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COMMENTARY

Crisis of the Week: PwC Battles India Ban on Affiliates

By Ben DiPietro

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A bird flies past the logo of PricewaterhouseCoopers installed on the facade of its office in Mumbai, India, on Jan.11, 2018.

PHOTO: REUTERS/DANISH SIDDIQUI

This is a weekly commentary by external experts.

A regulator in India in January banned affiliates of PricewaterhouseCoopers from auditing listed companies for two years. The ban is punishment for the firm's failure to detect a billion-dollar fraud at Satyam Computer Services Ltd., an outsourcing company. PwC was in charge of checking Satyam's accounting in 2009 when Satyam's founder admitted he padded revenue by close to \$1 billion by inflating sales and forging bank documents.

PwC said its accountants were duped, and said it is confident it can reverse the order in court.

"The SEBI [Securities and Exchange Board of India] order relates to a fraud that took place nearly a decade ago in which we played no part and had no knowledge of," PwC said in a statement. "We have however learnt the lessons of Satyam and invested heavily over the last nine years in building a robust and high-quality audit practice."

Three crisis management experts analyze how well PwC communicated during this crisis.

Tadd Schwartz, president and chief executive, Schwartz Media Strategies: "The central role of any auditor is to ensure a clean bill of financial health while uncovering instances of error, mismanagement or fraud, so it is somewhat disingenuous PwC is feigning ignorance. PwC walks a fine line in its response. By distancing itself from Satyam's wrongdoing, the firm protects its legal position but undermines the very reason it was hired in the first place.

"PwC claims it has 'learnt its lessons' following the mishap, but its stance comes off as defensive and reactive, given the government's findings. The firm would have been better off avoiding the remorseful language and focusing solely on what lies ahead. [That should be] voicing confidence the court's decision would be reversed, while reinforcing the investments it has made in creating...rigorous and sophisticated audit infrastructures, with specific examples to back up its claims."

Judy Phair, president, PhairAdvantage Communications: "PricewaterhouseCoopers' global reputation has brought success in the Indian auditing market. That reputation seems to contrast with its current response to government sanctions. PwC seeks to reverse the sanctions because it was 'duped' by Satyam's leaders and has 'learnt the lessons' and 'invested heavily' in building a robust, quality audit practice. Both arguments may raise more doubts about its competence and commitment to public trust.

“PwC cites as the third leg of its defense a 2010 Indian high court ruling that it couldn’t be punished without ‘proof of connivance and intent to fraud.’ The Securities and Exchange Board of India commented PwC may have been too close to Satyam’s leadership and missed red flags ‘any reasonable professional auditor’ should have seen. PwC’s current actions neither fit nor advance its global or Indian reputation.

“It’s time for PwC to accept public responsibility for past mistakes, emphasize its respect for Indian business and the financial regulatory system, and present a strong case for its current business practices. A sincere and detailed apology could go a long way in showing it respects and is worthy of the trust of its clients and customers. [An apology] may be much more effective in rescinding or reducing the new sanctions.”

Andrea Bonime-Blanc, chief executive, GEC Risk Advisory: “PwC’s response...was generally ineffective from a reputation and resilience-building standpoint, though not incompetent from a defensive public relations standpoint.

“It was not incompetent because it expressed a predictable posture that any auditor would take about the case being old and the fact criminal conspiracy between the firm and the client was not proven. [It stated] the oft-repeated claim by auditors that it is near impossible to uncover a sophisticated fraud, and that the case is not over and they plan to pursue redress. That’s all predictable and not incompetent.

“Although PwC underlined it “learnt the lessons of Satyam,” it missed an excellent opportunity to build its reputation. Though legal exigencies sometimes make this difficult, PwC should have taken advantage of what I like to call a ‘risk opportunity’ to go further.

“It should have admitted it was both humbled and enlightened by this event and specifically pursued a nine-year plan to build ‘a robust and high-quality audit practice,’ showing us some of the details. It should have outlined details of its resilience-building and how it benefits current stakeholders.”

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