

HEARING

ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of: Mrs Kathleen Mary Bhujwalla FCCA

Heard on: Monday, 9 April 2018 – Tuesday, 10 April 2018

Location: ACCA's Offices, The Adelphi, 1-11 John Adam Street,
London, WC2N 6AU

Committee: Mr James Kellock (Chairman), Mrs Judith Glover
(Accountant) and Mrs Lorna Jacobs (Lay)

Legal Adviser: Mr Iain Ross

Persons present

and capacity: Ms Samantha Hatt (ACCA Case Presenter)
Mrs Kathleen Bhujwalla (Member)
Mr Richard Lorkin (Hearings Officer)

Observers: None

Summary: Withdrawal of Audit Certificate and Firm's Audit
Certificate and issue of a practising certificate to Mrs
Bhujwalla

PRELIMINARY APPLICATIONS

1. Mrs Bhujwalla attended and but was not represented. ACCA was represented by Ms Samantha Hatt.
2. The Committee had before it papers numbering 1- 20, an additional bundle numbered 21 -27, together with a service bundle numbered 1-19. The Committee also had an adjournment bundle numbered 1-68 and a schedule, produced by Ms Hatt, consisting of 6 pages.

HEARING

3. At the outset of the hearing, Mrs Bhujwalla applied to be allowed to produce documents which she described as copies of some of her working papers relevant to the monitoring visit of 8 June 2017. Mrs Bhujwalla accepted that due to personal and family reasons, she had not complied with the directions made by the previous committee that any documents which she wished to use at the adjourned hearing should be served no later than 6 weeks prior to the hearing date. Mrs Bhujwalla submitted that for personal reasons she had not complied with the directions.
4. Ms Hatt objected to the documents being admitted. She informed the Committee that the documents had been served on ACCA on Friday 6 April and had not yet been fully reviewed by ACCA. Ms Hatt also informed the Committee that the matter had been adjourned on 17 November 2017 with directions that any further material had to be served not later than 6 weeks prior to the resumed hearing date.
5. The Committee received and accepted the Legal Adviser's advice. The Committee was concerned that the documents provided by Mrs Bhujwalla had only been served on ACCA one working day before the hearing and that Mrs Bhujwalla had not complied with the directions made by the previous Committee. However, the Committee considered that the documents were relevant to the core issues in the case and that their exclusion might result in an injustice. Accordingly, the Committee allowed the documents produced by Mrs Bhujwalla to be admitted and received a bundle from Mrs Bhujwalla, numbered pages 28 - 60.

BRIEF BACKGROUND

6. Bhujwalla & Co is the partnership of Ms K M Bhujwalla FCCA and Mr M Bhujwalla. Mrs Bhujwalla is the only partner holding a practising certificate with audit qualification. This hearing relates to a sixth monitoring visit which took place on 8 June 2017. The firm was previously visited on 5 May 2015 in accordance with a decision of the Regulatory Assessor following the unsatisfactory outcome to the firm's fourth audit monitoring visit on 4 December 2012. The purpose of the visit on 5 May 2015 was to confirm that the firm had complied with the decision of the Assessor made on 3 June 2013. The visit also included confirming the firm's eligibility for registered auditor status and monitoring compliance with the Chartered Certified Accountants' Global Practising Regulations 2003 (GPRs).

HEARING

7. The firm had two Republic of Ireland and two United Kingdom limited company audit clients. Three of the files were selected for inspection.
8. Prior to the monitoring visit on 5 May 2015, the firm had four previous monitoring visits. At the first visit in May 1998 when it was the sole practice of Mrs Bhujwalla, the Compliance Officer considered that the firm's audit work was satisfactory although there were some deficiencies found on the files inspected. The report on the visit was sent to the firm setting out all of the deficiencies found and contained guidance on how the firm might remedy them.
9. The firm, which had now become a partnership, was monitored for the second time in March 2005, when it was not visited but submitted its files to ACCA's offices for inspection. The Compliance Officer considered that the standard of the firm's work had deteriorated. Serious deficiencies were found in the firm's audit work which had resulted in audit opinions not being adequately supported by the work performed and recorded. A report was sent to the firm on 3 May 2005 which set out these deficiencies. It contained guidance on how the firm might remedy the deficiencies found. The firm was also warned that failure to make the necessary improvement may jeopardise its continuing audit registration. The firm acknowledged receipt of the report in a letter dated 16 June 2005.
10. At the third visit, in May 2008, the firm had improved the standard of its work and the outcome of the visit was satisfactory. A report on the findings of the visit was sent to the firm on 9 June 2008. It contained guidance on how the firm might further improve its work. The firm was also warned that failure to maintain the improvement may jeopardise its continuing audit registration.
11. At the fourth monitoring visit on 4 December 2012 the Compliance Officer considered that the firm's procedures had deteriorated. The firm was using an electronic audit programme on all audits but it was not tailoring this to ensure that it met the needs of the audit of each client. Other than initials and short notes on the audit programme, there was little record of the audit work. In some sections, the working papers comprised accounting schedules only. As a result, the Compliance Officer concluded that on both

HEARING

files examined the audit opinion was not adequately supported by the work performed and recorded.

12. On 3 June 2013, the Regulatory Assessor made a decision pursuant to Authorisation Regulation 6(2)(f) and 6(3)(b) that Mrs Bhujwalla should be required to:

- (i) have all future audit work on two clients, selected by Governance - Practice Monitoring, and all other work in respect of reports to any regulatory body, reviewed by a training company before reports are signed, such training company being subject to ACCA approval;
- (ii) promptly notify Governance - Practice Monitoring if any client selected in (i) above ceases to be an audit client at any time in the future while this order remains in effect, and provide details of current audit clients so that Governance - Practice Monitoring may select an alternative;
- (iii) within six weeks of the date of written notification of this decision, notify ACCA of the identity of the training company referred to in (i) above and provide a current list of all audit and regulated clients;
- (iv) be subject to an accelerated monitoring visit before 1 June 2015 at a cost to the firm of £1,000 and £400 for each additional audit qualified principal; and
- (v) note that a failure to make the necessary improvements in the level of compliance with auditing standards and with the requirements of any regulators by that time will jeopardise her and her firm's continuing audit registration.

13. On 2 August 2013, Mrs Bhujwalla provided a list of audit clients and the name of the training company which would carry out the reviews, following which on 13 August ACCA informed her of the two files selected for 'hot' review.

14. On 23 December 2014, ACCA wrote to Mrs Bhujwalla to advise that, following a change in regulatory policy, she was no longer required to have

HEARING

the audit files of non-Public Interest Entity clients 'hot' reviewed. Mrs Bhujwalla acknowledged receipt of that letter on 13 January 2015.

15. The Compliance Officer's conclusion after the fifth visit to the firm on 5 May 2015 was that the standard of the firm's audit work had not improved sufficiently since the previous visit. He concluded that:

- the firm was using a standard audit programme on two audits but was not adequately tailoring this to ensure that it met the needs of the audit of each client;
- the firm did not use an audit programme on the third file inspected and it had no means to control the work required;
- there were instances where the firm had not recorded on its working papers adequate detail of the nature, timing and extent of the audit procedures it had performed, and the conclusions drawn from the audit evidence obtained.

16. The Compliance Officer concluded that in relation to two of the three audit files examined, the audit opinion was not adequately supported by the work performed and recorded.

17. The Compliance Officer found that the firm had a documented system of quality control policies and procedures in place to comply with the requirements of ISQC 1, but took the view that these did not appear to have been effective in ensuring that the firm performed its audit work in accordance with the ISAs. In particular, the firm had not established adequate monitoring policies and procedures to provide it with reasonable assurance that the system of quality control was relevant, adequate, operating effectively and had been complied with in practice.

18. The three audit files were examined. In relation to one it was found that there were some deficiencies in compliance with ISAs and in the recording of audit work the information in the file adequately supported the audit opinion. In relation to the other two files selected it was found that the audit opinion was not adequately supported by the work performed and recorded.

HEARING

19. Specifically, it was alleged that the following ISAs had not been followed: 201, 220, 230, 240, 250, 260, 265, 300, 315, 320, 500, 505, 520, 530, 550, 560, 570. In addition, it was alleged that on one file, although the firm had used an appropriate checklist, but the disclosure of related party transactions had been omitted. On two files the firm's audit reports did not contain the information required by the Companies Act 1963-2013 and Audit Bulletin 2010/2, in that the firm had not included matters on which the firm is required to report by exception.
20. On 13 October 2015, an Admissions and Licensing Committee considered the assessor's report in relation to the fifth monitoring visit of 5 May 2015. That Committee concluded that whilst there were some deficiencies as set out in the report produced by the ACCA approved training company, they were minor in nature and did not amount to material breaches.
21. On 8 June 2017, the firm was visited by ACCA for a sixth monitoring visit, the purpose of which was to ascertain whether improvements had been made since the last monitoring visit on 5 May 2015.
22. The outcome of the visit on 8 June 2017 was that the Senior Compliance Officer found that the firm had not made any improvements in its procedures. In some sections, the firm had not recorded the extent and detail of the audit procedures it may have performed. In addition, in some sections, the working papers comprised accounting schedules only with no evidence of any audit procedures performed. As a result, on the two files examined the audit opinion was not adequately supported by the work performed and recorded. In the view of the Senior Compliance Officer, Mrs Bhujwalla and the firm had breached Global Practising Regulations, PR 13(1) of Annex 1, Appendix 1 and PR 16(1) of Annex 2.

DECISION ON APPLICATION AND REASONS

23. The Committee heard oral evidence from the ACCA Senior Compliance Officer, a qualified accountant, who conducted the sixth monitoring visit on 8 June 2017. The Committee found her evidence was credible and professional. Mrs Bhujwalla asked questions of the Senior Compliance Officer. Mrs Bhujwalla elected not to give any oral evidence. However she made closing submissions to the Committee. The Committee accepted the advice of the Legal Adviser.

HEARING

24. The Committee noted that, in relation to the two audit files which were reviewed, the Senior Compliance Officer identified numerous apparent deficiencies in Mrs Bhujwalla's audit work which involved alleged breaches of ISQC 1, Code of Ethics and Conduct and ISAs 210, 240, 250, 315, 320, 500, 560 and 570.
25. Having carefully considered the oral and documentary evidence the Committee was satisfied that there were the following breaches of the rules and regulations relating to audit work:
- (i) The Committee was presented with no evidence that Mrs Bhujwalla had undertaken any monitoring of her audit work to comply with ISQC1 including cold reviews of completed engagements or any periodic inspections. Mrs Bhujwalla accepted this deficiency;
 - (ii) The Committee was satisfied that there was no evidence that the firm had identified any potential threat to its independence by any self-reviewing to assess any necessary safeguarding issues as required by the Code of Ethics and Conduct 290.165;
 - (iii) The Committee considered the detailed findings which indicated that insufficient appropriate audit evidence was present on both files as required by ISA 500. The Committee was satisfied that in relation file 1, there was no evidence that Mrs Bhujwalla had assessed the recoverability of the balance outstanding between the Parent Company and the subsidiary company she was auditing. No working papers were produced to rebut this deficiency;
 - (iv) The Committee was also satisfied that on both files the firm had not adequately performed and recorded its consideration of the management's assessment of the entity's ability to continue as a going concern as required by ISA 570. Mrs Bhujwalla had failed to make any adequate going concern assessment in relation to file 1. Mrs Bhujwalla relied on a letter of support from the Parent Company which was dated after the date her audit was completed which the Committee considered to be insufficient evidence. In relation to file 2,

HEARING

Mrs Bhujwalla accepted in her letter of 14 September 2017, that she did not obtain written assurances from management;

- (v) In relation to file 2, the Committee considered Mrs Bhujwalla's acceptance of the audit engagement in 2014, was in clear breach of ISA 210. In the previous year's audit, the firm had issued a disclaimer of opinion on the financial statements because there appeared to be restrictions by the management which prevented the firm carrying out audit work on stock. It should therefore not have accepted a further audit engagement with that same restriction in place;
- (vi) In relation to file 1, no further evidence has been provided to indicate that any of the required work regarding any analytical procedures (ISA 315), risk assessment (ISA 240), or identification of the relevant regulatory/legal framework had been carried out. Nor was there any such evidence in relation to file 2 in breach of ISA 250 which requires there to be evidence of an understanding of the entity and its environment;
- (vii) In relation to both files, the Committee was satisfied that there was an absence of evidence of adequate planning for the audits. In particular, there was no evidence of how Mrs Bhujwalla planned to ascertain completeness of income, management incentive provisions, recoverability of intercompany balances or assessing going concern. The planning documentation produced by Mrs Bhujwalla does not demonstrate that planning requirements for an audit were met. The Committee considered that it was not sufficient for Mrs Bhujwalla to have used a planning checklist without, for example, providing any reasons as to why certain actions were not required or not applicable. Further, her audit plan in relation to file 2 was, in the Committee's view, completely inadequate;
- (viii) Mrs Bhujwalla accepted that she had not determined materiality for the financial statements or performance materiality. ISA 320 provides a clear requirement for materiality to be determined;

HEARING

- (ix) In relation to file 1, the Committee was satisfied that Mrs Bhujwalla had not carried out sufficient work to acquire evidence in relation to the company's creditors. In particular, Mrs Bhujwalla had accepted the figures in relation to management incentives without ascertaining their accuracy or reliability. Mrs Bhujwalla had relied on the calculations of expert actuaries who were advising the parent company, without corresponding with them or making appropriate checks as required by ISA 500;
 - (x) In relation to events which may have occurred between the preparation of the final accounts and the audits being completed, the Committee was satisfied that there was no evidence that Mrs Bhujwalla had made any "subsequent events" checks as required by ISA 560;
 - (xi) The Committee was further satisfied that other criticisms made by the Senior Compliance Officer in her report concerning the lack of an engagement letter on file 2, the lack of any communication with those charge with governance, lack of audit evidence, the non-performance of analytical procedures and overall review of financial statements were valid, given they were not disputed by Mrs Bhujwalla.
26. Taking into account the totality of the deficiencies made out over both files, the Committee was satisfied that Mrs Bhujwalla had committed a material breach of the regulations and rules regarding the conduct of audit work and that Authorisation Regulation 5(2)(f) was engaged.
27. In deciding the appropriate order to make, the Committee had regard to the Guidance for Regulatory Orders. It also took into account Mrs Bhujwalla's submissions that she had resigned her UK audit engagements and had not re-applied for an audit certificate in the UK but wished to retain her audit certificate in Ireland,
28. The Committee took into account the long history of monitoring visits in this case, together with the numerous and widespread deficiencies found to exist concerning important areas of audit in the sixth monitoring visit. In the

HEARING

Committee's view Mrs Bhujwalla and the firm had failed to sustain a satisfactory standard of audit work throughout the period since 1998.

29. The Committee determined in all of the circumstances, that it was appropriate and proportionate to withdraw Mrs Bhujwalla's audit certificate. The Committee considered the applicability of The Statutory Auditors and Third Country Auditors Regulations (SATCAR). The Committee considered that it was not necessary to apply any additional sanctions under the SATCAR provisions.

30. The Committee made an order pursuant to Authorisation Regulation 5(2)(f) that:

- (i) Mrs Bhujwalla's practising certificate with audit qualification and the firm's auditing certificate be withdrawn and she be issued with a practising certificate; and
- (ii) Any future re-application for audit registration by Mrs Bhujwalla, or by a firm in which she is a principal, must be referred to the Admissions and Licensing Committee, which will not consider the application until she 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.

Mr James Kellock
Chairman
10 April 2018