

HEARING

ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of: Mr Sohail Farooq Chaudhry

Heard on: Wednesday, 20 June 2018

Location: The Chartered Institute of Arbitrators, 12 Bloomsbury Square, London, WC1A 2LP.

Committee: HH Suzan Matthews QC (Chairman),
Mr Trevor Faulkner (Accountant)
Mr Stephen Griffiths (Lay)

Legal Adviser: Miss Juliet Gibbon

**Persons present
and capacity:** Ms Samantha Hatt (ACCA Case Presenter)
Mr Christopher Badoo (Hearings Officer)

Summary: **Conditions placed on any future
re-application by Mr Chaudhry for audit
qualification.**

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1. The Admissions and Licensing Committee (“the Committee”) convened to consider whether to make an order in relation to Mr Sohail Farooq Chaudhry’s audit qualification and his firm’s auditing certificate following an unsatisfactory monitoring visit. ACCA was represented by Ms Samantha Hatt. Mr Chaudhry did not attend the hearing and was not represented.
2. The Committee had before it a bundle of papers numbering pages 1-325; an additional bundle, numbering pages 326-330; 327b, 331-334, 335, 336 and 337-338. It also had a service bundle, numbering pages 1-16.

SERVICE AND PROCEEDING IN ABSENCE

3. The Committee considered the evidence of service on Mr Chaudhry. The Committee was satisfied that proper notice had been given, and that service had been properly effected in accordance with Regulations 6(1)(a) and (b) and 11(1) of the Chartered Certified Accountants’ Authorisation Regulations 2014 (amended 2018) (“the AR”).
4. Ms Hatt submitted that Mr Chaudhry had voluntarily absented himself from the hearing and invited the Committee to proceed in his absence.
5. The Committee determined whether to proceed in the absence of Mr Chaudhry. It accepted the advice of the Legal Adviser. It bore in mind that whilst it had a discretion to commence and conduct proceedings in the absence of the member, it should exercise that discretion with the utmost care and caution. The Committee had regard to the factors set out by Lord Bingham in the case of *R v Jones UKHL 5*.
6. In determining whether to exercise its discretion to proceed in Mr Chaudhry’s absence, the Committee noted that the Notice, dated 18 May 2018, had been delivered by the Royal Mail and signed for in the name ‘Chaudry’ [sic] on 19 May 2018. Further, Mr Chaudhry had been in communication with the Hearings Officer by way of emails dated 4 and 17 June 2018. The email of 17 June 2018 attached a letter that had been sent to the Professional Conduct Department and indicated that Mr Chaudhry would not be attending the hearing. The Committee was satisfied that Mr Chaudhry was aware that the hearing was

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taking place today. In communication with the Hearings Officer this morning, Mr Chaudhry confirmed that he did not wish to attend the hearing and was happy for the Committee to proceed in his absence. Mr Chaudhry subsequently confirmed this by email.

7. The Committee was satisfied that Mr Chaudhry was aware of the hearing and had decided not to exercise his right to attend but was happy for the hearing to proceed in his absence. The Committee, therefore, determined to proceed in Mr Chaudhry's absence.

APPLICATION AND BRIEF BACKGROUND

8. ACCA's original application was for the Committee to withdraw Mr Chaudhry's audit qualification and his firm's audit certificate under Regulation 5(2) of the AR. The Committee was informed, however, that Mr Chaudhry has now, in writing, relinquished his audit qualification and his firm's audit certificate and that had now come into effect. Ms Hatt, on behalf of ACCA, however, has made an application under Regulation 6(19) of the AR for the Committee to consider any future application by Mr Chaudhry for an audit certificate. She invited the Committee to make an order that any future application must be referred to the Admissions and Licensing Committee and that such an application will not be considered until Mr Chaudhry has attended a practical course, approved by ACCA, and passed paper P7, Advanced Audit and Assurance, of ACCA's professional examinations.
9. Mr Chaudhry is the sole director of Rass: Mian ("the firm"). The firm received a fourth monitoring visit on 20 and 21 November 2017. The purpose of the visit was to follow up the firm's previous monitoring visit, which had taken place on 12 February 2015. The outcome of the third visit was unsatisfactory on the conduct of audit work was and had resulted in a referral to the Admissions and Licensing Committee.
10. The Firm's first monitoring visit took place on 22 February 2007. The Compliance Officer found that the firm's audit work was of a satisfactory standard. Some deficiencies were found, however, and a report containing guidance on how to improve its audit work was sent to the firm on 15 March 2007.

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11. The second monitoring visit to the firm was carried out on 7 February 2013. The Compliance Officer found that there were serious deficiencies in audit work which had resulted in an audit opinion not being adequately supported by the work performed and recorded. The report on the visit set out the deficiencies found and was sent to the firm on 19 February 2013. It contained guidance on how the firm might remedy the deficiencies found. The Firm acknowledged receipt of the report in a letter dated 7 May 2013.

12. The third monitoring visit took place on 12 February 2015. The purpose of the visit was, in part, to ensure that the Firm had remedied the deficiencies in the Firm's audit work that were identified at the previous monitoring visit. The compliance officer found that the Firm had made little effective improvement to its procedures. The firm was using a standard audit programme but had not tailored this to ensure that it met the needs of the particular audit client. In some sections, the working papers comprised accounting schedules that had no indication of any audit work and any ticks against figures on the schedules were unexplained. As a result, on the file examined, the compliance officer was of the view that the audit opinion was not adequately supported by the work performed and recorded.

13. ACCA had initially proposed to refer the findings of the third visit to the Regulatory Assessor with the recommendation that he impose conditions on Mr Chaudhry's practising certificate with audit qualification, but this course of action was dependent on Mr Chaudhry providing a satisfactory action plan setting out in detail how he intended to improve the standard of his work. The action plan and other documents submitted by Mr Chaudhry indicated that he disputed a number of the compliance officer's findings. ACCA therefore referred its findings to the Admissions and Licensing Committee with the recommendation that the Firm's auditing certificate and Mr Chaudhry's audit qualification be withdrawn. The Committee, however, was satisfied that appropriate and proportionate conditions could be formulated that would allow Mr Chaudhry to continue with his audit work whilst taking the necessary steps to improve his practice to an acceptable standard. The Committee, amongst other things, ordered that the Firm be subject to an accelerated monitoring visit within 18 months. It noted, however, that a failure to make the necessary improvements in the level of compliance with auditing standards and with the

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requirements of any regulators by that time would jeopardise Mr Chaudhry's and the Firm's continuing audit registration.

14. The accelerated fourth visit, as ordered by the previous Committee, took place on 20 and 21 November 2017. The Compliance Officer found that the Firm was not producing a consistently satisfactory standard of audit work. On the larger of the two files examined there were serious deficiencies in the performance and recording of the audit work.

Summary of Findings of the Monitoring Visit on 20-21 November 2017

15. At the monitoring visit on 20-21 November 2017 the Compliance Officer examined the audit files of Client 1 and Client 2. There were serious deficiencies noted throughout the file of Client 1. Client 2's file was found to be satisfactory although there were some deficiencies noted in the performance and recording of the audit work.

'Hot' Reviews

16. On 17 November 2017, prior to the monitoring visit, the Firm informed ACCA that it had arranged a 'hot' review to be carried out on the audit file of Client 1 for the year ended 31 July 2016. The Firm submitted a copy of the audit file review report, dated 10 November 2017, which showed that this was, in fact, a 'cold' review because the audit opinion had been signed by Mr Chaudhry on 31 May 2017. Companies House records showed that the Firm had issued an audit opinion for the year ended 31 July 2016. During the monitoring visit, however, Mr Chaudhry confirmed to the compliance officer that audit work in respect of Client 1 was *'complete and ready for audit opinion'*. The Compliance Officer noted that certain working papers were signed off subsequent to the date of the audit report. The Firm appeared to have issued an audit opinion before completing its audit work and, therefore, could not show its compliance with the requirements of International Standards on Auditing (ISAs).
17. The review of Client 1's audit was carried out after the firm had issued its audit report. The Firm also issued an audit opinion on the financial statements of Client 2 on 5 November 2017. The date of the file review by the training company, however, was 12 November 2017. Mr Chaudhry does not appear to

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have complied with the previous Committee's order.

Fitness and Propriety

18. Mr Chaudhry has shown little attempt to comply with the requirements of the ISAs on Client 1, which is the Firm's largest client, as there were serious deficiencies in the performance and recording of the audit work. This raises concerns regarding Mr Chaudhry's fitness and propriety to hold an auditing certificate.

ACCA suggests that the following have been breached:

- a. International Standard on Quality Control 1 (ISQC 1);
- b. Audit Documentation (ISA 230)
- c. Assembly of the Final Audit File (ISA 230).

Independence

19. Client 1 was referred from another accountancy firm (Firm 3) which does not hold audit registration. Firm 3 also provides tax and accountancy to this client. The Firm had used the services of Mr 4, a partner in Firm 3, as part of its audit team, specifically to attend to the stock take of Client 1.

Client Acceptance and Continuance (ISA 220)

20. The Firm had not obtained a written professional clearance from Client 1's previous accountant prior to accepting appointment. The Firm could not, therefore, show that it had recorded that it had performed acceptance and continuance procedures to indicate that all risk assessment procedures had been completed and approved by the principal prior to accepting, continuing or commencing work on the client engagement.

Communication with Those Charged with Governance (ISA 260)

21. On both files the Firm had not recorded that it had communicated to those charged with governance its responsibilities as auditors of the financial statements.

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Understanding the Entity and its Environment (ISA 315)

22. The two files did not contain sufficient information to show the Firm's understanding of the key elements of the entity and its environment and the industry in which it operates. On both files there was insufficient information about the history of the client businesses, any significant audit issues in previous years, modifications in the audit reports, details of major suppliers and customers (file 1), major donors and beneficiaries (file 2) and duties of key personnel on a day-to-day basis.

Laws and Regulations (ISA 250)

23. The Firm had not recorded how Client 1 was complying with the regulatory framework to ensure that it had assessed the risk of material misstatement relating to any non-compliance and its impact on the audit opinion.

Audit Sampling (ISA 530)

24. On both files the Firm had used sampling techniques but had not recorded how it had structured the sample and selected items for testing.

Planning

25. On file 1 the Firm had not properly planned its audit work with consequent deficiencies in the audit evidence obtained.

Evidence

26. The Compliance Officer identified a number of deficiencies in the extent and quality of the audit evidence in both files and these were serious in file 1.

Related Parties (ISA 550)

27. On both files, at the risk assessment stage, the Firm had not recorded that it had made enquiries of management in order to identify all related parties and had not established and verified the nature of the relationships between any

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such entities and the type and purpose of the transactions.

Management Representations (ISA 580)

28. The representation letter on file 1 appeared to be in draft, dated but not signed by the management.

Subsequent Events (ISA 530)

29. On file 1 the Firm had issued its audit opinion on 31 May 2017. The post balance sheet section was dated 9 August 2017, and included correspondence up to October 2017. The audit procedures performed did not provide any audit evidence at the date the Firm had issued its audit opinion on the financial statements.

Evaluation of Misstatements

30. On file 1 the Firm had not properly evaluated misstatements identified during the audit. The working papers indicated that the Firm was not able to review approximately £213,000 of invoices, but had not recorded whether this required a modification to its audit report.

Overall Review of Financial Statement

31. On file 1 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. It had not used a checklist or any other appropriate means to ensure that the financial statements complied with statutory and professional requirements. Further, there were instances of non-compliance with the reportable accounting framework on the financial statements issued.

Going Concern (ISA 570)

32. 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

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as a going concern.

Reporting

33. On file 1 the audit report did not describe the Firm as 'Statutory Auditor', as required by PR 13 and AB Bulletin 2010/12.

Breaches of the Global Practising Regulations

34. ACCA submitted that Mr Chaudhry and the Firm breached PR 13(1) (Annex 1, Appendix 1) in that they failed to comply with the ISAs in the conduct of audit work. There were deficiencies identified by the Compliance Officer in the planning, control and recording of the audit work, and in one of the two cases examined the audit opinion was not adequately supported by the work performed and recorded.
35. ACCA further submitted that the standard of audit in the Firm's larger client, Client 1, raised significant concerns regarding Mr Chaudhry's fitness and propriety to hold a practising certificate with audit qualification under PR 8(2)(d) and 8(2)(b) (Annex 1, Appendix 1). He had issued an audit report that contained a statement that the audit was carried out in compliance with the auditing standards without any meaningful evidence to support such a statement. This evidenced a failure to comply with the fundamental principles as set on in the Code of Ethics and Conduct ("CEC") 110.2 and 130(1)(b).
36. Despite the fact that Mr Chaudhry has now relinquished his audit qualification and the Firm's audit certificate he does not accept a breach of PR 13(1) of (Annex 1, Appendix 1) and it is ambiguous whether he accepted the deficiencies in relation to Client 2. ACCA, therefore, invited the Committee to make findings on these matters. It also invited the Committee to make a finding that Mr Chaudhry was not a fit and proper person to hold an audit certificate under Regulation 8 of the Global Practising Regulations (Annex 1, Appendix 1).

MR CHAUDHRY'S CASE

37. Mr Chaudhry wrote to ACCA on 27 March 2018 setting out his comments on the findings made by the Compliance Officer in his report. This was responded to in

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full by the Senior Compliance Officer in a letter, dated 11 May 2018. He considered the documents provided by Mr Chaudhry and concluded that they did not alter ACCA's recommendation to the Committee. He wrote: "... in fact the submissions made show a worryingly lack of appreciation of just what is required to perform an adequate audit or how to properly record audit evidence. In accordance with the Guidance for Regulatory Orders, ACCA's recommendation to the ALC therefore remains that it should withdraw the audit certificates because the standard of audit work on the firm's largest client is far below that which is expected of a senior statutory auditor, resulting in both an unsatisfactory outcome to a fourth monitoring visit and concerns over your fitness and propriety".

38. Mr Chaudhry was in communication with a senior investigating officer at ACCA following a referral from the Monitoring Department. Mr Chaudhry referred to the letter he wrote to ACCA on 27 March 2018, in which he accepted that the audit work carried out on the two files was not up to the standard expected by ACCA. By a letter of 15 June 2018 he stated: "I was under extreme pressure due to my personal circumstances which, on reflection, I did not adequately deal with at the time. I accept however that does not excuse the fact that I signed audit opinions in the particular circumstances and with hindsight I would not have acted in the same way if confronted with the same set of circumstances today".
39. Mr Chaudhry wrote: "I accept for the purposes of this letter the breaches alleged against in respect of the quality of audit work carried out and in respect of the failure to comply with the conditions already imposed on my audit qualification from the 29 July 2016 Admissions and Licensing Committee hearing and that it may be in all parties' best interests for me to voluntarily give up my audit certificate and cease to carry out audit work until such time I can properly service the needs of my clients in this respect".
40. Mr Chaudhry asked the Committee to take into account matters of personal mitigation relating to the death of his father and stated that his other accounting work had not been the subject of criticism. He reminded the Committee that he had fully cooperated with the Compliance Officer during the monitoring visit; engaged with ACCA's investigation and had admitted his failure to comply with the conditions attached to his audit certificate.

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41. The Case Presenter wrote to Mr Chaudhry on 18 June 2018 requesting further clarification in relation to his position. He responded by way of letter, dated 19 June 2018, indicating the following:

- a) He accepted the breaches in relation to Client 1 but not Client 2 that had been classified as 'satisfactory' by the compliance officer but he did not fully accept breaches under Practising Regulation 13(1) (Annex 1, Appendix 1) in general;
- b) The breaches alleged affected only one client;
- c) He left the ultimate decision to the Committee;
- d) He would like to relinquish his audit qualification voluntarily;
- e) He made submissions in relation to any publicity.

DECISION ON APPLICATION AND REASONS

42. The Committee accepted the advice of the Legal Adviser.

43. The Senior Compliance Officer's report contained a number of detailed criticisms of Mr Chaudhry's auditing work, which he has now made admissions to. He has also admitted that he failed to comply with the conditions imposed by the previous Admissions and Licensing Committee. He does not, however, accept that he was in breach of Practising Regulation 13(1).

44. In reaching its decision, the Committee had regard to Regulation 8 of the Global Practising Regulations and Regulation 6(19) of the AR. It took account all the documentary evidence before it, together with the admissions made by Mr Chaudhry. The Committee had regard to the findings of ACCA's senior compliance officer in relation to the monitoring visit on 20 and 21 November 2017 and noted the numerous breaches of international auditing and quality standards referred to in the report before it. The Committee was clearly satisfied that it had been notified of a material breach of Global Practising Regulation ("PR") 13(1), which applied to Mr Chaudhry in the conduct of his audit work.

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45. The Committee was also satisfied that Mr Chaudhry was not a fit and proper person to hold an audit qualification under Regulation 8 of the PR. The Committee would, therefore, have had the discretion to withdraw Mr Chaudhry's audit qualification and the Firm's audit certificate in accordance with Regulation 5(2)(f) of the AR had he not relinquished the same.
46. In deciding what, if any, was the appropriate order to make, the Committee had regard to ACCA's Guidance for Regulatory Orders ("GRO").
47. The Committee took into account of Mr Chaudhry's admissions and the matters that he put forward in mitigation for the deficiencies in his audit work in his written communication with ACCA. It bore in mind that in determining what order to impose, if any, it must act proportionately, balancing Mr Chaudhry's interests against the purpose of regulatory orders.
48. The Committee, however, also took into account the fact that Mr Chaudhry has now had three unsatisfactory monitoring visits and is subject to a previous order of the Admissions and Licensing Committee. The GRO states that on a second referral 'the Committee will normally order that the firm's audit registration is withdrawn'.
49. The Committee first considered whether it could conclude the case without taking any action on Mr Chaudhry's audit registration or the Firm's audit certificate. Given that the Committee had been notified of a material breach of PR 13(1), it decided that the public would not be protected, and public confidence in the profession would not be upheld if no action was taken.
50. The Committee concluded that despite the opportunities given to Mr Chaudhry to improve his and the Firm's audit practice there had been little improvement in the standard of the Firm's audit and the Committee had no confidence that he, or the Firm, would be able to perform audits to a satisfactory standard in the future.
51. Auditors perform an important function and audit reports must be accurate and reliable so that the public can have confidence that those who prepare such reports are competent to do so. Unfortunately Mr Chaudhry has not been able

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to meet the required standard of audit work and this Committee would have had no hesitation in withdrawing his audit qualification and the Firm's audit certificate had they not been relinquished by him.

52. The Committee concluded that the minimum order necessary to protect the public and maintain standards in the profession, given that Mr Chaudhry had now relinquished his audit qualification and the Firm's certificate, was to order that any future re-application by Mr Chaudhry, 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 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 examination.

53. The Committee noted that Mr Chaudhry had relinquished his practising certificate with audit qualification and his firm's audit certificate and made an order pursuant to Authorisation Regulation 6(19) that:

- i) Any future re-application for audit registration by Mr Chaudhry, 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 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.

PUBLICITY

54. The Committee accepted the Legal Adviser's advice. It accepted that it had made an order pursuant to SATCAR Regulation 5(h), and that in such circumstances; publicity is presumptive, pursuant to SATCAR Regulation 6. However, in accordance with SATCAR Regulation 6(3), Mr Chaudhry's identity must not be published in certain circumstances. These are:

1. Where A is an individual and the competent authority considers the publication of personal data would be disproportionate;
2. Where publication would jeopardise the stability of financial markets;
3. Where publication would jeopardise an on-going criminal investigation; and

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4. Where the publication would cause disproportionate damage to any institution or individual involved.

55. In his letter of 19 June 2018, Mr Chaudhry made submissions that it was disproportionate under Regulation 6(3) of SATCAR to publish his personal data and he put forward four reasons. The Committee, however, was not persuaded that any of the circumstances set out in Regulation 6(3) of SATCAR applied in this case.

56. The Committee ordered that ACCA publish details of this order, and that Mr Chaudhry be named in any publicity.

HH Suzan Matthews QC

Chairman

20 June 2018