PCAOB
Public Company Accounting Oversight Board

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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS

In the Matter of Bharat Parikh & Associates Chartered Accountants, Bharatkumar Balmukund Parikh, FCA, and Anuj Bharatkumar Parikh,

Respondents.

PCAOB Release No. 105-2019-003

March 19, 2019

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring Bharat Parikh & Associates Chartered Accountants ("BPA" or the "Firm"), revoking the Firm's registration,[1] and imposing a $15,000 civil money penalty on the Firm; censuring Bharatkumar Balmukund Parikh, FCA ("Bharat Parikh"), and barring him from being an associated person of a registered public accounting firm;[2] and censuring Anuj Bharatkumar Parikh ("Anuj Parikh") and barring him from being an associated person of a registered public accounting firm.[3] The Board is imposing these sanctions on the basis of its findings that the Firm, Bharat Parikh and Anuj Parikh (collectively, "Respondents") violated PCAOB rules and standards in connection with audits of two issuer clients.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondents.

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1 The Firm may reapply for registration after five (5) years from the date of this Order.

2 Bharat Parikh may file a petition for Board consent to associate with a registered public accounting firm after five (5) years from the date of this Order.

3 Anuj Parikh may file a petition for Board consent to associate with a registered public accounting firm after one (1) year from the date of this Order.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (the "Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.[4]

III.

On the basis of Respondents' Offers, the Board finds that:[5]

A. Respondents

1. Bharat Parikh & Associates Chartered Accountants is an accounting firm headquartered in Vadodara, Gujarat, India. The Firm is licensed by the Institute of Chartered Accountants of India ("ICAI") (license no. 101241-W). The Firm is registered with the PCAOB, pursuant to Section 102 of the Act and PCAOB rules. At all relevant times BPA was the external auditor for the issuers identified below.

2. Bharatkumar Balmukund Parikh, FCA, age 65, of Vadodara, Gujarat, India, is a Fellow Chartered Accountant, licensed by the ICAI (member no. 038204). Bharat Parikh is the Senior Managing Partner and Controlling Partner of the Firm, and he served as the engagement partner on each of the audits discussed below. Bharat Parikh is an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

3. Anuj Bharatkumar Parikh, age 31, of Vadodara, Gujarat, India, is the Firm's Senior Consultant and Engagement Manager. Anuj Parikh served as engagement manager on each of the audits discussed below. As engagement

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[4] The findings herein are made pursuant to Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

[5] The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

manager, Anuj Parikh was responsible for client contact and coordination, and he was also involved in the supervision and performance of the audits, each of which was performed with the assistance of other junior BPA staff. As discussed below, Anuj Parikh also simultaneously served as the engagement quality reviewer for three of the audits. Anuj Parikh is an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

4. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the issuance of audit reports on the financial statements of Issuer A, for the fiscal years ("FY") ended September 30, 2014 through 2017 and Issuer B for the fiscal years ended May 31, 2015 and 2016. As detailed below, Respondents failed to exercise due professional care, including professional skepticism, and failed to obtain sufficient appropriate audit evidence, in connection with the audits. BPA and Bharat Parikh also failed to adequately consider whether a significant scope limitation in the FY 2015 Issuer B audit required BPA to issue a qualified audit report, or disclaim an opinion, for that audit.

5. This matter also concerns Respondents' failure to prepare sufficient audit documentation for each of the Issuer A audits; Bharat Parikh's failure to adequately supervise the Issuer A and Issuer B audits; the Firm's failure to comply with PCAOB quality control standards; and Bharat Parikh's failure to take appropriate steps to establish and monitor an appropriate system of quality control for the Firm.

6. Finally, this matter concerns Respondents' failure to comply with AS 1220, *Engagement Quality Review* (formerly, Auditing Standard No. 7).[6] The Firm failed to have an engagement quality review performed that complied with PCAOB standards during the FY 2014 and 2015 Issuer A audits and the FY 2015 Issuer B audit. In violation of AS 1220, Anuj Parikh served as the engagement quality reviewer on those audits while also acting as an active member of the engagement team. By assigning Anuj Parikh to both roles, Bharat Parikh knowingly or recklessly contributed to the Firm's violation.

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[6] All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audits. As of December 31, 2016, the PCAOB reorganized 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); see also *PCAOB Auditing Standards Reorganized and Pre Reorganized Numbering* (Jan. 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. While Respondents' conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

C. Respondents Violated PCAOB Rules and Standards

7. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[7] An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.[8] Those standards require among other things, that an auditor plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[9] PCAOB standards further require that an auditor exercise due professional care and professional skepticism in performing the audit.[10]

8. PCAOB standards state that, in planning an audit, an auditor should, among other things, establish an overall audit strategy for the engagement and develop an audit plan.[11] The auditor should also identify and assess the risks of material misstatement at the financial statement level and the assertion level, and 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.[12] The auditor should perform substantive procedures for each relevant assertion of each significant account and disclosure, regardless of the assessed level of control risk.[13] For significant risks, including fraud risks, the auditor should likewise perform

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[7] See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, and PCAOB Rule 3200, *Auditing Standards*.

[8] See AS 3101, *Reports on Audited Financial Statements* (formerly, AU § 508), ¶ 7. AS 3101 was subsequently replaced for audits of fiscal years ending on or after December 15, 2017. All references to AS 3101 in this Order are to the version of that standard in effect as of the Board's December 31, 2016 reorganization of its auditing standards.

[9] See AS 1105, *Audit Evidence* (formerly, Auditing Standard No. 15), ¶ 4.

[10] See AS 1015, *Due Professional Care in the Performance of Work* (formerly, AU § 230).

[11] See AS 2101, *Audit Planning* (formerly, Auditing Standard No. 9), ¶¶ 4-5.

[12] See AS 2110, *Identifying and Assessing Risks of Material Misstatement* (formerly, Auditing Standard No. 12), ¶ 59; AS 2301, *The Auditor's Responses to the Risks of Material Misstatement* (formerly, Auditing Standard No. 13), ¶ 8.

[13] See AS 2301 ¶ 36.

substantive procedures, including tests of details, that are specifically responsive to the assessed risks.[14]

9. To be appropriate, audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based.[15] PCAOB standards provide that, "if conditions indicate that a document may not be authentic or that the terms in a document have been modified but that the modifications have not been disclosed to the auditor, the auditor should modify the planned audit procedures or perform additional audit procedures to respond to those conditions and should evaluate the effect, if any, on the other aspects of the audit."[16] When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to: test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and evaluate whether the information is sufficiently precise and detailed for purposes of the audit.[17]

10. PCAOB standards further require that an auditor evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.[18] In forming an opinion on whether the financial statements are presented fairly, in all material respects, the "auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements."[19] If the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion or has substantial doubt about a relevant assertion, the auditor should perform procedures to obtain further audit evidence to address the matter.[20] If the auditor is unable to obtain sufficient appropriate audit evidence to have a reasonable basis to conclude about whether the financial statements as a whole are free of material misstatement, the auditor should express a qualified opinion or a disclaimer of opinion.[21]

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[14] See AS 2301 ¶¶ 11, 13.

[15] See AS 1105 ¶ 6.

[16] AS 1105 ¶ 9.

[17] See AS 1105 ¶ 10.

[18] See AS 2810, *Evaluating Audit Results* (formerly, Auditing Standard No. 14), ¶ 2.

[19] AS 2810 ¶ 3.

[20] See AS 2810 ¶ 35.

[21] Id.

Representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.[22]

11. Restrictions on the scope of the audit, whether imposed by the client or by circumstances, may require the auditor to qualify his or her opinion.[23] Restrictions on the application of audit procedures to important elements of the financial statements require the auditor to decide whether he or she has examined sufficient appropriate audit evidence to permit him or her to express an unqualified or qualified opinion, or whether he or she should disclaim an opinion.[24]

12. As described below, Respondents failed to comply with these and other PCAOB rules and standards in connection with the audits of Issuer A and Issuer B.

1. The Issuer A Audits

13. Issuer A is a Delaware corporation with a principal office in Farmingdale, New York. During the relevant time, Issuer A's public filings disclosed that it provided electronic manufacturing services and broad-based industrial services. At all relevant times, Issuer A was an "issuer" as the term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

14. When planning each of the FY 2014 through 2017 Issuer A audits, BPA and Bharat Parikh failed to perform sufficient risk assessment procedures to identify the risks of material misstatement at both the financial statement level and assertion level.[25] Although BPA identified and documented some significant risks for the audits, the Firm failed to assess inherent risk, control risk, or the risk of material misstatement at the financial statement level or at the assertion level for each area of the audit.

15. As detailed below, when performing the audits, Respondents also failed to exercise due professional care and professional skepticism and failed to obtain sufficient appropriate audit evidence to support the opinions expressed in the Firm's audit reports.

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[22] See AS 2805, *Management Representations* (formerly, AU § 333), ¶ 2.

[23] See AS 3101 ¶ 22.

[24] See AS 3101 ¶ 24.

[25] See AS 2110 ¶ 59.

The FY 2014 Issuer A Audit

16. Bharat Parikh served as the engagement partner on the FY 2014 Issuer A audit and Anuj Parikh served as engagement manager. Bharat Parikh authorized the issuance of BPA's audit report, dated December 24, 2014, which contained an unqualified opinion on Issuer A's FY 2014 financial statements. Issuer A included that audit report in its Form 10-K, which was filed with the Commission on December 29, 2014.

17. Issuer A reported accounts receivable of approximately $4.0 million as of September 30, 2014, which constituted approximately 20% of total assets. During the FY 2014 Issuer A audit, Respondents identified accounts receivable as a significant account and identified a significant risk concerning the existence of accounts receivable. Despite this risk, Respondents failed to plan and perform sufficient audit procedures to address the risk and to determine whether the accounts receivable were properly recorded and properly valued.[26] Although confirmation of accounts receivable is a generally accepted auditing procedure,[27] Respondents failed to perform any confirmation procedures, and failed to document how they overcame the presumption that confirmation procedures were required.[28] While Respondents performed certain analytical procedures concerning the accounts receivable balance, those analytical procedures were not tests of details and did not serve as a substantive audit procedure because Respondents failed to develop a sufficiently precise expectation for those analytics to provide the desired level of assurance that potential misstatements would be identified.[29]

The FY 2015 Issuer A Audit

18. Bharat Parikh served as the engagement partner on the FY 2015 Issuer A audit and Anuj Parikh served as the engagement manager. Bharat Parikh authorized the issuance of BPA's audit report, dated December 18, 2015, which contained an unqualified opinion on Issuer A's FY 2015 financial statements. Issuer A included the audit report in its Form 10-K, which was filed with the Commission on December 21, 2015.

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[26] See generally AS 2301 ¶¶ 8-9, 11, 36.

[27] See AS 2310, *The Confirmation Process* (formerly, AU § 330), ¶ 34.

[28] See AS 2310 ¶¶ 34-35.

[29] See generally AS 2305, *Substantive Analytical Procedures* (formerly AU § 329), ¶¶ 5, 9, 11, 17-19.

19. Issuer A reported accounts receivable of approximately $4.8 million as of September 30, 2015, which constituted approximately 21% of total assets. During the FY 2015 audit, Respondents identified a significant risk concerning the existence of accounts receivable. Despite this risk, Respondents failed to plan and perform sufficient audit procedures to address the risk and to determine whether the accounts receivable were properly recorded and properly valued. Respondents failed to perform any confirmation procedures concerning Issuer A's accounts receivable balance, and failed to document how they overcame the presumption that such confirmation procedures were required. Although Respondents examined Issuer A's bank statements and accounts receivable ledger to determine whether customers with large receivable balances made payments after year end, Respondents failed to match any of those cash receipts to invoices outstanding at year-end. As a result, Respondents failed to determine if the payments related to specific accounts receivable balances that should have been recorded at year end.

20. Issuer A reported finished goods and work-in-progress inventory of approximately $3.2 million as of September 30, 2015, which constituted approximately 14% of total assets. Respondents failed to perform sufficient procedures to test whether the finished goods and work-in-progress inventory were properly recorded and properly valued. Specifically, although observing inventory is a generally accepted auditing procedure,[30] Respondents failed to observe the issuer's inventory count for finished goods and work-in-progress and failed to perform any other audit procedures to test the quantities on hand for these inventories.[31] Further, although Respondents obtained Issuer A's computations of the value for certain work-in-progress and finished goods inventory, Respondents failed to perform procedures to evaluate the reasonableness of Issuer A's estimates of the value of these inventories.

The FY 2016 Issuer A Audit

21. Bharat Parikh served as the engagement partner on the FY 2016 Issuer A audit and Anuj Parikh served as the engagement manager. Bharat Parikh authorized the issuance of BPA's audit report, dated December 28, 2016, which contained an unqualified opinion on Issuer A's FY 2016 financial statements. Issuer A included the audit report in its Form 10-K, which was filed with the Commission on the same day.

22. Issuer A reported accounts receivable of approximately $13.6 million as of September 30, 2016, which constituted approximately 24% of total assets. Respondents again identified a significant risk concerning the existence of accounts receivable. Despite this risk, Respondents failed to plan and perform sufficient audit procedures to address the risk and to determine whether the accounts receivable were properly

[30] See AS 2510, *Auditing Inventories* (formerly, AU § 331), ¶ 1.

[31] See AS 2510 ¶¶ 9-12.

recorded and properly valued. The engagement team sent confirmation requests for accounts receivable of $13.1 million at year-end 2016, but received no responses. The engagement team performed alternative procedures for nonresponses, consisting of tracing the receivables to subsequent cash receipts of approximately $5.7 million, or 44% of the amount selected for confirmation. However, Respondents then failed to evaluate the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient evidence had been obtained about the existence and value of the receivables balance, or whether additional procedures needed to be performed.[32]

23. Issuer A reported inventory of approximately $14.1 million as of September 30, 2016, which constituted approximately 25% of total assets. Respondents failed to perform sufficient procedures to test whether inventory was properly valued. Specifically, Respondents failed to perform any procedures to test the unit costs assigned to inventory items at year-end 2016. While Respondents performed certain analytical procedures concerning the ending inventory balance, those analytical procedures did not serve as a substantive audit procedure because Respondents failed to develop a sufficiently precise expectation for those analytics to provide the desired level of assurance that potential misstatements would be identified.

24. Issuer A's FY 2016 financial statements consolidated the financial accounts of eight subsidiaries incorporated in four countries.[33] Issuer A's FY 2016 consolidation included the financial accounts for certain subsidiaries which were denominated in currencies other than U.S. dollars and, therefore, needed to be translated into U.S. dollars for consolidation purposes. Issuer A disclosed that it eliminated intercompany transactions and balances such as intercompany purchases and sales and related intercompany payables and receivables. Respondents failed to perform sufficient audit procedures to test whether Issuer A's consolidated financial statements agreed or reconciled with the underlying accounting records, including whether foreign currency translations and intercompany eliminations were appropriately recorded.[34]

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[32] See AS 2310 ¶¶ 33.

[33] A consolidated financial statement is a statement that brings together all assets, liabilities, and operating accounts of a parent company and its subsidiaries. It presents the financial position and results of operation of the parent company and its subsidiaries as if the group were a single company with one or more branches. In order to do this, all intercompany transactions and intercompany relationships must be eliminated. See ASC 810, *Consolidation*.

[34] See AS 2301 ¶ 41a.

The FY 2017 Issuer A Audit

25. Bharat Parikh served as the engagement partner on the FY 2017 Issuer A audit and Anuj Parikh served as the engagement manager. Bharat Parikh authorized the issuance of BPA's audit report, dated December 13, 2017, which contained an unqualified opinion on Issuer A's FY 2017 financial statements. Issuer A included the audit report in its Form 10-K, which was filed with the Commission on the same day.

26. Issuer A reported accounts receivable of $15.5 million as of September 30, 2017, which constituted approximately 22% of total assets. Respondents again identified a significant risk concerning the existence of accounts receivable. Despite this risk, Respondents failed to plan and perform sufficient audit procedures to address the risk and to determine whether the accounts receivable were properly recorded and properly valued. Respondents failed to perform confirmation procedures for two of Issuer A's subsidiaries with accounts receivable totaling $7 million, which constituted approximately 10% of total assets, and failed to document how they overcame the presumption that confirmation procedures at these subsidiaries were required.

27. For Issuer A's other subsidiaries, Respondents selected accounts receivable totaling $6.5 million for confirmation, and performed alternative procedures for nonresponses, consisting of tracing the receivables to subsequent cash receipts. Respondents received responses for accounts totaling approximately $540,000, and traced approximately $2.9 million of the receivable balance to subsequent cash receipts recorded in company-generated spreadsheets.[35] Respondents, however, failed to test the completeness and accuracy of the spreadsheets used to test for subsequent cash receipts. Respondents also failed to evaluate the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient evidence had been obtained about the existence and value of the total $15.5 million accounts receivable balance, or whether additional procedures needed to be performed.

28. Issuer A's FY 2017 financial statements consolidated the financial accounts of ten subsidiaries incorporated in four countries. Issuer A's FY 2017 consolidation once again included the financial accounts for certain subsidiaries which were denominated in currencies other than U.S. dollars and, therefore, needed to be translated into U.S. dollars for consolidation purposes. Issuer A disclosed that it eliminated intercompany transactions and balances such as intercompany purchases and sales and related intercompany payables and receivables. Respondents failed to perform sufficient audit procedures to test whether Issuer A's consolidated financial statements agreed or reconciled with the underlying accounting records, including

[35] For approximately $3 million of the receivables, Respondents did not receive a confirmation response or obtain evidence of subsequent cash receipts, and failed to perform any other alternative procedure.

whether foreign currency translations and intercompany eliminations were appropriately recorded.

2. The Issuer B Audits

29. Issuer B was, at all relevant times, a Nevada corporation with its principal office located in Gdansk, Poland. Issuer B's public filings disclosed that it was a development-stage company engaged in the distribution of office chair products in the United States. At all relevant times, Issuer B was an "issuer" as the term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

The FY 2015 Issuer B Audit

30. BPA became Issuer B's auditor after responding to an email solicitation. The solicitation requested, among other things, that any recipient interested in performing the audit answer "[i]f you can do everything over email only (no visit required)." After Bharat Parikh expressed interest in the engagement, Issuer B asked for confirmation that BPA would not visit Issuer B during the audit, which Bharat Parikh confirmed. After obtaining this confirmation, Issuer B engaged BPA as its independent auditor.

31. Bharat Parikh served as the engagement partner on the FY 2015 Issuer B audit and Anuj Parikh served as the engagement manager. Bharat Parikh authorized the issuance of BPA's audit report, dated September 18, 2015, which contained an unqualified opinion on Issuer B's FY 2015 financial statements. Issuer B included the report in its Form S-1, which was filed with the Commission on October 13, 2015, and in three subsequent Forms S-1/A.

32. Issuer B was incorporated approximately two months prior to its May 31, 2015 fiscal year end. It disclosed in its Form S-1 that it had no employees, and that its sole officer and director had "no professional training or experience in the distribution of office chair products." Issuer B reported $30,873 in revenues for FY 2015, consisting of a single sale of office chairs five days before the end of the fiscal year, with cost of goods sold of $16,393. Approximately 74% of the company's assets at year-end were attributed to an office building that it reported to have purchased two days before year-end. Its only other asset was cash.

33. When planning the FY 2015 audit, BPA and Bharat Parikh failed to comply with PCAOB standards. They failed to establish an overall audit strategy for the engagement or to develop and document an audit plan that included planned risk assessment procedures and planned responses to the risks of material misstatement.[36] BPA and Bharat Parikh also failed to identify and assess inherent risk, control risk, and

[36] See AS 2101 ¶¶ 4-5, 10; see also AS 2110.

the risk of material misstatement at the financial statement level and the assertion level.[37]

34. Respondents also failed to obtain sufficient appropriate audit evidence concerning the issuer's reported revenue, cost of sales, cash, and real property. In particular, Respondents relied exclusively on audit evidence that was provided by the company, while failing to perform procedures to test the accuracy and completeness of the audit evidence.[38] Respondents' principal audit procedures for revenue, cost of sales, cash, and real property consisted of tracing recorded transactions and balances to entries and balances in company-provided bank statements, copies of checks, invoices and contracts. However, Respondents failed to take any steps to authenticate or otherwise determine the reliability of any of those company-provided documents, and failed to evaluate whether the information contained in them was sufficient and appropriate evidence for purposes of the audit.[39]

35. PCAOB standards provide that an auditor should presume that there is a risk of material misstatement due to fraud for revenue.[40] During the audit, Respondents were aware that Issuer B recorded its single revenue transaction at an 88% mark-up despite disclosing in its Form S-1 that it sold its products at a 15–20% mark-up. Respondents were also aware that Issuer B did not record any marketing or delivery expense related to the sale. Nevertheless, Respondents failed to perform any procedures to respond to the risk of fraud, failed to seek any reliable evidence to corroborate that the purchase or sale transaction had actually taken place, and failed to seek any evidence that Issuer B's supplier or customer actually existed.[41]

36. Respondents likewise failed to seek reliable evidence that the office building in Poland existed, that Issuer B had actually acquired the building, or whether there was any unrecorded debt associated with that asset. Respondents traced the purchase price amount to a bank statement and a check copy, and obtained from management two Polish-language documents which management indicated were related to the building purchase. Respondents, however, failed to perform any procedures to authenticate or otherwise determine the reliability of either document. Additionally, although Polish land and mortgage registry (*księga wieczysta*) information was publicly available over the internet, Respondents did not attempt to independently

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[37] See AS 2110 ¶ 59.

[38] See AS 1105 ¶ 10.

[39] See AS 1105 ¶¶ 8, 10.

[40] See AS 2110 ¶ 68.

[41] See AS 2301 ¶ 13; AS 1105 ¶¶ 4-6.

verify the existence or the ownership of the building, or to determine whether there were any liens on the property.

37. Finally, although Respondents had planned to perform a bank confirmation procedure to verify the company's cash balance, they failed to perform that procedure at the audit client's request. Respondents also failed to obtain any other reliable evidence to support that the company's reported cash assets actually existed.

38. As a result of the foregoing, Respondents failed to obtain sufficient appropriate audit evidence to provide a reasonable basis for the Firm's opinion.

39. Bharat Parikh also failed to assess with due professional care whether the scope limitations placed on the audit required disclosure in the audit report and a qualified opinion.[42] BPA's audit report failed to disclose that it had been restricted from visiting Issuer B's office and from performing a bank confirmation in connection with the FY 2015 audit.

The FY 2016 Issuer B Audit

40. Bharat Parikh served as the engagement partner on the FY 2016 Issuer B audit and Anuj Parikh served as the engagement manager. Bharat Parikh authorized the issuance of BPA's audit report, dated August 30, 2016, containing an unqualified opinion on Issuer B's FY 2016 financial statements. Issuer B included that report in its Form 10-K, which was filed with the Commission on September 8, 2016.

41. For FY 2016, Issuer B reported revenue of $132,821, and cost of goods sold of $125,434, consisting of four transactions all with the same customer and the same supplier as in FY 2015. Respondents again failed to plan and perform sufficient procedures to respond to the risk of fraud. Similar to the prior year, Respondents exclusively relied upon management-provided documents to test those accounts, while failing to take any steps to authenticate or otherwise determine the reliability of those documents. Respondents' principal test for revenue and cost of sales consisted of matching entries on management-provided bank statements to amounts listed on management-provided invoices. Respondents again failed to seek any evidence that Issuer B's sole customer and sole supplier actually existed, or to obtain reliable evidence that the transactions had actually occurred. Although management provided Respondents with documents that management claimed were proofs of delivery to its customer for three of the sales transactions, those documents were typewritten, bore no signature, and did not indicate: the shipper, the product delivered, or that Issuer B was the seller.

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[42] See AS 3101 ¶¶ 22-24.

42. Respondents also failed to plan and perform sufficient audit procedures to address a fraud risk they identified related to a reported $39,847 expense for the development of a custom brand office chair. The original management-provided invoice for that expense, dated May 3, 2016, identified the customer as another entity with no known connection to Issuer B. After management provided a new copy of the invoice to BPA, which identified Issuer B as the customer, Respondents sent a confirmation request to the vendor, using the email address that appeared on the management-provided invoice, and received a response from that same e-mail address. Respondents, however, failed to obtain evidence to support the validity of the response.[43] In particular, Respondents failed to take any steps to verify the existence of the vendor or that the e-mail address on the invoice was associated with that vendor. Additionally, the confirmation response only acknowledged the existence of a contract, and did not provide evidence concerning the terms of the contract, whether payment had been received, or whether the services of the contract had been provided.

43. In addition, Respondents failed to perform any audit procedures in connection with Issuer B's office building asset, which constituted more than 96% of total assets and was a significant account.

44. As a result of the foregoing, Respondents failed to obtain sufficient appropriate evidence to provide a reasonable basis for the Firm's opinion.

D. <u>Respondents Failed to Prepare Sufficient Audit Documentation</u>

45. PCAOB standards require that auditors document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.[44] "Audit documentation must clearly demonstrate that the work was in fact performed."[45] Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement to: (a) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.[46]

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43 <u>See</u> AS 2310 ¶¶ 27, 29.

44 <u>See</u> AS 1215 ¶ 6, *Audit Documentation* (formerly, Auditing Standard No. 3).

45 <u>Id</u>. ¶ 6.

46 <u>See</u> <u>id</u>.

46. Respondents violated the foregoing standards during each of the Issuer A audits because the documentation for each of those audits was insufficient to demonstrate the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, including in those areas of the audits involving significant risks. For the FY 2016 and 2017 Issuer A audits, the documentation also failed to demonstrate who performed the work and the date such work was completed. Additionally, in each of the Issuer A and Issuer B audits, the audit documentation was insufficient to demonstrate which aspects of the audit and which audit documentation Bharat Parikh reviewed.

E. Bharat Parikh Failed to Appropriately Supervise the Audits

47. PCAOB standards require that an audit engagement be supervised.[47] The engagement partner is responsible for proper supervision of the work of engagement team members and for compliance with PCAOB standards.[48] Supervising an audit engagement includes reviewing the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work support the conclusions reached.[49]

48. As the engagement partner, Bharat Parikh was responsible for proper supervision of the work of the Issuer A and Issuer B engagement team members and for compliance with PCAOB standards.[50] Bharat Parikh was required to review the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.[51] However, the work papers for the Issuer A and Issuer B audits indicate that Bharat Parikh failed to review any of the documentation relating to the substantive procedures performed by the BPA engagement teams. As discussed above, Bharat Parikh and the engagement teams failed to obtain sufficient appropriate audit evidence in several areas during the Issuer A and Issuer B audits, and failed to adequately document the work performed during those audits. As a result, Bharat Parikh failed to appropriately supervise these audit engagements.

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[47] See AS 1201, *Supervision of the Audit Engagement* (formerly, Auditing Standard No. 10), ¶ 2.

[48] See id. ¶ 3.

[49] See id. ¶ 5c.

[50] See id. ¶ 3.

[51] See id. at ¶ 5c.

F. Respondents Failed to Comply with the Engagement Quality Review Requirements

49. For audit engagements, AS 1220 requires that an engagement quality review be performed pursuant to PCAOB standards.[52] AS 1220 also states that the engagement quality reviewer must be independent of the company, perform the engagement quality review with integrity, and maintain objectivity in performing the review.[53] To maintain objectivity, the engagement quality reviewer should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.[54]

50. Anuj Parikh concurrently served as both the engagement quality reviewer and engagement manager for the FY 2014 and 2015 Issuer A audits and the FY 2015 Issuer B audit. As engagement manager, Anuj Parikh made decisions on behalf of the engagement team and assumed substantial responsibilities of the engagement team. As a result, Anuj Parikh failed to maintain objectivity as the engagement quality reviewer, and the Firm failed to obtain concurring approvals of issuance from an engagement quality reviewer who maintained objectivity during these audits, in violation of AS 1220.

51. In his roles as the Firm's managing partner and engagement partner for each of those audits, Bharat Parikh was responsible for the assignment of BPA personnel and had direct knowledge that Anuj Parikh was concurrently serving as engagement manager and engagement quality reviewer. As a result, Bharat Parikh knowingly or recklessly contributed to the Firm's violation of AS 1220, in violation of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

G. The Firm Failed to Maintain an Adequate System of Quality Control and Bharat Parikh Contributed to that Failure

52. PCAOB rules and standards require that a registered public accounting firm comply with the Board's quality control standards.[55] PCAOB quality control standards require that a registered public accounting firm "shall have a system of quality

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[52] See AS 1220 ¶ 1.

[53] See id. at ¶ 6.

[54] See id. at ¶ 7.

[55] See PCAOB Rule 3400T, *Interim Quality Control Standards.*

control for its accounting and auditing practice."[56] Pursuant to those standards, a registered firm should establish quality control policies and procedures to provide the firm with reasonable assurance that, among other things: personnel maintain objectivity in discharging their professional responsibilities;[57] and the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.[58]

53. Throughout the relevant time period of 2014 through 2017, the Firm violated PCAOB quality control standards because it failed to maintain an adequate system of quality control. As described above, BPA failed to have in place adequate policies and procedures to provide reasonable assurance that the Firm and its personnel maintained objectivity and performed and documented their work in accordance with PCAOB auditing standards. Among other things, BPA's deficient system of quality control permitted the Firm to repeatedly (1) fail to perform procedures necessary to comply with PCAOB standards during the course of the audits described herein, (2) fail to comply with PCAOB audit documentation requirements, and (3) assign the engagement quality reviewer role to a person who was not objective.

54. At all relevant times, Bharat Parikh served as the Firm's managing partner and held ultimate responsibility for the Firm's adopting and maintaining an adequate system of quality control. In that role, Bharat Parikh took, or omitted to take actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violations of PCAOB's quality control standards. As a result, Bharat Parikh violated PCAOB Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Bharat Parikh & Associates Chartered Accountants, Bharatkumar Balmukund Parikh, FCA, and Anuj Bharatkumar Parikh are hereby censured;

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[56] Quality Control ("QC") § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

[57] See QC § 20.09.

[58] See QC §§ 20.17-.18.

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Bharatkumar Balmukund Parikh, FCA, and Anuj Bharatkumar Parikh are each barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);[59]

C. After five (5) years from the date of this Order, Bharatkumar Balmukund Parikh, FCA, may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

D. After one (1) year from the date of this Order, Anuj Bharatkumar Parikh, may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

E. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Bharat Parikh & Associates Chartered Accountants is revoked;

F. After five (5) years from the date of the Order, Bharat Parikh & Associates Chartered Accountants may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and

G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $15,000 is imposed upon Bharat Parikh & Associates Chartered Accountants. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. The Firm shall pay the civil money penalty imposed withinthirty (30) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter that

[59] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to both Bharatkumar Balmukund Parikh, FCA, and Anuj Bharatkumar Parikh. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

identifies the Firm as a Respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of said cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

March 19, 2019