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## ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

### REASONS FOR DECISION

**In the matter of:** Mr Anil Kumar Bhanot FCCA

**Heard on:** Monday, 09 July 2018

**Location:** The Adelphi, 1-11 John Adam Street, London  
WC2N 6AU

**Committee:** HH Graham White (Chairman), Mr Arif Kamal  
(Accountant), Mr Garrett O'Reilly (Lay)

**Legal Adviser:** Mr Alastair McFarlane

**Persons present  
and capacity:** Mrs Emily Healy-Howell (ACCA Case  
Presenter) and Mr Christopher Badoo  
(Hearings Officer)

**OUTCOME:** **Practising Certificate with Audit  
Qualification withdrawn**

1. The Committee had before it a bundle of papers numbered pages 1 – 31 and a service bundle numbered pages 1 to 28.
2. ACCA was represented by Mrs Healy-Howell. Mr Bhanot attended by telephone and represented himself.

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## BACKGROUND

3. Bhanot & Co is the sole practice of ACCA member, Mr A K Bhanot FCCA. The Firm was visited on 13 March 2018. It was a follow up visit carried out in accordance with a decision of the Regulatory Assessor. The purpose of this fourth visit was to monitor whether the Firm had remedied the deficiencies in its conduct of auditing found at the previous monitoring visit on 13 March 2015.
4. The Firm had issued audit reports on two limited company clients within the previous 12 months. Both files were inspected.

### History of monitoring visits

5. Prior to the current visit, Mr Bhanot had three previous audit monitoring visits on:
  - i. 27 March 2000, the outcome of which was unsatisfactory;
  - ii. 16 May 2002, the outcome of which was satisfactory;
  - iii. 13 March 2015, the outcome of which was unsatisfactory.
6. At the first visit on 27 March 2000, the Compliance Officer informed the Firm of serious deficiencies in its audit work which had resulted in the audit opinions on two of the three files inspected not being adequately supported by the work performed and recorded. The report on the visit set out these deficiencies and was sent to the Firm on 14 April 2000. It contained guidance on how the Firm might remedy the deficiencies found.
7. At the second visit on 16 May 2002, which was a follow up visit, the Compliance Officer found that the Firm had improved its procedures and the two audit files inspected were of a satisfactory standard. A report on the

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findings of this visit was sent to the Firm on 14 June 2002 and the Firm acknowledged receipt of the report in a letter dated 17 June 2002.

8. The Firm was due to have its next monitoring visit in 2005, but did not have any audit clients at that time. A desktop review of compliance with ACCA rules and regulations was carried out in February 2009 as the Firm still did not have any audit or regulatory clients.
9. At the third monitoring visit on 13 March 2015, the Compliance Officer found that the Firm's procedures had deteriorated. The Firm was using a standard audit programme on the two audit files inspected but it was not tailoring this to ensure that it met the needs of the audit of each client. In addition, the Compliance Officer found that the working papers largely comprised accounting schedules, which contained no indication of any audit work. As a result, on the two files examined the audit opinions were not adequately supported by the work performed and recorded. The Firm was informed that the outcome of the visit was unsatisfactory and it would be referred to the Regulatory Assessor ("Assessor"), in a letter dated 22 June 2015.
10. On 5 February 2016, the Assessor made a decision pursuant to Authorisation Regulations 7(2)(f) and 7(3)(b) that Mr Bhanot should be required to:
  - i. provide Governance – Monitoring within 30 days of the date of written notification of this decision with a list of current audit clients, identifying any Public Interest Entity (PIE) audits;
  - ii. promptly notify Governance – Monitoring if the Firm accepts any new PIE audit appointments or if any of the PIE audits identified in i above ceases to be an audit client at any time in the future while this decision remains in effect;
  - iii. have all future audit work on all PIE audit clients identified in i and ii above and confirmed by Governance – Monitoring reviewed by a training company before audit reports are signed, such training company being subject to ACCA approval;

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- iv. notify ACCA of the identity of the training company referred to in iii above within 14 days of the date of Governance – Monitoring confirming the PIE audit clients to be subject to review in accordance with i and/or ii above;
  - v. submit all reports prepared by the nominated training company (including details of how the Firm has addressed the points raised by the reviewer) pursuant to iii above to Governance – Monitoring within seven days of signing the audit report;
  - vi. be subject to an accelerated monitoring visit before 30 June 2017 at a cost to the Firm of £1,000 and £400 for each additional audit qualified principal and;
  - vii. note that 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 his and his Firm's continuing audit registration.
11. The Firm provided a list of its audit clients and confirmed that it did not have any PIE audit clients in a letter dated 14 March 2016. The list shows two audit clients, both of which were inspected at the March 2018 visit.

## **Summary of findings of current visit**

12. The fourth monitoring required by the Assessor visit took place on 13 March 2018. The Compliance Officer found that the Firm had not effectively improved its quality control policies and procedures sufficiently since the previous visit to ensure that it conducts all audits in accordance with the International Standards on Auditing (UK & Ireland) (ISA's). There were deficiencies in the performance and recording of audit work and the sufficiency of audit evidence and, as a result, the audit opinion that the Firm had issued on one of the two files inspected was not properly supported. Most of the deficiencies are the same as the deficiencies reported at the previous visit. ACCA submitted that this indicated that the Firm had not

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effectively implemented its remedial action plan, which it had prepared and submitted following the previous visit.

13. ACCA submitted that there were serious deficiencies in the audit work. These included alleged failings in the following areas

## **International Standard on Quality Control 1 (ISQC 1)**

14. The Firm does not have adequate documented procedures to comply with ISQC 1. This standard requires Firms to document their quality control policies and procedures. These should include leadership responsibilities for quality, compliance with the ethical requirements, engagement acceptance and continuance, human resources, engagement performance and monitoring.

The Firm was advised in a letter dated 3 August 2015 to tailor its ISQC 1 document according to its procedures following a review of its previous visit action plan. In spite of this, the Firm had not carried out a review of its current procedures to ensure that these comply with the requirements of ISQC 1, and had not documented them as required by the standard.

## **Independence**

15. The Firm provides non-audit services to its audit clients. However, it was not clear how the Firm had communicated to the directors of the entity that the provision of non-audit services may create self-review and self-interest threats to its objectivity and independence, and its assessment of the threats and the appropriate actions to be taken and applied therefrom. The Firm, therefore, appeared to have breached the requirements of paragraph 6.7 of Section 6 of the revised Ethical Standard 2016 in the case of small entities, and paragraphs 290.28 and 290.29 of ACCA's Code of Ethics and Conduct.

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## **Communication with those charged with governance**

16. On both files, the Firm had not communicated to those charged with governance all matters required by ISA 260, for example, an overview of the planned scope and timing of the audit or the auditor's views about significant qualitative aspects of the entity's accounting practices.
17. On both files, the Firm had not documented whether significant deficiencies in the entity's internal controls were found during the course of its audit and communicated to those charged with governance on a timely basis, as required by ISA 265.

## **Understanding the entity and its environment**

18. On file 2, it was not clear how the Firm had updated its documentation of its understanding of the key elements of the entity and its environment, which it had recorded more than four years ago to reflect any changes in the entity's business or processes. In addition, the Firm had not performed procedures to evaluate the design of the entity's controls over the sales and inventory systems, and to determine whether they had been implemented, for example, by performing walkthrough tests (ISA 315).
19. On both files, the Firm could not demonstrate that the requirements of ISA 240 had been met. It was not clear that the Firm had made any enquiries of management to ascertain management's process for identifying and responding to the risks of fraud in the entity, and to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. In addition, the Firm had not designed and performed audit procedures to reduce to an appropriate level the fraud risks of management override of controls and in revenue recognition.
20. On both files, the Firm had not recorded adequate details of the specific laws and regulations relevant to the client's business and the client's compliance with those laws and regulations, as required by ISA 250.

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21. On both files, the Firm had not performed adequate preliminary analytical review procedures as risk assessment procedures to identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications, as required by ISA 315.

## **Planning, control and review**

22. On file 2, the Firm had not adequately planned the audit to ensure that it performed the engagement in an effective manner (ISA 300). In particular, it had not adequately defined the work required to obtain the necessary audit evidence in key audit areas. On both files, the Firm had used a standard audit programme but it had not tailored it to the needs of the audit of the individual client. As a result, it had not properly planned its audit work with consequent deficiencies in the effective performance of the audit and in the audit evidence obtained.

23. On file 2, the engagement partner had not adequately planned the nature, timing and extent of direction of staff and reviewed their work (ISA 300). Although there was a record of the partner's review, given the findings contained in this report, it is evident that any review which may have been conducted had not been effective. The review had not ensured that sufficient appropriate audit evidence had been obtained and recorded in all key areas to support the conclusions reached and for the audit report to be issued, as required by ISA 220.

## **Documentation**

24. On both files, the Firm had not prepared adequate audit documentation to comply with the requirements of ISA 230. The documentation was not sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the ISA's and applicable legal and regulatory requirements. In some instances the Firm had not always recorded on its working papers adequate details of the nature, timing and extent of the audit procedures it had performed, identification of documents examined and

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the conclusions drawn from the audit evidence obtained including any professional judgements made in reaching those conclusions. In other areas the working papers contained only unexplained ticks, with no details of the source documents examined.

## **Audit evidence**

25. In the files inspected, there were a number of deficiencies in the extent and quality of audit evidence (ISA 500) some of which were serious on file 2. The following are examples:

### **Inventory**

- i. On file 2, the Firm had accepted a material stock figure without attending the stock take and without carrying out any other work to support existence, cost and net realisable value.

### **Receivables**

- ii. On file 1, the Firm had not recorded that it had assessed the recoverability of a material balance due from the parent company, for example, by tracing to after date receipts or by assessing the solvency of the parent company through a review of its financial statements.
- iii. On file 2, the Firm had not adequately performed and recorded the work carried out to verify the recoverability of debtors. The work appeared to be limited to tracing the outstanding balances to amounts in the subsequent debtors' nominal ledger. The Firm had not recorded how it had ensured that the clearance of debtors was not due to journals or credit notes rather than receipts from customers.
- iv. On file 2, the Firm had not recorded any work to verify the reasonableness of a material general bad debt provision. The provision appeared to have been based on a fixed amount set aside each month and not in accordance with the requirements of section 11

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of FRS 102. However, the Firm had not recorded its evaluation of the impact on the financial statements and on its audit report.

- v. On file 2, the Firm had not recorded any work to verify the validity of pre-payments.

## **Payables**

- vi. On both files, the Firm had not recorded any work designed to identify unrecorded liabilities, such as a review of after date payments and unpaid invoices.
- vii. On file 2, the Firm had not recorded any work to verify the completeness of deferred income.
- viii. On file 2, the Firm had not confirmed the repayment terms of a material long term balance payable to a related company in order to verify the completeness and accuracy of its financial statement classification and disclosure.

## **Income**

- ix. On file 2, the Firm had not recorded any work to verify the completeness of income. There was no testing from records of despatch or supply of goods, or supply of services to sales invoices and accounting records.

## **Payroll costs**

- x. On file 2, the Firm had not recorded any work to verify validity of payroll costs and the existence of employees.

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## **Contingencies and commitments**

- xi. On both files, the Firm had not recorded that it had considered the existence of litigation and claims, giving rise to contingencies for provision or disclosure in the financial statements, for instance, through discussions with management and a review of legal expenses. In addition, the Firm had not recorded that it had reviewed significant agreements, if any, to identify any contingencies and capital commitments for disclosure in the financial statements.

## **External confirmations**

- 26. On file 2, the Firm had not maintained control over the process of sending and designing the confirmation request from the client's bankers, as required by ISA 505. In particular, the Firm had allowed the client to send the bank confirmation requests, and it was not evident that the Firm had designed the confirmation request in the recommended form to include information on other areas such as contingent liabilities and charges over assets, since the response received via e-mail only confirmed the bank balance. This undermined the value of the evidence obtained on the completeness of bank balances.

## **Analytical procedures**

- 27. On both files, the Firm had not designed and performed analytical procedures near the end of the audit which assisted it in forming an overall conclusion as to whether the financial statements were consistent with its understanding of the entity (ISA 520).

## **Management representations**

- 28. On both files, the Firm had not obtained written representations in respect of all the matters required by ISA 580. In particular, the representation letter obtained did not include a statement or paragraph that management had fulfilled its responsibility for the preparation of the financial statements in

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accordance with the applicable financial reporting framework (ISA 580.10), for the design, implementation and maintenance of internal control to prevent and detect fraud including knowledge of any allegations of fraud or suspected fraud (ISA 240), or instances of non-compliance or suspected non-compliance with laws and regulations (ISA 250), and management's assessment of going concern (ISA 570).

## **Going concern**

29. On both files, the Firm had not recorded that it had obtained sufficient information and evidence, for instance post year end trading information, budgets and forecasts, to support management's view that each entity would be a going concern for at least twelve months from the expected date of approval of the financial statements.

30. In addition, on file 2 the entity was in a net liability position and was making recurring losses, which appeared to cast doubt about the entity's solvency. However, the Firm had not considered whether it should have obtained written confirmation from the shareholders that they will continue to support the entity for at least twelve months from the expected date of approval of financial statements and assess their ability to do so. Furthermore, there was no consideration given to whether there was a material uncertainty about the entity's ability to continue as a going concern which should have been disclosed in the financial statements, including management's plans to deal with these events or conditions, and therefore, whether the audit report should have been modified (ISA 570).

## **Review of financial statements**

31. On both files, the Firm had not recorded that it had performed procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, was in accordance with the applicable financial reporting framework, as required by ISA 330. Some instances of non-compliance with the requirements of the Companies Act 2006 and Financial Reporting Standard (FRS) 102 were noted. For instance, on both

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files the notes to the financial statements did not disclose the auditors' remuneration, as required by regulations 4 of Statutory Instrument 2008 No.

32. On file 2, there was no disclosure of the average number of employees (section 411 of the Companies Act 2006) and the parent or ultimate controlling party (section 33.5 of FRS 102).

## **APPARENT BREACHES OF THE GLOBAL PRACTISING REGULATIONS**

33. ACCA contended that Mr Bhanot and the Firm have breached PR 13(1) in that they failed to comply with the International Standards on Auditing (UK and Ireland) in the conduct of audit work and the Ethical Standards (issued by the Financial Reporting Council) directly relevant to the audit of the financial statements. There were deficiencies in the planning, control and recording of audit work, and on one of the two files examined the audit opinion was not adequately supported by the work performed and recorded.

## **ACCA's SUBMISSIONS**

34. Mrs Healy-Howell submitted that ACCA regarded the following as the relevant facts in the Committee's consideration of the standard of the Firm's audit work:

- i. the Firm and Mr Bhanot have had four audit monitoring visits;
- ii. three of the four visits had unsatisfactory outcomes;
- iii. there was some improvement to the standard of audit work at the second visit but the Firm had not maintained the improvement by the time of its third visit and was referred to the Regulatory Assessor;
- iv. the Firm had failed to effectively improve its quality control and audit procedures sufficiently to achieve a satisfactory outcome at the fourth visit, in spite of the advice and warnings

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previously given, particularly by the Assessor following the third visit; and

- v. the majority of the deficiencies reported at the previous visit remained which indicates that the Firm has failed to effectively implement its remedial action plan

35. In the light of the facts above, ACCA recommended that the Committee withdraw the Firm's auditing certificate and Mr Bhanot's practising certificate with audit qualification and reissues him with a practising certificate. This is in line with the approach set out in the Guidance for Regulatory Orders for visits with unsatisfactory outcomes. The approach taken by ACCA and the Committee is explained in paragraph 6.3.5, 7.3.1 to 7.3.2 and 8.2.8 of the Guidance.

## **MR BHANOT'S SUBMISSIONS**

36. Mr Bhanot provided his initial response to the report on the monitoring visit by letter on 15 May 2018, where he expressed his disagreement with ACCA's conclusions and challenged the idea that small audits well below statutory thresholds and "without any risk" should be assessed "in the same onerous criteria" as larger audits. The Compliance Officer's reply dated 4 June pointed out that ISA's apply in the conduct of all audits, with due allowance for the size and complexity of the audit client. In his e-mail of 25 June 2018, Mr Bhanot's contentions include that he has practised for 28 years without a blemish, and he emphasises that the "smaller audit market is different from larger statutory thresholds exempt from audit". In his e-mail of 27 June 2018, he indicated that he probably needed to engage an audit-qualified assistant and that he would not take on any audit engagements until then.

37. In his oral submissions, Mr Bhanot accepted that he definitely "had room for improvement", but indicated that he regarded some of the deficiencies as minor, and repeatedly contended that the same auditing standards should not apply to smaller businesses below the auditing threshold. He generally

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asserted that he had undertaken the planning and control work, but had not recorded it. He submitted that only 1 of the 2 audits at the 2018 visit was found to be seriously deficient. He did not accept the entirety of the Compliance Officer's findings. He sought to continue with audit work and contended that submitting each audit he undertook to ACCA for hot review would be an appropriate condition.

## DECISION ON APPLICATION AND REASONS

38. The Committee had regard to the submissions made by Mrs Healy-Howell on behalf of ACCA and Mr Bhanot on his behalf and behalf of the Firm.
39. The Committee accepted the Legal Adviser's advice. The Committee had regard to the guidance contained in ACCA's "Guidance for admissions and licensing hearings" (July 2018) and the "Guidance for Regulatory Orders" (November 2014).
40. The Committee noted that some of ACCA's report was not disputed by Mr Bhanot, who indicated that he "definitely accepted that there was room for improvement". It also took account of his generalised submission that he did undertake relevant audit work, but accepted that there was inadequate documentary evidence to support findings that he had made.
41. The Committee carefully considered all the material before it, including Mr Bhanot's Action Plan to improve the standard of audit work that he submitted to ACCA after the March 2015 unsatisfactory outcome monitoring visit. Mr Bhanot's Action Plan detailed how he would rectify the specific deficiencies found at that visit. The Committee considered it significant that many of the deficiencies that Mr Bhanot sought to remedy in his Action Plan were still recorded as deficiencies by the Compliance Officer at the fourth monitoring visit in March 2018. For example, the Committee noted that in Action Plan, Mr Bhanot set out the remedial action he would undertake both in respect stock existence and going concern review. The Committee was satisfied that there was no evidence found by the Compliance Officer on the audit files at the March 2018 monitoring visit that Mr Bhanot had taken those remedial

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steps. The Committee was satisfied that the Firm had failed to implement its Action Plan.

42. The Committee was satisfied on the balance of probabilities that ACCA has proved each of breaches of regulations and rules listed by ACCA, including the International Standards on Quality Control and Global Practising Regulations – PR 13(1).

43. The Committee carefully considered Mr Bhanot's submissions to the effect that he wished to continue with audit work. At one point he did acknowledge that audit standards could not be diluted according to the size of the business being audited. Nonetheless, Mr Bhanot repeatedly referred to "a box-ticking exercise", and how the small size of the firms he audited was the context of his deficiencies. The Committee considered these comments were an attempt to justify his omissions. The Committee was satisfied that Mr Bhanot lacked insight into the universal applications of regulatory standards irrespective of the size of the business.

44. Mr Bhanot submitted that a condition on his audit qualification, and the Firm's audit certificate, was the appropriate and proportionate order. The Committee was not persuaded that conditions would be sufficient to protect the public, given that the errors were significant and had been repeated. After he had been given the opportunity by ACCA to show improvement by implementing his Remedial Action Plan, he failed to do so. The Committee did not consider that Mr Bhanot's indication to it that he is committed now to making the necessary improvements, amounting to an exceptional reason for not withdrawing the certificate given the previous unsatisfactory visit outcomes. Further, the Committee had concerns about whether any conditions imposed would be complied with in the light of the failure to comply with the Remedial Action Plan.

45. In these circumstances, the Committee considered that only proportionate order sufficient to protect the public and maintain confidence in the profession was to withdraw the Firm's audit certificate and Mr Bhanot's

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practising certificate with audit qualification, and to issue him with a practising certificate.

## ORDER

46.

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

- . i Mr Bhanot's practising certificate with audit qualification and the Firm's auditing certificate be withdrawn and he be issued with a practising certificate; and
- . ii any future re-application for audit registration by Mr Bhanot, or by a firm in which he is a principal, must be referred to the Admissions and Licensing Committee, which will not consider the application until he has provided an action plan, which ACCA regards as satisfactory, setting out how Mr Bhanot intends to prevent a recurrence of the previous deficiencies and attended a practical audit course, approved by ACCA and, following the date of this order, passed paper P7 (or the equivalent advanced level audit paper) of ACCA's professional qualification.

## PUBLICITY

46. The Committee noted the respective submissions of the parties on publicity and accepted the advice of the Legal Adviser.

47. The Committee was not persuaded that there was any basis to depart from the ordinary position that there should be publicity of this decision.

**HH Graham White**  
**Chairman**  
**9 July 2018**