

When Auditors Behave Badly, Penalties Often Fall Short

We expect auditors to do a thorough examination of work and processes; heaven help anyone who has failed to file correctly. But auditors of public companies often fall short of investor expectations—as do their punishments for failure.

So, a two-year ban on auditing listed companies seems remarkable. That is what **PricewaterhouseCoopers** got late Wednesday from Indian securities regulators after a lengthy probe into **Satyam Computer Services**, whose chairman admitted to a wide-ranging fraud in 2009 and was jailed in 2015.

PwC has recently escaped



ALEX KRAUS/BLOOMBERG NEWS

censure over its audit work for **Tesco**, the U.K. supermarket chain hit by an accounting scandal in 2014.

KPMG has had recent near misses too: It escaped censure in the U.K. for audits

of **HBOS**, a large bank ultimately bailed out in the financial crisis.

When firms do get punished, the fines are often relatively small—in the single-digit millions—although in the U.S., investor lawsuits can escalate the costs. PwC could face steep costs in relation to **Colonial Bank** following the Federal Deposit Insurance Corp.'s recent win of a lawsuit accusing it of professional negligence.

However, in the **Satyam** case, PwC might not suffer much. Firstly, it will appeal the order, saying India's securities regulator has to prove PwC colluded with **Satyam**. Secondly, if the ban

holds, it applies only to "statutory audit work" for listed companies in India, which means auditing annual accounts.

PwC will be able to continue other accounting, tax and consultancy work with any company and do audit work with nonlisted companies. The revenue losses may not be that big.

It isn't legally the job of auditors to hunt out potential frauds, although risk to their reputations should encourage them to ask basic questions and not ignore glaring anomalies.

In another example, **Deloitte** is facing twin investigations in South Africa and

the Netherlands for its oversight of **Steinhoff**, the South African retail empire, laid low by an accounting scandal that emerged in December.

It is early days to guess what might happen there, but it illustrates a wider issue.

Auditors, bankers and lawyers too rarely lift their noses from the revenue streams of high-value clients to question where a company is going and why.

And when a company goes off the rails, the reputational damage is rarely enough to make anyone more willing to bite the hands that feed them.

—Paul J. Davies

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