



राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority

INSPECTION REPORT
2023

Audit Firms:

Price Waterhouse Chartered Accountants LLP
Price Waterhouse & Co Chartered Accountants LLP

Firm Registration No:
(FRN 012754N/N500016)
(FRN 304026E/E300009)

Inspection Report No.132.2-2023-04
February 13, 2025

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PART A

Executive Summary

Section 132 of the Companies Act 2013 (the Act) mandates the National Financial Reporting Authority (NFRA), inter alia, to monitor compliance with Auditing Standards, to oversee the quality of service of the professions associated with ensuring compliance with such standards, and to suggest measures required for improvement in quality of their services. Under this mandate, NFRA conducted audit quality inspections of the Chartered Accountant Firms M/s Price Waterhouse Chartered Accountants LLP (PWCA hereinafter) and M/s Price Waterhouse & Co Chartered Accountants LLP (PW& Co CA hereinafter) during 2024. The scope included a review of the remedial actions taken by PWCA for the deficiencies reported in the previous report, and a review of three selected audit engagements of financial statements for the year ending 31.03.2023, focusing on three significant audit areas, viz., Internal Financial Control over Financial Reporting on Revenue, Related Party Transactions and Impairment of Non-Financial Assets, due to their inherent higher risk of material misstatement. The inspection included an on-site visit in 19.09.2024, discussions with the Audit Firms personnel including the engagement teams of select audit engagements, review of policies and procedures and examination of documents. The observations were conveyed to the Audit Firms. An Inspection Report was issued to the Firms, for which a written response was received. The key observations in this report are summarised as follows:

- a. PWCA has committed that the issues relating to the Independence Policy noted in the previous Inspection Report will be updated.
- b. In two engagement files selected for review in the current inspection cycle, a significant deficiency in the verification of related party transactions and arm's length price testing have been observed. The lack of sufficient documentation and the limited scope of testing raise questions about the quality and reliability of the audit conclusions. These are detailed in Part C of this report.

Inspection Overview

1. Section 132 of the Act, inter alia, mandates NFRA, to monitor compliance with Auditing and Accounting Standards, to oversee the quality of service of the professions associated with ensuring compliance with such standards, and to suggest measures required for improvement in the quality of their services. The relevant provisions of NFRA Rules prescribe the procedures in this regard, which include evaluation of the sufficiency of the quality control system of Auditors and the manner of documentation of their work. Under this mandate, NFRA initiated audit quality inspections in April 2024. The overall objective of audit quality inspections is to evaluate the compliance of the Audit Firms/Auditors with auditing standards and other regulatory and professional requirements, and the sufficiency and effectiveness of the quality control systems of the Audit Firm/Auditor, including:
 - (a) adequacy of the governance framework and its functioning.
 - (b) effectiveness of the firm's internal control over audit quality; and
 - (c) system of assessment and identification of audit risks and mitigating measures

2. This year's inspections involve a review of the remedial action taken by PWCA in response to the previous inspection observations and a test check of audit engagements performed by the Audit Firms during the financial year 2023.
3. Inspections are intended to identify areas and opportunities for improvement in the Audit Firm's system of quality control. Inspections are, however, not designed to review all aspects and identify all weaknesses in the governance framework or system of internal control or audit risk assessment framework; nor are they designed to provide absolute assurance about the Audit Firm's quality of audit work. In respect of selected audit assignments, inspections are not designed to identify all the weaknesses in the audit work performed by the auditors in the audit of the financial statements of the selected companies. Inspection reports are also not intended to be either a rating model or a marketing tool for Audit Firms.

Audit Quality Inspection Approach

4. Selection of Audit Firms for the 2023 inspections was based upon the extent of public interest involved, as evidenced by the size, composition and nature of the audit firms, the number of audit engagements completed in the year under review: complexity and diversity of preparer's financial statements (henceforth, Companies) audited by the firms and other risk indicators. **M/s Price Waterhouse Chartered Accountants LLP** (PWCA hereinafter), and **M/s Price Waterhouse & Co Chartered Accountants LLP** (PW& Co CA hereinafter) were the audit firms selected using the above parameters.
5. The selection of individual audit engagements of the Audit Firms was largely risk-based, based on financial and non-financial risk indicators identified by NFRA. Accordingly, the Audit Files in respect of three (3) Audit Engagements relating to the statutory audit of financial statements for the year ending 31.03.2023 were reviewed during the inspection.
6. The scope of the inspection was as follows:
 - a. Review of the remedial measures and improvements made in response to the previous inspection observations for firm-wide quality controls to evaluate the Audit Firm's adherence to SQC 1, Code of Ethics and the applicable laws and rules.
 - b. Review of individual Audit Engagement Files- A sample of three (3) individual audit engagement files pertaining to the annual statutory audit of financial statements for the year ending 31.03.2023 was selected. Three significant audit areas were identified in respect of each audit engagement viz., internal financial control over financial reporting pertaining to revenue, related party transactions and impairment of non-financial assets, due to their inherent higher risk of material misstatement.

The selected sample of three individual audit engagements is not representative of the Firm's total population of the audit engagements completed by the Firms for the year under review.

Inspection Methodology

7. An entry meeting was held with the Audit Firms on 10.04.2024 at NFRA office. The firms presented a brief overview of their auditing software “Aura”. Thereafter, online meetings took place with the respective Audit Teams for the three engagements which included the limited walkthrough of the audit files in Aura, interviews and discussions. The inspection team also visited the office of M/s PWCA LLP on 19.09.2024 for checking M/s PWCA LLP’s compliance with the observations pertaining to SQC-1 made in the NFRA Inspection Report 2022.
8. The areas of weaknesses or deficiencies of the Audit Firms, included in the inspection reports, should be viewed as areas of potential improvement and not as a negative assessment of the work of the Audit Firms unless specifically indicated otherwise.

Audit Firms Profile

9. M/s PWCA and M/s PW & Co CA are Limited Liability Partnership firms with offices at 10 locations in India. They are members of Price Waterhouse & Affiliates’ (PW&A), a domestic network of eleven CA firms, which is registered with the Institute of Chartered Accountants of India (ICAI), all operating from common offices. PW&A Network firms are all members of the international network of PricewaterhouseCoopers International Limited. As on 31.03.2023, PWCA had 93 partners, and 2572 staff members and PW & Co CA had 92 partners and 279 staff members. The PW&A network firms had a total of 212 partners as on 31.03.2023.
10. As on 31.03.2023, PWCA audited 141 PIEs and PW & Co CA audited 30 PIEs as covered under Rule 3 of NFRA Rules, 2018.

Acknowledgment

11. NFRA acknowledges the cooperation of the Audit Firms during all stages of the inspection.

PART B

Review of Firm-Wide Audit Quality Control System – Compliance with Previous Year’s Inspection Observations

A. Independence Policy and Practices

The NFRA Inspection Report 2022 contained certain observations pertaining to SQC-1. The following observations which required compliance were followed up during the visit on 19.09.2024:

- i. IR 2022 observed that PW India’s local supplement (policy) as amended in February 2020 explicitly states that PwC network firms may continue to provide Non-Audit

Services to the overseas holding companies of NFRA regulated audit clients, as permitted under Global and local Independence Rules. This has the potential to compromise the independence of the audit of an Indian audit client of PWCA. The Independence Policy Manual does not explicitly prohibit PwC & Affiliates in India from being auditor of an Indian entity, nor does it mandate resignation from such audit, if an overseas PwC firm provides or plans to provide non-audit services to the overseas parent company of the audit client in India.

- ii. Accordingly, M/s PWCA LLP was advised to incorporate in its Independence Policy Manual the mitigating measures to remove any ambiguity and avoid any unintentional non-compliance with the statutory framework in India.
- iii. During the current inspection, the onsite review of compliance conducted on 19.09.2024, along with the emails exchanged with M/s PWCA LLP, revealed that the Independence Policy Manual did not incorporate any further changes as advised.
- iv. M/s. PWCA LLP in response to the draft inspection report stated that they were updating their Independence Policy to ensure compliance with the statutory framework in India.
- v. M/s. PWCA LLP is advised to send its updated policy in compliance with the statutory framework in India within 30 days for review in NFRA.

B. Other Observations of SQC-1 of Previous Inspection

12. We note that the Firm has implemented remedial measures for all other observations in the previous inspection report pertaining to SQC-1. However, we will continue to monitor these measures.

PART C

Review of Individual Audit Engagement Files Focusing on Selected Areas of Audit

13. This section discusses deficiencies observed in a few selected audit engagements. The inspection covered three individual audit engagements and focused on three audit areas viz., internal control over financial reporting pertaining to revenue, related party transactions and impairment of non-financial assets for detailed review. Certain critical audit procedures performed by the Firms engagement teams in respect of these audit areas were reviewed. The observations are discussed below.

A. Deficiencies in the verification of Related Party Transactions (RPTs)

14. In case of the audit of Company A, the conclusion of the Audit Firm that the Related Party Transactions (RPTs) were at arm's length was not supported by sufficient documentary

evidence in the Audit Work Papers (AWP). The AWP documents that invoice price of the related parties was compared with the unrelated ones and differences were noted; that these differences were due to competitive market and strategic discount; and that the pricing was vetted by an independent CA on a yearly basis. However, the specific goods/services received/given for which such comparison has been made is not documented. Further, the arm's length testing done by the Engagement Team was limited only to the pricing and did not cover other qualitative aspects viz., terms and conditions, guarantee, provision for doubtful debts, expenses for bad debts etc. as required by Para 18 of Ind AS 24. Further, Rule 15(1) of the Companies (Meetings of Board and its Powers) Rules, 2014 requires that the agenda of the Board meeting at which the resolution is proposed to be moved for entering into any contract or arrangement with a related party shall inter alia disclose the manner of determining the pricing and other commercial terms. Therefore, the Audit Firm failed to ensure:

- i. **Sufficient Documentation:** The audit firm concluded that RPTs were at arm's length, but the audit working papers (AWPs) lacked sufficient evidence to support this.
 - ii. **Appropriate Comparison:** Price comparisons were made with unrelated parties, but the specific goods/services compared were not documented.
 - iii. **Qualitative Analysis:** The analysis was primarily focused on pricing and did not adequately consider other qualitative aspects like terms and conditions, guarantees, and bad debts as required by Ind AS 24.
 - iv. **Evidence for Independent CA Review:** The audit firm claimed that an independent CA had reviewed RPTs for arm's length pricing, but no evidence of this report was found in the audit file.
 - v. **Compliance with Board Meeting Rules:** The audit firm did not adequately verify compliance with Rule 15(1) of the Companies (Meetings of Board and its Powers) Rules, 2014, which requires the manner of determining the pricing and other commercial terms in Board meeting agendas for RPTs.
15. In the case of auditee Company B, the Financial Statements disclose that Company B had only one Related Party. Regarding arm's length testing of Related Party Transactions, the AWP '*Understand entity and environment and applicable financial reporting framework*' documents that the arm's length testing of Related Party Transactions will be verified during the Statutory Audit for the year ended 31.03.2023. However, no sufficient evidence is seen in the AWP of how the ET had tested that the RPTs were undertaken at arm's length. The Audit Committee meeting minutes documented in the Audit File notes that the margins for the RPTs with the sole Related Party of Company B were same as per similar other orders received from the sole Related Party and that from other non-related party clients. It was documented by the Audit Firm that they would be considering the same while verifying the RPTs during the year during their statutory audit for the year ending 31.03.2023. However, there is no sufficient documentation in the Audit File that the Audit Firm verified that these RPTs were at arm's length by comparing the same with orders/contracts from unrelated parties. The Audit Committee Meeting minutes only show what the Audit Committee noted

and not what procedures the Audit Firm performed in verifying the arm's length pricing of these RPTs. Therefore, the Audit Firm failed to ensure:

- i. Arm's Length Testing of RPTs
- ii. Appropriate Comparison, Qualitative Analysis and documentation: There is no document, for instance, which shows comparison of the RPTs with similar transactions with unrelated parties with regards to the monetary value and other terms and conditions of the orders/contracts as required by Ind AS 24.

PART D

Chronology of Events

Sr. No.	Date	Event/Correspondence
1.	22.12.2023	Publication of Inspection Report on the website of NFRA as per Rule 8 of NFRA Rules 2018.
2.	26.03.2024	Intimation of follow-up/thematic Inspection from NFRA to the Audit Firms.
3.	10.04.2024	Briefing Meeting with Audit Firms held at NFRA office.
3.	10.04.2024	Audit Firms submitted three engagement files at NFRA office.
4.	20.04.2024 to 24.06.2024	Off-Site Inspection.
5.	25.06.2024	Communication of Engagement-Specific Observations.
6.	02.08.2024	NFRA communication to Audit Firm regarding the Action taken in previous inspection observations.
7.	16.08.2024	Response on action taken in previous inspection observations.
8.	19.08.2024	Response on Engagement specific observations received from the Audit Firms.
9.	19.09.2024	On-site inspection and discussion on action taken in previous inspection observations.
10.	24.12.2024	Draft Inspection Report sent by NFRA to the Audit Firms.
11.	21.01.2025	Submission of reply by the Audit Firms to Draft Inspection Report.
12.	31.01.2025	Communication of final Inspection Report to the Audit Firms.
13.	10.02.2025	Comments on the final inspection report by the Audit Firms.
14.	13.02.2025	Publication of Inspection Report on the website of NFRA as per Rule 8 of NFRA Rules 2018.

Appendix A: Audit Firm's response to this inspection report

Pursuant to Section 132(2) of the Companies Act, 2013 and Rule 8 of NFRA Rules, 2018, the Authority is publishing its findings relating to non-compliance with SAs and the sufficiency of the Audit Firm's quality control system. As part of this process, the Audit Firms provided a written response to the Inspection Report, which is attached hereto. NFRA, based on the request of the Audit Firms, has excluded the information from this report which was considered proprietary.

Price Waterhouse Chartered Accountants LLP

February 10, 2025

The Secretary
National Financial Reporting Authority
7th-8th Floor, Hindustan Times House
Kasturba Gandhi Marg
New Delhi - 110 001

Kind Attn.: Ms. Vidhu Sood, Secretary, National Financial Reporting Authority

Dear Madam,

Subject: Response to the 2023 Inspection Report of
Price Waterhouse Chartered Accountants LLP - Firm Registration Number 012754N/N500016 and
Price Waterhouse & Co Chartered Accountants LLP - Firm Registration Number FRN 304026E/E300009

We refer to the Inspection Report No. 132.2.2023.04 dated January 30, 2025, received by us on January 31, 2025. We appreciate the time and effort devoted by your team, and for providing us with your written observations and valuable input during the inspection.

As a firm, we are committed to performing high-quality audits and maintaining trust with our relevant stakeholders. Consequently, we remain focused on making continuous improvements and enhancements to our system of quality management as well as on strengthening our service delivery on audit engagements. We provide our comments on the observations as follows:

Part B of the Inspection Report

Regarding the observation on Independence Policy and Practices, as informed, we decided in the year 2020 not to provide non-audit services to our audit clients regulated by NFRA. We also explained to you how we apply the policy.

We have taken your input on the policy and, as discussed with you, we are updating our policy with respect to provision of non-audit services. As required, we will provide a copy of our updated policy within the time provided.

Part C of the Inspection Report

We have noted your observations on the individual audit engagements with regard to sufficiency of documentation around testing of arm's length pricing of transactions with related parties and as part of our continuing improvement, we are considering how to further enhance our audit file documentation, including, recording details of audit procedures performed and noting the identifying characteristics of client's documents inspected or extracts thereof.

We remain committed to further enhancing overall audit quality. We look forward to working with the NFRA, our clients and other stakeholders to identify opportunities to continuously augment our processes, policies, and training. We would be pleased to discuss any aspects of our response or any other questions you may have.

Yours sincerely,



Subramanian Vivek
Partner
Price Waterhouse Chartered Accountants LLP
(Firm Registration Number: 012754N/N500016)

Price Waterhouse Chartered Accountants LLP, 7th & 10th Floor, Menon Eternity, 165, St. Mary's Road, Alwarpet
Chennai - 600018
T: +91 (44) 42285278

Registered office and Head office: 11-A, Vahnu Digambar Marg, Sucheta Bhawan, New Delhi - 110002

Price Waterhouse (a Partnership Firm) converted into Price Waterhouse Chartered Accountants LLP (a Limited Liability Partnership with LLP identity no: LLPIN AAC-5001) with effect from July 25, 2014. Post its conversion to Price Waterhouse Chartered Accountants LLP, its ICAI registration number is 012754N/N500016 (ICAI registration number before conversion was 012754N)

Price Waterhouse & Co Chartered Accountants LLP

February 10, 2025

The Secretary
National Financial Reporting Authority
7th-8th Floor, Hindustan Times House
Kasturba Gandhi Marg
New Delhi - 110 001

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Yours sincerely,



Subramanian Vivek
Partner
Price Waterhouse & Co. Chartered Accountants LLP
(Firm Registration Number FRN 304026E/E300009)

Price Waterhouse & Co Chartered Accountants LLP, 7th & 10th Floor, Menon Eternity, 165, St. Mary's Road, Alwarpet
Chennai - 600018
T: +91 (44) 42285276

Registered office and Head office: Plot No. 56 & 57, Block DV, Sector-V, Salt Lake, Kolkata - 700 091

Price Waterhouse & Co. (a Partnership Firm) converted into Price Waterhouse & Co Chartered Accountants LLP (a Limited Liability Partnership with LLP identity no: LLPIN AAC-4362) with effect from July 7, 2014. Post its conversion to Price Waterhouse & Co Chartered Accountants LLP, its ICAI registration number is 304026E/E300009 (ICAI registration number before conversion was 304026E)