PCAOB
Public Company Accounting Oversight Board

PCAOB Announces Settled Disciplinary Order Against PricewaterhouseCoopers International Firms in India for Audit Violations Related to Satyam

Washington, D.C., April 5, 2011

Order Includes Findings of Pervasive Quality Control Violations

The Public Company Accounting Oversight Board today announced a settled disciplinary order against five PricewaterhouseCoopers International firms based in India, which included a $1.5 million penalty against two of those firms, the Board's largest civil money penalty to date, for violations of PCAOB rules and standards in connection with the audit of India IT service provider, Satyam Computer Services.

The PCAOB penalty is in addition to the $6 million penalty imposed today by the Securities and Exchange Commission against the five firms in the Commission's own proceeding. The combined $7.5 million U.S.-regulatory penalty imposed in this matter is the largest penalty that the SEC and PCAOB have assessed against any registered foreign accounting firm.

The Board also found that all five firms violated the Board's quality control standards. In addition to the penalty, the Board imposed significant limitations and undertakings related to the firms' audit activities, required the appointment of an independent monitor, and censured the firms.

The PCAOB-registered firms of PricewaterhouseCoopers International Limited (PwC IL) that settled today included Price Waterhouse, Bangalore (PW Bangalore), Lovelock & Lewes (Lovelock), Price Waterhouse & Co., Bangalore, Price Waterhouse, Calcutta, and Price Waterhouse & Co., Calcutta (collectively, PW India).

"The reliability of global capital markets depends on auditors fulfilling their obligation to investors to perform robust audits, resulting in well-founded audit reports. Two of the PW India firms, PW Bangalore and Lovelock, repeatedly violated PCAOB rules and standards in conducting the Satyam audits. These confirmation deficiencies contributed directly to the auditors' failure to uncover the Satyam fraud," said James R. Doty, PCAOB Chairman.

In auditing Satyam's financial statements, PW Bangalore and Lovelock used a procedure to test Satyam's cash balance that did not comply with the PCAOB auditing standard governing the confirmation process. Contrary to their own audit plan and PCAOB standards, PW Bangalore and Lovelock relied on Satyam management to send confirmation requests to Satyam's banks, and relied on Satyam management to return purported confirmation responses from the banks to

RELATED INFORMATION

- In the Matter of Price Waterhouse, Bangalore, Lovelock & Lewes, Price Waterhouse & Co., Bangalore, Price Waterhouse, Calcutta, and Price Waterhouse & Co., Calcutta
- In the Matter of Siva Prasad Pulavarthi
- In the Matter of Chintapatla Ravindernath

the auditors.

The Board found that deficient cash confirmation procedures contributed to the failure of the firms to detect that Satyam's cash balance was materially overstated. Satyam management used these bank confirmations as part of a cover up of its scheme to inflate the company's reported cash balance by approximately $1 billion.

"Accounting firms that audit U.S. issuers, including affiliates of international accounting networks, provide an essential bulwark for investors against issuer clients that are committing fraud. PW Bangalore and Lovelock repeatedly failed to meet their obligation to comply with PCAOB standards, and these failures contributed to PW Bangalore and Lovelock failing to detect the fraud committed by Satyam management," said Claudius B. Modesti, Director of the PCAOB Division of Enforcement and Investigations.

The Board's investigation also uncovered, and its order found, that the jointly administered system of quality control of the five PW India firms failed to detect a general practice in the cash confirmation process that was not in accordance with PCAOB standards. This pervasive failure continued for many years, and went undetected by PW India's quality control system. The firms consented to the Board's order without admitting or denying the PCAOB findings.

As a result of the PCAOB order, the PW India firms will not be able to accept new engagements to audit U.S. issuers until an independent monitor determines that PW India has made significant progress toward completing the undertakings required by the PCAOB order. Also, the PW India firms will not be able to accept new referred U.S. issuer audit work for a period of six months.

In addition, the PW India firms agreed to implement sweeping changes to their quality control policies and procedures, and to certain undertakings intended to improve audit quality at the PW India firms, ensure compliance with PCAOB rules and standards, and protect investors.

The Division of Enforcement and Investigations closely coordinated its investigation of the PW India firms with the SEC Division of Enforcement, and thanks the SEC for its significant assistance. This settlement highlights the strong working relationship between the PCAOB and SEC enforcement staff. Because the PW India firms are registered with the Board and the Board has the authority to require cooperation from registered firms and their associated persons, in this instance, PCAOB enforcement staff assumed responsibility for a significant portion of the investigative process. As contemplated by the Sarbanes-Oxley Act, the PCAOB shared its investigative information with the SEC. In this manner both organizations were able to obtain the necessary investigative information without duplicating their efforts.

The PCAOB investigation was conducted by PCAOB Enforcement staff members Raymond Hamm, Kyra Armstrong, Michael Rosenberg, John Abell, David Florenzo, Heather Howard, and Mark Zebrowski.