

**HEARING
ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION
OF CHARTERED CERTIFIED ACCOUNTANTS
REASONS FOR DECISION**

- In the matter of:** Mr John Stephen Tiltman FCCA
- Heard on:** Thursday, 19 March, Thursday, 07 May and Thursday, 14 May 2020
- Location:** By Remote link to ACCA Offices, The Adelphi, 1-11 John Adam Street, London WC2N 6AU
- Committee:** Mrs Valerie Paterson (Chair)
Mr Martin Davies (Lay)
Mr Paul Moulder (Accountant)
- Legal adviser:** Mr Robin Havard
- Persons present and capacity:** Mr Simon Walters (Case presenter on behalf of ACCA)
Mr Jonathan Lionel (Hearings Officer)
Miss Rachael Davies and Miss Geraldine Murray (ACCA Hearings Officers) 19 March only
Mr John Stephen Tiltman FCCA
- Observers:** None
- Summary:** The Committee ordered that:
- (a) DTL Auditors Limited must provide to ACCA within 60 days of today written proof that it no longer acts as auditor, or as reporting accountant to any regulator, of any client which is also a client of Company D and will not do so in the future;

- (b) DTL Auditors Limited must provide to ACCA within 60 days of today written proof of its resignation from its audit appointment with Company F;**

- (c) In the event that there is non-compliance with any of the paragraphs of the order set out above, the auditing certificate of DTL Auditors Limited is to be withdrawn.**

DOCUMENTS

1. In the course of the hearing on 19 March 2020, Mr Tiltman was requested to provide details of invoices submitted for audit work for the year to date in the financial year ending 30 April 2020. Mr Tiltman also provided documents which he submitted were evidence of new audits being undertaken by DTL Auditors Limited and of an audit instruction which had been declined. The Committee admitted those documents into evidence.
2. The Committee also allowed ACCA to submit in the course of the hearing on 19 March 2020, a document from the Financial Reporting Council entitled Revised Ethical Standard 2019 to respond to a submission made by Mr Tiltman.

BACKGROUND FACTS

3. The Committee had considered the bundle entitled Booklet A, to be known as C1 (pages 1-26), the Service bundle to be known as C2 (pages 1-15), the Tabled Additional Bundles 1 (pages 1-105) to be known as C3, and Tabled Additional Bundle (2) (pages 1-55) to be known as M1. The Committee had also listened carefully to the oral evidence given, and submissions made, by Mr Tiltman and the submissions that Mr Walters had made on behalf of ACCA.
4. These proceedings have arisen as a result of conclusions reached by ACCA following a first monitoring visit made to DTL Auditors Limited by a Senior Compliance officer of ACCA, Mr Ghayas, on 29 and 30 October 2019 ("the visit").
5. The purpose of the visit to DTL Auditors Limited was to monitor the conduct of DTL Auditors Limited's audit work, to confirm DTL Auditors Limited's eligibility for registered auditor status and to monitor compliance with the Chartered Certified Accountants' Global Practising Regulations 2003 (GPRs). References to the Global Practising Regulations (PR) are to the regulations in Annex 1, Appendix 1 (UK).
6. In the course of the visit, the officer concluded that DTL Auditors Limited did not appear to meet all of the eligibility criteria for an auditing certificate. In particular, the officer did not consider that DTL Auditors Limited had arrangements in place to prevent individuals who were not qualified to carry out audit work in the United Kingdom and persons who were not members of DTL Auditors Limited from being able to influence the conduct of audits. ACCA considered that this amounted to a breach of Global Practising Regulations ("PR") 5(1)(g).
7. ACCA also considered that as it appeared that the total fees from one non-listed audit client exceeded 15% of the annual fee income of DTL Auditors Limited, it was in breach of Ethical Standards 4.44 ("ES 4.44"), and thereby PR5(1)(g) and PR13(1).
8. Mr Tiltman maintained that the conclusions reached by ACCA were wrong and he did not accept that he was in breach of PR5(1)(g) or ES 4.44.
9. PR 5(1)(g) requires that to be eligible for an auditing certificate, a firm must have arrangements in place to prevent individuals who do not hold appropriate qualification to conduct audits, and persons who are not members of DTL Auditors Limited from being

able to exert any influence over the way in which an audit is conducted in circumstances in which that influence would be likely to affect the independence or integrity of the audit.

10. PR 13(1) requires that holders of an audit qualification and firms holding an auditing certificate comply with all the applicable sections of the Association's Rulebook and in particular ACCA Code of Ethics and Conduct, the International Standards on Auditing issued by the International Auditing and Assurance Standards Board, and the technical, ethical and quality control standards issued by the UK competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016.
11. ES 4.44 states that where it is expected that the total fees receivable from a non-listed audit client relevant to a recurring engagement will regularly exceed 15% of the annual fee income of DTL Auditors Limited, DTL Auditors Limited shall not act as auditor to that entity and should either resign as auditor or not stand for reappointment.
12. The following corporate structure applied at the time of the visit in October 2019 and, save where otherwise indicated, remained the position at the time of the hearing.
13. DTL Auditors Limited is the incorporated practice of ACCA members Mr J S Tiltman, who is the audit qualified principal, and Mr M D Bruna, who is not qualified to carry out audit work.
14. Mr Tiltman and Mr Bruna are both directors. Mr Tiltman holds 51% of the issued share capital, the remaining 49% is held by a company called DTL Advisory Limited.
15. DTL Advisory Limited has two directors, Mr Bruna and Mr F Tenderini, who do not hold an accounting qualification. Mr Bruna holds 51% of the issued share capital and the remaining 49% is held by London Charm Limited, which is wholly owned by Mr Tenderini.
16. London Charm Limited is a majority shareholder in Laggan Associates Limited, a company in which Mr Tenderini is a director.
17. DTL Advisory Limited, London Charm Limited and Laggan Associates Limited are not eligible for audit registration. Mr Tiltman has no involvement and no financial interest in any of these three companies.
18. Mr Tiltman is the sole director of another ACCA audit registered firm, Stourton Accountancy Services Limited.
19. At the time of the visit in October 2019, DTL Auditors Limited had twelve limited company audit clients, all of which were also clients of Laggan Associates Limited. As at the time of the visit, DTL Auditors Limited had no other clients.
20. For the years ended 30 April 2018 and 30 April 2019, and the period up to 30 September 2019, 100% of the fee income of DTL Auditors Limited came from the provision of audit services to clients of Laggan Associates Limited. In addition, the documentation indicated that these two companies operated from the same address.

21. One of the audit appointments, Tender Capital Limited, contributed over 15% of DTL Auditors Limited's total income.
22. In the accounting year ended 30 April 2019, DTL Auditors Limited had charged fees of £8,000 to its audit client, Tender Capital Limited. This amounted to 37% of DTL Auditors Limited's total income for the year of £21,500.
23. In the accounting period ended 30 September 2019, DTL Auditors Limited had again billed £8,000 to Tender Capital Limited against its total income for that period of £24,000. This amounted to 33% of DTL Auditors Limited's total income for the period.
24. The facts found by the Committee as set out at paragraphs 11 to 23 above were not contentious. It was within the context of this factual background that the Committee then considered the submissions made by Mr Walters on behalf of ACCA, and the evidence given, and submissions made, by Mr Tiltman.

ACCA's CASE

25. Mr Walters submitted that DTL Auditors Limited was not eligible for audit registration as a consequence of its relationship with Laggan Associates Limited. Due to the chain of ownership between DTL Auditors and Laggan Associates Limited, and given the fact that Mr Tiltman had been providing audit work solely to clients who were clients of Laggan Associates Limited, there was a risk that Laggan Associates Limited could exert an influence over the way in which an audit was conducted. So far as Mr Tiltman's point that Laggan Associates Limited never sought to interfere, that was not the correct test to be applied. It was a question of whether influence could be exerted in the future, in that Laggan Associates Limited was in a position to do so if it chose to.
26. Mr Walters also referred the Committee to paragraph 3.1.7 of the Guidance for Regulatory Orders, and in particular the following sentences:

"Auditor independence is the foundation upon which the integrity of the audit is built. In addition, independence is as much a matter of appearance as it is a matter of the auditor's mind."
27. The fact that Mr Tiltman said that audit clients would not, or could not, move over to Stourton Accountancy Services Limited was a further illustration of a lack of independence.
28. Mr Walters submitted that, whilst it may be the case that clients could be referred from DTL Auditors Limited to Laggan Associates Limited, this did not solve the problem. The commercial reality was that, if Laggan Associates Limited removed clients from DTL Auditors Limited, it would have a material effect on the financial status of DTL Auditors Limited.
29. The ACCA's position was that the audit registration should be removed due to the breach of PR5(1)(g), unless Mr Tiltman could suggest appropriate and sufficient measures to reassure the Committee of DTL Auditors Limited's independence.
30. Mr Walters also submitted that, if DTL Auditors Limited was to keep its audit certificate, it would have to resolve the problem of the largest audit bringing DTL Auditors Limited

in breach of ES 4.44. The revenue derived from the audit of Tender Capital Limited thus far substantially exceeded the threshold of 15% of DTL Auditors Limited's total revenue. ACCA submitted that Mr Tiltman should resign from the audit of Tender Capital Limited or put forward some other resolution to this issue. If the issue was not remediable, then ACCA submitted that the Committee had no choice but to remove the audit registration.

31. At the hearing on 19 March 2020, Mr Tiltman had provided a schedule of invoices submitted in respect of fees for DTL Auditors Limited up to January 2020 amounting to £40,200. At the hearing on 07 May 2020, those figures were updated to the end of DTL Auditors Limited financial year on 30 April 2020. Mr Walters stated that on the basis of the information provided by Mr Tiltman, it meant that the fees payable by Tender Capital Limited of £14,000 amounted to 22% of the total fees invoiced in the sum of £64,200.
32. In addition, Mr Walters stated that the total of the fees invoiced in respect of Met T and S Limited and Met T and S Management Limited amounted to 22.6% of the total.
33. Consequently, the requirements of ES4.44 had not been met. Even if DTL Auditors Limited resigned from its appointment with Tender Capital Limited, this may lead to the fees derived from Met T and S Limited and Met T and S Management Limited representing a higher percentage of the total fees.
34. Mr Walters suggested that the defence was essentially based on the supposition that, in the future, the number of clients and revenue would grow and eventually, in time, things will become diluted. However, Mr Walters submitted that there was no plan when the firm would comply with the requirements of ES 4.44 and there was a scarcity of information of where the additional income was going to come from over and above a bald assertion made by Mr Tiltman.
35. Indeed, ACCA anticipated that this situation would continue, which would mean that the appointment would represent a breach of the ES 4.44 and, consequently, a breach of both PR 5(1)(g) and PR 13(1).

Mr TILTMAN's CASE

36. Mr Tiltman confirmed that when he set up DTL Auditors with Mr Bruna, he knew of Mr Bruna's links with Mr Tenderini and he knew of Mr Bruna's links with Laggan Associates Limited. Mr Tiltman had no idea what London Charm Limited did and believed that it was a "share set up" of Laggan Associates Limited. All that London Charm Limited did was through Laggan Associates Limited. Mr Tiltman had nothing to do with the running of DTL Advisory Limited, London Charm Limited and Laggan Associates Limited.
37. Mr Tiltman maintained that all of the audit work had been undertaken by him either at the offices of his clients or at his office in the Midlands. Mr Tiltman did nothing in London and had very limited contact with Laggan Associates Limited and Mr Tenderini. Indeed, Mr Tiltman stated that he needed a London base to satisfy the clients but it was a "*fake office*" as the work was being conducted in the Midlands.

38. Mr Tiltman indicated that it was not possible to operate the audit through his audit registered firm, Stourton Accountancy Services Limited, as it did not have an office in London.
39. Whilst he accepted that, via the structure outlined above, Mr Tenderini had an interest in DTL Auditors Limited via Laggan Associates Limited, London Charm Limited, and DTL Advisory Limited, he did not consider the structure to be in any way unusual. Indeed, he described it as "*commonplace*". He also had no knowledge of the finances of Mr Tenderini and had little or no communication with him.
40. Mr Tiltman had sole responsibility for all audit opinions and there had not been one occasion when Mr Tenderini had attempted to influence Mr Tiltman to change his opinion or conclusions.
41. Mr Tiltman suggested that no reasonable and informed third party, in this case an accountant in general practice, would consider that his independence was in any way compromised, although he accepted that he was not able to produce any supporting evidence from any other accountant.
42. As for the relationship with Laggan Associates Limited, Mr Tiltman stated that all subsidiaries of global companies who wanted a footprint in London also wanted a London accountant. That was why he and Mr Bruna had set up DTL Auditors Limited.
43. Laggan Associates Limited provide facilitation services including bookkeeping, international forms and international tax matters for non-UK companies, in this case mainly Italian, who wanted to deal with someone in London. It was not a coincidence that the clients of DTL Auditors Limited and Laggan Associates Limited were the same, although he indicated that DTL Auditors Limited was now attracting clients who were not clients of Laggan Associates Limited.
44. However, ACCA had misunderstood the basis of the relationship between DTL Auditors Limited and Laggan Associates Limited. ACCA suggested that Laggan Associates Limited introduced clients to DTL Auditors Limited when the clients had indicated their need for an audit. Mr Tiltman suggested that, in some ways, it was the reverse in that DTL Auditors Limited carried out the work and DTL Auditors Limited was the first port of call for the companies. Also, London Charm Limited as an entity does not refer clients to DTL Auditors Limited. Clients will instruct DTL Auditors Limited and they will be a recommendation or a contact of Mr Bruna or Laggan Associates Limited.
45. No commission payments were made in respect of referrals. It was not the case of Laggan Associates Limited being a big company and, therefore, DTL Auditors Limited just did their bidding. Mr Tiltman maintained that he was not beholden to Laggan Associates Limited. Indeed, Laggan Associates Limited may get some work out of DTL Auditors Limited doing the audit. There was no senior or junior relationship between DTL Auditors Limited and Laggan Associates Limited. He considered that, if anything, DTL Auditors Limited held the upper hand. If Laggan Associates Limited ever did try to exert influence, Mr Tiltman said that he would just tell the company to go and find another auditor.

46. Laggan Associates Limited was a large company and the level of work being done by DTL Auditors was miniscule compared to the overall size and turnover of Laggan Associates Limited.
47. Mr Tiltman stated that he had worked for ACCA for over 21 years and, when in the Audit unit, had helped thousands of ACCA members over the years. If anyone knew the requirements of eligibility and independence, it was him. He also stated that there had been no criticism of the work he had undertaken in the course of the audits.
48. As for the financial figures of DTL Auditors Limited, it had been set up in 2016 and had been dormant in its first year; in the second year it had one main client, Tender Capital Limited.
49. 2019 was the first proper financial year, although everything presented by ACCA was based on this first proper year of business, when the turnover had been approximately £25,000. Mr Tiltman accepted the figures which had been presented but indicated that the Financial Reporting Council ("FRC") allowed a "honeymoon period" to enable a practice to grow. Mr Tiltman relied on this assertion to explain why there had not been compliance with ES 4.44. He said that this honeymoon period, which lasted two years, was recognised by ACCA.
50. On the morning of 19 March 2020, Mr Tiltman had checked the figures and, whilst the fees for the audit of Tender Capital Limited was currently 17% of the total turnover, he had estimated that turnover to 30 April 2020 would be in the region of £69,000 which meant that, as a percentage, he anticipated the fees for Tender Capital Limited would be much lower. DTL Auditors Limited had 14 audit clients and so, as the turnover grew, the issue would be much less of a problem. He maintained when he gave evidence on 07 May 2020 that if DTL Auditors Limited was allowed to continue, the issue with Laggan Associates Limited would become less and less important.
51. On 19 March 2020, Mr Tiltman indicated that DTL Auditors Limited would not be billing Tender Capital Limited £8,000; it would be more like £5,000, and so well within the 15%. Mr Tiltman also indicated that DTL Auditors Limited had taken on two new audits, which were nothing to do with Laggan Associates Limited, and which will grow next year. Furthermore, Mr Tiltman stated that he had turned down one major audit, as the fees for that work would have exceeded 15% of the total turnover.
52. On 07 May 2020, Mr Tiltman informed the Committee that he had turned down the opportunity to undertake audit work on behalf of Pirelli, because he knew that the fees generated from such work would mean that DTL Auditors Limited would not be able to comply with ES 4.44 and that this was illustrative of his understanding of, and wish to comply with, the standard.
53. He gave details of the financial output of DTL Auditors Limited for the financial year ending 30 April 2020. Whilst he indicated that the turnover was £66,000, he then provided details of additional invoices he had rendered since providing the breakdown in the schedule provided on 19 March 2020:

26 March 2020 – Elias Lab - £3,000

03 April 2020 – Met T and S Limited - £5,000
03 April 2020 – Met T and S Management Limited - £1,500
30 April 2020 - Company J - £3,500
30 April 2020 - Company K - £2,500
30 April 2020 - Company L - £2,500
30 April 2020 – Tender Capital Limited - £6,000

54. When it was suggested that such figures meant that fees for the year amounted to £64,200 and still indicated that DTL Auditors Limited was not in compliance with ES 4.44, Mr Tiltman suggested that the figures did not take into account reserves and work in progress. DTL Auditors Limited was a new auditing firm, and Mr Tiltman and Person B had seen a niche in the market. Person B was Italian, and he was looking to develop work from subsidiaries of Italian companies but, due to coronavirus, this was proving extremely difficult.
55. In Mr Tiltman's opinion there has been no breach of PR5(1)(g) and DTL Auditors Limited would not resign from any appointments.

THE COMMITTEE'S DECISION AND REASONS

56. The Committee accepted the advice of the Legal Adviser. The Committee considered all of the evidence and had regard to the Guidance on Regulatory Orders ("the Guidance"), in particular sections 3 and 4 of the Guidance.
57. In reaching its decision, it took account of the facts set out at paragraphs 11 to 23 above and made further findings of fact as set out below.

ELIGIBILITY

58. Mr Tiltman holds 51% of the shares in DTL Auditors Limited and Company B holds the remaining 49%.
59. Mr Tiltman's co-director in DTL Auditors Limited, Person B, holds 51% of the shares in Company B and the remaining 49% are held by Company C which is wholly owned by Person C.
60. Company C is a majority shareholder in Company D in which Person C is a director.
61. Neither Company B, nor Company C, nor Company D has audit registration.
62. Neither Person B nor Person C are qualified to carry out audit work. Indeed, Person C does not hold an accounting qualification.
63. Mr Tiltman holds neither a financial interest nor a role in the following: Company B, Company C and Company D.
64. As at the time of the ACCA visit in October 2019, all of DTL Auditors Limited's audit clients were clients of Company D. In the years ended 30 April 2018 and 30 April 2019,

and in the period to 30 September 2019, 100% of DTL Auditors Limited's income was from audit work provided to clients of Company D.

65. Mr Tiltman indicated that, as at the date of hearing, not all clients of DTL Auditors Limited were clients of Company D; however, he did not indicate which of the clients set out in the schedule he submitted were not clients of Company D. He did accept that the clients who produced the most revenue for DTL Auditors Limited, namely Company F, Company G and Company H, were also clients of Company D.
66. Mr Tiltman maintained that the intention was to develop the client base of DTL Auditors Limited and that such clients that the company acquired would include those who were not clients of Company D. In this way, he endeavoured to reassure the Committee that there was no risk of Company D and/or Person C and/or Person B from being able to exert any influence over the way in which an audit was conducted, or the conclusions reached in such an audit.
67. Due to its relationship with Company D, and the interest that Company D held in DTL Auditors Limited, the Committee was satisfied that DTL Auditors Limited did not have in place any adequate arrangements to prevent the risk of individuals who did not hold an appropriate auditing qualification, and persons who are not members of DTL Auditors Limited, namely Person B and Person C, being able to exert any influence over the way in which an audit was conducted.
68. Even if DTL Auditors Limited had not been set up solely to provide audit services to clients of Company D, and even if not all clients of DTL Auditors Limited were now clients of Company D, the commonality of clients between the two companies to include, for example, Company F, Company G and Company H, was material and remained a concern.
69. The Committee had listened very carefully to the evidence and submissions from Mr Tiltman. It noted his assertion that no one had ever attempted to influence him in the way in which an audit was conducted and that he would not allow himself to be influenced even if an attempt was made. It also took into consideration what he said with regard to the limited nature of the day-to-day relationship he claimed to exist between DTL Auditors Limited and Company D, and between him and Person C.
70. Nevertheless, when considering the purpose of PR5(1)(g), it was designed to address the risk of any such influence being brought to bear. Furthermore, the Committee took account of the Guidance and in particular paragraph 3.1.7 as set out at paragraph 26 above.
71. The Committee was satisfied that the appearance of the arrangement between DTL Auditors Limited and Company D was such that it gave rise to a perception that the independence of the audits carried out by DTL Auditors Limited may be compromised. Indeed, the whole structure and the interlinkage between the various organisations was such that there was a risk that individuals who were not qualified to carry out audit work in the United Kingdom, and persons who were not members of DTL Auditors Limited, were in a position to influence the conduct of audits undertaken by DTL Auditors Limited. Furthermore, there were insufficient measures in place to eliminate that risk. Indeed,

the Committee was being invited to base its decision on the verbal reassurances from Mr Tiltman that he would not allow any such influence to be brought to bear.

72. None of the measures recommended in paragraph 4.1.3 of the Guidance were in place.
73. To summarise, and by reference to paragraph 4.1.3 of the Guidance, the Committee had found that:
 - a. At the time of the visit, the totality of the income of DTL Auditors Limited came from clients who were also clients of Company D (described in the Guidance as the "ineligible firm");
 - b. At the time of the visit, all clients of DTL Auditors Limited were clients of Company D;
 - c. At the time of the hearing, whilst Mr Tiltman indicated that not all of the clients of DTL Auditors Limited were clients of Company D, he did not specify which of the clients in the schedule were clients of DTL Auditors alone;
 - d. At the time of the hearing, the clients who generated the highest level of fees remained clients of Company D;
 - e. Mr Tiltman had neither a financial interest nor a role in Company D;
 - f. Person C was a director in Company D and, via Company C and Company B, had an interest in both Company D and DTL Auditors Limited, but he has no accountancy qualifications;
 - g. Person B has an interest in DTL Auditors Limited via Company B and also financial links with Person C and he is not qualified to carry out audit work;
 - h. Mr Tiltman had failed to put in place appropriate arrangements to safeguard the integrity of the audits undertaken by DTL Auditors Limited, taking account of the circumstances outlined above. Such arrangements could have included independent external reviews of the audit appointments and the arrangements for the direction, supervision, conduct and review of the audit work.
74. Consequently, the Committee was satisfied that DTL Auditors Limited did not comply with the eligibility requirements of PR 5(1)(g).
75. The Committee went on to consider whether the non-compliance was such that the only possible outcome was the withdrawal of DTL Auditors Limited's audit certificate or was the situation remediable.
76. The Committee was concerned with the lack of insight and the lack of recognition on the part of Mr Tiltman of the inappropriate nature of the relationship between DTL Auditors Limited and Company D. Indeed, Mr Tiltman had confirmed that he had not arranged for any independent external reviews to take place in respect of any of the audit

appointments and the work undertaken in the course of those audits. However, it also took into consideration the fact that there was no evidence of concern with regards to the audit work undertaken to date by Mr Tiltman, who was clearly a person of considerable experience, even if he failed to recognise the concerns set out above.

77. The Committee had concluded that it was appropriate and proportionate to allow Mr Tiltman and DTL Auditors Limited an amount of time to address the issues which had led to the breach of PR5(1)(g).
78. It was suggested by ACCA that one way this breach could be remedied was by Mr Tiltman acquiring a controlling interest in Company D. However, this was dismissed by Mr Tiltman as being wholly unrealistic. The alternative would be for DTL Auditors Limited to undertake not to accept any appointment as auditor, or as reporting accountant to any regulator, of any client which was also a client of Company D. Taking account of the current structure, this appeared to the Committee to be one basis on which DTL Auditors Limited could continue to hold an audit certificate. If, as Mr Tiltman suggested, it was the intention to grow the client base of DTL Auditors Limited, this would provide an opportunity for it to do so.
79. Consequently, the Committee concluded that DTL Auditors Limited can retain its auditing certificate on the condition that it provides to ACCA within 60 days of today written proof that it no longer acts as auditor, or as reporting accountant to any regulator, of any client which was also a client of Company D and will not do so in the future.
80. In the event that there is non-compliance with the condition set out above, the auditing certificate of DTL Auditors Limited is to be withdrawn.

INDEPENDENCE

81. The Committee's findings in respect of DTL Auditors Limited's compliance with ES 4.44 must be considered in the context of its findings under "Eligibility" at paragraphs 56 to 80 above. However, in fairness to the parties, the Committee considered it was necessary to explain its findings in respect of whether there had been adherence to ES 4.44.
82. It had been accepted by Mr Tiltman, and the Committee found, that as at the time of the visit by ACCA in October 2019, DTL Auditors Limited was not in compliance in that the audit fees payable by Company F were substantially in excess of 15% of the total fees generated by DTL Auditors Limited as described in paragraphs 22 and 23 above.
83. It was suggested by Mr Tiltman that as DTL Auditors Limited had only recently been set up, it was entitled to a honeymoon period similar to that which was permitted by the FRC, and which he said was well-known to ACCA. He said that this amounted to a dispensation granted to start-up companies, such as DTL Auditors Limited, with regard to compliance with the requirements of ES 4.44 for a period of two years to enable them to become established. When asked to produce evidence of such dispensation, Mr Tiltman failed to do so. However, Mr Walters produced the revised Ethical Standards of the FRC dated 2019. The Committee was referred to paragraph 4.32 relating to the requirements imposed on a new firm which stated as follows:

"4.32 A new firm seeking to establish itself may find the requirements relating to economic dependence difficult to comply with in the short term. In these circumstances, such firms would:

- (a) Not undertake any engagements of public interest entities or other listed entities, where fees from such an entity would exceed 10% of the annual fee income of the firm; and*
- (b) For a period not exceeding two years, require external independent quality control reviews of those of non-listed entities, that are not public interest entities, that represent more than 15% of the annual fee income before the engagement report/opinion is issued. "*

84. Consequently, whilst there was a recognition on the part of the FRC of the difficulties faced by new firms, no "honeymoon period" was afforded and the requirements were stringent.
85. At the hearing on 19 March 2020, Mr Tiltman had provided a schedule of invoices submitted in respect of fees for DTL Auditors Limited up to January 2020 amounting to £40,200. He had projected that revenue for the financial year ending 30 April 2020 would be £69,000.
86. At the hearing on 07 May 2020, Mr Tiltman had confirmed that the total fees for the year ending 30 April 2020, represented by invoices submitted, amounted to £64,200. Mr Tiltman stated that this would not include reserves and also work in progress. This meant that, on the basis of the information provided by Mr Tiltman, the fees invoiced to Company F of £14,000 amounted to 22% of the total fees invoiced in the sum of £64,200.
87. In addition, the total of the fees invoiced in respect of Company G and Company H amounted to 23% of the total. Paragraph 3.1.8 of the Guidance referred to circumstances where the fees generated from a client and its subsidiaries could be considered together.
88. In respect of the fees generated from the audit of Company F, the Committee was satisfied that the requirements of ES 4.44 had not been met. By reference to the definition of ES 4.44, the audit of Company F represented a recurring engagement and the fees had regularly exceeded 15% of the annual fee income of DTL Auditors Limited.
89. Even if DTL Auditors Limited resigned from its appointment with Company F, this may lead to the fees derived from Company G and Company H representing a level of fees which would amount to a breach of ES 4.44. However, at this stage, there was insufficient evidence to support a finding that the audit of Company G and Company H was a recurring engagement, nor that the fees generated regularly exceeded 15%.
90. Consequently, the Committee found that at the time of the visit by ACCA, DTL Auditors Limited was holding the audit appointment of Company F in breach of ES 4.44.

91. This also represented a breach of PR 5(1)(g), as Company F was in a position of being able to exert influence over the way in which an audit was conducted in circumstances in which that influence would be likely to affect the independence or integrity of the audit.
92. Furthermore, breach of the ES also puts DTL Auditors Limited in breach of PR 13(1), which required that holders of an audit qualification and firms holding an auditing certificate comply with "*...the technical, ethical and quality control standards issued by the UK competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016.*"
93. ACCA considered that the situation appeared remediable either by increasing the proportion of income that DTL Auditors Limited received from other clients or by resigning from the engagement. It was true that if DTL Auditors Limited was to resign as auditor of Company F, there may be independence issues with other audit appointments. It was also true that Mr Tiltman had not provided a coherent plan on how he intended to grow the client base. However, Mr Tiltman had emphasised that he was very familiar with the requirements of ES 4.44 and there was a lack of evidence before the Committee that any other appointment was on a recurring basis or that fees generated from any other audit client regularly exceeded 15% of the total revenue. No doubt if, for example, the fees that may have been generated in this financial year by Company G and Company H exceeded 15%, this audit may then have fallen into the category of a repeat engagement where the fees regularly exceeded the 15% threshold and ACCA would no doubt have reviewed the position at that stage.
94. The Committee concluded that had it not reached its decision under "Eligibility" as outlined above, and whilst the following condition was subsumed by, and subject to, its decision as outlined at paragraphs 79 and 80 above and at paragraph 95a. below, DTL Auditors Limited could retain its auditing certificate on the condition that within 60 days, it provides to ACCA written proof of its resignation from its audit appointment with Company F. This would provide DTL Auditors Limited and Company F with sufficient time to make whatever transitional arrangements are necessary.

ORDER

95. The Committee ordered that:
 - a. DTL Auditors Limited must provide to ACCA within 60 days of today written proof that it no longer acts as auditor, or as reporting accountant to any regulator, of any client which is also a client of Company D and will not do so in the future;
 - b. DTL Auditors Limited must provide to ACCA within 60 days of today written proof of its resignation from its audit appointment with Company F;
 - c. In the event that there is non-compliance with any of the paragraphs of the order set out above, the auditing certificate of DTL Auditors Limited is to be withdrawn.

EFFECTIVE DATE OF ORDER

96. This decision will take effect at the expiry of the appeal period referred to in the Appeal Regulations.

Mrs Valerie Paterson

Chair

14 May 2020