided by the PCAOB staff and the Commission staff, and their decision shall be final.

(v) Reporting Requirements. PW India's Assurance Leader shall sign all QCMR, ECR, and Remedial Plan reports, attesting that he or she has read and understood their content and certifying satisfaction with any undertakings addressed, findings reached, and remedial steps required in the reports. PW India shall provide copies of all written reports described in this Paragraph to the appropriate PCAOB staff and Commission staff designees no later than 10 days from the date of completion.

(vi) Documentation Requirements. PW India agrees and undertakes to prepare and preserve a copy of all written plans, reports, and responses in connection with the undertakings set forth in this Order. In addition, PW India shall maintain sufficient documentation to provide a clear understanding of its purpose, sources of support, and conclusions that form the basis of all reports set forth in this Order. PW India agrees and

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undertakes that all such documentation shall be made available to the Independent Monitor and, upon reasonable request, to PCAOB staff and Commission staff. All such documentation will be retained for two years following the Final Certification of Compliance Date.

10. Interim Certificate of Compliance. Upon a finding by the Independent Monitor that PW India: (i) has developed an acceptable process for the review of Required Consultations (Paragraph IV(C)(3)(c)) for SEC Issuer Audits by an auditor experienced in U.S. GAAP and PCAOB standards from a PwC Network Firm located outside of India; (ii) has demonstrated significant progress toward completion of the undertakings set forth in this Order; and (iii) has evidenced reasonable assurances from the QCMRs and ECRs that there are no significant deficiencies or instances of material non-compliance with respect to an SEC Issuer Audit or SEC Issuer Referred Engagement Work completed and reviewed for the previous fiscal year, PW India's Chairman and Assurance Leader shall certify in writing that it has satisfied each of the above specified conditions ("Interim Certificate of Compliance"). The Interim Certificate of Compliance shall identify each of the relevant reports in which PW India demonstrated written evidence of satisfaction in the form of a narrative supported by exhibits sufficient to demonstrate compliance. The Interim Certificate of Compliance and supporting material shall be submitted to the appropriate Commission Division of Enforcement and PCAOB Division of Enforcement designee (the "Designees"). Upon receipt of the Interim Certificate of Compliance and any supporting material that the ITL and Independent Monitor deem necessary to support that Certificate, the Designees may make reasonable requests for further documents evidencing compliance and PW India agrees to provide the requested documents to the Designees and the Independent Monitor. Within the earlier of 30 days of receipt of the requested documents or 120 days after receipt of the Interim Certificate of Compliance, the Independent Monitor must either affirm or withdraw his or her initial findings regarding the Interim Certificate of Compliance in writing, a copy of which shall be provided to PW India, the ITL, and the Designees. The Interim Certificate of Compliance takes effect upon confirmation by both Designees that they have received the Independent Monitor's affirmation of findings in writing ("Interim Certificate of Compliance Date"), but in any event the Interim Certificate of Compliance Date shall not be before March 31, 2012.

11. Final Certificate of Compliance. Upon findings by the Independent Monitor that: (i) PW India has complied with the undertakings set forth in this Order; (ii) PW India has evidenced reasonable assurance that its quality controls in place for SEC Issuer-Related Audit Engagements are in compliance with PCAOB Quality Control Standards;



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and (iii) PW India has evidenced reasonable assurances that there are no significant deficiencies or instances of material non-compliance with respect to all of the SEC Issuer-Related Audit Engagements completed and reviewed for the previous two fiscal years, PW India's Chairman and Assurance Leader shall certify in writing that it has satisfied each of the above specified conditions (the "Final Certificate of Compliance"). The Final Certificate of Compliance shall identify each of the relevant reports in which the Independent Monitor has found that PW India demonstrated written evidence of compliance in the form of a narrative supported by exhibits sufficient to demonstrate compliance. The Final Certificate of Compliance and supporting material shall be submitted to the Designees. Upon receipt of the Final Certificate of Compliance and the relevant reports, the Designees may make reasonable requests for further documents evidencing compliance and PW India shall provide the requested documents to the Designees and the Independent Monitor. Within the earlier of 60 days of the Designees' receipt of the requested documents or 120 days after the Designees' receipt of the Final Certificate of Compliance, the Independent Monitor must either affirm or withdraw his or her initial findings regarding the Final Certificate of Compliance in writing, a copy of which shall be provided to PW India, the ITL, and the Designees. The Final Certificate of Compliance takes effect upon confirmation by both Designees that they have received the Independent Monitor's affirmation of findings in writing. ("Final Certificate of Compliance Date").

12. PCAOB Inspections. PW India shall provide the Independent Monitor with (a) inspection comment forms and responses, and (b) draft and final inspection reports, in PW India's possession pertaining to all PCAOB inspections of PCAOB-registered PW India firms that may occur from the date of this Order to the Final Certificate of Compliance Date. The goal of this undertaking is to provide the Independent Monitor with an opportunity to review and identify any criticisms or potential defects in PW India's quality control system that would indicate PW India has failed to evidence reasonable assurance that its quality controls in place for SEC Issuer-Related Audit Engagements are in compliance with PCAOB Quality Control Standards. If the Independent Monitor concludes that the results of a PCAOB inspection of a PCAOB-registered PW India firm are inconsistent with his or her findings made in connection with Paragraph IV(C)(11), the Final Certificate of Compliance Date will not take effect until the Independent Monitor provides a written report to PW India, the ITL, and the Designees that explains how the Independent Monitor has reconciled any such inconsistencies to his or her satisfaction.

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13. From the date of this Order and until the Final Certificate of Compliance Date, PW India agrees and undertakes that its Shared Service Center Engagements shall be subject to the following conditions: (a) all working papers prepared by PW India shall be provided to the Global Engagement Partner or his or her designee; (b) the Global Engagement partner shall engage a senior audit professional from a PwC Network Firm located outside of India to oversee and control the execution of the Shared Service Center Engagement; and (c) the Global Engagement Partner shall assume all responsibility for the Shared Service Center Engagement. The term "Shared Service Center" shall mean an outsourcing facility that is a component of, or a third-party vendor to, an SEC Issuer and which operates, controls, and processes the SEC Issuer's group financial transactions. The term "Shared Service Center Engagement" shall mean an audit engagement in which the Global Engagement Partner for an SEC-issuer group that is audited by a PwC Network Firm instructs PW India to audit the controls and processing of group financial transactions by a Shared Service Center. Where PW India audits a Shared Service Center's own financial statements and that engagement meets the definition of SEC-Issuer Referred Engagement Work, such engagement shall be subject to the limitations on acceptance of SEC-Issuer Referred Engagement Work set forth in Paragraph IV(C)(2), and the Interim Conditions set forth in Paragraph IV(C)(3).

In determining whether to accept the Offers, the Board has considered these undertakings. PW India agrees that if the Board staff believe that PW India has not satisfied these undertakings within a reasonable time, said staff may petition the Board to reopen the matter to determine whether additional sanctions are appropriate.

ISSUED BY THE BOARD.

/s/ J. Gordon Seymour

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J. Gordon Seymour  
Secretary

April 5, 2011