

HEARING

ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of:	Mr Arif Anwar
Heard on:	Monday, 09 March 2020 – Thursday, 12 March 2020. The Committee’s deliberations continued in private on Wednesday 25 and Friday 27 March 2020.
Location:	The Adelphi, 1-11 John Adam Street, London WC2N 6AU (for the public hearing).
Committee:	Mrs Kathryn Douglas (Chair) Ms Joanne Royden-Turner (Accountant) Mr Simon Lewis (Lay)
Legal Adviser:	Mr David Marshall

Persons present and capacity: **Mr Simon Walters (ACCA Case Presenter)**
Mr Arif Anwar (Member)
Miss Rachael Davies (Hearings Officer 9-11 March)
Mr Jonathan Lionel (Hearings Officer 11-12 March)

Observers: **None**

Summary: **Auditing certificates of the firms Arif Anwar and Rock Audit Ltd withdrawn, Mr Anwar's practising certificate with audit qualification withdrawn and a new practising certificate without audit qualification issued to him, interim order revoked. All with immediate effect. Usual publicity.**

1. The Committee met to consider regulatory concerns raised by ACCA about the audit qualifications and audit practice of Mr Anwar and his two firms, Arif Anwar and Rock Audit Ltd. Mr Walters presented the case for ACCA. Mr Anwar was present and represented himself. The hearing was scheduled for four days starting on 09 March 2020. By the end of the fourth day, the Committee was deliberating but had not reached a decision. It completed its deliberations on 25 and 27 March 2020, without the parties present, but with written submissions from them on the issue of publicity.

BACKGROUND

2. Mr Anwar has been an auditor for 38 years. He told the Committee that he had never had a complaint against him. Nevertheless, his career was not without regulatory intervention. He had had eight monitoring visits, of which at least two (ACCA said four) were unsatisfactory. He had had two previous appearances before the Admissions and Licensing Committee, when conditions were imposed on his audit registration. He has retained his audit qualification throughout his career and the outcomes of the sixth and seventh

monitoring visits (in 2010 and 2014) were satisfactory.

3. At all times, Mr Anwar held a practising certificate with audit qualification in his capacity as an individual member. By the time of the seventh monitoring visit, Mr Anwar was working as a sole practitioner under the name 'Arif Anwar', which ACCA treated as a firm, and to which ACCA issued an auditing certificate.
4. The Committee did not receive direct evidence of the events at and following the seventh visit, but ACCA's account of it was not challenged. The visit took place over two days: 29 May and 19 August 2014. On the first day, the Compliance Officer identified that the invoices for audit work were being sent out by a company called [Company W] (referred to in this decision as [Company W]) trading as [Company Y]. Company W was not registered with ACCA and did not hold an auditing certificate. Mr Anwar did not appear to be a shareholder or director of Company W, but he received consultancy fees from Company W. (In this decision the word 'director' is used to mean a statutory director, as recorded at Companies House.) The Compliance Officer was concerned that this arrangement compromised Mr Anwar's independence as an auditor. In the covering letter to the monitoring visit report, sent to the firm on 23 September 2014, the Compliance Officer recorded that they had discussed this issue, and that it had been resolved by Mr Anwar taking majority ownership of Company W and having a casting vote on its board of directors. Mr Anwar had been appointed as a director of Company W on 15 August 2014, between the two days of the visit.
5. The eighth monitoring visit, which gave rise to this hearing, took place on 17 September 2018. By this time, Mr Anwar had registered a company called Rock Audit Ltd which had been issued with an auditing certificate. However, he said that that company had never traded and that he continued to conduct audits through the firm Arif Anwar. He continued to maintain a close business relationship with Company W. Although Mr Anwar arranged for the monitoring visit to take place at his home, he said that his business papers were kept at the premises of Company W. At the meeting, Mr Anwar was only able to produce paperwork for one audit, although his firm had held seven audit

appointments in the two years prior to the visit. The Senior Compliance Officer ('SCO') was, therefore, only able to examine one company's audit files. Mr Anwar informed the SCO that he had lost all but one of the seven companies' audit files in office moves and had lost related electronic working papers when a server crashed. This data loss was being investigated by ACCA for possible disciplinary action.

6. The SCO had concerns about Mr Anwar's independence as an auditor, given the continuing involvement of Company W. Mr Anwar had told her that he was no longer a director of Company W. Following the visit, she undertook searches at Companies House and found that Mr Anwar's directorship of Company W had been terminated on 24 January 2015, only five months after his appointment. He was not listed as a director or shareholder in Company W's annual returns to Companies House dated April 2014 or April 2015. She therefore considered that there were not arrangements in place to prevent Company W from compromising the independence of audits, which would mean that the firms Arif Anwar and Rock Audit Ltd were not eligible for auditing certificates.
7. The SCO also formed the view that Mr Anwar may have misled ACCA at the time of the seventh visit by saying that he had taken (or would take) a controlling interest in Company W, when this was not the case. She invited the Committee to consider whether Mr Anwar was a fit and proper person to hold an audit qualification.
8. The outcome of the eighth visit was 'unsatisfactory' with regard to the quality of the audit inspected, and the Committee was invited to consider withdrawing the audit qualification of Mr Anwar and the auditing certificates of his firms on this ground also.

THE SPECIFIC REGULATORY CONCERNS

9. The report to this Committee identified three separate areas of concern, and the hearing was conducted on that basis. These can be described as:

- (a) **The eligibility issue** – Under ACCA’s regulations a firm is not eligible for an auditing certificate unless it meets certain requirements, including having ‘arrangements to prevent’ unauthorised people from being able to influence the audit. The precise requirement is considered below. ACCA’s case is that Mr Anwar’s firms do not have such arrangements in place and that there is a risk that those connected with Company W could influence audits.

- (b) **The fitness issue** – ACCA says that Mr Anwar’s conduct following the seventh visit means that he is not a fit and proper person to hold an audit qualification. ACCA relies on what it says was the misleading information he gave in relation to rectifying the concerns about Company W.

- (c) **The auditing issue** – This concerns the standard of audit work examined at the eighth monitoring visit. ACCA’s case was that the standard was unacceptably low and required action by the Committee, particularly in view of the monitoring history.

10. Mr Walters acknowledged that the three issues were inter-related, particularly the first two. Nevertheless, he invited the Committee to come to a separate finding on each issue and to impose separate sanctions for each issue found proved. The Committee adopted this approach.

THE HEARING

11. This was a complex case. The hearing lasted for four days, with another two days for deliberations and drafting. The main bundle contained 667 pages. Further bundles were produced before and during the hearing. By the end of the hearing, the Committee had the following bundles of documents:

A	Main bundle with pages 1 to 667
B	Additional Bundle (1) with pages 1 to 59

C	Tabled additional bundle (1) with pages 1 to 12
D	Tabled additional bundle (2) with pages 1 to 73
E	Service bundle with pages 1 to 15
F	Arif Anwar bundle 1
G	Arif Anwar bundle 2
H	The SCO's 27 page working document with pages 1 to 16 and then 1 to 11
I	Further audit papers
J	Correspondence to the SCO from Mr Anwar (3 sides) regarding loss of audit files
K	Extracts from Global Practising Regulations Annex 1 Appendix 1
L	Authorisation Regulations 4 and 5
M	Code of Ethics and Conduct Section 100
N	Code of Ethics and Conduct Section 150
O	Extracts from Global Practising Regulations regulation 8
P	Email from Mr Walters to Hearings Officer
Q	Agreement between parties on extension of interim order
R	Interim order decision of 11 September 2019

12. ACCA produced internal notes of the monitoring visit, some of which were created contemporaneously at the visit. ACCA also called the SCO to give oral evidence. She gave oral evidence on the first three days and was cross-examined by Mr Anwar and questioned by the Committee. She told the Committee that she had been a Senior Compliance Officer for 12 years and normally did nearly 60 monitoring visits per year. The Committee found that she had a clear recollection of her findings on the visit and a comprehensive knowledge of the relevant documents. She was able to give detailed and authoritative answers. She did find it difficult at times to separate her role as a witness of fact from her role as an enforcer of ACCA's standards. Nevertheless, the Committee found the SCO's evidence to be credible,

consistent and reliable.

13. Mr Anwar decided not to give evidence himself, but simply to make submissions. The Committee was satisfied that this was an informed decision, and that Mr Anwar fully understood the consequences of his decision, including that any statements of fact he made would be treated as untested assertions. Mr Anwar made detailed submissions which the Committee considered carefully. It gave consideration to statements made by him about contested matters, but gave them the weight of untested assertions, except where his submissions were supported by evidence.

DECISION AND REASONS: THE ELIGIBILITY ISSUE

The issues

14. Auditing certificates are issued to 'firms' as that term is used by ACCA. Eligibility for an auditing certificate is dealt with in regulations which form part of The Chartered Certified Accountants' Global Practising Regulations 2003 (the 'GPR'). Currently, the relevant regulations are contained in Appendix 1 to Annex 1 to the GPR and are entitled '*United Kingdom Audit Regulations 2016*'. Regulation 5 of those regulations deals with eligibility for an auditing certificate. The main provision referred to in this hearing was reg. 5(1)(g) which states, so far as relevant:

(1) A firm ... shall be eligible for an auditing certificate if:

...

(g) it has arrangements to prevent individuals who do not hold an appropriate qualification for the purposes of Part 42 of the Companies Act 2006 and persons who are not members of the firm 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; ...

15. In earlier versions of the GPR, for example in 2015, this clause (g) was contained in Regulation 6, but at all times with which this hearing is concerned,

the wording of clause (g) has been substantially the same.

16. The Committee took the view that the issue under clause (g) was not whether there were persons who could, or did, exert improper influence. The issue was whether the firms had 'arrangements' in place to prevent this. Mr Walters accepted that the burden of proof was on ACCA to show that there were no acceptable arrangements in place. If it succeeded in doing that, Mr Anwar's firms would not be eligible for auditing certificates.
17. The Committee was considering the auditing certificates under Regulation 5(1) of The Chartered Certified Accountants' Authorisation Regulations 2014. The relevant part states as follows:

5. Withdrawal of, suspension of, or imposition of conditions on certificates: general

(1) Mandatory grounds for withdrawal

The Admissions and Licensing Committee shall withdraw a certificate if:

- (a) it is notified or becomes aware that the holder of the certificate has ceased to be, or never was, eligible to be issued with the certificate and:
 - (i) if the Admissions and Licensing Committee considers, in its absolute discretion, that the situation is remediable and it is appropriate to do so, and the holder has been notified of this situation in writing and the situation has not been remedied within the period of time specified in the notice; ...**

18. This is a mandatory ground, so the Committee had to withdraw an auditing certificate if the ineligibility was made out, subject to the provisions in clause (i) above.
19. The Committee had to identify what, if any, 'arrangements' existed and

whether they 'prevented' improper influence. Since the Committee had to take action if (amongst other things) the firm had 'ceased to be' eligible, it had to consider the position at the date of the hearing. The adequacy of any arrangements would depend, at least partly, on the nature and seriousness of the risks. The Committee therefore first assessed risk.

The risks

20. After the seventh monitoring visit had started, but before it was completed, Mr Anwar submitted a document to ACCA dated 30 May 2014. This was in the form of a letter from Company W (trading as Company Y) signed by Person A as its director. The letter included this (with emphasis added):

... we have agreed the following change in your consultancy agreement.

- 1. You will invoice **our** audit clients directly for the agreed sum of 20% of the gross audit remuneration agreed by Rock Partnership to **our** client. This percentage may vary to a maximum of 25% of the gross fee for smaller audits.*
- 2. The balance of the audit invoicing will be completed and paid direct to Rock as before.*
- 3. All the audit costs will be borne by Rock who will provide you with suitably qualified staff, software and any other ongoing costs to support your ongoing work.*
- 4. Rock will continue to provide you with a company car to enable you to visit and complete the audit assignments. All costs of the car including insurance will be paid by Rock.*

21. Mr Anwar asserted that this letter had been written in terms suggested by the Compliance Officer who had visited the day before. The Committee did not accept that assertion, which was unsupported by any evidence. The agreement relied on by the Compliance Officer was set out in his covering

letter dated 23 September 2014 (see 'Background'), was inconsistent with the agreement of 30 May 2014 and would have superseded it.

22. Nevertheless, the reference by Company W in the agreement to 'our' audit clients is significant. The letter is consistent with Mr Anwar working as a subcontractor to Company W or in some similar capacity. Mr Anwar told the Committee that the arrangement set out in the agreement of 30 May 2014 (separate billing) lasted no more than a few weeks. After that all payments for audit work passed through Company W.
23. Mr Anwar produced a document dated 25 January 2015 recording two resolutions of the board of Company W. This was the day after his directorship of Company W was terminated. The resolutions were as follows:
 1. *Arif Anwar takes absolute control and ownership of all auditing work that is processed through the company and the company in turn indemnifies him without limit to all and any actions that any audit client may take against him.*
 2. *The company confirms it holds professional indemnity insurance and undertakes to maintain that cover for all values specified by Arif Anwar.*
24. The references to processing auditing work through Company W, and the references to Company W providing indemnity, strongly suggest that Company W, an unregulated company, was assuming at least some responsibility to external clients for the audit work. These resolutions seem to be aimed at regulating the internal relationship between Company W and Mr Anwar with regard to that liability.
25. Mr Anwar also submitted the professional indemnity policy cover notes for the period from October 2015 to October 2019. The insured is described as '*[Company W] trading as [Company Y] &/or Arif Anwar, Rock Audit Ltd*'. The business is described as 'Accountants ...'.

26. On the eighth monitoring visit, the SCO established that, although audit engagement letters were sent in the name of the firm Arif Anwar, invoices for audit work were issued by Company W. She identified that Mr Anwar was not a director of Company W and did not appear to be a shareholder. Mr Anwar had told her that all his working papers were kept at Company W. She said in her evidence that it appeared to her that Mr Anwar was acting as a subcontractor to Company W. Her opinion was that Company W was in a strong position to influence his audit work.
27. Mr Anwar did not dispute that invoices for audit work were sent out by Company W. There was evidence that he received regular payments from Company W of the order of £1,000 to £1,500 per month. Mr Anwar told the Committee that his office was in Company W's premises. He said that the computer facilities were supplied by Company W. He said that he did the vast majority of the audit work himself but to the limited extent that he used staff, the staff were provided by Company W.
28. The Committee agreed that Mr Anwar appeared to be acting as a subcontractor. It was not necessary to make a formal finding as to this, but the Committee was quite satisfied that there was a serious risk that whoever was in control of Company W would be able to influence Mr Anwar's audit work. The Committee had regard to the Guidance for Regulatory Orders: Eligibility (May 2018) ('the GRO'), paragraph 3.1.9:

... in ACCA's view a self-interest threat arises where 15% or more of a firm's total income is derived from a single source. The presumption is that the ineligible firm will be able to influence its clients, for example in their choice of auditor and on whether to retain the services of a particular auditor. It is this latter point which renders the auditor vulnerable to a threat to his objectivity. In ACCA's view, the 15% threshold in the Ethical Standards is an appropriate benchmark to apply in other situations where a number of audit clients are under common control or have a common connection which could result in a significant influence being exerted on the auditor.

29. In this case, all or most of Mr Anwar's audit income appeared to derive from, or be channelled through, Company W. In his submissions to the Committee, Mr Anwar revealed that Company W owed him about £80,000 in unpaid fees for audit work. That was a clear illustration of the potential for exerting influence over his audit practice.
30. On the basis of ACCA's evidence, the Committee was satisfied that in order to be eligible for auditing certificates the firm Arif Anwar would have to have robust arrangements in place to prevent any influence of the type referred to in clause (g).
31. As to Rock Audit Ltd, although (according to Mr Anwar) it has never traded or conducted an audit, the Committee took the view that the risk is effectively the same as for Arif Anwar. Given the way that Mr Anwar has conducted his affairs over the past five years or so, there would have to be specific arrangements in place to prevent inappropriate influence by Company W and persons connected with it over Rock Audit Ltd.

The 'arrangements'

32. Mr Anwar submitted that he was a man of integrity, had been an auditor for 38 years, and would never permit improper interference with his audits. However, the Committee considered that personal integrity was not capable of constituting an 'arrangement' for the purposes of clause (g).
33. The board resolutions, dated 25 January 2015, were probably intended to be an arrangement of the type required by clause (g), although the Committee heard no evidence about them. If so, the Committee was satisfied that they were not sufficient to meet the requirements of clause (g). Mr Anwar had no official role within Company W. He was neither a director nor a shareholder. The sole director for part of the relevant time was Person A, who could have revoked this arrangement at any time, and probably should have done so if it was in the interests of the shareholders. The Committee was not presented with evidence as to the current directors of Company W, but Mr Anwar stated that that he was not a director.

34. Mr Anwar submitted that ACCA's requirement was that he should have control of Company W. He said that he did have such control so the requirement was met. Mr Anwar submitted a witness statement from Person B, although he did not call him to give evidence. Person B stated that since 2013, he had owned all the shares in a company called Company X. This was proved by the annual return for Company X for May 2014, which showed that there was one issued share which was held by Person B. In his statement, Person B stated that Company X in turn owned 500,000 shares in Company W out of an issued and paid-up share capital of 500,100 shares. This was inconsistent with the annual returns of Company W, dated April 2014 and April 2015, which stated that the issued share capital was 100 shares, all of which were held by a company called Company Z. Person B's witness statement said that this was an error which was rectified by a document filed with Companies House on 15 May 2017. This stated that Company W allotted 180,000 shares 'from 14 November 2011' and 320,000 shares 'from 30 December 2014', making a total issued share capital of £500,100. The Committee noted that all the shares issued were of the same class: ordinary shares. No official records were produced to show that these shares were in fact held by Company X, although the Committee saw a PSC ('Person with Significant Control') notification at Companies House stating that Company X held 'directly or indirectly' 75% or more of the shares. The Committee was left in doubt as to whether Company X was a direct shareholder of Company W.
35. Person B produced a 'Declaration of Trust' dated 5 June 2015, which stated that he held 250,100 of the shares in Company W in trust for Mr Anwar. The document was internally inconsistent because it was Company X which owned the shares, but Person B who claimed to be holding them in trust. There was evidence from official documents that Person B was the director of Company X in May 2014, but there was no evidence as to whether or not he was a director at the time of the declaration.
36. The shares in Company W were all ordinary shares. If the shares were held on trust for Mr Anwar, that would normally mean that Mr Anwar was beneficially entitled to just over half the value of Company W. However, Person B and Mr

Anwar both stated that the declaration of trust did not entitle Mr Anwar to any 'equity participation' in Company W. The document stated that the shares '*have been allocated to him for the purposes of him controlling the activities of [Company W]*'. It was not clear to the Committee how this document could confer control of Company W on Mr Anwar without giving him any financial interest in the company, in the absence of evidence to contradict the Companies House records showing that these were ordinary shares.

37. Mr Anwar relied on the fact that Person B was [family member] and also on his assertion that Person B was his employee, in some unspecified capacity. He submitted that these facts supported his case that he had control of Company W in practice. The Committee did not accept, on the evidence before it, that Mr Anwar had control in practice. Even if the relationship between Mr Anwar and Person B did in practice give Mr Anwar control of Company W, a personal relationship could not constitute an arrangement of the type required by clause (g).
38. The Committee found these arrangements to be opaque and precarious. The motivation for them may have been, as Mr Anwar indicated, that he needed to be 'under the radar' following proceedings and bankruptcy but the nature of his business relationship with Company W remained obscure. In the absence of formal oral evidence from Mr Anwar, the Committee was not satisfied that he had control over Company W. Even if he did have practical control, it was through an informal family arrangement which could be changed at any time, was not a matter of public record, and was not something which ACCA could effectively monitor. Furthermore, it did not purport to give day to day control of Company W to Mr Anwar. He could only influence Company W's actions through a general meeting. That still left scope for Company W to exert improper influence.
39. The Committee took into account the guidance and in particular paragraphs 3.1.7 and 4.1.3 of the GRO (emphasis added):

*3.1.7 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. ...

4.1.3 ... *The Committee considers each case on its individual facts and takes into account the following (this list is not exhaustive):*

- *the income of the firm, the existence of management charges and the distribution of net profits and whether this provides the audit qualified individual(s) with sufficient income to assert their independence from the ineligible firm*
- *the clients of the firm and whether it has any clients which are not also clients of the ineligible firm ...*
- *the firm's office and staffing arrangements and whether these are common with the ineligible firm ...*
- *the professional qualifications, if any, of the other principals in the ineligible firm and whether or not they are required to comply with ethical principles which would prohibit them from attempting to exert influence over the way in which an audit is conducted*
- *any safeguards put in place by the audit-registered firm, such as independent external reviews of the audit appointment and the arrangements for the direction, supervision, conduct and review of the audit work.*

40. All these factors indicate a lack of independence in this case. Neither Person A, Person B nor Company W held auditing qualifications or certificates, or were members of Mr Anwar's firms, nor (as far as the Committee was aware) were subject to professional regulation. The Committee was quite satisfied that there was no sufficient arrangement in place to prevent one of them *'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'*.

Allowing an opportunity to remedy the situation

41. The Committee considered Regulation 5(1)(a)(i) of the Authorisation Regulations, set out above. The Committee considered that the situation was, in principle, remediable, but concluded that it was not appropriate to allow Mr Anwar a further opportunity to remedy it. Mr Anwar had known since at least the time of the seventh visit in 2014 that the involvement of Company W was a major concern to ACCA. In his closing submissions, he said the issues concerning eligibility could all be resolved by billing through Rock Audit Ltd. He said he had never been asked to do that by ACCA. He submitted that he should have been guided to bill either using his own name or through Rock Audit Ltd. He said that all he had done was to follow what he thought ACCA wanted. The Committee did not accept that submission. In the Compliance Officer's letter dated 23 September 2014, the Compliance Officer set out exactly the arrangements that he found acceptable:

We discussed the ownership and control of Rock Partnership at length during my visit. My understanding is that the shares in the company are now split between yourself and [Person A] such that he holds 90,000 non-voting 'A' shares and you hold 90,100 voting 'B' shares. This means you control just over 50% of the shares and you also have a casting vote on the board of directors. I have not referred to this in my report, but as [Company Y] is a company which undertakes public practice work, you need to notify ACCA of your directorship under Global Practising Regulation 12(2) and should do so as soon as possible if you have not done so already. You also indicated it was your intention to obtain a firm's auditing certificate for [Company Y] if I recall correctly.

42. Mr Anwar can have been in no doubt of what ACCA expected him to do. If he wanted ACCA to advise on different arrangements, it was for him to approach ACCA, not the other way around. Conducting his practice entirely through Rock Audit Ltd would probably have been acceptable, but Mr Anwar did not do this, nor did he seek guidance from ACCA. He had had five years or more to make arrangements of the type required by clause (g) but did not do so. He chose not to implement the arrangement approved by ACCA and did not seek

the approval of ACCA for the alternative arrangements he devised. He could not reasonably now expect ACCA to have confidence in his willingness and ability to make acceptable arrangements. After five years in which Mr Anwar disregarded the advice of his regulator, to allow him further time to work with his regulator would not uphold the confidence of the public and other registrants.

Conclusion

43. The Committee found that the firms Arif Anwar and Rock Audit Ltd did not have arrangements in place as required by clause (g). They had been ineligible for auditing certificates since at least January 2015. The Committee was therefore required to withdraw the auditing certificates of Arif Anwar and Rock Audit Ltd.

DECISION AND REASONS: THE FITNESS ISSUE

44. ACCA's case was that by giving information to the Compliance Officer as set out in the letter of 23 September 2014, Mr Anwar misled ACCA. Alternatively, he misled ACCA by not notifying his resignation as a director, or that the shareholding was not as set out in the letter. It is also alleged that Mr Anwar breached the Code of Ethics by allowing his firm, Arif Anwar, to practise when he knew that it was not eligible for an auditing certificate. Mr Walters told the Committee that ACCA was investigating these matters for possible disciplinary proceedings. He submitted that they were relevant to this Committee for the limited purpose of deciding if Mr Anwar was a fit and proper person to hold auditing qualifications. It was for ACCA to prove that Mr Anwar was not fit and proper.
45. The letter of 23 September 2014 was not produced to the Committee and there was no direct evidence from the Compliance Officer who wrote it, either oral or in the form of a witness statement. However, Mr Anwar did not dispute that the letter was sent or that the matters referred to were discussed in 2014.
46. Mr Anwar was aware of the arrangements that ACCA expected to be put in place but made different arrangements which the Committee found to be

wholly inadequate. It also found that he had not informed ACCA of the change in the arrangements. However, the question at this stage was whether these matters meant that Mr Anwar's character was such that he was not fit and proper to hold an auditing qualification.

47. The Committee noted that Mr Anwar had been an auditor for 38 years with no disciplinary findings against him. It was not alleged by ACCA that there were any matters affecting his integrity other than those set out above.
48. It was not in dispute that Mr Anwar had become a director of Company W by the time of the letter of 23 September 2014. ACCA's case was that he should have informed ACCA of his resignation the following January.
49. As to the shareholding, Mr Anwar submitted a written witness statement to ACCA before the hearing (although he did not confirm its contents in testimony so it did not constitute formal evidence to the Committee). In paragraph 65, he stated that in 2014 he 'took a majority shareholding' in Company W. He did not produce Companies House records to support that. In his oral submissions he stated that his shareholding was never completed and filed at Companies House. He did not claim to be a shareholder currently, except through the 'declaration of trust' document considered above.
50. The Committee noted that Mr Anwar had made other arrangements in an attempt to satisfy ACCA's concerns about independence. The Committee found that these were not, in fact, sufficient. However, it was not satisfied, on the balance of probabilities, that Mr Anwar deliberately set out to mislead ACCA. He seems to have had an intention to meet ACCA's concerns, although he did so ineptly. He was, in principle, entitled to make arrangements different from what ACCA expected. He could, for example, have broken the connection with Company W and traded solely through Rock Audit Ltd. He was not necessarily required to tell his regulator everything, but by failing to get ACCA's approval, he took the risk that any arrangements he made would later be found inadequate so that his firms would be ineligible. It was for this reason that the Committee considered that it was not appropriate to give him a further opportunity to remedy the situation. However, the Committee was not satisfied

(on the balance of probabilities) that Mr Anwar knew that his firms were ineligible for auditing certificates while he continued to practise as an auditor.

51. The Committee was concerned that audit files and computer-based data had been lost. This was potentially very serious, but it was being investigated separately and the facts were not explored in detail at the hearing.
52. There were inconsistencies in Mr Anwar's evidence, but the Committee made allowance for the fact that he was unrepresented in a particularly complex case.
53. The Committee concluded that while Mr Anwar clearly made bad judgments about how to arrange his practice affairs, it was not satisfied that ACCA had proved (on the balance of probabilities) that he was not a fit and proper person to hold an auditing qualification.

DECISION AND REASONS: THE AUDITING ISSUE

Fairness of the monitoring visit

54. A general theme of Mr Anwar's submissions was that the process followed by ACCA was unfair to him and, moreover, that ACCA was actively prejudiced against him.
55. ACCA's position was that Mr Anwar had had eight monitoring visits, of which four were unsatisfactory. Mr Anwar said that only the first two were clearly unsatisfactory. In the third case, he said the unsatisfactory outcome was due to errors by the ACCA approved company carrying out hot reviews. For the final visit, he said that 'the jury was out' because he disputed the conclusion on the eighth visit and that was a matter for this Committee to judge. The Committee did not consider it necessary to resolve issues about monitoring visits many years ago. The significant point was that there have been two previous ALC hearings when orders were made against Mr Anwar as a result of monitoring visits.

56. Mr Anwar believed that the SCO had not taken into account all the documents on the audit file that was examined. Mr Anwar said that there were four lever arch files: two being the permanent file and two being for the current audit. The SCO's recollection was that she had been given access to only two files, one permanent and one for the current audit. Following the visit, Mr Anwar sent a bundle of about 500 pages to ACCA with detailed replies to the criticisms made by the SCO. The SCO considered these documents. During cross-examination, Mr Anwar put various documents to the SCO, but in each material case she said she had seen the document and taken it into account, often at the visit. She said that she had an audit checklist which proved that she had reviewed a file that had all the sections in it. The Committee did not find it credible that she would have failed to look at audit files if they had been clearly made available to her. The Committee concluded that the SCO had considered all the relevant documents, either at the visit or possibly after the visit, but before setting out her final opinion on the quality of the audit. If there was a failure to consider all relevant documents at the visit, that failure had been cured by subsequent opportunities to see the documents.
57. Mr Anwar said that he had not had the benefit of a proper closing meeting at the end of the monitoring visit so he had not been able to answer the SCO's criticisms before the report was drafted. He said that several of the criticisms in the report were not put to him at the meeting. The SCO had noted in her visit form (an internal ACCA document which she would not have expected to be disclosed) that the meeting lasted from 15:00 to 17:00. Mr Anwar produced a witness statement from Person A (which was not confirmed in testimony) and documents which, he said, showed that he was engaged at Company W's premises on the other side of town until at least 15:25. The Committee did not find it necessary to resolve this factual issue but it found the oral evidence of the SCO, supported by a contemporaneous note, to be convincing. However, the Committee concluded that since Mr Anwar's responses had been set out in detail, and papers subsequently submitted had been reviewed in any event before this hearing, whether all points were covered at the closing meeting was no longer relevant to the issues that the Committee needed to determine.
58. Mr Anwar complained about the delay in sending the report to him. Even if that

was a legitimate basis for a complaint against ACCA, it did not affect the issues to be decided at the hearing.

59. Mr Anwar submitted that there was a degree of bias against him on the part of ACCA, based on previous issues between the parties, of which the Committee was not given full details. This Committee is independent of ACCA. As always, it was careful to scrutinise the allegations and evidence against Mr Anwar. It did not find ACCA's evidence to be tainted by bias, or prejudice, as alleged.
60. Mr Anwar cited a note in Booklet H (the internal note of the visit) on page 4 of 16, where the reviewing manager had written (at point "3") that Mr Anwar was "*not a run of the mill offender*", as evidence of prejudice against him. The Committee particularly considered this point but concluded that this statement was insufficient either alone or in the context of the other evidence to persuade the Committee to a different view on prejudice or bias.
61. Mr Anwar argued that the SCO was not a credible witness because her evidence was wrong on some key points. He said that she was clearly wrong with regard to the length of the closing meeting. He relied on emails and a note on his iPhone which, he said, proved his version of the timings. Mr Walters submitted that the email could have been sent from anywhere and was not inconsistent with Mr Anwar being at home. He submitted that the iPhone timing recorded the time when the note was last edited, not when it was first created. The Committee did not find it necessary to make findings of fact, but it was satisfied that it had not been demonstrated that the SCO's account of the meeting was clearly wrong. In any event, even if the meeting had started later than 15:00, the Committee was not persuaded that that would have invalidated ACCA's conclusions in any material respect. Mr Anwar also said that the SCO was wrong to state that all 20 points had been raised with him when they were not recorded in her contemporary notes. However, the fact that they were not noted did not mean they were not discussed. For example, in some respects, Mr Anwar had admitted an error and in others, may not have provided any substantive response. There may not have been a need to make a record, at the material time, against these items. The Committee was not persuaded that the SCO had been an unreliable witness.

The outcome of the eighth monitoring visit

62. Another general point made by Mr Anwar was that the outcome of the eighth visit was in fact a pass, not a fail. He said that the outcome had been graded as a 'C', whereas failure was graded 'D'. The Committee was quite satisfied that this was a misunderstanding on Mr Anwar's behalf. The notes of the monitoring visit contained two separate forms: the Audit File Inspection Checklist and the Practice Monitoring Programme. The Audit File Inspection Checklist was graded from 'A' to 'C', with definitions set out on its first page. The SCO graded the file as 'C', 'serious non-compliance with applicable standards...'. The other form was the 'Practice Monitoring Programme', graded from 'A' to 'D', again with definitions provided. The SCO gave a grade 'D', defined in the form as 'Immediate action required by ACCA...'. Clearly, in the view of the SCO, the outcome of the visit was unsatisfactory.

The quality of the audit work

63. Mr Anwar contended as a general point that the quality of his auditing work on this client had been found to be satisfactory at the seventh visit which inspected his 2013 audit file, and his 2017 audit had mirrored that of 2013, so it was illogical and unfair that the same should not be viewed as satisfactory now. The SCO for the eighth visit had drawn up a detailed comparison of the monitoring of the audit for 2013 and that most recently undertaken. She concluded that in many instances, the issues were simply not comparable. The Committee noted that in a number of cases, documents from the 2013 audit file appeared to have been copied for the 2017 file, but not updated or completed for the latter audit. Mr Anwar acknowledged instances of this.
64. The issues concerning the quality of the audit were set out in their final form in a helpful schedule which listed, in columns, a summary of the parties' respective contentions. Both parties had had a full opportunity to set out their positions, and all relevant documents had been made available. The Committee concluded that any earlier deficiencies there may have been in the assessment process were no longer relevant. The Committee also took into

account subsequent written and oral submissions, the audit papers submitted by Mr Anwar, and the oral evidence of the SCO.

65. The schedule contained 20 items. In questions from the Committee, the SCO stated that points 1-6, 8, 10, 12, and 20 were the most important. For example, she said that if point 7 had been the only issue '*we wouldn't be here*'. The Committee therefore concentrated on the 10 points identified by the SCO as important.
66. In considering the points in detail, the Committee bore in mind that Mr Anwar was a sole trader and not a large firm. It accepted that his approach might be different from a large firm, but all auditors of any size are required to comply with the International Standards on Auditing (ISA).
67. The Committee considered the parties' contentions, but it was satisfied by the SCO's evidence that the criticisms were justified. Briefly, its findings on the important issues were as follows.
68. **Point 1.** This concerned valuation of leasehold property where no depreciation charge was noted. Mr Anwar stated that depreciation was not important because of the length of the lease (99 years). If he had assessed depreciation it would have been £9,270, well below materiality. However, the Committee found that Mr Anwar had failed to document his approach on this and had failed to include the £9,270 figure in a schedule of unadjusted audit differences or misstatements. The Committee found breaches of ISA230 and ISA500.
69. The points had a common theme of Mr Anwar failing to document his audit approach adequately.
70. **Point 2.** Mr Anwar agreed a provision of £950,000 for diminution in value of investments, but failed to document how this amount had been determined or why it was appropriate. Mr Anwar relied on a meeting note as evidence for his decision, but the document in question was a planning meeting note and did not support the amount subsequently provided for. He said it was a matter for his judgement, but the Committee considered that he had to justify his

judgement in the audit file. It found a breach of ISA500.

71. Failures of this kind indicated a lack of competence or diligence in conducting the audit. The failure to acknowledge that they were errors indicated a lack of insight.
72. **Point 3.** This concerned stock. The working papers presented by Mr Anwar were not coherent, nor properly completed. For example, on the stock Summary Sheet (document A258) there was a series of 'yes/no' questions not completed, which implied a lack of confirmation as to whether the audit objectives had been met. As a result, they did not evidence that the documented process had been followed and appropriate conclusions drawn. On page A259, Question 8 was left blank, even though it had been completed in a previous audit for the same company. There were other examples. The Committee noted that while detailed calculations for sample size had been recorded, Mr Anwar actually used a different sample size but did not document the reasons for this. The Committee concluded that there was a breach of ISA500.
73. **Point 4.** Mr Anwar had an audit procedure in place to address the net realisable value of stock but did not document its implementation. The Committee found a breach of ISA230 and ISA500.
74. **Point 5.** In relation to the recoverability of trade debtors, the key problem was that the sample size had been incorrectly calculated. The calculation showed a sample size of 9, but this sample appears to exclude items identified as being above the tolerable error, which should have been added to the sample. The Committee was satisfied that he had not correctly calculated sample size and had not demonstrated that all relevant balances were tested. No procedures were documented in relation to older outstanding balances. While the reasons for this were subsequently explained, these were not documented in the working papers. The Committee found a breach of ISA500.
75. **Point 6.** This related to amounts due from group companies. Mr Anwar set out in the schedule of issues why he believed the figures were correct. However,

he did not document this in the audit file and there was no *evidence* of proper investigation. He relied heavily on a signed letter of representation, but this was undated. Even if it had been dated, it would not have been sufficient audit evidence in isolation. The Committee found a breach of ISA500.

76. **Point 8.** This concerned trade creditors. Mr Anwar submitted that a sufficient percentage of balances had been tested. However, he assessed the percentage of balances tested by reference to creditors and accruals combined. In fact, only three balances for trade creditors were vouched to supplier statements. The Committee considered that trade creditors should have been considered separately, and more extensive procedures performed on trade creditor balances. The Committee found a breach of ISA500.
77. **Point 10.** In relation to a pension fund loan, Mr Anwar had relied on an undated letter referring to balances as at 30 September 2017 and/or a letter dated 8 May 2017, referring to balances as at 30 September 2016. The current year letter did not specifically refer to the balance of £500,000, and the letter dated 8 May 2017 cannot be relied on for the 30 September 2017 audit. In any case, the Committee considered that a letter of representation was inadequate for such a large sum, and confirmation from the pension fund and/or supporting documentation should have been sought. The Committee found a breach of ISA500.
78. **Point 12.** Mr Anwar failed to demonstrate that he had properly considered fraud. He submitted that since there was a single shareholder who was also the sole director, there was little risk of fraud. He relied on a working paper stating that the director had given an assurance that there was no suspected fraud. However, that assurance was said to have been given on 9 January 2014 and would not, therefore, cover the period of the audit. In any event, this would be insufficient to meet the requirements of ISA240. The Committee found a breach of ISA240.
79. **Point 20.** This was admitted. It was a serious matter that Mr Anwar had failed to take account of an amendment in regulations for the requirements for an audit report, made two years earlier. The Committee found a breach of ISA700.

80. In coming to an overall conclusion, the Committee bore in mind paragraph 6.2.1 of the GRO which stated 'Perfection is not expected'. The Committee looked for a satisfactory standard, not a faultless one. It also bore in mind the SCO's opinion (which it accepted) that this was not a particularly complicated audit.
81. The Committee concluded that there had been serious non-compliance with the ISAs, both individually and in the number of breaches found.

The appropriate order

82. In considering what order, if any, to impose, the Committee took into account that the SCO had graded Mr Anwar's audit work in the lowest category, C. According to the Audit File Inspection Checklist, a 'C' grade is justified where there has been serious non-compliance and there was a significant risk that material misstatements would remain undetected. In the 'Audit compliance checklist' the SCO had identified two separate areas where there were serious deficiencies which would result in an unsatisfactory grading: ISA500 and ISA700, being fundamental to the audit as a whole. The overall grading of D, the lowest possible grade, for the visit outcome was justified not only by the failure to meet basic auditing standards, but by the firms' ineligibility.
83. The Committee noted that Mr Anwar had produced only one audit file for inspection at the visit and that was seriously deficient. This was by no means Mr Anwar's first unsatisfactory monitoring visit or ALC hearing, and he could not claim inexperience. The Committee noted that Mr Anwar had made some limited acceptance of his errors, but not a general acceptance that his overall standard of auditing was seriously deficient, or even acceptance that it was deficient at all. The Committee was concerned about this lack of insight, which made it unlikely that Mr Anwar was capable of improving the standard of his work sufficiently.
84. In his submissions to the Committee, Mr Anwar had said words to the effect of '*As you get older you tend to rely more on experience. That's not good for an*

auditor. I have done this particular audit for 10 years. You tend to get complacent.' While frank, this was not reassuring as to Mr Anwar's diligence and motivation.

85. The Committee considered the orders available to it in order of seriousness. It had no confidence that an order for conditions would protect the public or ensure that Mr Anwar made the necessary improvements. Suspending his auditing qualification would protect the public, but the Committee could not see a basis for lifting the suspension in the foreseeable future. In the circumstances, the Committee concluded that the minimum order it could impose was to remove Mr Anwar's auditing qualification. That would also apply to the firm Arif Anwar through which he practised. Since Rock Audit Ltd did not conduct audits, the Committee did not make an order under this ground against that firm.

TAKING EFFECT OF THE ORDER

86. The Committee heard that the company whose audit was the subject of this hearing was due to be audited again shortly. For the reasons given, the Committee considered that Mr Anwar should not be permitted to conduct this audit. It determined that it was necessary in the public interest for its orders to take effect immediately.

PUBLICITY

87. Mr Anwar made an application in writing that if the Committee made findings against him, the order be not publicised. ACCA provided written submissions in response. ACCA's regulations require all decisions to be publicised, but under The Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR) Regulations 6(2)(b) and 6(3), the identity of the person sanctioned must not be published if specified conditions are met. The relevant question in this case is whether 'the publication of personal data would be disproportionate'.

88. Publication of an adverse regulatory decision is always disadvantageous to the person concerned. It is embarrassing and it may well affect income and career prospects. That is inevitable and to some extent, publication is part of the regulatory purpose. It advises the public and discourages others from behaving in the same way. For publication to be 'disproportionate', it must affect the person concerned to an extent that is unacceptably greater than this.
89. Mr Anwar submitted that his case should not be publicised because if he lost, the decision would be wrong and he would appeal. Publicity would, in his view, prejudice his appeal. The Committee did not consider that this was relevant prejudice. Mr Anwar's position would be no different from any other registrant against whom an order was made. Furthermore, if he appealed, the decision of this Committee would be put before the Appeal Committee whether or not it had been publicised. The Committee rejected Mr Anwar's application.

ORDER

90. For the reasons stated, the Committee ordered –

On the eligibility issue:

- (a) The auditing certificates of the firms Arif Anwar and Rock Audit Ltd be withdrawn.

On the fitness issue: no order.

On the auditing issue:

- (b) Mr Anwar's practising certificate with audit qualification and the auditing certificate of the firm Arif Anwar be withdrawn and he be issued with a practising certificate.

On all issues:

- (c) All these orders shall have immediate effect.

- (d) The existing interim order be revoked.
- (e) The decision be publicised in the usual manner.

Mrs Kathryn Douglas
Chair
27 March 2020