

**Report on**  
  
**2016 Inspection of Bharat Parikh & Associates**  
**Chartered Accountants**  
(Headquartered in Vadodara, Republic of India)

**Issued by the**  
  
**Public Company Accounting Oversight Board**  
  
**December 15, 2016**

**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**

**2016 INSPECTION OF BHARAT PARIKH & ASSOCIATES  
CHARTERED ACCOUNTANTS**

Preface

In 2016, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Bharat Parikh & Associates Chartered Accountants ("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). The inspection included reviews of portions of two issuer audits performed by the Firm. These reviews were intended to identify whether deficiencies existed in the reviewed 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. Appendix A presents the text of the paragraphs of the auditing standards that are referenced in Part I.A. in relation to the description of auditing deficiencies there.

*Note on this report's citations to auditing standards:* On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization will be effective as of December 31, 2016, but the reorganized numbering system may be used before that date. In this report, citations to PCAOB auditing standards use the numbering system and titles of



standards that were in effect at the time of the primary inspection procedures. A table cross-referencing the section numbers of those standards included in Part I of this report as reorganized is included at Appendix B.

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

Offices	5 (Ahmedabad, Mumbai, New Delhi, and Vadodara, Republic of India; and Plano, Texas)
Ownership structure	Partnership
Partners / professional staff <sup>2</sup>	8 /16
Issuer audit clients	2
Lead partners on issuer audit work <sup>3</sup>	1
Other names used in audit reports	Bharat Parikh & Associates

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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. The number of partners cited above represents the number of individuals with an ownership interest in the Firm.

<sup>3</sup> The number of lead partners on issuer audit work represents the total number of Firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS No. 10, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

## **PART I**

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

Members of the Board's staff ("the inspection team") conducted primary procedures for the inspection from March 14, 2016 to March 18, 2016.<sup>4</sup>

#### **A. Review of Audit Engagements**

The inspection procedures included a review of portions of two issuer audits performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix A to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in any references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable

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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 performed prior to primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which extend beyond the primary procedures.

financial reporting framework. In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are materially misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.<sup>5</sup>

The audit deficiencies that reached this level of significance are described below.

Issuer A

- (1) the failure to perform sufficient procedures to test the occurrence and valuation of revenue (AS No. 14, paragraph 30);
- (2) the failure to perform sufficient procedures to test equity (AS No. 13, paragraph 8); and

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<sup>5</sup> Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and 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.

- (3) the failure to perform sufficient procedures to test the existence of cash (AS No. 13, paragraph 8).

Issuer B

- (1) the failure to perform sufficient procedures to test the occurrence and valuation of revenue (AS No. 13, paragraphs 8 and 11; AS No. 15, paragraph 27);
- (2) the failure to perform sufficient procedures to test the existence of accounts receivable (AS No. 13, paragraphs 8 and 11; AU 330, paragraphs .34 and .35); and
- (3) the failure to perform sufficient procedures to test the existence and valuation of inventory (AS No. 13, paragraph 8; AU 331, paragraph .09; AU 342, paragraph .04).

**B. Auditing Standards**

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audit work. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work*, paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph 7, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement, and AS No. 15, *Audit Evidence*, paragraph 4, requires the auditor to plan and perform audit procedures to

obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement in the audit of financial statements and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

**B.1. List of Specific Auditing Standards Referenced in Part I.A.**

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited.

PCAOB Auditing Standards	Issuers
AS No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	A and B
AS No. 14, <i>Evaluating Audit Results</i>	A
AS No. 15, <i>Audit Evidence</i>	B
AU 330, <i>The Confirmation Process</i>	B
AU 331, <i>Inventories</i>	B
AU 342, <i>Auditing Accounting Estimates</i>	B

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

A Board inspection includes a review of certain portions of selected audit work performed by the inspected firm and a review 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 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"). For these audits, the inspection team selects certain portions of the audits 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 audits, and the specific portions of those audits, 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>6</sup> as well as a

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<sup>6</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 the applicable financial reporting framework, 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.

firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm's audit work, nor is it designed to identify every deficiency in the reviewed audits. 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, an inspection team considers whether audit documentation or any other evidence that a firm might provide to the inspection team supports the 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>7</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 focus are most often selected on a risk-weighted basis and not randomly. Areas of

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<sup>7</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 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.

## 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*, 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 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 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.

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<sup>8</sup> Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report may not discuss every audit deficiency the inspection team identified.

<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

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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observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.



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

## PART II

\* \* \* \*

### **B. Issues Related to Quality Controls**

The inspection of the Firm included consideration of aspects of the Firm's system of quality control.<sup>10</sup>

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

\* \* \* \*

#### Monitoring

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will effectively monitor its accounting and auditing practice as required by QC 20 and QC Section 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*. Specifically, the Firm's post-issuance reviews of audit engagement files included the review of one of the issuer audits that the inspection team subsequently reviewed, but the Firm failed to identify any of the deficiencies identified by the inspection team. [Issuer B]

#### Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A (and summarized in Part I.A) and any other deficiencies identified below, the Board has

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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 \* \* \* \* [have been] taken into account by the Board during its assessment of whether the Firm has satisfactorily addressed the quality control criticisms or defects within the twelve months after the issuance of this report.

concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –

Technical Competence

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will assign personnel with the technical competence required to perform audit work in accordance with PCAOB standards. With respect to the audit deficiencies described in Part II.A, it appeared to the inspection team that the engagement personnel who performed and supervised the work did not possess sufficient technical knowledge, experience, or training necessary to enable them to fulfill the responsibilities of the work assigned. Specifically, with respect to these deficiencies, it appeared to the inspection team that the engagement personnel assigned to the audit did not have an appropriate understanding of relevant PCAOB standards related to auditing revenue, stockholders' equity, accounts receivable, and inventory. [Issuers A and B]

Risk Assessment

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform an appropriate risk assessment in accordance with the provisions of AS No. 12, *Identifying and Assessing Risks of Material Misstatement*. Specifically, in both of the audits reviewed, the Firm failed to identify and assess the risks of material misstatement at the financial statement level and the assertion level. \* \*

\* \* [Issuers A and B]

Communications with Audit Committees

Communications Related to the Conduct of the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with AS No. 16, *Communications with Audit Committees*. Specifically, in both of the audits reviewed, the Firm failed to make any of the required communications. [Issuers A and B]

Communications Concerning Independence

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will provide to the audit committee, or equivalent, required independence



confirmations in accordance with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*. In both of the audits reviewed, the Firm failed to provide such communications. [Issuers A and B]

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## **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.



**Bharat Parikh  
& Associates**

CA. Bharat Parikh  
B.Com., F.C.A



November 7, 2016

Ms. Helen A. Munter  
The Director  
Division of Registration and Inspections  
PCAOB  
1666 K Street, N.W.  
Washington, DC 20006

Sub: Response to Draft Report dated October 5, 2016 for the PCAOB Inspection of our firm

Dear Ms. Munter,

By way of this letter we would like to thank you for the opportunity we have been given by the board to provide a written response to the Draft Report of Inspection conducted in the month of March 2016.


We appreciate the board's and the inspection team's efforts to travel all the way to India and to provide us an opportunity to experience the inspection procedure first hand for the first time. The overall inspection procedure was very helpful for us to determine the improvements that we need to make and would like to take this as an opportunity to continuously improve on our service levels.

We have undergone a thorough review of the draft inspection report of our firm issued by the Board. With reference to the deficiencies pointed out in Part II (A & B) of the report for Issuer A and B, we would like to comment as enclosed.

We agree that certain procedures though performed during the audit could not be 100 % documented due to certain factors beyond our control like paucity of time etc. We will improve on our working procedures in regards to PCAOB and will maintain the requisite documentation in all our future audits of all issuers based on the findings of the inspection team and we assure the board that we will be more meticulous in our documentation of all the audit procedures performed during the audit. Further, we also assure you that we will thoroughly study the revised PCAOB standards before commencing the audit of issuers for the current financial year and as required by the draft report, we will submit evidence to demonstrate to the Director of the Division of Registration and Inspections the ways in which our Firm has addressed the criticisms and potential defects described in the draft report at the earliest.

Hope we have sufficed all your requirements and looking forward for a positive response from your side.

Regards,

  
Bharat Parikh  
Senior Managing Partner  
Bharat Parikh and Associates  
M NO. 038204



**CHARTERED ACCOUNTANTS**

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REDACTED. Comments on Non-public Aspects of Report

**B.1.b. Monitoring:**

As noted by the inspection team, the firm has a detailed internal questionnaire which is filled by the engagement team and then reviewed by the engagement reviewer. Though the final review by the engagement reviewer did not identify any deficiency in the engagement team's audit of revenue and inventory which is also supported by the firm's response to the respective findings of the inspection team, the said review of the questionnaire by the engagement reviewer is an illustration of internal quality control of the firm's policy. Further as orally discussed with the inspection team the audit team's audit procedure was and currently is under constant monitoring by a senior audit manager who is then monitored under advisory capacity by his/her senior. The firm's policy of internal control includes the clause of monitoring and is stringently followed



The firm will take further measures to improve its quality control practice to improve its policy on the internal control questionnaire so that all deficiencies, if at all, in the audit by the audit engagement team are identified by the engagement reviewer.

**B.2.a. Technical Competence:**

As per the firm's quality control policy certified by ISO 9001:2008 "III Personnel Management" it is ensured that the staff appointed/allocated is well conversant with the applicable accounting and auditing standards & complies with the same during the audit. If due to uncertainty if the allocated staff must be replaced by someone else; then care is taken that a mandatory training to be provided to the team member for the relevant task on hand and a brief history is also shared with him/her.

The work is being properly delegated with job responsibility shouldered on the personnel at the top. Organization chart is being prepared properly defining the authority at various levels and the levels of reporting to higher authority.

Care is also taken to carefully direct, supervise and review of work performed by the team to check if the procedure performed by the audit team is adequate or not.

The copy of the firm's quality control policy was provided to the inspection team for review. Further the engagement team selected for the audits of Issuer A and B were highly competent and experts in their respective field of audits including PCAOB audits and are qualified professionals having over 30+ years of global Auditing experience. The engagement lead has overall more than 30 years of global auditing experience and is a qualified Chartered Accountant. He also has completed AICPA CPE hours for the CPA Board State of Texas. The Engagement Quality Reviewer has an overall 8+ years of global experience in the field of global accounting and auditing and he is a certified Lean Six Sigma Green Belt with a qualification of international accounting & finance from Philadelphia USA. He is also a current member of ISACA and a AICPA candidate.

Keeping in mind the above points the firm confirms that the firm's system of quality control and their procedure and policy to assign personnel with technical competence in the relevant field still exists to fulfill the work or responsibilities assigned to them. However the firm agrees to oblige and improve on the deficiencies spotted by the inspection team to further improve the quality of the work for the betterment of the investors.

**B.2.b. Risk Assessment:**

REDACTED. Comments on Non-public Aspects of Report





## REDACTED. Comments on Non-public Aspects of Report

The engagement team had filled checklist AUD-903 which clearly stated that the audit team has considered fraud and other illegal acts, if any, while auditing the financials of the company.

These checklists that have been filled by the engagement team was verified and signed by the engagement reviewer, which shows the firm's quality control practice of considering fraud, if any, while auditing the financials of the issuer company.

### B.2.c. Communications with Audit Committees:

**B.2.c.i & B.2.c.ii.** - During audit of **Issuer B** for the year ended 30th September, 2015, the firm had communicated several times with the audit committee relating to the commencement / conclusion of audit. In addition, various audit issues raised during the audit and the audit program had been communicated with the officials in an equivalent position of the audit committee and the minutes of the meetings with the management had been provided to the inspection team during the review. Also, the engagement partner has orally communicated with the management regarding various issues during the audit, the minutes of the same has been documented and has been provided to the inspection team during inspection.

Also, the firm has issued annual written independence confirmation to the client regarding the independence of the audit team which is signed by the lead engagement partner. The same is in the audit documentation file (hard copy) of the client which had been shown to the inspection during the inspection. If required, we can once again scan the said document to your good offices.

During the audit of **Issuer A** since the issuer is a one-man company operated from \*\*\* the firm initiated the audit committee communication with the sole owner of the company \*\*\*. The communications were made on phone which was also disclosed at the time of inspection but no such written proofs of the phone calls are available on record.

Moreover, as a part of Audit Committee Communications apart from the oral communications being made; some portion of the Audit Committee communications is already covered in the engagement letter as below:

\*Appointment and Retention \*Understanding the terms of audit \*Audit method and strategy of audit – Included in the engagement letter issued to the sole owner/audit committee for the issuer client.

Further as a part of the firm's independence policy we take independence declaration from each member of the engagement team and the same was available in the audit files for the inspection



\*\*\* As a matter of policy, the PCAOB makes reasonable efforts to redact from firms' responses to draft inspection reports personal identifying information about individuals not associated with the firm.

team to review and this was also disclosed to the sole owner of the company the team would be independent in the audit activity and individually they have signed the independent declaration.

REDACTED. Comments on Non-public Aspects of Report



## APPENDIX A

### AUDITING STANDARDS REFERENCED IN PART I.A

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.

<b>AS No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i></b>		
<b>Responses Involving the Nature, Timing, and Extent of Audit Procedures</b>		
AS No. 13.8	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuers A and B
<b>RESPONSES TO SIGNIFICANT RISKS</b>		
AS No. 13.11	<p>For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.</p> <p>Note: Auditing Standard No. 12 discusses identification of significant risks<sup>10/</sup> and states that fraud risks are significant risks.</p>	Issuer B
<b>Footnote to AS No. 13.11</b>  <sup>10/</sup> See paragraph 71 of Auditing Standard No. 12 for factors that the auditor should evaluate in determining which risks are significant risks.		

<b>AS No. 14, <i>Evaluating Audit Results</i></b>		
<b>EVALUATING THE PRESENTATION OF THE FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES</b>		
AS No. 14.30	<p>The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.</p> <p>Note: AU sec. 411, <i>The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles</i>, establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, <i>Evaluating Consistency of Financial Statements</i>, establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.</p> <p>Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.</p>	Issuer A

<b>AS No. 15, <i>Audit Evidence</i></b>		
<b>SELECTING SPECIFIC ITEMS</b>		
AS No. 15.27	<p>The application of audit procedures to items that are selected as described in paragraphs 25-26 of this standard does not constitute audit sampling, and the results of those audit procedures cannot be projected to the entire population.<sup>12/</sup></p>	Issuer B
<p><u>Footnote to AS No. 15.27</u></p> <p><sup>12/</sup> If misstatements are identified in the selected items, <u>see</u> paragraphs 12-13 and paragraphs 17-19 of Auditing Standard No. 14.</p>		



<b>AU 330, <i>The Confirmation Process</i></b>		
<b>Confirmation of Accounts Receivable</b>		
AU 330.34	<p>For the purpose of this section, accounts receivable means—</p> <ol style="list-style-type: none"> <li>The entity's claims against customers that have arisen from the sale of goods or services in the normal course of business, and</li> <li>A financial institution's loans.</li> </ol> <p>Confirmation of accounts receivable is a generally accepted auditing procedure. As discussed in paragraph .06, it is generally presumed that evidence obtained from third parties will provide the auditor with higher-quality audit evidence than is typically available from within the entity. Thus, there is a presumption that the auditor will request the confirmation of accounts receivable during an audit unless one of the following is true:</p> <ul style="list-style-type: none"> <li>Accounts receivable are immaterial to the financial statements.</li> <li>The use of confirmations would be ineffective. <sup>fn 4</sup></li> <li>The auditor's combined assessed level of inherent and control risk is low, and the assessed level, in conjunction with the evidence expected to be provided by analytical procedures or other substantive tests of details, is sufficient to reduce audit risk to an acceptably low level for the applicable financial statement assertions. In many situations, both confirmation of accounts receivable and other substantive tests of details are necessary to reduce audit risk to an acceptably low level for the applicable financial statement assertions.</li> </ul>	Issuer B
<p><u>Footnote to AU 330.34</u></p> <p><sup>fn 4</sup> For example, if, based on prior years' audit experience or on experience with similar engagements, the auditor concludes that response rates to properly designed confirmation requests will be inadequate, or if responses are known or expected to be unreliable, the auditor may determine that the use of confirmations would be ineffective.</p>		
AU 330.35	An auditor who has not requested confirmations in the examination of accounts receivable should document how he or she overcame this presumption.	Issuer B

<b>AU 331, <i>Inventories</i></b>		
<b>Inventories</b>		
AU 331.09	When inventory quantities are determined solely by means of a physical count, and all counts are made as of the balance-sheet date or as of a single date within a reasonable time before or after the balance-sheet date, it is ordinarily necessary for the independent auditor to be present at the time of count and, by suitable observation, tests, and inquiries, satisfy himself respecting the effectiveness of the methods of inventory-taking and the measure of reliance which may be placed upon the client's representations about the quantities and physical condition of the inventories.	Issuer B

<b>AU 342, <i>Auditing Accounting Estimates</i></b>		
AU 342.04	The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. As estimates are based on subjective as well as objective factors, it may be difficult for management to establish controls over them. Even when management's estimation process involves competent personnel using relevant and reliable data, there is potential for bias in the subjective factors. Accordingly, when planning and performing procedures to evaluate accounting estimates, the auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.	Issuer B

## APPENDIX B

### REORGANIZED STANDARDS REFERENCED IN PART I.A

On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the SEC approved the PCAOB's adoption of the reorganization. The reorganized standards will be effective as of December 31, 2016. The citations to PCAOB auditing standards included in this report use the numbering system and titles of standards that were in effect at the time of the primary inspection procedures. This table provides the section numbers of those standards included in Part I of this report as reorganized, as well as the titles of the standards both before and after the reorganization. The complete standards are available on the PCAOB's website at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.

Auditing Standards – before the reorganization		Auditing Standards – as reorganized	
AS No. 3	<i>Audit Documentation</i>	AS 1215	<i>Audit Documentation</i>
AS No. 13	<i>The Auditor's Responses to the Risks of Material Misstatement</i>	AS 2301	<i>The Auditor's Responses to the Risks of Material Misstatement</i>
AS No. 14	<i>Evaluating Audit Results</i>	AS 2810	<i>Evaluating Audit Results</i>
AS No. 15	<i>Audit Evidence</i>	AS 1105	<i>Audit Evidence</i>
AU 230	<i>Due Professional Care in the Performance of Work</i>	AS 1015	<i>Due Professional Care in the Performance of Work</i>
AU 330	<i>The Confirmation Process</i>	AS 2310	<i>The Confirmation Process</i>
AU 331	<i>Inventories</i>	AS 2510	<i>Auditing Inventories</i>
AU 342	<i>Auditing Accounting Estimates</i>	AS 2501	<i>Auditing Accounting Estimates</i>