



**ASENSIO**  
.com

**Via Email**

June 07, 2016

Edward E. Nusbaum  
Chief Executive Officer  
Grant Thornton International Ltd.  
171 N. Clark Street, Suite 200  
Chicago, IL 60601

**Re: Grant Thornton India LLP's "divided responsibility" audit of Eros International Plc.**

Dear Mr. Nusbaum:

asensio.com<sup>1</sup> will shortly publish its initial research reports on Eros International Plc ("EROS"), a New York Stock Exchange ("NYSE") listed company accused of fraudulently overstating its assets and earnings<sup>2</sup>. Our investigation has unearthed a fundamental flaw with EROS's audit. The confusion over Grant Thornton International Ltd.'s<sup>3</sup> ("GTIL") role in EROS's "divided responsibility" audit and the surrounding public controversy have exposed fundamental accountability and audit quality issues.

The Public Company Accounting Oversight Board ("PCAOB") is engaged in rulemaking that specifically addresses the risks associated with divided responsibility audits, which is the audit method used for GTI's audit report for EROS. It is important to inform PCAOB's leadership of our mutual positions in a manner that allows independent participation. I trust that you agree that an open letter to you copying the relevant leaders of the PCAOB is the best format to accomplish this goal.

Grant Thornton India LLP<sup>4</sup> ("GTI") has "divided" its auditing responsibilities for EROS. These actions<sup>5</sup> are extraordinarily questionable even before taking into consideration the overstatement

---

<sup>1</sup> asensio.com routinely publishes reports on public companies involved in controversies concerning the value of their publicly traded securities. Our history and credentials are available here: <http://www.asensio.com>. In 2014, the National Bureau of Economic Research recognized asensio.com as the pioneer of "information arbitrage" work.

<sup>2</sup> EROS claims its assets are worth over US\$1 billion, yet its £50 million U.K. public retail bond issue, which is subordinated to less than \$300 million of bank debt, trades at deep, distressed price levels, while the company continues to report profits.

<sup>3</sup> Grant Thornton describes itself as a group of separate legal entities it calls "members" of Grant Thornton International Ltd. Some use the Grant Thornton name, while others call themselves a "Correspondent firm of Grant Thornton International Ltd."

<sup>4</sup> Grant Thornton UK LLP ("GTUK") was EROS's previous auditor. In fiscal year 2012, GTUK "identified material weakness involving hedge accounting and significant deficiencies in the documentation of our management review of advances and amortization schedules." GTUK resigned as EROS's auditor on May 10, 2013. GTI replaced GTUK. Prior to GTUK, GTIL's member firm in the Isle of Man was EROS's auditor.

<sup>5</sup> The PCAOB is in the process of creating law to address the use of divided responsibility audits. According to PCAOB Release, No. 2016-002 on April 12, 2016, states "audits in which the lead auditor divides responsibility with one or more other accounting firms are relatively uncommon." It also states that its "staff analysis of SEC filings as of May 26, 2015, Form 10-K filings showed approximately 30 and 38 audits in which the lead auditor divided responsibility with another auditor in fiscal years 2014 and 2013, respectively. Form 20-F filings showed approximately 20 such audits in each of fiscal years 2014 and 2013."

issues underlying the public controversy. Furthermore, EROS's Audit Committee has opened itself to concerns that it lacks independence and impartiality by:

- (i) its endorsement and acceptance of the irregular auditing scheme;
- (ii) its defence of GTI's actions; and
- (iii) its refusal to allow an independent review<sup>6</sup> conducted by a third party.

GTI's decision to divide up its auditing responsibly is not inconsequential, in that, during the most recently reported 9-month period<sup>7</sup>, the subsidiaries that were audited by other auditors generated more earnings than EROS itself.

The auditor in question is Vishesh Chandiook, the National Managing Partner of GTI, who sits with you on GTIL's Board of Governors<sup>8</sup>. Based upon publicly available information, Mr. Chandiook has relied on the work of *at least five* external auditors<sup>9</sup> in issuing EROS's audit opinion. One of these is Walker Chandiook & Co. LLP<sup>10</sup> ("Walker Chandiook"), a local firm, established by his family. The other smaller Indian firms involved might as well be non-existent for what little is known about them. This reliance removes GTI from the events and transactions that form the basis of the public controversy.

Irrespective of GTIL's private understanding with GTI, EROS's public investors do not know GTI and have *no* reason to believe that Grant Thornton is *not* responsible for intervening in GTI's audit of EROS, in the event that such an act should become necessary in the public interest. GTI conducts EROS's audits and has a right to use the Grant Thornton brand. However, it is legitimate to ask the following important questions of this arrangement:

- (1) Are EROS's assets and earnings really audited by Grant Thornton?
- (2) Does GTI's audit conform to the "actual" Grant Thornton audit standards?
- (3) Are investors fully apprised of the specifics of GTIL's arrangement and oversight of GTI?
- (4) Who is the individual at GTIL responsible for oversight into GTI's compliance with Grant Thornton's global operating policies and standards?

GTIL only needs to read the press to learn that EROS has been openly called a "fraud story" and that GTI's audit has been described as "mostly accounting fiction" created to "enrich its controlling family at the expense of shareholders," ultimately making EROS's equity "worthless." These public accusations have led to several questions and doubts by various members of the investment community, including the EROS equity analyst at Wells Fargo<sup>11</sup>.

<sup>6</sup> See [asensio.com](http://asensio.com), for our report titled "Eros backs away from Skadden's independent review."

<sup>7</sup> The subsidiaries GTI does not audit reported US\$13.1 million of net income, while EROS reported US\$12.3 million for the nine month period ended December 31, 2015.

<sup>8</sup> <http://www.granthornton.global/en/about/governance-and-management/>

<sup>9</sup> GTI does not audit Eros International Media Limited ("EIML"), EROS's publically traded subsidiary. Mr. Chandiook's family firm Walker Chandiook & Co. LLP is EIML's auditor. Walker Chandiook & Co. LLP in turn relies on *at least four* other smaller Indian auditors. Namely, Jayesh Sheth & Co., S. Ravi & Associates, Sandeep Shridhar & Associates and Anil Jagetiya & Co. None of these smaller auditors are registered with the PCOAB.

<sup>10</sup> GTI and Walker Chandiook have a self-proclaimed and public "best friends arrangement": [http://articles.economicstimes.indiatimes.com/2010-04-02/news/27606535\\_1\\_gti-firms-audit](http://articles.economicstimes.indiatimes.com/2010-04-02/news/27606535_1_gti-firms-audit)

<sup>11</sup> "We still don't know the largest content buyers driving this increase, and we aren't fully comfortable with the fact nearly half of the revenue originates outside of India," Eric Katz, Wells Fargo Analyst, as reported by Bloomberg on October 23, 2015. The story is available here: <http://www.bloomberg.com/news/articles/2015-10-23/eros-tanks-as-wells-fargo-analyst-questions-company-s-financials>

EROS claims that it owns intangible content assets worth US\$771.6 million and also claims to have US\$225.9 million in accounts receivable as of December 31, 2015. This is no minor squabble over an immaterial overstatement. EROS's critics believe that these assets are actually worth considerably less than its debt owed to banks and bondholders because of the extent to which EROS's balance sheet assets have allegedly been overstated. This can only have been possible with GTI's approval, which would implicitly include GTIL's tacit agreement.

According to PCAOB AS 2405 titled "Illegal Acts by Clients,"<sup>12</sup> GTI is responsible for assessing the implications of particular illegal acts by reviewing "the relationship of the perpetration and concealment" to "the level of management or employees involved" and make certain inquiries of the audit committee about "violations or possible violations of laws and regulations." The U.S. Securities and Exchange Commission ("SEC") requires<sup>13</sup> that GTI perform procedures on EROS's financial records that are "designed to provide reasonable assurance of detecting illegal acts, which would have a direct and material effect on the determination of financial statement amounts."


GTI's decision to divide up EROS's audit must be viewed within the context of the existing, unresolved public controversy and its materiality, and to not do so would be highly irresponsible. EROS's auditing engagements are clearly important to both GTI and Walker Chandiook, Mr. Chandiook's family-owned firm. Based upon the information set forth herein, it appears reasonable to conclude that GTI is either grossly incompetent or that someone has deliberately designed EROS's audit process to distance themselves from what its public critics believe to be illegal activity<sup>14</sup>.

Grant Thornton's reputation and the integrity of its audit standards, for all its member and correspondent firms, are of paramount importance. For this reason, GTIL has a clear duty to act in the public interest<sup>15</sup> and to take timely action. To this end, a lack of action on the part of GTIL would be unfair for the following reasons:

- (1) Is it fair for EROS's bank debt holders, public bondholders and NYSE-listed equity investors to rely on the Grant Thornton brand in the context of Grant Thornton India LLP's divided responsibility audit of EROS's reported financial statements?
- (2) Is it fair that the public trust Grant Thornton to investigate whether any of the auditors that Grant Thornton India LLP has relied on have any active participation in the perpetration and concealment of the events and transactions that form the basis of the public controversy?

asensio.com understands that the EROS matter presents sensitive and complicated issues. We appreciate the attention your associates have granted to the matter thus far, and look forward to a continuation of our dialogue.

Yours sincerely,



asensio.com

<sup>12</sup> <https://pcaobus.org/Standards/Auditing/Pages/AS2405.aspx>

<sup>13</sup> Sections 10A(a)-(f) of the Securities Exchange Act of 1934 (15 U.S.C. § 78j-1(a)-(f))

<sup>14</sup> PCAOB AS 2405: Illegal Acts by Clients auditing standard stated "the further removed an illegal act is from the events and transactions ordinarily reflected in financial statements, the less likely the auditor is to become aware of the act or to recognize its possible illegality."

<sup>15</sup> The profession's principles of professional conduct state, "Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism." American Institute of Certified Public Accountants ("AICPA") Professional Standards: Code of Professional Conduct ("AICPA Code of Professional Conduct").

Communications made with the following parties, along with copies of the letter sent to:

Steven B. Harris  
Board Member and Chairman, Investor Advisory Group, PCAOB

Karen B. Dietrich  
Special Counsel to Board Member Jay D. Hanson, PCAOB

Samantha E. Ross  
Special Counsel to the Chairman, PCAOB

Keith Wilson  
Deputy Chief Auditor, PCAOB

Mr. Ken Sharp; ken.sharp@gti.gt.com  
Global Leader, Assurance Services  
Grant Thornton International Ltd.

Mr. Vishesh Chandiok; vishesh.chandiok@in.gt.com  
National Managing Partner  
Grant Thornton India

Mr. Kenneth R. Cunningham; ken.cunningham@us.gt.com  
Chief Legal Officer  
Grant Thornton LLP

Mr. J. Michael McGuire; mike.mcguire@us.gt.com  
Chief Executive Officer  
Grant Thornton LLP