ADMISSIONS AND LICENSING COMMITTEE OF THE
ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of: Mr Roger Sidney Cloake

Heard on: 18 March 2016

Location: ACCA Head Offices, The Adelphi Building, John Adam Street, London WC2N 6AU

Committee: Mr Mike Cann (Chairman), Mr Trevor Salmon (Accountant), Mr Stephen Griffiths (Lay)

Legal Adviser: Mr Andrew Granville Stafford

Persons present and capacity: Mr Mohammed Ismail (ACCA Case Presenter)
Ms Poonam Patel (Hearings Officer)
Mr Harry Cubillo-Barsi (ACCA Administrator)

Observers: Mr Surenda Popat (Chairman in training),
Ms Tara Ellis (ACCA Global Account Director)

INTRODUCTION

1. The Admissions and Licensing Committee (‘the Committee’) convened to consider a report relating to Mr Roger Cloake. The Committee had before it a bundle of papers (pages 1 to 59), three additional bundles (pages 60 to 66, 67 to 69 and 70 to 71) and two service bundles (pages 1 to 12 and 13 to 19). Mr Cloake did not attend and was not represented.
PROCEEDING IN ABSENCE

2. The Committee considered the service bundle which contains a notice of hearing dated 11 February 2016, a print out of Mr Cloake’s registered address and proof of postage. The notice was delivered to Mr Cloake’s registered address and signed for on 15 February 2016. The following day Mr Cloake spoke to the hearings officer by telephone and confirmed he had received the notice of hearing.

3. On 9 March 2016, as a result of a request from Mr Cloake to do so, ACCA withdrew Mr Cloake’s auditing certificate. In light of that Mr Cloake confirmed to ACCA by telephone and email on 14 and 15 March 2016 respectively that he would not be attending the hearing.

4. The Committee was satisfied that the requirements of Regulations 6(1) and 11(1) of the Chartered Certified Accountants’ Authorisation Regulations as to service had been complied with. The Committee was also satisfied that, having voluntarily surrendered his audit qualification, Mr Cloake had made a decision not to attend this hearing.

5. Any impact that proceeding in Mr Cloake’s absence would have on him is limited in light of the fact that ACCA is now only seeking an order that Mr Cloake passes certain tests of competency before making any future application for auditing registration and that such application will be referred to this Committee. Mr Cloake was notified of this by letter on 9 March 2016 and he acknowledged receipt of this letter. Furthermore he has himself stated he has no intention to make any future application for auditing registration. There was in the Committee's view no advantage in adjourning.

6. The Committee therefore determined that the appropriate course was to proceed in Mr Cloake’s absence.

APPLICATION AND BRIEF BACKGROUND

7. Mr Cloake is a Fellow of ACCA and was admitted to membership in 1984. He was until 9 March 2016 the holder of a practising certificate with audit qualification. He is a sole practitioner and trades as Till & Cloake (‘the firm’).
8. The firm has been subject to five audit monitoring visits. The outcome of the first two visits in 1994 and 1999 were satisfactory. Deficiencies were found in respect of audit work in a visit in 2006 which resulted in a follow up visit in 2008. The firm was found to have improved its audit procedures and the two files inspected at that visit were of a satisfactory standard.

9. The application is a result of the fifth visit on 6 August 2014. The files of the firm’s two audit clients were reviewed. One was an electronics company with an annual turnover of £1.2m (Company A); the other was a sports and social club with a turnover of only a few hundred pounds (Club B). ACCA’s case is that the visit revealed a deterioration in the quality of audit work and in general the audit opinions were not adequately supported by the evidence.

10. In particular the compliance officer identified the following breaches of the auditing standards:

   i. The firm had not carried out a review of its quality control procedures or documented them in accordance with International Standard on Quality Control (‘ISQC’) 1.

   ii. The audit engagement letters were not updated as required by International Standards on Auditing (‘ISA’) 210.

   iii. The firm had not adequately documented matters to support its audit opinion as required by ISA 230.

   iv. The files did not meet the requirements of ISA 240 in that, in particular, the firm had not identified the management’s process for identifying and responding to the risk of fraud within the company.

   v. The files did not show that the firm understood the legal and regulatory framework applicable to them, as required by ISA 250.

   vi. The firm had not provided its clients with sufficient information about their audit responsibilities, contrary to ISA 260.
vii. Not communicating to the entities’ governance significant deficiencies found in internal control, as required by ISA 265.

viii. The requirements of ISA 300 as to establishing an overall audit strategy had not been met.

ix. The files did not contain adequate information about the entity and its environment, as required by ISA 315.

x. The firm had not determined materiality for the purpose of financial statements, as required by ISA 320.

xi. The firm had failed to comply with the financial reporting framework as required by ISA 330.

xii. A number of deficiencies were identified in the extent and quality of the audit evidence on the files in breach of ISA 500. These included: failure to record any work undertaken to verify ownership of property; failure to record verification of recoverability trade debtors; failure to obtain bank certificates; and failure to verify that income was complete.

xiii. A failure to perform analytical procedures in accordance with ISA 520.

xiv. A failure to perform and record adequate work in relation to related parties as required by ISA 550.

xv. A failure to comply with ISA 560 in relation to subsequent events happening up to the date of the audit.

xvi. Not recording a consideration of the entities’ ability to continue as going concerns, contrary to ISA 570.

xvii. The firm had failed in respect of Club B to describe itself as ‘Statutory Auditor’.
11. It is alleged by ACCA, in light of the above, that Mr Cloake and his firm were in breach of Practising Regulation ('PR') 18(1)(a) in Annex 1 to the Global Practising Regulations by failing to comply with relevant standards on the conduct of audit work.

12. The Compliance Officer’s report was sent to Mr Cloake on 22 June 2015 and he was informed that the matter was being referred to the Regulatory Assessor. ACCA’s recommendation was that, in light of an alleged deterioration in auditing standards, the Regulatory Assessor should impose conditions on Mr Cloake’s audit certificate.

13. On 30 June 2015 Mr Cloake responded by letter, disputing some of the findings in the report regarding Club B and pointing out that he was concerned not to engage in work that was disproportionate given that the turnover and asset value of the club was so minimal.

14. On 21 July 2015 Mr Cloake wrote again to ACCA, this time commenting on the findings in respect of Company A. He disputed a number of the criticisms contained in the report of the Compliance Officer though he accepted that in some respects audit work was not ‘recorded ideally’.

15. On 30 July 2015 ACCA responded, joining issue with Mr Cloake on many of the points he made in his letters and informing him that if no adequate ‘action plan’ was received by 13 August 2015 a referral to this Committee was likely. In light of continued disagreement regarding the audits in question, ACCA informed Mr Cloake on 17 December 2015 that it was referring the matter to this Committee with a recommendation that his audit qualification be withdrawn.

16. On 8 March 2016 Mr Cloake sent an email to ACCA stating as follows:

- ‘I would formally request that ACCA withdraw my firm’s audit registration, and also my own Responsible Individual status, and in consequence to withdraw my practising certificate with audit qualification and reissue it as a practising certificate alone. . .

- I have taken this step because of a development here in recent weeks, in that my firm has now divested its 1 remaining audit case, so that we now have no audit work at all to conduct, nor expect any to arise in the future. This step is not an admission of any of the alleged deficiencies on my part.
There are several points on which I still disagree, but I take the view that they are not worth arguing over, not least because my firm's cessation of audit work does now I believe make the matter fairly academic."

17. As a result of this request, on 9 March 2016 ACCA withdrew Mr Cloake’s practising certificate with audit qualification and re-issued him with a general practising certificate without audit qualification.

18. In light of this, ACCA’s application was limited to inviting the Committee to impose on Mr Cloake’s practising certificate a condition that any future application for an auditing certificate be referred to the Admissions and Licensing Committee.

DECISIONS ON APPLICATION AND REASONS

19. Under Regulation 5(2)(f) of the Chartered Certified Accountants' Authorisation Regulations (‘AR’) the Committee has the power to withdraw, suspend or impose conditions on a member’s certificate if the holder of has committed a material breach of any rule or regulation to which he was subject in the carrying on of the activities to which the certificate relates.

20. The Committee took into account all the documents before it, the submissions of Mr Ismail on behalf of ACCA and the advice of the Legal Adviser. It noted that, although Mr Cloake in his correspondence had disputed a number of the findings of the compliance officer, he had also made some concessions. For example, in respect of Company A he accepted that he had not noted for the purposes of ISA 300 a rationale for the materiality levels. Further he conceded that, in general, the audit work on this file was ‘perhaps weak on some points’, not ideally recorded and that in one or two instances the recording was a little terse. Although he said in respect of Club B that he did not wish to do work that was disproportionate, the scale of the operation was not in the Committee’s view a rationale for not complying with the relevant auditing standards.

21. Although Mr Cloake contested a number of the breaches of ISAs asserted by the compliance officer, where facts were disputed the Committee was satisfied that the ACCA’s case was to be preferred. It was clear from the compliance officer’s report that a large number of deficiencies had been found in respect of the work done by the firm. The Committee was quite satisfied that there had been material breaches of the relevant standards and that it was appropriate to make an order in this case.
22. The Committee accepted ACCA’s contention that it was appropriate to impose conditions on Mr Cloake’s practising certificate. Whilst any re-application for an auditing certificate would in any event have to be considered by this Committee, the Committee considered it appropriate and indeed essential that Mr Cloake should, in the event he made such an application, complete a further course of training and pass the P7 examination.

ORDER

23. The Committee ordered pursuant to Authorisation Regulations 5(2)(f) that:

i. any future re-application for audit registration by Mr Cloake, or by a firm in which he is principal, must be referred to the Admissions and Licensing Committee; and

ii. that an application will not be considered until Mr Cloake has attended a practical audit course, approved by ACCA and, following the date of this order, passed paper P7, Advanced Audit and Assurance, of ACCA’s professional examinations.

EFFECTIVE DATE OF ORDER

24. The order will come into effect from the date of expiry of the appeal period, namely after 21 days from service of this written statement of the Committee’s reasons for its decision, unless Mr Cloake gives notice of appeal in accordance with the Appeal Regulations prior to that.

Mr Mike Cann  
Chairman  
18 March 2015