

**Report on**

**2014 Inspection of Chaturvedi & Shah  
(Headquartered in Mumbai, Republic of India)**

**Issued by the**

**Public Company Accounting Oversight Board**

**December 18, 2014**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**

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

## **2014 INSPECTION OF CHATURVEDI & SHAH**

### Preface

In 2014, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Chaturvedi & Shah ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to issuer audit work. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.C of this report (which also contains additional information concerning PCAOB inspections generally). Overall, the inspection process included a review of portions of the Firm's audit work on one issuer audit engagement in which it played a role but was not the principal auditor. This review was intended to identify whether deficiencies existed in those portions of the inspected audit work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audit work. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the firm's system of quality control, those discussions also could eventually be made public, but only to the extent the firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

**PROFILE OF THE FIRM<sup>1</sup>**

Number of offices	5 (Ahmedabad, Bengaluru, Jamnagar, Mumbai, and New Delhi, Republic of India)
Ownership structure	Partnership
Number of partners	14
Number of professional staff <sup>2</sup>	319
Number of issuer audit clients	None
Number of other issuer audits in which the Firm plays a role <sup>3</sup>	1

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<sup>1</sup> The information presented here is as understood by the inspection team, generally as of the outset of the inspection, based on the Firm's self-reporting and the inspection team's review of certain information. Additional information, including additional detail on audit reports issued by the Firm, is available in the Firm's filings with the Board, available at [http://pcaobus.org/Registration/rasr/Pages/RASR\\_Search.aspx](http://pcaobus.org/Registration/rasr/Pages/RASR_Search.aspx).

<sup>2</sup> The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers.

<sup>3</sup> The number of other issuer audits encompasses audit work performed by the Firm in engagements for which the Firm was not the principal auditor, including audits, if any, in which the Firm plays a substantial role as defined in PCAOB Rule 1001(p)(ii).

## **PART I**

### **INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS**

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from August 4, 2014 to August 8, 2014.<sup>4</sup>

#### **A. Review of Audit Engagement**

The inspection procedures included a review of portions of the Firm's audit work on one issuer audit engagement in which it played a role but was not the principal auditor. This review did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in the engagement.

#### **B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed on a specific audit engagement, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

#### **C. Information Concerning PCAOB Inspections Generally Applicable to Triennially Inspected Firms**

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's

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<sup>4</sup> For this purpose, "primary procedures" include field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. Primary procedures do not include (1) inspection planning, which is generally performed prior to primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

audit work. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

### C.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of internal control over financial reporting ("ICFR") and the firm's audit work on other issuer audit engagements in which it played a role but was not the principal auditor. For these audit engagements, the inspection team selects certain portions of the engagements for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audit engagements, and the specific portions of those audit engagements, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,<sup>5</sup> as well as a firm's failures to perform, or to perform sufficiently, certain necessary audit

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<sup>5</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with applicable accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

procedures. The inspection may not involve the review of all of a firm's audit work, nor is it designed to identify every deficiency in the reviewed audit engagements. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS No. 3, *Audit Documentation*, provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion, must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In reaching its conclusions, the inspection team considers whether audit documentation or any persuasive other evidence that a firm might provide to the inspection team supports a firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.<sup>6</sup>

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audit engagements and areas of inspection

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<sup>6</sup> The discussion in this report of any deficiency observed in a particular audit engagement reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audit engagements, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

Inclusion of an audit deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform the issuer of the need for changes to its financial statements or reporting on ICFR, or to take steps to prevent reliance on previously expressed audit opinions.<sup>7</sup> A firm also should consider whether there are actions the firm should take to alert another auditor that has expressed an opinion on financial statements that the firm played a role in auditing.

## C.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC 20"), provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audit engagements. Audit deficiencies, whether alone

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<sup>7</sup> An inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audit work. Even deficiencies that do not result in an insufficiently supported audit opinion or a failure to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in an audit may indicate a defect or potential defect in a firm's quality control system.<sup>8</sup> If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audit engagements indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the nature, significance, and frequency of deficiencies;<sup>9</sup> related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. This review addresses practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

END OF PART I

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<sup>8</sup> Not every audit deficiency suggests a defect or potential defect in a firm's quality control system.

<sup>9</sup> An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.





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

## **PART II**

### **DETAILED DISCUSSION OF INSPECTION RESULTS**

This Part II contains a description of the inspection results. The engagement review did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in an audit. Part II describes the Board's concerns about potential defects in the Firm's quality control system.<sup>10</sup>

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

##### **Knowledge of PCAOB Standards, Relevant Independence Requirements and Applicable Accounting Principles**

The Firm's system of quality control appears not to provide sufficient assurance that the work performed by engagement personnel will meet applicable professional standards and regulatory requirements in accordance with QC 20. The Firm played a substantial role in the audit of an issuer by performing an audit of the financial statements of an investee of the issuer. The Firm acknowledged to the inspection team that it performed that work in accordance with auditing standards and independence requirements applicable in India and evaluated the financial statements' compliance with Indian accounting principles, and that it lacks the knowledge of PCAOB standards and U.S. GAAP necessary to perform the audit in accordance with PCAOB standards and evaluate compliance with U.S. GAAP. The Firm should establish policies and procedures – including relating to technical training and proficiency, consulting authoritative literature, and consulting individuals within or outside the Firm – that provide the Firm with reasonable assurance that its work used in audits of issuers will meet PCAOB standards and relevant regulatory requirements, including independence requirements applicable to audits of issuers.

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<sup>10</sup> This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

## **PART IV**

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

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

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<sup>11</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

**CHATURVEDI & SHAH**  
Chartered Accountants

November 11, 2014

Ms. Helen A. Munter,  
Director,  
Division of Registration and Inspections,  
Public Company Accounting Oversight Board,  
1666 K Street, N.W.  
Washington, DC 20006.

Dear Ms. Munter,

**Re: Response to Public Company Accounting Oversight Board (PCAOB)  
Draft Report dated October 9, 2014 on Inspection of Chaturvedi & Shah**

Chaturvedi & Shah ( " C&S" or the "Firm") Chartered Accountants, is please to submit its response to PCAOB's Draft Inspection Report dated October 9, 2014 conducted in August 2014. We appreciate constructiveness of comments and observations and believe that they will assist the firm in its objective to improve audit quality.

We are pleased that the PCAOB inspection team did not identify any audit performance issues in the Draft Report. The firm has worked diligently to achieve this and will continue to do so in the future.

We have evaluated the matters identified under Part II of Draft Inspection Report. Since, the audit opinions issued by us so far are based on Indian GAAS, we have not incorporated, the PCAOB standards and SEC rules and regulation requirements in the our audit manuals / checklist. Our firm is committed to apply the best standards in performing the attest functions and continuously focus on upgrading the audit quality. Firm plans to put in place remedial measures, which would *inter alia* include development of separate audit manuals/checklist that would comply with PCAOB standards for US issuer clients; technical training to employees in PCAOB standards and SEC rules and regulations.

We would like to take this opportunity to thank the PCAOB and its inspection team for the professionalism and objectivity demonstrated during the inspection of the firm.

Sincerely,

*Chaturvedi & Shah*  
Chartered Accountants



Head Office: 714-715, Tulsiani Chambers, 212, Nariman Point, Mumbai - 400 021, India. Tel.: +91 22 3021 8500 - Fax: +91 22 3021 8595  
URL : www.cas.ind.in

Branches: Ahmedabad | Bengaluru | Delhi | Jamnagar