

HEARING

ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of: Mr Ian David Shaw FCCA (Hughes Spencer Limited)

Heard on: Wednesday, 27 February 2019

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

Committee: Mr Maurice Cohen (Chairman)
Mrs Judith Glover (Accountant)
Mrs Suzanne McCarthy (Lay)

Legal Adviser: Miss Juliet Gibbon

Persons present

and capacity: Mrs Sarah Cawley-Wilkinson (Case Presenter)
Ms Anna Packowska (Hearings Officer)

Observers: Two (an employee of ACCA and a member of the
public)

Outcome: **Mr Shaw's practising certificate with audit
qualification withdrawn and Mr Shaw issued with
a practising certificate and the firm's practising
certificate withdrawn.**

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No future application without satisfactory action plan and pass of P7 examination.

PRELIMINARY APPLICATIONS/SERVICE OF PAPERS

1. The Admissions and Licensing Committee (“the Committee”) convened to consider an application by ACCA to consider Mr Ian David Shaw’s audit registration. Mr Shaw is a partner in the firm Hughes Spencer Limited (“the firm”) with Mrs Taylor. Mr Shaw is the only director who holds an audit qualification.
2. The Committee had before it a bundle of papers, numbered pages 1-76; three additional bundles, numbered pages 77-88, 89-98 and 99-103. It also had a service bundle, numbered pages 1-12.
3. Mrs Sarah Cawley-Wilkinson represented ACCA. Mr Shaw did not attend the hearing and was not represented.

SERVICE AND PROCEEDING IN ABSENCE

4. Mr Shaw was sent written notice of the hearing, containing all the information required under Regulation 6(1)(b) of the Chartered Certified Accountants’ Authorisation Regulations 2014, as amended, (“the Regulations”), on 22 January 2019. Mr Shaw had, therefore, received more than the 28 days’ notice of the hearing required under Regulation 6(1)(a) of the Regulations. The Committee was satisfied that service had been effected in accordance with Regulations 6 and 11 of the Regulations.
5. The Committee noted a letter, dated 29 January 2019, from Mr Shaw, in which he stated that he would not be attending the hearing on 27 February 2019, but was anxious that the proposals in his letter to ACCA of 7 November 2018 be given due consideration by the Committee. This was confirmed by Mr Shaw in a letter, dated 20 February 2019, in which he stated: “... *I shall not be attending the hearing and I am content for the [Committee] to proceed in my absence. The reason for my non-attendance*

is that the decision to remove my auditing certificate appears to be "fait accompli".

6. The Committee paid due regard to the factors set out in the case of *R v Jones*. In the circumstances, the Committee was satisfied that Mr Shaw had voluntarily absented himself from the hearing. It determined that an adjournment would serve no useful purpose and that it was in both the public interest, and Mr Shaw's own interests, to proceed with the hearing in his absence. Indeed, Mr Shaw had indicated that he would not be attending, and was content for the Committee to proceed in his absence.
7. The Committee determined to proceed in the absence of Mr Shaw.

BRIEF BACKGROUND

8. ACCA carried out a routine monitoring visit on 19 February 2018. At the time of the visit, the firm had three limited company audit clients, two of which were related entities (a holding company and its wholly owned subsidiary). Two of the audit files were inspected.
9. Mr Shaw had been subject to five previous monitoring visits on:
 - a. 22 and 23 June 1993, as a partner in Hughes & Co – the outcome of which was satisfactory;
 - b. 11 and 12 August 1998, as a partner in the firm – the outcome of which was unsatisfactory;
 - c. 26 and 27 February 2001, as a partner in the firm – the outcome of which was satisfactory;
 - d. 8 and 9 May 2007, as a partner in the firm – the outcome of which was satisfactory;
 - e. 7 February 2012, as a partner in the firm – the outcome of which was satisfactory.
10. At the first visit on 22 and 23 June 1993, Mr Shaw was in partnership with another ACCA member. The Compliance Officer found that audit work on

the files inspected was of a satisfactory standard, although there were deficiencies in the recording of audit evidence.

11. At the second visit, on 11 and 12 August 1998, Mr Shaw was in partnership with two other ACCA members. The Compliance Officer found that there were significant deficiencies in the audit work on three of the six files inspected, which had resulted in the audit opinions not being adequately supported by the work performed and recorded.
12. At the third visit, on 26 and 27 February 2001, Mr Shaw was in partnership with another ACCA member. The Compliance Officer found that the firm had improved its audit procedures, and the files inspected showed that the conduct of audit work was of a satisfactory standard, although there were deficiencies in the recording of audit evidence.
13. At the fourth visit, on 8 and 9 May 2007, Mr Shaw was in partnership with another ACCA member. The Compliance Officer found that the firm had maintained its audit work to a satisfactory standard, although there were deficiencies in the recording of audit evidence.
14. At the fifth visit, on 7 February 2012, Mr Shaw was in partnership with another ACCA member, who did not hold an audit qualification. The Compliance Officer found that the firm had maintained its audit work to a satisfactory standard, although there were deficiencies in the recording of audit evidence. The report on the visit set out these deficiencies and advised that the firm should consider employing a training organisation to 'cold' review one or more audit files each year, to ensure that it maintained a satisfactory standard of audit work.

SUMMARY OF FINDINGS OF THE SIXTH MONITORING VISIT ON 19 FEBRUARY 2018

15. At the visit on 19 February 2018, the Compliance Officer found that the firm had not maintained the satisfactory standard of audit work found at the previous three visits, and the standard of the firm's audit work had seriously

deteriorated. It was using a standard audit programme on all audits, but it had not tailored this to ensure that it met the needs of the audit of each client. 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, and the conclusions drawn from the audit evidence obtained. As a result the audit opinions were not adequately supported by the work performed and recorded on the audit files examined.

COMPLIANCE OFFICER'S CONCLUSION

16. The Compliance Officer concluded that Mr Shaw and the firm had breached The Chartered Certified Accountants' Global Practising Regulation (Annex 1, Appendix 1) ("PR") 13(1) in that there had been a failure to comply with the International Standards on Auditing (UK and Ireland) ("the ISAs") in the conduct of audit work, and in the two files examined at the visit, the audit opinions were not adequately supported by the work performed and recorded.

ACCA'S RECOMMENDATIONS

17. ACCA initially proposed to refer its findings to the Regulatory Assessor with the recommendation that he impose conditions on Mr Shaw's practising certificate with audit qualification. This course was, however, dependent on Mr Shaw providing a satisfactory action plan setting out, in detail, how he intended to improve the standard of his work. ACCA did not consider the action plan submitted by Mr Shaw in a letter, dated 10 April 2018, to be adequate or appropriate to ensure that the deficiencies did not recur on future audits. The firm provided a revised plan to ACCA in a letter, dated 24 May 2018. In a letter to Mr Shaw, dated 31 October 2018, the Compliance Officer stated: "*I am still concerned that your revised action plan is not adequate and appropriate to ensure that the deficiencies identified do not recur on future audit files*", and the matter was referred to the Committee in accordance with paragraph 6.3.3 of the Guidance for Regulatory Orders – Eligibility for Certificates or Licences and Unsatisfactory Outcomes to Monitoring Visits' ("the GRO").

18. ACCA recommended that the Committee removes the firm's audit certificate, and Mr Shaw's practising certificate with audit qualification, and reissue him with a practising certificate.
19. In a letter, dated 26 February 2019, in response to a further action plan submitted by Mr Shaw in a letter to ACCA, dated 20 February 2019, the Compliance Manager of ACCA stated:
- *“The first action plan gave the primary root cause as ‘use of inadequate tailored audit programme’ without providing any insight as to why you as auditor had not properly tailored the programme. It also provided very little detail of remedial action beyond replacing the audit programme and procuring a hot review, neither of which demonstrate any insight into the work required, of how you would prevent the deficiencies recurring in the future.*
 - *The second action plan provided slightly more detail, but not significantly, and still did not effectively identify the root cause of the deficiencies. Furthermore it was accompanied by a hot review that showed that many of the deficiencies that were raised in [the compliance officer's] report recurred in the audit subsequent to his visit. Again, your proposed remedial action appeared to be primarily replacing the audit programme and procuring a hot review”.*

SUBMISSIONS BY ACCA

20. Mrs Cawley-Wilkinson submitted that the Committee should take the following into consideration:
- i. The firm, and its audit principal, have had six monitoring visits;
 - ii. Two of the six visits had unsatisfactory outcomes;
 - iii. Mr Shaw, and the firm, had failed to maintain a consistent satisfactory outcome, despite the advice given at the fifth visit;
 - iv. The firm had not provided ACCA with a satisfactory action plan to ensure that the deficiencies found did not recur in the future.

21. Mrs Cawley-Wilkinson submitted that the Committee could be satisfied that Mr Shaw had breached the GPR 13, as there had been a number of breaches of the ISAs. She submitted that the deficiencies identified by the Compliance Officer were serious, wide-ranging and, despite some satisfactory visits, had been on-going over a protracted period of time.
22. Mrs Cawley-Wilkinson submitted that all the proposals put forward by Mr Shaw in his correspondence demonstrated that he lacked insight into the root cause of the wide ranging deficiencies that were found on the two audit files.
23. Mrs Cawley-Wilkinson submitted that Mr Shaw's suggestion that he attends further audit courses was not an appropriate response, because the Committee needed to be satisfied that he had the necessary experience to hold an audit qualification now.
24. Mrs Cawley-Wilkinson invited the Committee to remove Mr Shaw's practising certificate with audit qualification, and to reissue him with a practising certificate. She also invited the Committee to remove the firm's auditing certificate. She referred the Committee to the Guidance for Admissions and Licensing Hearings (1 January 2019) and the GRO.

MR SHAW'S CASE

25. In his letter to ACCA, dated 7 November 2018, Mr Shaw indicated that he was concerned that ACCA had not commented on his subsequent letter to ACCA, dated 24 May 2018, in its report to the Committee. In that letter, he stated: *"...we believe that the solution is, more importantly, to apply an additional layer of quality control on the assignment. To that end, we have suggested to Person A and he has accepted our suggestion that, given he identified issues in some depth, we would like to engage him as audit subcontractor to undertake a detailed 'manager' review above the two-man audit team and before my review is carried out. His queries will then be cleared and I will then review the file. In that way there will be internally*

applied quality control prior to my own review". He asked the Committee to note the contents of the letter of 24 May 2018.

26. Mr Shaw subsequently sent a letter to the Committee, dated 20 February 2019. In that letter, Mr Shaw stated that: *"I consider that significant and material improvements were made in the conduct of the audit of our one remaining audit client and, although there were a small amount of remaining issues highlighted in [the] hot review, these were addressed and corrected at the reporting stage ... I feel confident that if this file were reviewed by one of your monitoring team, it would be designated satisfactory and would indicate the significant steps made to improve the quality of our audit process"*.
27. Mr Shaw made a further proposal in the letter, in which he stated that he would; *"1. Manage and oversee the engagement myself. 2. Incorporate at the planning stage, procedures to address the problems highlighted concerning work in progress. 3. Obtain a cold file review, rather than subject the file to hot review. 4. Attend further Audit courses to enhance my knowledge gained in attending "Guide to Practical Audit Compliance for Partners and Managers" and concentrate particularly on quality control aspects. I will also reacquaint myself with IES8"*. Mr Shaw also indicated that he would be 'more than happy' for ACCA to conduct a further monitoring visit, at the firm's expense, once the 2018 audit of his remaining audit client had been undertaken.
28. Mr Shaw sent a further letter to the Committee, dated 26 February 2019, in which he stated:

"It seems to me that this is the most important way to address the underlying issues which – to me – are:

- *The inappropriate use of an audit programme (which I have revised with the introduction of a more appropriate programme)*

- *The Inadequate documentation (which has led me to be more rigorous in my review of staff work carried out and focus on improving audit quality)*
- *The insufficient documentation of (in particular) the area of judgment surrounding contracts operated by the entity ... which I have proposed be addressed by firstly a hot review and secondly the involvement of a more experienced staff member to prevent the repetition of this issue specifically and other documentation issues generally – that is, the restructuring of the audit team utilising the experience of a staff member as audit contractor ...”.*

DECISION AND REASONS

29. The Committee took into account the submissions made by Mrs Cawley-Wilkinson, and all of the written representations made by Mr Shaw in his correspondence. It accepted the advice of the Legal Adviser. The Committee paid due regard to the GRO.
30. The Committee noted that this was the second unsatisfactory monitoring visit by ACCA, albeit the first one dated back to 1998. It also noted that, whilst the visit in 2012 had a satisfactory outcome, there had been deficiencies found in the recording of audit evidence, and the Compliance Officer advised that the firm should consider employing a training organisation to ‘cold’ review one or more audit files each year, to ensure that it maintained a satisfactory standard of audit work.
31. The Committee noted that Mr Shaw had not disputed the findings of the Compliance Officer during the monitoring visit on 19 February 2019, as set out in his report. It was satisfied that there had been serious, and wide-ranging, deficiencies in the planning, control and recording of audit work on both the audit files examined by the Compliance Officer, and that both audit opinions had not been adequately supported by the work performed and recorded.

32. The Committee was satisfied that ACCA had proven breaches of the ISAs by Mr Shaw and the firm when carrying out audit work for clients and he was, therefore, in breach of breach of PR 13(1).
33. The Committee had regard to the contents and recommendations set out in the Compliance Officer's report. The Committee bore in mind Regulation 5(3) of the Regulations that provides:
- “In determining whether to exercise its powers under regulation 5(1) or 5(2) above the Admissions and Licensing Committee shall have regard to such matters as it considers relevant. Without limitation, in determining whether the holder of a certificate is a fit and proper person, the Admissions and Licensing Committee shall have regard to all or any of the matters referred to in the Practising Regulations”.*
34. The Committee took note of Paragraph 2.3.2 of the GRO, and acknowledged that its function was to take appropriate action for the future to ensure that proper standards of conduct were maintained, and it was not its function to discipline Mr Shaw, or the firm, for any past wrongdoing of which he or it may be culpable.
35. The Committee also had regard to Paragraph 6.3.3 of the GRO, which gives guidance on 'one or more previous unsatisfactory visits but no previous regulatory order or decision'.
36. In reaching its decision on what, if any, order was appropriate to impose, the Committee weighed the interests of Mr Shaw, and the firm, against the need to protect the public, maintain public confidence in the profession and maintain proper standards of conduct.
37. Mr Shaw was the only director in the firm with an audit qualification, and he was, therefore, responsible for the deficiencies identified by ACCA during the monitoring visit. Mr Shaw was required to meet the high standards expected of those holding audit registration, in order to protect the public and maintain public confidence in the profession.

38. The Committee shared ACCA's concern that Mr Shaw lacked insight. His proposed actions plan had not addressed the root cause for the deficiencies found on the two audit files. In the Committee's view, the first action plan simply blamed the wrong software as being the problem, and appeared to lack any understanding that the audit programme needed to be tailored to the needs of the individual client. It also appeared to rely on hot reviews to prevent deficiencies in the future, rather than providing detail of how the serious deficiencies identified during the monitoring visit could have been prevented in the first case.
39. The Committee noted that the second action plan provided by Mr Shaw also did not address the root cause for the deficiencies in audit work, and again appeared to rely on third parties to ensure that the failings did not recur in the future.
40. The Committee noted the contents of Mr Shaw's letter of 26 February 2019, but was concerned that he was, again, blaming the audit programme, and not demonstrating any real insight into the cause of the deficiencies in the firm's audit work.
41. Mr Shaw had not provided sufficient information to reassure the Committee that there would be no repetition of the deficiencies identified by the Compliance Officer during the monitoring visits. The Committee, therefore, had to conclude that there would be a real risk of repetition in the future, should Mr Shaw and the firm continue to carry out audit work.
42. The Committee did not consider that the imposition of conditions on the audit certificates would be sufficient to protect against the risk to the public, if Mr Shaw, and the firm, continued to carry out audit work.
43. The Committee determined that withdrawal of Mr Shaw's audit certificate, and the firm's audit registration, was appropriate in this case. It bore in mind the principle of proportionality but determined that any lesser order would not protect the public, maintain public confidence in the profession, or maintain proper standards of conduct.

44. The Committee considered the reputational impact that the removal of Mr Shaw's auditing certificate, and the firm's auditing registration, may cause him, but it was satisfied that the need to protect the public, and the wider public interest, outweighed Mr Shaw's own interests.
45. Accordingly, the Committee determined to make an order pursuant to AR 5(2)(f) withdrawing Mr Shaw's practising certificate with audit qualification, and the firm's auditing certificate, and to issue Mr Shaw with a practising certificate.
46. It also considered that any future re-application for audit registration by Mr Shaw, or by a firm in which he is the principal, should be referred to the Admissions and Licensing Committee, which will not consider the application until Mr Shaw has provided an action plan, which ACCA regards as satisfactory, setting out how he intends to prevent a recurrence of the previous deficiencies, and has attended a practical audit course and passed paper P7, Advanced Audit and Assurance (or the equivalent advanced level audit paper) of ACCA's professional examinations.

ORDER

47. The Committee made the following order pursuant to Authorisation Regulation 5(2)(f) that:
 - i. Ian David Shaw's practising certificate with audit qualification, and Hughes Spencer Limited's auditing certificate, be withdrawn, and Mr Shaw be issued with a practising certificate.
 - ii. Any future re-application for audit registration by Mr Ian David Shaw, or by a firm in which he is 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 he intends to prevent a recurrence of the previous deficiencies, and attended a practical audit course, and passed paper P7, Advanced Audit and Assurance

(or the equivalent advanced level audit paper), of ACCA's professional examinations.

EFFECTIVE DATE OF ORDER

48. The Committee determined that it was in the interests of the public that the order should have immediate effect, subject to it being varied or rescinded on appeal as specified in the Appeal Regulations.

Mr Maurice Cohen
Chairman
27 February 2019