

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 79668 / December 22, 2016

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3836 / December 22, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17745

In the Matter of	:	ORDER INSTITUTING PUBLIC
	:	ADMINISTRATIVE AND CEASE-AND-
	:	DESIST PROCEEDINGS PURSUANT
	:	TO SECTIONS 4C AND 21C OF THE
ALOK SARAF, CA	:	SECURITIES EXCHANGE ACT OF 1934
	:	AND RULE 102(e) OF THE
	:	COMMISSION’S RULES OF
	:	PRACTICE, MAKING FINDINGS, AND
Respondent.	:	IMPOSING REMEDIAL SANCTIONS
_____	:	AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Alok Saraf, CA (“Saraf” or “Respondent Saraf”) pursuant to Sections 4C¹ and 21C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.²

¹ Section 4C(a) provides, in relevant part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found...(1) not to possess the requisite qualifications to represent others; (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

² Rule 102(e)(1)(ii) provides, in pertinent part, that:

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds³ that:

SUMMARY

1. This matter involves issues of auditor independence and improper professional conduct related to personal dealings between Alok Saraf, a KPMG India audit employee, and Anup Agarwal (“Agarwal”), an accountant for Wipro Limited (“Wipro”). Beginning in December 2007 and continuing through October 2009, Saraf accepted money from Agarwal,⁴ who was at that time embezzling funds from Wipro. During this period, Saraf was responsible for KPMG India’s audit procedures around Agarwal’s work related to Wipro’s foreign exchange and derivatives accounting.
2. Agarwal hid his embezzlement through fraudulent accounting entries in one of Wipro’s Exchange Rate Fluctuation (“ERF”) accounts.⁵ Agarwal disguised his theft as a series of foreign currency losses. During the same time period, two of Agarwal’s supervisors at Wipro also caused

The Commission may...deny, temporarily or permanently, the privilege of appearing or practicing before it...to any person who is found...to have engaged in unethical or improper professional conduct.

³ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

⁴ Saraf accepted money not only from Agarwal, but also from another Wipro accountant whose job focused on matters relating to internal controls. Saraf also shared an apartment with the latter individual during the relevant time.

⁵ Agarwal embezzled more than \$4 million from Wipro from 2006 through 2009. Saraf maintains that he believed the payments from Agarwal were either loans or, in one instance, investment proceeds that Agarwal had collected for him. Saraf paid some money to Agarwal before the embezzlement was uncovered, which Saraf characterizes as a loan repayment.

other erroneous accounting entries to be made in Wipro's foreign currency exchange accounts. These errors contributed to Wipro's financial statements being misstated in eleven periodic reports that Wipro filed with or furnished to the SEC during fiscal years 2008, 2009, and 2010.

3. Saraf's actions compromised his independence from Wipro, and therefore impaired KPMG India's independence from Wipro, its audit client. As a result, Saraf caused KPMG India to violate Rule 2-02(b)(1) of Regulation S-X, 17 C.F.R. § 210.2-02(b)(1), and further caused Wipro's violation of Section 13(a) of the Exchange Act and Rule 13a-1 thereunder. Saraf's work on the Wipro engagement also failed to comply with numerous Public Company Accounting Oversight Board ("PCAOB") Auditing Standards, and his conduct, as further described below, constituted improper professional conduct within the meaning of Rule 102(e)(1)(ii) of the Commission's Rules of Practice and Section 4C of the Exchange Act.

RESPONDENT

4. **Alok Saraf, CA**,⁶ age 32, is a citizen of the Republic of India. In 2005, Saraf became a member of the Institute of Chartered Accountants of India ("ICAI"). Saraf was employed by KPMG India from March 2006 through May 2010. Saraf joined the Wipro engagement team in September 2006, began performing audit and review procedures relating to Wipro's derivatives and foreign exchange activities in September 2007, and, in or around December 2008, assumed primary responsibility for auditing these accounts. He became an Audit Manager in October 2009. Due to the events described herein, he ceased work on the Wipro engagement in or around late December 2009.

OTHER RELEVANT INDIVIDUAL AND ENTITIES

5. **KPMG India** is an Indian Registered Partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. KPMG India audited Wipro's consolidated financial statements and internal control over financial reporting during the time period relevant to this proceeding. KPMG India is registered with the PCAOB.⁷

6. **Wipro Limited** is an information technology service company incorporated in the Republic of India with its principal executive office in Bangalore, India. Wipro's American Depositary Shares ("ADSs"), each represented by one equity share, are registered with the Commission pursuant to Section 12(b) of the Exchange Act. Wipro's ADSs trade on the New York Stock Exchange. As a foreign private issuer, Wipro files annual reports with the

⁶ The designation "CA" (Chartered Accountant) is used in India by members of the ICAI.

⁷ KPMG India's PCAOB registration application and the firm's annual reports filed with the PCAOB list the firm's legal name as "KPMG."

Commission on Form 20-F, and furnishes interim financial statements to the Commission on Form 6-K. Through fiscal year 2009, Wipro included in its annual and interim reports financial statements denoted as having been prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). Starting in fiscal year 2010, Wipro began providing financial statements denoted as having been prepared in accordance with International Financial Reporting Standards (“IFRS”).

7. **Anup Kumar Agarwal, CA**, (1983 – 2009), was a citizen of the Republic of India. Agarwal served as an accountant in the company’s Controllershship Division from 2006 until April 2009, where he was responsible for foreign exchange accounting, investment and banking operations, and treasury support activities. Agarwal transferred into Wipro’s mergers and acquisitions (“M&A”) group in April 2009. Agarwal took his own life on or about December 23, 2009.

FACTS

Saraf Accepted Payments While Working on the Wipro Engagement.

8. Between December 2007 and October 2009, Agarwal and another Wipro accountant⁸ gave at least 715,000 Indian rupees, or approximately \$15,543, to Saraf, who was responsible for auditing the company’s derivatives and foreign exchange accounts. These funds equaled more than 5% of Saraf’s annual earnings in fiscal year 2008, nearly 19% of his annual earnings in fiscal year 2009, and over 50% of his earnings in fiscal year 2010.

9. Saraf used the money for expenses associated with his and his brother’s weddings, a down payment on his home, and as seed money for his father’s new business.

10. In the summer of 2009, Saraf asked Agarwal to buy and sell on Saraf’s behalf the securities of a publicly traded company operating in the banking sector.

11. In August 2009, Agarwal deposited 96,000 Indian rupees, or approximately \$2,086, into a Saraf account as purported trading profits. In actuality, the funds for the deposit were not trading profits, since Agarwal never executed the trades Saraf had requested.⁹

12. Agarwal later confessed that he paid Saraf money for the purpose of “maintaining good relationship.”

⁸ Saraf shared an apartment with this individual for a portion of the time that Saraf worked on the Wipro engagement.

⁹ When Agarwal confessed, he revealed that he had similarly given embezzled money to eleven Wipro employees under the guise of being purported profits from certain investments he had supposedly made for them.

13. During the relevant time, KPMG India’s risk management policies stated: “When a member of the audit team accepts gifts or hospitality, unless the value is clearly insignificant, the threats to independence cannot be reduced to an acceptable level[,]” consequently, “a member of the audit team should not accept such gifts or hospitality.” The policies further provided that 8,000 Indian rupees, or approximately \$174, “represents a notional benchmark as to what could be considered to be an insignificant amount.”

14. Despite knowing that his firm prohibited the payments, Saraf submitted multiple Annual Independence and Compliance Confirmations to KPMG India representing, among other things, that: (a) neither he nor any member of his immediate or close family received a gift or had a special arrangement with an audit client worth more than 8,000 Indian rupees; and (b) he had maintained his independence in accordance with KPMG India policies and the applicable rules of external regulators.

15. Saraf later told KPMG India that he knew that accepting the money was wrong: “Whether I have violated firm’s rule – yes I did, I took it very lightly. ...I had...shortage of cash.... Timing was issue....”¹⁰

16. Saraf lacked independence with respect to Wipro as a result of these activities during Wipro’s fiscal years 2008, 2009, and 2010. The Commission promulgated Rule 2-01, *Qualification of Accountants*, codified within 17 C.F.R. Part 210 – Regulation S-X, to implement auditor independence requirements established by the Exchange Act and the Sarbanes-Oxley Act.¹¹ Rule 2-01(b) states that “[t]he Commission will not recognize an accountant as independent, with respect to an audit client, if the accountant is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that the accountant is not, capable of exercising objective and impartial judgment....” 17 C.F.R. § 210.2-01(b).¹² Rule 2-01(b) further states that “[in] determining whether an accountant is independent, the Commission will consider all relevant circumstances, including all relationships between the accountant and the audit client,

¹⁰ After Agarwal’s confession, Saraf provided banking and other records to KPMG India. Saraf also repaid Wipro the extent of the money that Agarwal claimed he gave Saraf. Saraf had previously paid some funds to Agarwal before the misconduct was uncovered, which Saraf maintains was in repayment of a loan.

¹¹ The Corporate and Auditing Accountability, Responsibility, and Transparency Act, Pub. L. No. 107-204, 116 Stat. 745 (2002) (codified in sections of 11, 15, 18, 28, and 29 U.S.C.).

¹² A crucial component of the regulatory reforms enacted in the wake of the stock market crash of 1929 and ensuing Great Depression was, and remains, the requirement that all public companies have their financial reports audited by independent certified public accountants. Accordingly, the Congress, the Supreme Court, and the Commission have long insisted that auditors must maintain both independence in fact, and independence in appearance, from the public companies they audit, lest public faith in the reliability of financial statements be shaken. *See, e.g., United States v. Arthur Young & Co.*, 465 U.S. 805, 819 n.15 (1984) (“Public faith in the reliability of a corporation’s financial statements depends upon the public perception of the outside auditor as an independent professional.”).

and not just those relating to reports filed with the Commission.” Id. (Emphasis added.) In considering Rule 2-01(b), the Commission looks in the first instance to “whether a relationship or the provision of a service...creates a mutual or conflicting interest between the accountant and the audit client.” Preliminary Note to Rule 2-01, ¶ 2. Saraf’s conduct was inconsistent with the standards of Rule 2-01(b).

17. At all relevant times, KPMG India had policies and quality control procedures in place designed to provide reasonable assurance that its professional personnel maintained their independence relative to KPMG India’s audit clients, and it represented that it was independent in the Report of Independent Registered Public Accounting Firm (“audit reports”) that it provided to Wipro for its fiscal years 2008, 2009, and 2010. In these audit reports, KPMG India stated that it had performed the audits in accordance with the standards of the PCAOB, which, among other things, require an auditor to be independent of its client.¹³ As a result of Saraf’s conduct, KPMG India’s audit reports were inaccurate.

18. Wipro then filed annual reports with the Commission that included KPMG India’s audit reports.

Saraf Used an Incomplete Population for Deriving Samples.

19. Wipro’s auditors did not have access to complete general ledger details for the currency fluctuation account that Agarwal used in the embezzlement (the “ERF Account”), which also contained other accounting errors and unsubstantiated journal entries not derived from the embezzlement.¹⁴ Agarwal lied to Saraf, telling him that it was not possible to extract the complete ERF Account details from Wipro’s general ledger.

20. Saraf then used an incomplete population to derive samples for testing the ERF Account. In conducting the audit of the ERF Account, Saraf requested a download of the SAP general ledger data so that he could perform testing procedures on the account balance population. Upon receiving Saraf’s request, Agarwal informed Saraf that it was not possible to provide him with the SAP general ledger data for the account. In response, and at the suggestion of Agarwal, Saraf elected to instead use the derivatives contract register, which was a sub-population of the

¹³ PCAOB Auditing Standards state that “[i]n all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.” AU § 150.02. PCAOB Auditing Standards further state that independent auditors should “not only be independent in fact” but that they should “avoid situations that may lead outsiders to doubt their independence.” AU § 220.03.

¹⁴ After Agarwal’s embezzlement came to light, Wipro officials learned of other accounting errors and unsubstantiated journal entries that did not stem from the embezzlement and that were present in multiple ERF accounts as well as certain outstanding liability accounts during a nine quarter period from the fourth quarter of fiscal year 2008 through the fourth quarter of fiscal year 2010. In November 2010, Wipro filed its annual report for fiscal year 2010, which incorporated disclosures related to its foreign exchange accounting errors, the absolute value of which totaled nearly \$67 million and impacted eleven periodic reports filed with or furnished to the Commission.

total ERF Account, as the population from which to perform his audit testing of the ERF Account. Saraf knew or should have known that the derivatives contract register was not a complete population of all ERF Account entries, as evidenced by the fact that he had originally requested the correct population from Agarwal and the fact that the sub-population which he ultimately used did not reconcile to Wipro's financial statements. In addition, Saraf did not document in the workpapers Agarwal's claim regarding the unavailability of the ERF general ledger data and KPMG India's modification to the audit procedures as a result.

21. Agarwal's embezzlement and other errors in Wipro's ERF accounts did not affect the register of derivative contracts—the only source of data that Saraf used for audit sampling—and were therefore insulated from possible detection during the sampling process.¹⁵

VIOLATIONS

22. Based on his conduct described above, Saraf caused KPMG India to violate Rule 2-02(b)(1) of Regulation S-X, which requires that an accountant's report state whether the audit was conducted in accordance with generally accepted auditing standards ("GAAS"). "[R]eferences in Commission rules and staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission." SEC Release No. 34-49708. Thus, an auditor violates Rule 2-02(b)(1) of Regulation S-X if it issues a report stating that it had conducted its audits in accordance with PCAOB standards, which incorporate independence requirements, when it had not. Saraf knew or should have known that his conduct would cause KPMG India to violate this rule.

23. KPMG India's failure, as a result of Saraf's conduct, to comply with Rule 2-02(b)(1) of Regulation S-X in turn caused Wipro to file annual reports with the Commission on Forms 20-F that failed to include financial statements audited by an independent accountant as required by Exchange Act Section 13(a) and Rule 13a-1 thereunder. As a result of his conduct, Saraf caused Wipro to violate Section 13(a) of the Exchange Act and Rule 13a-1 thereunder on this ground. Saraf knew or should have known that his conduct would cause Wipro to violate those provisions.

24. PCAOB Auditing Standards state that "due professional care is to be exercised in the planning and performance of the audit and the preparation of the report." AU § 230.01, *Due Professional Care in the Performance of Work*.¹⁶ Due professional care requires the auditor to exercise professional skepticism. AU § 230.07. In exercising professional skepticism, the auditor "should not be satisfied with less than persuasive evidence because of a belief that

¹⁵ After the discovery of the embezzlement, KPMG India deployed a new audit team to conduct further testing procedures for the period from 2008 through 2010 for the general ledger accounts that Saraf had audited.

¹⁶ All references herein to PCAOB Auditing Standards are to those that were in effect at the relevant time.

management is honest.” AU § 230.09. PCAOB Auditing Standards also require that auditors obtain sufficient competent evidential matter concerning the assertions in an issuer’s financial statements, *see* AU §§ 326.01 and 326.02, and state that an “auditor’s substantive procedures must include reconciling the financial statements to the accounting records.” AU § 326.19, *Evidential Matter*. When planning a particular sample for a substantive test of details, the auditor should consider, among other items, the “characteristics of the population, that is, the items comprising the account balance or class of transactions of interest.” AU § 350.16, *Audit Sampling*. Additionally, the auditor “should determine that the population from which he draws the sample is appropriate for the specific audit objective.” AU § 350.17. “Sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected.” AU § 350.24. To do this, an auditor “should obtain a level of knowledge of the entity’s business that will enable him to plan and perform his audit in accordance with [GAAS],” as this “helps the auditor in assessing conditions under which accounting data are produced, processed, reviewed, and accumulated within the organization.” AU § 311.06, *Planning and Supervision*.

25. In light of Saraf’s conduct set forth above, including his use of an incomplete population to derive a testing sample for the ERF Account, Saraf failed to exercise due care and to obtain sufficient competent evidential matter in violation of AU §§ 230, 311, 326, and 350.

26. PCAOB Auditing Standard No. 3, *Audit Documentation*, establishes general requirements for documentation that an auditor should prepare and retain in connection with audits of financial statements and reviews of interim financial information. AS 3.1. Because it is the written record supporting the auditor’s representations in the auditor’s reports, audit documentation should, among other things, “[s]upport the basis for the auditor’s conclusions concerning every relevant financial statement assertion,” and “[d]emonstrate that the underlying accounting records agreed or reconciled with the financial statements.” AS 3.5. Additionally, the auditor “must document significant findings or issues,” such as “[c]ircumstances that cause significant difficulty in applying auditing procedures.” AS 3.12.

27. By his conduct discussed above, Saraf did not prepare adequate work paper documentation in violation of PCAOB Auditing Standard No. 3.

28. Finally, as a result of the conduct described above, Saraf engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice. For accountants, improper professional conduct includes “intentional or knowing conduct, including reckless conduct, that results in a violation of applicable professional standards.” Rule 102(e)(1)(iv)(A). In addition, a “single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted,” as well as “repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards,” also constitute improper professional conduct. Rule 102(e)(1)(iv)(B)(1)-(2). Saraf intentionally and knowingly violated KPMG India’s risk management policies by taking the payments described above from Wipro employees, and he

submitted multiple false Annual Independence and Compliance Confirmations to his firm, all of which constituted improper professional conduct under Rule 102(e)(1)(iv)(A). These same actions also implicate Rule 102(e)(1)(iv)(B)(1), insofar as they were highly unreasonable and pertinent to independence requirements, an area of heightened scrutiny. Further, Saraf's conduct was improper pursuant to Rule 102(e)(1)(iv)(B)(2) due to his multiple violations of PCAOB Auditing Standards governing non-independence-related audit matters.

FINDINGS

29. Based on the foregoing, the Commission finds that Saraf: (i) caused KPMG India to violate Rule 2-02(b)(1) of Regulation S-X; (ii) caused Wipro to violate Exchange Act Section 13(a) and Exchange Act Rule 13a-1; and (iii) engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

IV.

30. In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Saraf's Offer.

Accordingly, it is hereby **ORDERED**, effective immediately, that:

A. Respondent Saraf shall cease and desist from committing or causing any violations and any future violations of Rule 2-02(b)(1) of Regulation S-X and Section 13(a) of the Exchange Act and Rule 13a-1 promulgated thereunder.

B. Saraf is denied the privilege of appearing or practicing before the Commission as an accountant.

C. After three years from the date of this Order, Saraf may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Saraf's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or
2. an independent accountant. Such an application must satisfy the Commission that:

- (a) Saraf, or the public accounting firm with which he is associated, is registered with the PCAOB in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;
- (b) Saraf, or the registered public accounting firm with which he is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in Saraf's or the firm's quality control system that would indicate that Saraf will not receive appropriate supervision;
- (c) Saraf has resolved all disciplinary issues with the PCAOB, and has complied with all terms and conditions of any sanctions imposed by the PCAOB (other than reinstatement by the Commission); and
- (d) Saraf acknowledges his responsibility, as long as he appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the PCAOB, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

D. The Commission will consider an application by Saraf to resume appearing or practicing before the Commission provided that his chartered accountant license is current and he has resolved all other disciplinary issues with the ICAI. However, if licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Saraf's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Brent J. Fields
Secretary