

HEARING

ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of: Mr A

Heard on: Tuesday, 18 June 2019

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

Committee: Mr Maurice Cohen (Chairman)
Mr Trevor Faulkner (Accountant)
Mrs Lynne Jones (Lay)

Legal Adviser: Ms Judith Chrystie (Legal Adviser)

Persons present

and capacity: Mr Benjamin Jowett (ACCA Case Presenter)
Mr A (Member)
Mr Richard Lorkin (Hearings Officer)

Outcome: **Any future application for a Practising Certificate with
Audit Qualification to be referred to the Admissions and
Licensing Committee, subject to conditions.**

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ALLEGATION(S)/BRIEF BACKGROUND

1. Mr A was present at the hearing but unrepresented.
2. The Committee received the following documents:
 - a. main bundle with pages numbered 1-17;
 - b. additional bundle with pages numbered 18-24;
 - c. tabled additional with pages numbered 25-39.
3. Mr A FCCA held a practising certificate with audit qualification, but this had been relinquished prior to the hearing. He is a sole practitioner of Firm A ('the firm'), which had been regulated for audit purposes.
4. ACCA had conducted three monitoring visits to the firm as follows.
 - a. 23 January 2013 – when the Compliance Officer found serious deficiencies in audit work which resulted in audit opinions not being adequately supported by the work performed and recorded. The firm identified the actions it intended to take to rectify the deficiencies.
 - b. 18 January 2017 – when the Compliance Officer found that the firm had made little effective improvement to its audit procedures, and continued to issue audit opinions which were not adequately supported by the work performed and recorded. The firm submitted an action plan and accepted the decision of the Regulatory Assessor, which required it to provide a list of audit clients and to engage a training company to conduct 'hot file' reviews.
 - c. 23 January 2019 – when the Senior Compliance Officer found that the firm had made little effective improvement to its procedures.

5. At the third unsatisfactory visit in January 2019, the Senior Compliance Officer found weaknesses, including that the firm:
 - a. had failed to implement the action plan it submitted in response to the second unsatisfactory visit;
 - b. had procedures that were not adequate to ensure that it conducted all audits in accordance with the International Standards on Auditing (UK & Ireland) ('ISAs').
 - c. was not consistently tailoring its standard audit programme to meet the needs of the audit of each client;
 - d. had issued two audit opinions (out of three files inspected) that were not adequately supported by the work, performed and recorded, owing to deficiencies in the performance and recording of audit work, and the sufficiency of audit evidence;
 - e. had adopted quality control policies and procedures that were not always effective to comply with International Standard on Quality Control (ISQC) 1, particularly in the areas of engagement performance and monitoring, in ensuring the firm performed its audit work in accordance with ISAs.
6. ACCA submitted that Mr A and the firm had breached Global Practising Regulation 13(1) Annex 2 Appendix 1, by failing to comply with ISA in the conduct of audit work. It relied on the deficiencies in the planning, control and recording of audit work and that on two of the three cases examined the audit opinions were not adequately supported by the work performed and recorded.
7. Mr A was provided with written confirmation of the weaknesses found at the third monitoring visit in a letter dated 12 March 2019.

8. In his response dated 11 April 2019, Mr A stated that he had no comments to make on the Senior Compliance Officer's report other than to, "*express [his] disappointment at the outcome*". During the hearing Mr A repeated his disappointment in himself and also advised of his pride in his ACCA qualification but that his principal area of business was tax compliance.
9. In a letter dated 28 May 2019 to ACCA, Mr A stated that he wished to relinquish his auditing certificate with immediate effect. He also advised that he had resigned his remaining statutory audits, and undertook to seek permission from the Admissions and Licensing Committee in the "*unlikely event*" of him reapplying for a practising certificate with auditing qualification in the future. At the hearing Mr A confirmed that it was unlikely that he would reapply for his audit qualification but that he accepted the conditions that ACCA sought from the Committee.
10. Given that Mr A had voluntarily relinquished his audit qualification and the firm's auditing certificate, ACCA sought an order that any future re-application for audit registration by Mr A or a firm in which he was principal must be referred to the Admissions and Licensing Committee which should not consider the application until:
 - a. Mr A has provided an action plan, which ACCA regards as satisfactory, setting out how he intends to prevent any recurrence of the serious failures in auditing practice;
 - b. Mr A has attended a practical audit course, approved by ACCA;
 - c. following the date of the Committee's order, Mr A has passed the advanced level audit paper of ACCA's professional qualification.

DECISION, ORDER AND REASONS

11. The Committee accepted the findings of the Senior Compliance Officer as set out in the Committee bundle. It noted that Mr A had not disputed the findings, and had expressed his disappointment at the outcome.

12. The Committee recognised that Mr A had relinquished his audit qualification and that, as a consequence, it was no longer necessary for it to consider whether to withdraw the certificate under Regulation 5(2)(f) of the Regulations, based on a material breach of Regulation 13(1) of Annex 2 Appendix 1 of the Global Practising Regulations.

13. In considering whether to exercise the further decision-making powers in regulation 6(16)(a)(v) the Committee was concerned that:

- a. there had been three monitoring visits;
- b. all three visits had unsatisfactory outcomes;
- c. the firm had failed to improve its quality control and audit procedures sufficiently, even though it had had previous advice and warnings, including by the Regulatory Assessor following the second visit; and
- d. the firm had failed to implement its remedial action plan effectively as the majority of the deficiencies reported at the previous visit were not rectified at the time of the third monitoring visit in January 2019.

14. The Committee accepted – and Mr A did not dispute - that the Senior Compliance Officer had found findings of deficiencies in the planning, control and recording of audit work, and that this included failures to comply with numerous ISAs including:

- a. ISA 230 - preparing adequate audit documentation;
- b. ISA 500 - collating audit evidence;
- c. ISA 315 - understanding the entities' internal controls;
- d. ISA 300 - developing an audit plan and suitable audit programme;

- e. ISA 550 - identifying related parties;
- f. ISA 560 - performing subsequent event reviews;
- g. ISA 570 - considering going concern;
- h. ISAs 330.24, 500, 170 - reviewing financial statements;
- i. ISAs 700, 705 and 706 - regarding the form of the audit report.

15. The Committee considered that there was a comprehensive catalogue of significant and serious deficiencies in the audit work and documentation, which had either not been addressed fully, nor any improvements sustained. It recognised that Mr A accepted that further conditions should be imposed on any future reapplication for an audit qualification. In these circumstances it was satisfied that it was appropriate and proportionate to exercise its powers under Regulation 6(16)(a)(v) of the Regulations, having noted Mr A had relinquished his practising certificate with audit qualification, and the provisions within Regulation 5(2)(f), to order that no future application for a certificate by Mr A would be entertained for a specified period, or until, the occurrence of a specified event.

16. The Committee made the following order:

Any future re-application for audit registration by Mr A, or a firm in which he was principal must be referred to the Admissions and Licensing Committee which should not consider the application until Mr A:

- a. had provided an action plan, which ACCA regards as satisfactory, setting out how he intends to prevent any recurrence of the serious failures in auditing practice;

- b. attended a practical audit course, approved by ACCA; and
- c. following the date of the Committee's order, passed the advanced level audit paper of ACCA's professional qualification.

PUBLICITY

17. Mr A submitted that his identity should not be part of the public decision as disclosure of his name would have an adverse impact on the interest of a third party, namely, one of his former audit clients, [Private].
18. Mr A explained [Private].
19. Mr A reassured the Committee that all his audit clients were aware that he was unable to continue doing audit work for them.
20. ACCA identified that the default position was that the Committee's decision, its reasons and details of the relevant person's identity would be disclosed to the public. The Case Presenter submitted that Regulation 6(14)(c)(iii) of the Regulations stated that:
- ...in the event that the relevant person relinquishes his certificate before a hearing under this regulation takes place, details of that fact and of any consequential orders made by the Admissions and Licensing Committee shall be published, together with the reasons for the Admissions and Licensing Committee's decision in whole or in summary form, naming the relevant person, as soon as practicable.*
21. The Committee recognised that the general position was that its decision should be publicised. It was, however, struck by the fact that Mr A had attended the hearing with the specific purpose of submitting that there would be an adverse impact on the [Private] should its order be published. Given that he had surrendered his audit qualification, accepted the conditions on any future application, and had a business that principally specialised in tax compliance, the Committee considered that his concerns were genuinely

held. Mr A had also supplied press statements and releases that demonstrated the key factual circumstances he had explained to the Committee.

22. The Committee considered that the situation Mr A outlined was unusual, and in the particular circumstances of the case, it was content that there was a potential for publicity to adversely impact on the former audit client given the sensitive and delicate position that Mr A had described. In this specific situation, the Committee was satisfied it should order that it would not be proportionate and appropriate for Mr A's identity to be revealed.

Mr Maurice Cohen
Chairman
18 June 2019