FOLLOW-UP

Indian authorities arrested Raju and his brother Rama on complaints of cheating, forgery, breach of trust, and other charges. Police called in cyberforensic experts who can retrieve erased data from computers. In all, 10 people have been arrested for the fraud. All of them, including Raju, are out on bail.

PWI suspended its chief relationship partner and engagement leader on the Satyam audit, set up an advisory board, conducted a review of work and processes, and appointed a new head of quality assurance and risk management. While screening through the minutes of some of the board meetings, investigators found that the total audit fees paid to PWI for its domestic and international accounts was around $1.4m, almost double the figure mentioned in the balance sheet.

The information concerning the probe initiated by the Crime Investigation Department (CID), the Serious Fraud Investigation Office (SFIO), and Institute of Chartered Accountants of India (ICAI) was handed to the CBI in February 2009. The Securities and Exchange Board of India had its own investigation team go through the company's books.

A senior CBI official, who did not wish to be identified, confirmed to *Business Today* that Raju seems to have come clean in his confession letter except for his statement about not having benefited in financial terms as a result of inflated results. "We are yet to establish if there was any diversion of funds from Satyam to any of Raju's entities. This will take some time to investigate," added the CBI official.[8] Decoding the biometric laptops used by Raju and his team, screening the internal financial software of the company and minutes of the board meetings for the final six years, scanning papers of the approximately 300 companies created by Raju and his family, and scrutinizing the land records under these companies was expected to keep the CBI busy for months.

During an interrogation session, Raju is believed to have said that he never did anything wrong because everyone else in the industry does it.

On April 5, 2011, the PCAOB and the SEC announced a joint penalty of $7.5m against the five firms composing PW India, a member of PwC. It is the largest such penalty ever assessed against a registered foreign accounting firm. The firms were also given other sanctions, including a six-month ban on accepting new SEC clients and the imposition of quality controls. In addition, the Institute of Chartered Accountants of India (ICAI) has barred two Indian auditors, Pulavarthi Siva Prasad and Chintapatla Ravindernath, from "the register of members permanently" for their role in the crisis.[9]

In the release of its findings, the PCAOB said the auditors had relied on management to send confirmation requests to Satyam's bank and to return responses to the auditors even though the audit programs "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."[10] Moreover, a network firm partner reviewing the documentation "advised that the engagement team 'can only take credit for [cash] confirmations we send [to] and receive directly [from the banks].' "[11] The 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.' " There had been similar shortcomings in the confirmation of accounts receivable, even though the firm had noted numerous internal control deficiencies. "These confirmation deficiencies contributed directly to the auditors' failure to uncover the Satyam fraud," said James R. Doty, PCAOB Chairman.[12]

DISCUSSION QUESTIONS

1. Do you agree with Dennis Nally's comments?
2. How do you think Raju could have used Maytas assets to cover up the fraud?
3. Why are related-party frauds more difficult to detect than frauds with no related parties?
4. Should U.S. public accounting firms try to audit internationally in cultures they may not understand? If so, how can they maintain quality audits?

[8] Rachna M. Koppikar and Puja Mehra, "Satyam: Unraveling the Fraud," *Business Today*, July 2009.

[9] Keith Nuthall, "Auditors Barred for Life over Satyam Scandal," Accountancy Age, December 8, 2011.