

HEARING

ADMISSIONS AND LICENSING COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

REASONS FOR DECISION

In the matter of:	Mr Sebastian Devasia
Heard on:	Tuesday, 29 June 2021
Location:	Remotely via ACCA Offices, The Adelphi, 1-11 John Adam Street, London WC2N 6AU using Microsoft Teams
Committee:	HH Graham White (Chair) Ms Fiona MacNamara (Accountant) Mr Simon Lewis (Lay)
Legal Adviser:	Mrs Fiona Barnett
Persons present and capacity:	Mr Phillip Law (ACCA Case Presenter) Mr Jonathan Lionel (ACCA Hearings Officer) Mr Sebastian Devasia (Member)
Observers:	Ms Joe Johnson, ACCA
Outcome:	Mr Devasia's Practising Certificate with Audit Qualification and the Firm's Audit Certificate are withdrawn. Mr Devasia's Practising Certificate with Audit Qualification will be replaced with a practising certificate. Mr Devasia will also be required to undergo training and pass a test of competence before being permitted to make an application to the Admissions and Licensing Committee, with a view to undertaking further audit work in future.

1. Mr Devasia attended and was not represented.

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BRIEF BACKGROUND

2. Sebastian and Daughters Ltd, (“the Firm”), is the incorporated practice of ACCA member, Mr Sebastian M Devasia FCCA and Ms A. Ms A is not an ACCA member and does not hold an audit qualification.
3. A monitoring review took place on 08 January 2015. As the Firm did not hold any audit appointments at that time, a desktop review was carried out to confirm the Firm’s eligibility for registered auditor status and its compliance with the Global Practising Regulations, (“GPRs”).
4. The review which is the subject of this hearing took place in March 2021. The purpose of this monitoring review was to inspect the Firm’s audit work, to confirm the Firm’s eligibility for registered auditor status and to monitor compliance with the Chartered Certified Accountants’ GPRs. The Firm held two audit appointments in the twenty-four months prior to the review and both files were inspected.
5. During the review, which was carried out remotely between 01 March 2021 and 17 March 2021, the Compliance Officer found that the Firm had not introduced effective procedures. It was using a standard audit programme on all audits but was not tailoring this to ensure that it met the needs of the audit of each client. Although the Firm stated on its audit working papers that it was performing the required audit procedures, it is alleged that there was almost no record of audit work. As a result, on the two files examined, the compliance officer concluded that the audit opinion was not adequately supported by the work performed and recorded.
6. Mr Devasia responded to the findings of the monitoring review in a letter dated 29 April 2021. He referred to a number of CPD courses arranged for himself and the Firm’s employees, stated that the deficiencies had been rectified, and indicated that the Firm had arranged with a training company for ‘cold’ and ‘hot’ reviews of the audit work to be undertaken in future. ACCA’s Compliance Officer responded to Mr Devasia on 17 May 2021, confirming ACCA’s view that the actions taken by the Firm subsequent to the visit were not considered to be exceptional reasons for the audit certificates not to be withdrawn, and that ACCA’s recommendation therefore remained that the audit certificates should be withdrawn.
7. The Committee had before it papers numbering pages 1 – 26.

APPLICATION

8. Mr Law submitted that there were significant deficiencies in relation to various and numerous International Standards on Auditing, (“ISA’s”). He referred the Committee to ACCA’s “Regulatory Board Policy Statement and Regulatory Guidance – Audit monitoring and ACCA’s approach to non-compliance with auditing standards,” November 2019, (“PSRG”) and said that although this was, in effect, the first monitoring visit for Mr Devasia, the deficiencies in the quality of auditing were so significant that ACCA has exercised its discretion to refer the matter to the Committee.
9. Mr Law invited the Committee to withdraw the Firm’s audit certificate, (“FAC”), and Mr Devasia’s practising certificate with audit qualification, (“PCAQ”), and to impose conditions requiring him to pass a test of competence.

MR DEVASIA’S RESPONSE

10. Mr Devasia told the Committee that he accepted the deficiencies outlined in the Compliance Officer’s report. He said that he had done the required work for the audits, but had not properly documented it. He explained that he has joined ACCA’s ISA course, which is ongoing, and that he and his team have already undertaken two courses with Mercia Group.
11. Mr Devasia said that the Firm currently has one audit, which is for one of the Companies reviewed by ACCA’s Compliance Officer. He told the Committee that this audit file was “hot reviewed” by Mercia Group, and that the outcome was that the file was satisfactory, but some issues could be improved upon to ensure full compliance. As requested during the hearing, the Committee was provided with the draft report compiled by Mercia relating to this hot review, which was carried out on 22 April 2021.
12. Mr Devasia told the Committee that there are three people doing frontline audit work in the Firm, one of whom has the qualification “FCCA”; the other two are not qualified.
13. Mr Devasia referred the Committee to his letter dated 22 April 2021, written to ACCA in response to the Compliance Officer’s report. He asked for an opportunity to maintain his audit certificates and said he was prepared to pay for an accelerated monitoring visit within one year.
14. Mr Devasia was questioned by the Committee about the draft hot review report provided by Mercia. He said that in the file hot reviewed, he had remedied most of the deficiencies raised by ACCA. When it was pointed out to Mr Devasia that the report

shows he may not have remedied some of these, he informed the Committee that he was recovering from an illness at that time.

DECISION ON APPLICATION AND REASONS

15. The Committee accepted the advice of the Legal Adviser. In reaching its decisions it took account of ACCA's PSRG. It bore in mind that it must act proportionately, balancing the interests of Mr Devasia and the Firm against the purpose of a regulatory order.
16. The Committee first considered, in accordance with Authorisation Regulation 5(2)(f) Authorisation Regulations 2014, ("AR"), as amended 01 January 2020, whether there was a material breach of any regulations, rules, or codes of practice to which Mr Devasia and the Firm were subject in the conduct of audit work.
17. The Committee had regard to the Compliance Officer's report. The Compliance Officer had concluded that the files examined were both unsatisfactory and that numerous breaches of the International Standards on Auditing (ISAs) had occurred. The Compliance Officer also concluded that Mr Devasia and the Firm had breached the Ethical Standards 2016 by not identifying a potential threat to their independence and by not arranging a "hot review" of one of their audit engagements.
18. The Committee bore in mind that Mr Devasia had provided a written response to the report dated 29 April 2021, and in this response, he had not disputed any of the findings made by the compliance officer. Mr Devasia also said, when giving evidence to the Committee today, that he accepted the findings and conclusions of the Compliance Officer.
19. Given the nature and number of the breaches of ISAs identified by the Compliance Officer, and the breach of Ethical Standards, the Committee was satisfied, on the balance of probabilities, that Mr Devasia and the Firm had committed a material breach of Global Practising Regulation 13, which required Mr Devasia and the Firm to comply with auditing standards. The ISAs breached were: 230, 210, 220.15, 220.17, 315, 300, 240, 550, 520, 560, 570, 580, 450, 700, 705, 706.
20. The threshold was therefore reached for the Committee to consider making a regulatory order pursuant to AR 5(2)(f).

21. The Committee first considered whether to dismiss the application and take no action on the auditing certificates.
22. The Committee decided, having considered all of the evidence before it, that there were current ongoing risks if Mr Devasia and the Firm retained their audit certificates without any restriction. ACCA's Compliance Officer had identified a significant number of serious breaches of the ISA's in the audit files inspected. Further, the draft Mercia report provided by Mr Devasia to the Committee demonstrated that a number of the issues raised by the Compliance Officer had not been fully addressed at the time of the hot review carried out by Mercia.
23. The Committee therefore concluded that if no action was taken, the risks would continue unaddressed. Taking no action would not protect the public adequately, as it would not ensure that proper standards of auditing are maintained, nor would it be sufficient to maintain public confidence in the accountancy profession.
24. The Committee considered whether it would be appropriate to impose conditions on the audit certificates to address the risks. It accepted that Mr Devasia has reasonable insight into the deficiencies in his auditing, in that he has fully accepted the findings of the Compliance Officer's report. The Committee did have some concern that he was minimising the deficiencies in his work to an extent, by claiming that the work was done but not recorded, and by suggesting that an illness contributed to the deficiencies in the file hot reviewed by Mercia. He has, however, shown a willingness to improve his audit practice and has taken prompt steps intended to improve his audit work. These steps include the engagement of Mercia, an external training company, for hot and cold reviews, and further education for himself and his employees.
25. The Committee bore in mind that it is possible to impose a requirement for all of the Firm's files to be hot reviewed by an external ACCA approved company before they are signed off.
26. However, the Committee had regard to paragraphs PS 10.2 and 10.3 of the PSRG, which make it clear that whilst such a condition can be imposed, the Committee would need to be able to identify exceptional circumstances to justify doing so. PS 10.3, PSRG states:

"ACCA does not consider that 'hot' reviews are an effective tool in delivering sustained improvements in audit quality and they are not recommended as part of any conditions imposed on the audit certificates. Therefore, the Assessor or Committee should only

impose 'hot' reviews in the most exceptional of circumstances, with full reasons for doing so outlined in any decision."

27. Having had regard to the PSRG as set out above, the Committee decided that it could not identify any exceptional circumstances which would justify imposing a requirement for hot reviews. The Committee was also unable to identify any other conditions which would be sufficient to protect the public and uphold public confidence in the profession, given the significant deficiencies in Mr Devasia's audit work, and his failure to fully address them at the subsequent hot review carried out by Mercia. The Committee therefore decided that imposing conditions on Mr Devasia's PCAQ and on the FAC would not be an appropriate and proportionate response to address the risks arising from the deficiencies in the audit work.
28. The Committee considered suspending the certificates but concluded that a suspension would serve no useful purpose. It would protect the public in the short term, but not offer any assurance that the deficiencies in audit work had been remedied.
29. The Committee, therefore, decided that the only appropriate and proportionate course of action was to withdraw Mr Devasia's PCAQ and the FAC. Mr Devasia's PCAQ would be replaced with a practising certificate. Mr Devasia will also be required to undergo training and pass a test of competence before being permitted to make an application to the Admissions and Licensing Committee, with a view to undertaking further audit work in future.

ORDER AND REASONS

30. The Committee ordered as follows:

The Committee made an order pursuant to Authorisation Regulations 6(16)(a)(ii) and 5(2)(f) that:

- I. Mr Devasia's practising certificate with audit qualification and the firm's auditing certificate be withdrawn and they be issued with a practising certificate; and
- II. Any future re-application for audit registration by Mr Devasia, or by a firm in which they are a principal, must be referred to the Admissions and Licensing Committee, which will not consider the application until they have attended a practical audit course, approved by ACCA and, following the date of this order,

passed the advanced audit and assurance paper of ACCA's professional qualification.

31. This order ensures that the public will be protected, and that public confidence in the profession will be maintained in a case where Mr Devasia's auditing standards had fallen seriously below the standards expected of a competent auditor. It also provides Mr Devasia with an opportunity to undertake full audit training at a reasonable cost, and then demonstrate that he is capable of undertaking further audit work competently. He will be issued with a general practising certificate which will enable him to continue earning a living as an accountant in the meantime. The Committee did not consider it necessary to direct that no future application for an audit certificate will be entertained for a specified period.

HH Graham White
Chair
29 June 2021