

[Edited for publication]

IN THE MATTER OF

THE EXECUTIVE COUNSEL OF THE FINANCIAL REPORTING COUNCIL

-and-

(1) KING & KING

(2) MILANKUMAR PATEL

FINAL DECISION NOTICE

Pursuant to Rules 25(a) and 26 of the Audit Enforcement Procedure

This Final Decision Notice is a document prepared by Executive Counsel following an investigation relating to, and admissions made by, the Respondents. It does not make findings against any persons or entities other than the Respondents and it would not be fair to treat any part of this document as constituting or evidencing findings against any other persons or entities since they are not parties to the proceedings.

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Part A PRELIMINARY AND GENERAL MATTERS

INTRODUCTION

1. The Financial Reporting Council (the “**FRC**”) is the competent authority for statutory audit in the UK and operates the Audit Enforcement Procedure (the “**AEP**”), revised in June 2023.
2. The AEP sets out the rules and procedure for the investigation, prosecution and sanctioning of breaches of Relevant Requirements.
3. The AEP contains a number of defined terms and, for convenience, those defined terms are also used within this document. Where defined terms are used, they appear in italics.
4. Pursuant to Rule 19(b) of the AEP, Executive Counsel has decided that King & King (“**K&K**”) and Mr Milankumar H Patel (“**Mr Patel**”) (together, the “**Respondents**”) are liable for Enforcement Action, having found breaches of *Relevant Requirements*.
5. This *Final Decision Notice* is issued pursuant to Rule 21 of the AEP in respect of the audits of:
 - 5.1 the consolidated financial statements of Liberty Speciality Steels Ltd (“**Speciality**”) for the financial year ending 31 March 2019 (“**FY19**”);
 - 5.2 the financial statements of Alvance British Aluminium Ltd (“**Alvance**”) for FY19;
 - 5.3 the financial statements of Liberty Steel Newport Ltd (“**Newport**”) for FY19; and
 - 5.4 the financial statements of Liberty Performance Steels Ltd (“**Liberty Performance**”) for the financial year ending 31 March 2020 (“**FY20**”).(the “**Audits**”)
6. Together, Speciality, Alvance, Newport and Liberty Performance are referred to as the “**Audited Entities**”.
7. On 17 November 2025 Executive Counsel issued a *Proposed Decision Notice* pursuant to Rule 21 of the AEP. On 24 November 2025 the Respondents provided written agreement to the *Proposed Decision Notice* to Executive Counsel’s

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satisfaction. On 15 December 2025 the *Independent Reviewer* approved the *Proposed Decision Notice*.

8. Consequently, and, in accordance with Rule 22 and 25 of the AEP this *Final Decision Notice*:

8.1 outlines the breaches of *Relevant Requirement(s)*, with reasons;

8.2 outlines *Sanctions* with reasons;

8.3 outlines an amount payable in respect of Executive Counsel's costs.

9. This *Final Decision Notice* is divided into the following parts:

9.1 **Part A Preliminary and general matters** which contains:

9.1.1 This Introduction;

9.1.2 Background to GFG Alliance and the Audited Entities;

9.1.3 The *Relevant Requirements*; and

9.1.4 Executive summary of the allegations.

9.2 **Part B Objectivity and Independence** (paragraphs 51 to 79) contains breaches of *Relevant Requirements* arising from K&K's fee income and Mr Patel's personal remuneration in the Audits.

9.3 **Part C Income and Expenses** (paragraphs 80 to 174) contains breaches of *Relevant Requirements* in respect of the audit work relating to recognition of income and expenses in the FY19 Audits.

9.4 **Part D Going Concern** (paragraphs 175 to 234) contains breaches of *Relevant Requirements* in respect of the audit work relating to going concern in the Audits; and

9.5 **Part E Sanctions and Costs** (paragraphs 235 to 269).

BACKGROUND TO GFG ALLIANCE AND THE AUDITED ENTITIES

GFG Alliance

10. The Audited Entities form part of the "**GFG Alliance**". GFG is an acronym for the Gupta Family Group. GFG Alliance is not a body corporate and has no legal standing, but

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rather consists of an unconsolidated group of companies under common ownership, operating in a number of industries including steel, aluminium and renewable energy. It comprises hundreds of separately audited companies owned by an individual (the “**Shareholder**”) and a family member. GFG Alliance has a substantial presence in the UK in the steel industry, aluminium production, renewable power generation and financial services. K&K was not appointed or retained as an auditor or advisor to GFG Alliance.

11. During the relevant periods, GFG Alliance was structured into a number of core industry brands, including:
 - 11.1 Liberty House Group (“**LHG**”): group of companies owned by Liberty House Group Pte Ltd (“**LHG Pte**”), the ultimate holding company based in Singapore; the LHG companies engaged in commodities trading of steel and metals, recycling, steel and aluminium manufacturing, and engineering;
 - 11.2 Simec Group: group of companies owned by Simec Group Ltd (a Hong Kong company), which engaged in shipping, infrastructure, mining, energy and commodities; and
 - 11.3 Other entities which engaged in trade finance and financial consultancy services to GFG Alliance and third parties.

The Audited Entities

12. At all material times, the Audited Entities operated in the field of metal manufacturing and production. More particularly:
 - 12.1 Speciality was a steel manufacturer and distributor based in Rotherham and Stocksbridge in South Yorkshire. Speciality’s principal subsidiary, Speciality Steel UK Ltd (“**SSUK**”), contributed the vast majority of its revenue and profits and was also audited by the Respondents. SSUK’s financial position and performance were consolidated in the group financial statements of Speciality.

Alvance operated an aluminium smelter, based in Lochaber, Scotland. The company was formerly known as Liberty Aluminium Lochaber Ltd. The Simec Group acquired the smelting operations and the related hydropower plant on 16 December 2016 through a Simec entity (“**A Co**”). A Co transferred the smelter operations to Alvance on the same day.

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- 12.2 Newport operated a steel rolling mill in Newport, South Wales. While not obvious from its FY19 financial statements, Newport also engaged in commodities trading of steels. The principal activity as per the financial statements of the company is that of manufacture, stock sale, and trade of Hot Rolled Coils (HRC) and other supplementary steel products.
- 12.3 Liberty Performance was a steel manufacturer which operated the Trident Steel Works, based in West Bromwich.
13. The Audited Entities formed part of the LHG group (and therefore GFG Alliance) and their financial statements are consolidated within those of LHG Pte. None of the Audited Entities were *Public Interest Entities*.
14. The “*London Central Finance Team*” (“**LCFT**”) was part of the finance function of GFG Alliance. LCFT was appointed as Informed Management¹ at some of the Audited Entities. Members of LCFT were heavily involved in the provision of audit evidence, including in areas which required significant judgement.

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15. K&K was at the time of the Audits a small, six partner firm, with one office in London.
16. K&K had been acting as auditor for some of the Simec Group companies since 2013 and was first appointed to undertake some LHG audits in 2018. K&K was not appointed as group auditor for the Liberty and Simec groups described in paragraphs 11.1 and 11.2 above. Between 2018 and 2020, K&K was appointed to perform 144 GFG Alliance audits. In each case, Mr Patel was the Statutory Auditor (for the purposes of the AEP) and Responsible Individual (“**RI**”). Mr Patel is a member of the Institute of Chartered Accountants in England and Wales (“**ICAEW**”) and the Association of Chartered Certified Accountants (“**ACCA**”).
17. In K&K’s FY19², Mr Patel signed off 19 of GFG Alliance company audits, of which ten were LHG entities.
18. In K&K’s FY20, Mr Patel signed off 63 audits for GFG Alliance companies, of which 41 were LHG entities.

¹ i.e. “*Member of management (or senior employee) of the entity relevant to the engagement who has the authority and capability to make independent management judgments and decisions in relation to non-audit services on the basis of information provided by the firm.*” (Glossary of Terms (Auditing and Ethics), ES 2016 and ES 2019)

² K&K’s financial year (like the Audits) also ended on 31 March.

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19. In K&K's FY21, Mr Patel and K&K were engaged to carry out 62 audits for GFG Alliance companies, of which 38 were LHG entities. K&K did not complete most of these audits and either resigned or were asked to stand-down by the relevant entities in 2022. K&K ceased acting for all of the GFG Alliance companies it audited in 2022.
20. The purpose of an audit is to enhance the degree of confidence of intended users in the audited entity's financial statements. The Respondents' statutory responsibility was to form an opinion as to whether the Audited Entities' financial statements showed a true and fair view, and had been properly prepared in accordance with either International Financial Reporting Standards ("**IFRS**") or U.K. Generally Accepted Accounting Practice ("**UK GAAP**", which consists of Financial Reporting Standards ("**FRS**") applicable in the UK and Republic of Ireland) (as the case may be), and the Companies Act 2006. Alvance, Newport and Liberty Performance prepared their financial statements under FRS 102 whereas Speciality prepared their financial statements in accordance with IFRS.

THE RELEVANT REQUIREMENTS

21. The Respondents were required to act in accordance with the International Standards on Auditing (UK) ("**ISAs**").
22. The Respondents were also required to act in accordance with the Ethical Standard issued by the FRC in 2016 and 2019 ("**ES 2016**" and "**ES 2019**", and together the "**ES**" or "**Ethical Standards**"). In accordance with the Ethical Standards, the Respondents were required to act with objectivity and independence.
23. The provisions of the ISAs and the Ethical Standards were all "*Relevant Requirements*" within the meaning of the AEP. The relevant provisions are set out in Appendix A.

EXECUTIVE SUMMARY OF THE ALLEGATIONS
Objectivity and independence

24. K&K recognised 23.3% and 33% of its income from the LHG entities in its FY20 and FY21 respectively. K&K recognised 32.6% and 40.9% of its income from GFG Alliance (including LHG) entities in its FY20 and FY21 respectively. Mr Patel's personal benefit before tax attributable to his and K&K's relationship with GFG Alliance was £414,202 for FY20 and £463,265 for FY21.

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25. K&K's fee income from GFG Alliance and Mr Patel's personal remuneration and profit share arrangements gave rise to self-interest threats which threatened the Respondents' objectivity and independence. In each of the audits of Speciality, Alvance, Newport and Liberty Performance, the Respondents failed to identify and assess these threats.
26. These self-interest threats compromised Mr Patel's objectivity and caused the Respondents to adopt a flawed and artificial approach to the consideration and application of the independence provisions in the Ethical Standards.
27. In light of these matters, there were breaches by the Respondents of: (1) Overarching Principles 1 and 2 and paragraph 1.35 of the Ethical Standards (ES 2016 in respect of the FY19 audits of Alvance, Newport and Speciality, and ES 2019 in respect of the FY20 audit of Liberty Performance); and (2) paragraph 11 of ISA 220.
28. These self-interest threats were pervasive and affected Mr Patel's approach to the performance of his audit work. As a result there were additional instances in each of the audits of Speciality, Alvance, Newport and Liberty Performance where Mr Patel (and through him, K&K) failed to act with objectivity and independence. These are addressed separately in Sections C and D.

Recognition of Income and Expenses**(2) Speciality FY19**

29. In June 2019, management indicated to the Respondents that £13.2m of a £16.5m provision (the "**Environmental Provision**") made in SSUK's and Speciality's financial statements for the year ending 31 March 2018 ("**FY18**") was going to be released. The provision release resulted in SSUK showing a year-end profit, rather than a loss. Similarly at group level, it turned Speciality's loss before tax of £8.2m into a profit before tax of £5m.
30. The Respondents considered the balance to be material and assessed the risk relating to the Environmental Provision to be high. SSUK's and Speciality's FY18 financial statements (which had recorded the provision) had been approved only three months previously, and the Environmental Provision had a significant effect in rendering Speciality and SSUK profit-making rather than loss-making. Mr Patel agreed when questioned in interview that there was a degree of suspicion about the provision release.

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31. Despite these red flags, and the need for audit focus, Mr Patel failed to challenge management and failed to obtain sufficient appropriate audit evidence. An audit manager had initially challenged management to explain the release of the provision, but this was not pursued by Mr Patel, notwithstanding that he expressly took ownership of the issue after receiving an email and call from the individual Mr Patel understood to be acting as the Chief Financial Officer of LHG and Simec Group (the “CFO”¹).
32. The Respondents thereby breached paragraphs 12 and 32(b) of ISA 240, paragraph 6 of ISA 500, paragraph 44 of ISA 600 and paragraph 7 of ISA 620. In addition, in failing to challenge management regarding the provision release, Mr Patel failed to act with objectivity, in breach of Overarching Principle 1 of the ES 2016.

(3) *Alvance FY19*

33. In FY19, Alvance recognised total income of £18m in relation to two agreements, both of which were related party transactions. These were:
 - 33.1 A Profit Share Agreement with A Co, a Simec entity, in respect of which Alvance recognised “*Other operating income*” of £10m; and
 - 33.2 A Group Support Agreement with B Co, another GFG entity, in respect of which Alvance recognised revenue of £8m.
34. The income from these two related party agreements reduced Alvance’s net loss before tax from £18m to just £0.3m.
35. The Respondents acknowledged that related party transactions were a “*higher risk area*”. There were a number of features about these two agreements which were unusual, for example:(i) the profit share arrangements (put in place from the time that the Alvance business was purchased) were outside Alvance’s normal course of business and were understood to be entered into to avoid breaching banking covenants; (ii) in relation to the Group Support Agreement, there was no evidence that B Co supplied goods and/or services to Alvance, or had any trading relationship with Alvance, and (iii) the arrangements for payment were convoluted and involved the debt from B Co being assigned to another Liberty entity. (There is no evidence that this was audited or properly understood at the time, but it has subsequently been suggested by the Respondents that the payment arrangements were provided by way of group support as a price differential in raw material cost.) There were also signs that these agreements may have lacked

¹ All references to CFO in this document are references to the individual Mr Patel understood to be acting as the Chief Financial Officer of LHG and Simec Group.

commercial substance and may have been entered into in order to give the impression Alvanco was more profitable and thereby to flatter Alvanco's FY19 financial statements.

36. Despite all these matters, the Respondents failed to: (i) challenge management or investigate these matters thoroughly; (ii) act with professional scepticism; and (iii) consider whether the transactions had been appropriately accounted for.
37. The Respondents thereby breached paragraphs 13 and 32(c) of ISA 240, paragraph 24 of ISA 330, paragraph 6 of ISA 500, paragraphs 23 and 25 of ISA 550 and paragraphs 12 and 13 of ISA 700. In failing to challenge management and investigate these issues, Mr Patel failed to act with objectivity, in breach of Overarching Principle 1 of the ES 2016.

(4) Newport FY19

38. Newport was involved in international commodities (metal) trading, which was not mentioned in its financial statements. In FY19, Newport's commodities trading generated a reported profit of £21m. This absorbed the £16m loss from the rolling steel mill business and allowed the company to report an overall profit before tax of £5m.
39. There were unusual features about Newport's commodities trading business. It was separate to Newport's steel mill business (its principal area of business). Financial information about the commodities trading was retained by persons in Dubai and did not appear to be immediately accessible to Newport. Another entity in LHG was stated to be involved in arranging or facilitating the commodities trading. The commodities were shipped directly from the supplier to the final customers, with payments made to third parties and pursuant to assignment contracts; Newport did not itself receive payment. It was unclear what Newport's role in the transactions was, whether it was acting as an agent as opposed to a principal, and how its profit crystallised. The Respondents' working papers recorded that the commodities trading business was arranged by LHG to "*compensate*" for the loss-making manufacturing division.
40. These highly unusual features are indicative of possible fraudulent financial reporting in relation to revenue recognition and profitability. Notwithstanding these, the Respondents failed to properly question management regarding Newport's involvement in the commodities trading, to understand the economic substance of these transactions, or to challenge management on the accounting treatment of recognising revenue from the commodities trading.

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41. The Respondents thereby breached paragraphs 12, 26, 27 and 32(c) of ISA 240, paragraphs 11 and 25 of ISA 315, paragraph 6 of ISA 500, paragraph 7 of ISA 505, and paragraph 13(d) and (e) of ISA 700. In addition, in failing to challenge management, Mr Patel also failed to act with objectivity, in breach of Overarching Principle 1 of ES 2016.

Going Concern**(1) *Speciality FY19, Alvance FY19, Newport FY19***

42. Speciality's consolidated financial statements for FY19, and the financial statements of Alvance and Newport for FY19, were all prepared on a going concern basis.
43. In each of these audits, the Respondents failed adequately to test management's going concern assessment and failed to obtain sufficient appropriate audit evidence. Based on the audit evidence obtained, the Respondents were not in a position to conclude whether a material uncertainty existed about Speciality's, Alvance's, or Newport's ability to continue as a going concern.
44. There were several events or conditions that cast significant doubt over the entity's ability to continue as a going concern, including:
- 44.1 In the case of Speciality, it had made a loss in the prior year and that net current liabilities had increased to £11.0m.
- 44.2 In the case of Alvance, it was loss-making and had net current liabilities and net total liabilities in FY18 and FY19 (before taking into account the profit share arrangements, which were scheduled to expire in March 2021, and group support).
- 44.3 In the case of Newport, the manufacturing business was loss-making (and the commodities trading business had been introduced to compensate for those losses) and the commodities trading business did not generate cash.
45. Speciality, Alvance, and Newport were all dependent on group support to continue as a going concern. However, the Respondents failed to assess whether, and if so to what extent, LHG Pte was able to support these entities. The Respondents' failure to challenge management and to obtain and review the Group's forecasts and budgets was a striking omission, especially since the Respondents had requested the forecasts, but management appeared unwilling to provide the audit evidence sought.

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This was a red flag in the context of potential fraudulent financial reporting and warranted investigation.

46. The Respondents thereby breached paragraph 15 of ISA 200 and paragraphs 6, 12D1 and 16 of ISA 570; and in the case of Alvanco, further breached paragraph 13 of ISA 570. In addition, Mr Patel failed to act with objectivity, in breach of Overarching Principle 1 of ES 2016 in respect of each of the FY19 audits of Alvanco, Newport and Speciality.

(2) Liberty Performance FY20

47. Liberty Performance's financial statements for FY20 were prepared on a going concern basis. They did not disclose any material uncertainty.
48. The Respondents (rightly) acknowledged that Liberty Performance was reliant on LHG Pte's funding to survive. They also acknowledged (again, rightly) that LHG Pte could only provide funding if LHG Pte itself secured external funding. The Respondents recognised that in the absence of external funding, there was a material uncertainty related to events or conditions that may have cast significant doubt on Liberty Performance's ability to continue as a going concern. The Respondents requested and received a letter from LHG Group's key third party financier ("**Third Party Financier 1**") stating:

"In view of our long-term relationship and upon your request for additional funding support, we are willing to extend credit lines of up to a further USD\$1 billion. These credit lines can be availed to support existing business units within your group and new acquisitions which are in line with group's strategic objectives and goals.

This credit line will be subject to our usual lending criterion and due diligence.

This support is available for a period of 24 months from date of this letter and can be extended by mutual agreement".

49. The Respondents were wrong to place reliance on this letter without obtaining an adequate understanding of the terms and conditions of this extension of credit line, for example whether this was further receivables-based financing which, for LHG Pte to draw on, would have required additional GFG sales. Thus the Respondents failed to obtain sufficient appropriate evidence that LHG Pte had secured external funding, and in the circumstances, concluded erroneously that there was no material uncertainty.

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50. In the light of these matters, the Respondents breached paragraph 18 of ISA 570 in respect of the FY20 audit of Liberty Performance.

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Part B OBJECTIVITY & INDEPENDENCE

SELF- INTEREST THREATS

Threats to K&K's objectivity and independence

(1) Overview

51. The Ethical Standards set out the overarching principles, including that of objectivity and independence:
52. Overarching Principle 1 of the Ethical Standards provides:

“The firm, its partners and all staff shall behave with integrity and objectivity in all professional and business activities and relationships.”
53. Overarching Principle 2 of the Ethical Standards provides:

“In relation to each engagement, the firm, and each covered person, shall ensure (in the case of a covered person, insofar as they are able to do so) that the firm and each covered person is free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude the independence of the firm or any covered person is compromised.”
54. The Respondents had a responsibility to act with objectivity and to maintain their independence. The Respondents were therefore required to identify threats to their objectivity and independence, and take action to eliminate such threats or reduce them to an acceptable level by applying safeguards or, if appropriate, to withdraw from the engagement.
55. Fees can give rise to an obvious self-interest threat compromising the objectivity and independence of an auditor, especially where a firm is economically dependent on those fees. This may inhibit the willingness, or constrain the firm's ability, to challenge management since this could be viewed as likely to lead to the firm losing the engagement and the entity as a client.
56. The circumstances surrounding the Audits gave rise to two distinct self-interest threats: K&K's fee income from GFG Alliance and Mr Patel's personal remuneration and profit share arrangements.

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57. These threatened the Respondents' objectivity and independence. In each of the audits of Speciality, Alvanco, Newport and Liberty Performance, the Respondents failed to identify and assess these threats and, although they did retain independent external file reviewers and utilised second partner reviews, they failed to put in place appropriate safeguards.
58. As particularised in Parts C and D, these self-interest threats were pervasive and affected the Respondents' approach to the performance of their functions.

(2) K&K's fee income

59. K&K's fee income generated from companies in GFG Alliance, including LHG, was very substantial. This gave rise to a threat to K&K's objectivity and independence.
60. K&K was engaged in an increasing number of GFG Alliance (including LHG) audits, as shown in the below table immediately below. Fees for K&K's audit assignments were generally recognised in K&K's financial year *following* the client's end of financial year. Therefore, audit fees for the FY19 audits were recognised in K&K's FY20 financial statements and audit fees for the FY20 audits were recognised in K&K's FY21 financial statements.

Table 1 - Fees invoiced by K&K for GFG Alliance audit and non-audit work (including LHG)

K&K Financial Year	Volume of GFG audits	% total K&K audit fees	% total K&K fees
FY19	19	15.3%	15.5%
FY20	63	27.8%	32.6%
FY21	62	29.1%	40.9%
Total	144		

61. Thus, including non-audit fees, K&K recognised:
- 61.1 32.6% of its income from GFG Alliance entities in its FY20; and
- 61.2 40.9% of its income from GFG Alliance entities in its FY21.

(3) Mr Patel's personal remuneration

62. Mr Patel's personal remuneration arising from the Respondents' work for GFG Alliance entities (including LHG) gave rise to a self-interest threat.

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63. As Mr Patel was the engagement partner for all GFG Alliance audits, and responsible for bringing GFG Alliance work to the firm, the K&K partnership allocated to him all of the profits that flowed from work for GFG Alliance entities.
64. Mr Patel's personal benefit before tax (i.e. his share of the profits after payment of costs and overheads) attributable to his and K&K's relationship with GFG Alliance was £414,202 for FY20 and £463,265 for FY21.

The FY19 Audits of Alvance, Newport and Speciality

65. The Respondents were required to identify and assess threats to their integrity or objectivity including any that may compromise independence. The Ethical Standards required the Respondents to ensure that they were free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude that their independence was compromised.
66. The Respondents failed to identify and assess the self-interest threats referred to above.
67. The Respondents considered their fees on an individual, company-by-company basis and concluded that, since the fees for each individual audit did not exceed 10% of K&K's annual fee income, there was no self-interest threat and no threat to their objectivity and independence. Thus, the Respondents considered each audit in isolation, on a standalone basis.
68. The Respondents' approach was flawed and inappropriate:
 - 68.1 When considering independence, the Respondents were required to ensure that they were free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude that their independence was compromised.
 - 68.2 The Respondents were therefore required to take into account their *total* fee income from GFG Alliance.
 - 68.3 It should have been obvious to the Respondents that a third party was likely to view the fees received from GFG Alliance entities, which represented approximately 33% of K&K's total income in its FY20 and 41% in its FY21, as compromising their independence.

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69. In all the circumstances, it was wrong for the Respondents, when assessing threats to their objectivity and independence, to consider each GFG Alliance entity in isolation. The fees for both LHG and the wider GFG Alliance entity audits should have been aggregated for the purposes of considering a self-interest threat. The Respondents' total fees across GFG Alliance, and Mr Patel's total personal remuneration, gave rise to obvious self-interest threats, which the Respondents failed properly to identify and assess.
70. Given that the aggregate fees were a substantial percentage of K&K's total fees the only proper safeguard was for the Respondents to inform the Shareholder, the LCFT and/or local management and to agree the entities in respect of which K&K should resign as auditor or otherwise decline the engagement in order to reduce fees from GFG Alliance to an appropriate level.
71. Since the Respondents concluded (wrongly) that there was no self-interest threat and no threat to their objectivity and independence, they determined that no safeguards were necessary to address a self-interest threat.

The FY20 Audit of Liberty Performance

72. The self-interest threats described above also existed the following year³, when the Respondents undertook audits of 62 GFG Alliance companies, including the FY20 audit of Liberty Performance.
73. The Respondents had retained independent, external file reviewers. The independent file reviewers reviewed the Liberty Performance FY20 audit file (the last audit signed by K&K) and recorded that fee dependence needed to be considered and documented at group level.
74. Nonetheless, and despite the file reviewer's review point, as was the case in respect of the GFG Alliance FY19 audits, the Respondents failed to identify and assess the self-interest threats. They adopted the same approach for the Liberty Performance FY20 audit as they had adopted in the previous year and considered fees from each company in isolation. The audit planning memorandum for Liberty Performance recorded that, since the fee from the assignment did not exceed 10% of the firm's turnover, no action was necessary.

³ In respect of the FY20 audits, the fees for which were recognised in K&K's FY21.

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75. As was the case in respect of GFG Alliance FY19 audits⁴ the Respondents concluded that there was no self-interest threat and no threat to their objectivity and thus applied no safeguards to address the self-interest threat. Mr Patel's approach was artificial and obviously wrong.

Loss of objectivity

76. Objectivity requires that the auditor adopt a rigorous and robust approach and is prepared to disagree, where necessary, with management.
77. K&K's fees from GFG Alliance, including LHG, and Mr Patel's personal remuneration gave rise to significant self-interest threats which compromised Mr Patel's objectivity and caused him to adopt a flawed and artificial approach to the independence provisions. His approach was driven by self-interest.
78. These self-interest threats were pervasive and affected Mr Patel's approach to the performance of his functions. There were numerous, additional instances where Mr Patel (and through him, K&K) failed to act with objectivity and independence. These are addressed separately in Part C and Part D of this *Final Decision Notice*.

Breaches of Relevant Requirements

79. In light of the matters set out above at paragraphs 59 to 78, there were breaches by the Respondents in each of the FY19 audits of Alvance, Newport and Speciality (in respect of which ES 2016 applied) and in the FY20 audit of Liberty Performance (in respect of which ES 2019 applied) of:
- 79.1 Overarching Principle 1 of the ES, in that K&K (through Mr Patel) failed to act with objectivity in their approach to fees and the assessment of threats to their objectivity and independence;
- 79.2 Overarching Principle 2 of the Ethical Standards, in that in relation to each audit engagement, the Respondents did not ensure that they were free from conditions and relationships which made it probable that an objective, reasonable and informed third party would conclude the Respondents' independence was compromised;

⁴ The fees for which were recognised in K&K's FY20.

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- 79.3 Paragraph 1.35 of the Ethical Standards, in that, when identifying and assessing threats to objectivity and independence, Mr Patel did not take into account prior and current relationships with GFG Alliance and relationships known to be in prospect; and
- 79.4 Paragraph 11 of ISA 220, in that Mr Patel did not adequately identify and assess the threats to the Respondents' objectivity and independence arising from the self-interest threats and apply appropriate safeguards.

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Part C RECOGNITION OF INCOME AND EXPENSES

THE RELEASE OF THE ENVIRONMENTAL PROVISION OF SPECIALITY

FY19 Overview

80. The breaches in this section relate to the audit of the release of a very substantial provision in Speciality's consolidated financial statements for FY19.
81. Speciality, together with its subsidiaries, was at all material times principally a steel manufacturer and distributor.
82. Speciality had a number of subsidiaries whose financial position and performance were consolidated in Speciality's financial statements. By far its most significant subsidiary, in terms of trading results in FY19, was SSUK. In FY19, Speciality's consolidated revenue was £377.8m, of which £373.1m was generated by SSUK; and Speciality's gross profit was £75.8m comprising £74.8m gross profit from SSUK.
83. SSUK had been acquired on 1 May 2017. The business was acquired with a number of manufacturing units. In FY18, a £16.5m provision (the "**Environmental Provision**") was made to cover: (i) likely remedial work in respect of asbestos on some of those manufacturing units totalling £14.3m; and (ii) probable liabilities relating to the EU Emissions Trading System ("**EU ETS**") totalling £2.2m. The Environmental Provision was included in SSUK's and Speciality's FY18 financial statements, which were signed on 21 March 2019 and 3 April 2019, respectively.
84. A few months later, in around June 2019, management indicated to the Respondents that the Environmental Provision, including £13.2m relating to the potential asbestos remedial work, was going to be released. Management's treatment of the provision was ultimately accepted. In due course, the post year-end provision release was recorded in the FY19 financial statements of SSUK, and the consolidated financial statements of Speciality. The provision release resulted in SSUK showing a year-end profit, rather than a loss. Similarly at group level, it turned Speciality's loss before tax of £8.2m into a profit before tax of £5m. The release therefore rendered SSUK and Speciality profit-making rather than loss-making.
85. The explanation for the release of the Environmental Provision was the same in both sets of financial statements:

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“The release in the environmental provision is based on management’s revised estimate with regards to the required provisions to remedy any asbestos related corrections for the operating sites. This is based on their experience with actual incurred costs over the past two years over their initial expectations”.

Audit work

(1) The Respondents’ reliance on audit work performed in respect of SSUK

86. K&K audited both Speciality and SSUK for FY19 and Mr Patel was the engagement partner for both audit engagements.
87. SSUK was Speciality’s only significant component as it contributed 99% of the group’s revenue and 97% of the group’s assets.
88. As the Environmental Provision related to SSUK only, much of the audit work in relation to the provision, and its release, was recorded in the audit file of SSUK.

(2) K&K’s engagement with management on the release of the provision

89. The £16.5m figure was included within the trial balance obtained by K&K at the planning stage of the audit and reviewed by Mr Patel on 10 June 2019. At some point in June or early July 2019, management indicated to the Respondents that the provision of £16.5m was going to be released. Management confirmed this to the Respondents on 8 July 2019.
90. On the same day, a member of the audit engagement team at K&K (“**Audit Manager A**”), asked management whether an explanation for the release would be provided, given its materiality, and given that the provision had only recently been made. Mr Patel explained in interview his appreciation of the importance of the intended release of the provision:

“I think 8 July is a date where I’ve signed off the rest of planning documentation and that in the file. So this discussion was quite...important from everybody’s point of view, including [Audit Manager A]...I mean I think even [Audit Manager A] writing that email would probably have spoken to me before he sent that email, that, you know, it flips the company from a loss to a profit, “Of course it’s obvious and we are telling you, We can see what you’re trying to do here”.

91. Mr Patel agreed that there was a degree of suspicion about the provision release.

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92. SSUK's and Speciality's FY18 financial statements (which contained the £16.5m provision) had been signed little more than three months previously on 21 March 2019 and 3 April 2019 respectively.
93. On 16 July 2019, having received no response to his request of management to provide further information, Audit Manager A followed up on his email, with reference to the criteria under IAS 37 for the release of the provision, noting that it was "*very important for us to understand why this has been done*".
94. On the same day, Audit Manager A's email was forwarded by the CFO of LHG and Simec Group to Mr Patel stating "*FYI. I will call you to discuss*". Ten minutes later, Mr Patel forwarded the email chain to two other audit managers who were working on the audit of Speciality, stating "*See below, got a call. Can we chat, email a bit sensitive*".
95. After 16 July 2019, there was no further follow up by the Respondents on the initial emails sent by Audit Manager A.
96. At some point, possibly in August 2019, management provided the Respondents with a memorandum containing an explanation for the release of the provision. It stated, in summary:
- 96.1 Historical costs (i.e. actual spending on remedial works from 1st May 2017 to 31st March 2019) were calculated to be £0.5m.
- 96.2 Further risk assessments indicated the risks could be managed on an "*ongoing basis*".
97. There is no evidence of the further risk assessments referred to in that memorandum.
98. On 27 August 2019, the Audit Manager A wrote to a Senior Accountant ("**Senior Accountant**") of the LCFT:
- "For Provisions I need to see a copy of your latest asbestos risk assessment and the credentials of your health and safety expert (if not using an external third party). Under Health and safety laws this is something you should have updated periodically."*
99. The Senior Accountant responded the next day, attaching an excel file which he described as "*the working for environmental provisions*". The excel spreadsheet contained estimated remediation costs (i.e. the cost of removal or disposal) for "*High Priority Items*". The estimated remediation costs were said to be £1.4m. The Senior Accountant did not, however, provide any, or any proper risk assessment; nor did he

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provide the credentials of any health and safety expert as requested. There is no explanation of the basis for ascribing the remediation costs to a line item, how the remediation costs were estimated, nor how they interacted with the FY18 provision of £16.5m.

100. The upshot was that, in FY19, the Environmental Provision relating to the potential asbestos remedial work was reduced to £1.2m and this resulted in the release to profit of £13.2m.

(3) *Audit work in relation to the Environmental Provision*

101. The Respondents had themselves assessed the risk relating to the Environmental Provision to be high; they considered the balance to be material and had identified the need for specialist or expert advice.
102. The basis on which the opening balance (i.e. the FY18 provision) was calculated, as recorded in the FY19 working paper, is different to the basis on which the provision appears to have been calculated previously. It is not clear why the Respondents' breakdown of the FY19 opening and closing balances reflected a different basis of calculation from that which was recorded in the FY18 working paper.
103. The Respondents performed a sense check of the £1.2m amount by annualising the historical, incurred costs of £0.5m, thereby arriving at an historical 'run rate' (i.e. average remediation costs per year) of £0.3m. The Respondents then extrapolated historical costs to make a projection over a longer period. The Respondents concluded, "*So we can see that the current provision will cover from 5 to 6 years at the current incurred costs to date which is a reasonable period*".
104. The Respondents correctly identified that the provision required specialist involvement and/or expert knowledge and recommended in their FY19 management letter that SSUK should "*Get an external valuation [sic] of the mandatory asbestos removal costs and review periodically when these costs are incurred.*" However, the Respondents relied on management's calculations of historical costs, despite requesting but not receiving any proper risk assessment report or the credentials of SSUK's health and safety expert.
105. The Respondents' audit work on the FY19 provision of £1.2m (which resulted in the release of £13.2m) was deficient. They failed to give adequate consideration to the following:

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- 105.1 the change in the basis of quantification of the provision between FY18 and FY19 resulting in a release to profit of £13.2m (see paragraph 101 above);
 - 105.2 the nature, composition and completeness of the historical, incurred costs of £0.5m (see paragraph 103 above);
 - 105.3 whether the run rate was the basis of the provision, and if so whether it was an appropriate basis for the provision and, specifically, whether the historical run rate realistically reflected remedial work across all sites and future expenditure (see paragraph 103 above);
 - 105.4 the absence of a proper risk assessment (see paragraph 99 above);
 - 105.5 what the data showed in the excel file provided by the Senior Accountant of the LCFT and whether they should seek further information and clarification; (see paragraph 99 above);
 - 105.6 Speciality's and SSUK's failure to engage an expert to opine on the Environmental Provision (see paragraph 99 above); and
 - 105.7 the need for the Respondents to engage an auditor's expert (see paragraph 104 above).
106. The Respondents' failure adequately to consider these issues represents a failure to perform appropriate audit procedures to test the existence, rights and obligations, accuracy and completeness of the provision and the occurrence, completeness and accuracy of its release.
107. In addition, the Respondents failed properly to challenge management regarding the provision release. In particular:
- 107.1 Whilst Audit Manager A initially challenged management to explain the release of the provision, this was not pursued by Mr Patel and the audit team, notwithstanding that Mr Patel expressly took ownership of the issue after receiving a call from the CFO of LHG and Simec Group;
 - 107.2 The only explanation provided to the Respondents for the release of the provision was set out in the memorandum prepared by LCFT, shortly prior to the Respondents' approval of the SSUK financial statements on 30 August 2019. This was provided at a late stage and was inadequate;

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- 107.3 Speciality/SSUK did not engage an expert to opine on the Environmental Provision and the Respondents did not properly consider the need to engage their own expert to provide an independent view of SSUK's obligations which would have enabled the Respondents to better challenge management's estimates;
- 107.4 The Respondents did not otherwise challenge the commercial basis of the provision calculation; and
- 107.5 Given there was such a significant change from the provision agreed only three months previously, the Respondents did not explain why the apparent basis of the provision, as documented in their working papers, changed from FY18 to FY19.
108. Mr Patel's failure properly to challenge management regarding the provision release also represents a failure to act with objectivity:
- 108.1 Mr Patel took ownership of this issue. Provisions are an area of significant management judgement. They require audit focus and have the potential for profit manipulation. The Respondents had themselves assessed the risk relating to the Environmental Provision to be "High" (using an internal rating of "High", "Medium" and "Low" for risks associated with accounting estimates); they considered the balance to be material and had identified the need for specialist or expert advice. Mr Patel was aware that Audit Manager A had challenged management because the provision had been approved only three months previously and given its significant effect in rendering Speciality and SSUK profit-making. Mr Patel agreed when questioned in interview that there was a degree of suspicion about the provision release.
- 108.2 Despite all of these red flags, and the need for audit focus, Mr Patel failed to challenge management and failed to obtain sufficient appropriate audit evidence. The evidence in support of the release was produced late. The information provided lacked detail (including that specifically requested by K&K), did not include a breakdown of the FY19 final provision, and did not explain how the provision or its release was calculated. It was unsupported by expert opinion. Nonetheless, Mr Patel accepted management's approach and the Environmental Provision relating to the potential asbestos remedial work was reduced to £1.2m, resulting in the release of £13.2m.

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109. In all the circumstances, the Respondents did not perform sufficient audit work to conclude that the FY19 provision was free from material misstatement.

Breaches of Relevant Requirements

110. Through the conduct set out at paragraphs 86 to 109 above, in respect of the FY19 audit of Speciality, the Respondents breached:

110.1 Paragraph 12 of ISA 240, in that they failed to maintain professional scepticism throughout the audit recognising the possibility of a material misstatement due to facts or behaviour indicating irregularities, including fraud, or error.

110.2 Paragraph 32(b) of ISA 240, in that they failed to evaluate whether the provision release represented a risk of material misstatement due to fraud.

110.3 Paragraph 6 of ISA 500, in that they did not perform appropriate audit procedures to test the existence, rights and obligations, accuracy and completeness of the provision.

110.4 Paragraph 44 of ISA 600, in that they failed to obtain sufficient appropriate audit evidence from work performed in respect of SSUK to reduce audit risk to an acceptably low level and thereby enable the Respondents to draw reasonable conclusions on which to base their opinion.

110.5 Paragraph 7 of ISA 620, in that they failed properly to consider whether to engage an auditor's expert.

110.6 Overarching Principle 1 of the ES 2016 in that K&K (through Mr Patel) failed to act with objectivity. As set out in paragraph 108, despite the existence of red flags and the need for audit focus, Mr Patel failed properly to challenge management regarding the provision release and failed to obtain sufficient appropriate audit evidence.

RELATED PARTY TRANSACTIONS - ALVANCE FY 19**Overview**

111. In FY19, Alvance recognised total income of £18m in relation to two agreements, both of which were related party transactions. These were:

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- 111.1 A Profit Share Agreement with an entity, A Co, which was part of Simec Group, in respect of which Alvanice recognised “*Other operating income*” of £10m; and
 - 111.2 A Group Support Agreement with another GFG entity, B Co, in respect of which Alvanice recognised revenue of £8m.
112. The income from these two related party agreements reduced Alvanice’s net loss before tax from £18m to just £0.3m.
113. The Respondents acknowledged that related party transactions were a “*higher risk area*”. There were a number of features about these two agreements which were unusual. There were also signs that these agreements may have lacked commercial substance and may have been entered into in order to give the impression that Alvanice was more profitable and thereby flatter Alvanice’s FY19 financial statements. Despite this, the Respondents failed to investigate these matters thoroughly and with appropriate professional scepticism, and to consider whether the transactions had been appropriately accounted for.

Profit Share Agreement**(1) Alvanice’s and A Co’s profit share arrangements**

114. Alvanice is an aluminium smelter, based in Lochaber, Scotland. The Simec Group acquired the smelting operations and the related hydropower plant on 16 December 2016 through A Co. In this way, A Co became the owner and operator of, among other things, the Lochaber smelter.
115. On 16 December 2016, A Co and Alvanice entered into a Contribution Agreement (the “**2016 Contribution Agreement**”), pursuant to which A Co transferred the aluminium smelter operations to Alvanice, whilst the hydropower plant was retained within, and operated by, A Co. Consideration for the purchase of the smelter and related assets was £1, to be paid by Alvanice to A Co on completion.
116. The 2016 Contribution Agreement was varied by a Deed of Variation, dated 4 July 2017. For the first time, a profit share package was introduced. In summary:
- 116.1 The consideration for the purchase of the smelter and related assets, payable by Alvanice to A Co, was increased to £42.1m, to be left outstanding as an inter-company loan.

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- 116.2 A Co granted Alvance a right to receive a total £42.5m share of profits generated by A Co in the period FY17 to FY21.
- 116.3 Any amounts payable from A Co to Alvance in respect of the profit share package would be set off against any amounts outstanding in respect of the £42.1m inter-company loan described in paragraph 116.1 above.
117. In the event, in FY19 Alvance did not benefit under this profit-sharing package because A Co did not make any profit in its financial year ending 30 November 2018 (being the relevant year for assessment given the entities used different financial periods).
118. In May 2018, the 2016 Contribution Agreement was varied again:
- 118.1 Pursuant to a “Deed of Amendment/Variation” dated 9 May 2018, the profit share package was removed and the £42.1m inter-company loan owed by Alvance to A Co as described in paragraph 116.1 above became repayable on demand.
- 118.2 A separate “Profit Participation Deed”, also dated 9 May 2018, introduced new profit-sharing arrangements (the “**2018 Profit Participation Deed**”). Save in certain specified circumstances described below, A Co was required to make payments to Alvance irrespective of whether A Co had made a profit. The amount to be shared in any particular year was to be the difference between Alvance’s estimated Earnings Before Interest, Tax, Depreciation and Amortisation (“**EBITDA**”) for that year and its target EBITDA of £4m, but was not to exceed £10m per year. A Co was not however, required to make a payment if it had insufficient cash after making repayments under any third-party finance agreement; nor was it required to make a payment to Alvance if it would be unable to pay any future liabilities, whether actual or contingent.
119. In FY19, Alvance recognised profit share credited under the 2018 Profit Participation Deed as “*Other operating income*” in its FY19 financial statements.
- 119.1 Alvance’s EBITDA in FY19 was negative approximately £6.5m (before profit share income), therefore Alvance was, on the face of the 2018 Profit Participation Deed, entitled to a profit participation of £10.5m (subject to the £10m cap), which increased Alvance’s EBITDA to £3.5m.
- 119.2 The Profit Share Agreement was referenced in the related party note to the financial statements and the Strategic Report.

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(2) Audit work

(a) Planning

120. The Respondents had (correctly) identified that:
- 120.1 Alvance was making a loss and there was a going concern issue;
 - 120.2 the Profit Share Agreement with A Co could reduce Alvance's loss;
 - 120.3 there had previously been problems reconciling related party balances;
 - 120.4 related party transactions were a "*higher risk area*"; and
 - 120.5 the debtor balance had increased from the prior year due to related party transactions.
121. Nevertheless, the Respondents failed to refer to the 2018 Profit Participation Deed in the Planning Memorandum and there is no evidence in the Planning Memorandum, or elsewhere in the planning section of the audit file, that the Respondents considered the 2018 Profit Participation Deed and responded to the risks associated with it.
122. The Respondents should have:
- 122.1 referred to the 2018 Profit Participation Deed in the Planning Memorandum and identified it as a significant related party transaction outside the normal business of Alvance;
 - 122.2 evaluated whether the profit-sharing relationship between Alvance and A Co (which was unusual and/or unexpected) indicated a risk of material misstatement due to fraud, in particular a risk that Alvance's profitability was inflated;
 - 122.3 considered whether any relevant controls were in place; and
 - 122.4 planned a strategy to audit the relevant balances and transactions.

(b) Audit testing

123. The main audit work took place between June and December 2019.
124. The description of the profit-sharing arrangements in the audit file, which included a reference to Alvance and A Co entering into a profit-sharing agreement dated 4 July 2017 but not the 2018 Profit Participation Deed, suggests that the engagement team

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were looking at, or had in mind, the wrong agreement. As explained above, the profit share arrangements were varied in May 2018 at which time the 4 July 2017 agreement was superseded by the 2018 Profit Participation Deed.

125. Internal K&K emails suggest that this misunderstanding was widely shared. The emails are written on the (erroneous) basis that Alvanco's entitlement to receive payments from A Co was dependent on A Co's profitability.
126. K&K email correspondence also suggests that the Respondents understood that Alvanco and A Co had entered into the profit share arrangements in order to avoid Alvanco breaching banking covenants.

(c) Analysis

127. The 2018 Profit Participation Deed (and the income arising under it) was a significant related party transaction, outside Alvanco's normal course of business. The Respondents had acknowledged at the planning stage that related party transactions were a "*higher risk area*". Despite these matters:
 - 127.1 the Respondents did not question why the profit share arrangements changed in May 2018 from the set-off arrangements provided for by the Deed of Variation dated 4 July 2017;
 - 127.2 the Respondents did not consider whether income under the 2018 Profit Participation Deed could be realised;
 - 127.3 the Respondents did not question the commercial substance of the 2018 Profit Participation Deed;
 - 127.4 the Respondents did not consider whether it was appropriate to recognise "*Other operating income*" under the 2018 Profit Participation Deed;
 - 127.5 if and insofar as the Respondents understood that the profit share arrangements had been entered into to avoid breaching banking covenants, then they should have explored this with management and performed audit work on the relevant covenants. They did not do so. Nor is there any evidence that the Respondents considered the appropriateness of Alvanco using profit share arrangements to circumvent bank covenants and the potential adverse consequences;

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- 127.6 the Respondents omitted to check the calculation of the profit share income; and
- 127.7 the Respondents did not test whether, and if so how, the profit share income was converted to cash. Alvance was recorded as being owed approximately £5m from A Co at the year-end. This was reflected as a short-term loan. There is no evidence of double entry postings for the initial recognition of the profit share income or any testing by the Respondents in respect of the set off arrangements between Alvance and A Co. Nor is it clear (i) whether half of the profit share income was received in cash, leaving the balance outstanding; (ii) whether all remained outstanding and had been offset against amounts loaned from A Co to Alvance or power purchased from A Co by Alvance; or (iii) whether it had all been paid, with the balance unrelated to the 2018 Profit Participation Deed. Given the materiality and unusual nature of the profit share income, the composition of the year-end receivable balance should have been understood, and its recoverability tested by reference to post year-end cash movements.
128. Mr Patel's approach to the profit share agreements with A Co represented a failure to act with objectivity. The profit share arrangements were a significant related party transaction, outside Alvance's normal course of business. They gave the impression that Alvance was more profitable and thereby flattered Alvance's FY19 financial statements. The Respondents had acknowledged at the planning stage that related party transactions were a "*higher risk area*". Mr Patel also recognised in interview that that the profit share arrangements may have been entered into to avoid breaching banking covenants. Despite all these matters, Mr Patel did not challenge management or critically assess the profit share agreement; nor did he perform (or cause his team to perform) audit work on the relevant covenants. Mr Patel simply accepted management's decision to recognise £10m as "*Other operating income*" under these profit share arrangements.

(3) Disclosure in financial statements

129. The disclosure in the financial statements was insufficient to allow a reader to understand the nature of the Profit Share Agreement including (i) whether and to what extent either party was required to provide goods or services under the arrangement and (ii) whether the agreement was entered into in order to avoid breaching banking covenants. The disclosure was also insufficient to allow a reader to understand how

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much (if any) of the income has been received in cash. The financial statements should have allowed the reader to understand the profitability of Alvance's underlying trading operations (and the impact on any going concern assumptions) and to separate amounts owed under the profit share arrangements from any other related party trading or lending.

Group Support Agreement with B Co

(1) *The Group Support Agreement*

130. On 1 April 2018, i.e. the first day of FY19, Alvance and B Co entered into a "*Group Support Agreement*". As noted above, B Co was part of GFG Alliance and provided financial services to GFG Alliance and third parties.
131. The purpose of the Group Support Agreement was stated to be as follows: "*to provide Group risk mitigation support as per GFG Alliance Risk Management Policy and Procedures*". Under the agreement, B Co agreed to provide Alvance "*100% group support for the risks it [Alvance] is exposed to in any given year.*"
132. In FY19 Alvance recognised revenue of £8m arising under this Group Support Agreement.
133. Group support revenue must satisfy the revenue recognition criteria under FRS 102. The relevant disclosure is made in Note 3 of Alvance's FY19 financial statements.

(2) *Audit work*

(a) Overview of relevant audit work

134. During the early stages of the audit, an initial year-end reporting pack circulated on 4 June 2019 showed that Alvance had incurred a loss before tax of £10.7m based on turnover and costs of sales. There was no adjustment at this time for any group support pursuant to the Group Support Agreement.
135. The Respondents' working papers contain commentary on a late adjustment of £8m arising from the Group Support Agreement. It appears from the documents that the late adjustment was incorporated in the financial statements in October 2019.
136. As support for the adjustment, on 23 October 2019 the Respondents obtained two documents which purported to be credit notes of £4m each, issued by B Co to Alvance, dated 29 March 2019. These were described as group support to compensate Alvance

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for steel consumption input prices that were not linked to the London Metal Exchange (“LME”). As the support was to compensate Alvance for the price paid by Alvance for steel, the impact would have had the effect of reducing the cost of sales.

137. Following his review of the purported credit notes, an audit manager (“**Audit Manager B**”) questioned the documents in the context of GFG Alliance Risk Management Policy and Procedures document (which stated that losses in one entity can be made good by another entity in GFG Alliance where benefit passes between the two relevant entities) as he was unable to find any logical and commercial basis for the proposed group support and credit notes in the absence of a trading relationship between Alvance and B Co.
138. An updated reporting pack was circulated on 6 November 2019 and showed that Alvance’s loss before tax was reduced to £2m (compared to the £10.7m loss in the 4 June 2019 reporting pack version noted above). This reduction was primarily attributable to a reduction in the cost of sales by £8m through the purported credit notes from B Co.
139. Ultimately, Alvance abandoned reliance upon the credit notes. Instead, the same amount of £8m was invoiced by Alvance to B Co. This invoice replaced the credit notes and appears to have been backdated to 29 March 2019, i.e. the date of the credit notes. The debt was then assigned to another Liberty entity (“**C Co**”).
140. The reporting pack was updated again. It was circulated on 2 December 2019 and showed that Alvance’s loss before tax was reduced to £0.3m (compared to the £2m loss recorded in the version of the reporting pack circulated on 6 November 2019). The reduction to the cost of sales by £8m through the credit notes from B Co (as recorded in the 6 November 2019 version of the reporting pack) was replaced by a corresponding £8m increase to revenue through the Alvance invoice referred to above.

(b) Analysis

141. The revenue recognised under the Group Support Agreement was a significant related party transaction outside Alvance’s normal course of business. The Respondents had acknowledged at the planning stage that related party transactions were a “*higher risk area*”. Despite this, the Respondents’ audit work was deficient in material respects:

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- 141.1 The Respondents failed adequately to consider and/or document their consideration of the GFG Risk Management Policy and Procedures relevant to the transaction;
- 141.2 The Respondents failed to consider and/or document the reasons why B Co was the counterparty, despite Audit Manager B highlighting that there was no trading relationship between Alvance and B Co;
- 141.3 The Respondents failed adequately to consider the nature, purpose and commercial rationale of the Group Support Agreement (and payments made under it) and, in particular, whether the agreement may have been used inappropriately to inflate revenue and reduce the loss before tax from £10.7m to £2m (and ultimately to £0.3m);
- 141.4 The Respondents failed adequately to consider and investigate a number of unusual features which, individually or cumulatively, cast doubt on the appropriateness of the payments made under the Group Support Agreement and how they were accounted for. In particular:
- 141.4.1 During the early stages of the audit, there was no adjustment for any group support pursuant to the Group Support Agreement. The revenue arising from the Group Support Agreement was a late adjustment and resulted in Alvance's (substantial) operating loss becoming an operating profit of £0.1m.
- 141.4.2 The credit notes, and the invoice which replaced them, were all dated 29 March 2019 (i.e. shortly before the year-end) but appear to have been created many months later.
- 141.4.3 There was no evidence that B Co supplied goods and/or services to Alvance, or had any trading relationship with Alvance.
- 141.4.4 The arrangements for payment were convoluted and involved the debt from B Co being assigned to C Co.
- 141.5 On the face of it, the revenue under the Group Support Agreement did not meet the revenue recognition criteria under FRS 102. There is no evidence the Respondents considered this.

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- 141.6 There is no evidence that the Respondents recalculated the group support revenue by reference to the details on the credit notes or other supporting evidence. This represents a failure to perform appropriate audit procedures to test the group support revenue.
- 141.7 The Respondents failed adequately to test the recoverability of the group support revenue. There is no evidence that the Respondents tested whether, when and how the group support revenue converted to cash, either pre or post year-end. As set out above, Alvance was owed £3m from B Co at the year-end. However, no breakdown of the balance was provided in the working paper to allow an assessment as to how much, if any, of the outstanding balance related to group support revenue. The Respondents did not contact either C Co or B Co to obtain confirmation of how payments made under the Group Support Agreement were recognised in their financial statements.
142. Mr Patel's approach to the Group Support Agreement also represented a failure to act with objectivity. This was a related party transaction. The Respondents had acknowledged at the planning stage that related party transactions was a "*higher risk area*". There were a number of unusual features about the Group Support Agreement which suggested that the agreement may have been used inappropriately to inflate revenue. Despite these unusual features, Mr Patel accepted management's decision to recognise £8m in revenue arising under the 2018 Group Support Agreement.

(3) Disclosure in financial statements

143. Disclosure of revenue recognised under the Group Support Agreement was inadequate: given both the qualitative and quantitative significance of the Group Support Agreement, revenue under the agreement should have been disclosed as income and clearly described.

Breaches of Relevant Requirements

144. Through the conduct set out at paragraphs 120 to 142 above, in respect of the FY19 audit of Alvance, the Respondents breached:
- 144.1 Paragraph 13 of ISA 240, in that, in relation to the Group Support Agreement, there were conditions which cast doubt on whether the credit notes and the invoice were genuine (namely the conditions identified at paragraph 141.4.2 above) which the Respondents failed to investigate.

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- 144.2 Paragraph 32(c) of ISA 240, in that they did not evaluate whether (i) the business rationale for the 2018 Profit Participation Deed and (ii) revenue recognised under the Group Support Agreement, which were significant transactions outside the normal course of business, may have been entered into to overstate revenue engage and/or otherwise to engage in fraudulent financial reporting.
- 144.3 Paragraph 6 of ISA 500, in that they did not gather sufficient appropriate audit evidence to support the profit share income and the group support revenue and their recoverability.
- 144.4 Paragraph 23 of ISA 550, in that they did not evaluate, at the planning and risk assessment stage and the audit testing stage, whether the 2018 Profit Participation Deed and the Group Support Agreement (i) may have been entered into to engage in fraudulent financial reporting and (ii) whether, since they were related party transactions, they had been appropriately accounted for and disclosed.
- 144.5 Overarching Principle 1 of ES 2016, in that K&K (through Mr Patel) failed to act with objectivity. As set out above at paragraphs 128 to 129 and 142, there were a number of unusual features about the 2018 Profit Participation Deed and the Group Support Agreement, which suggested that the agreements may have been used inappropriately to inflate revenue. Despite these unusual features, Mr Patel failed to challenge management's decisions to recognise £10m as "Other operating income" under the profit share arrangements and £8m in revenue arising under the Group Support Agreement.
- 144.6 Paragraph 24 of ISA 330, paragraph 25 of ISA 550 and paragraphs 12 and 13 of ISA 700, in that they failed to evaluate whether the profit share arrangements and revenue recognised under the Group Support Agreement, a significant related party transaction, had been appropriately accounted for, described and disclosed in the financial statements.

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COMMODITIES TRADING BUSINESS OF NEWPORT FY19

Overview

145. The breaches in this section concern the Respondents' approach to the audit of revenue derived from commodities trading recorded in Newport's FY19 financial statements.
146. Newport operated a steel rolling mill in Newport, South Wales which manufactured and supplied hot rolled coil for the domestic and export markets. The manufacturing business was loss-making. However, from 2016, Newport was also involved in international commodities (metal) trading. In FY19, Newport's commodities trading was very substantial, accounting for £202.5m (or 62.1%) of Newport's turnover of £326.2m. This part of the business generated a reported profit of £21m. Significantly, this absorbed the £16m loss from the rolling steel mill business and allowed the company to report an overall profit before tax of £5m. Indeed, the whole purpose of the commodities trading was to compensate for the manufacturing losses, according to the Respondents' working papers.
147. Whilst the commodities trading business was evidently a very important part of Newport's business, no mention was made of it in Newport's financial statements. There was no disaggregation of profits between the two different business lines and no indication that the manufacturing business was loss-making and that Newport was only profit-making because of the commodities trading.
148. There were a number of unusual features about Newport's commodities trading business which warranted investigation by the Respondents:
- 148.1 The commodities trading was outside Newport's usual course of business.
 - 148.2 Another entity in the LHG was stated to be involved in arranging or facilitating the commodities trading.
 - 148.3 Financial information about the commodities trading was retained by persons in Dubai and did not appear to be immediately accessible to Newport or the LCFT.
 - 148.4 The commodities were shipped directly from the supplier to the final customers. Arrangements for payment were convoluted. Payments were

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pursuant to assignment contracts and made to third parties. Newport did not itself receive payment.

- 148.5 There was a lack of transparency about Newport's role in the transactions, how its profit crystallised, when the risks and rewards in relation to the trades transferred from the supplier to Newport (if at all) and on to the customer, and whether Newport was acting as an agent as opposed to a principal. If Newport was agent, revenue should have been recognised on a net basis (i.e. the profit element only).
- 148.6 K&K's predecessor had identified anomalies and inconsistencies in connection with the commodities trading business, which they considered gave rise to a risk of material misstatement resulting from fraud or error. There was nothing on the audit file to explain whether, and if so how, these had been resolved.
- 148.7 The Respondents' working papers recorded that the commodities trading business was arranged by LHG to "*compensate*" for the loss-making manufacturing division.
149. These features were indicative of possible fraudulent financial reporting in relation to revenue recognition and profitability. In particular, they indicated that:
- 149.1 the commodities transactions may have been entered into and / or structured to inflate Newport's profitability and misstate or mischaracterise its financial position or financial performance (for example, by masking the poor performance of the manufacturing business);
- 149.2 the commodities transactions may have been a sham and/or recorded fictitious revenues; and/or
- 149.3 the accounting treatment of the commodities trading transactions by Newport may have involved the misapplication of accounting principles in respect of revenue recognition.

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Audit work

(1) *Planning and risk assessment*

150. Despite the presence of these unusual features, and despite acknowledging that the fraud risk in relation to revenue recognition was significant, the Respondents' audit work at the planning and risk assessment stage was deficient.
151. First, the Respondents did not analyse Newport's revenue and consider the specific risks associated with each type of revenue.
152. Second, no consideration was given to why it was so important for Newport to report a profit and whether there may have been pressures and incentives for Newport to do so (for example, Newport may have been required to be profitable in order to meet bank covenants).
153. Third, there was insufficient questioning of management at the planning stage regarding Newport's involvement in the commodities trading. Sufficient questions should have been asked to enable the Respondents to gain an understanding of the commodities trading and the business rationale for the transactions. The answers would have also informed the audit plan in relation to the commodities trading and caused the Respondents to perform appropriate audit testing (for example, testing whether profit from the trades was converted into cash).
154. Fourth, the Respondents did not perform a walkthrough of any trade, which would have assisted them to identify unusual features of these trades. Whilst it is not the case that all the trades exhibit identical features, a walkthrough performed on any of them would have (a) raised questions which needed to be addressed and (b) identified further audit procedures that ought to have been undertaken.
155. Fifth, the Respondents did not consider whether the commodities trading gave rise to a heightened audit risk.
156. Sixth, the Respondents failed to obtain any, or any sufficient understanding of controls around the recognition of commodities trading revenue which was higher than that of the manufacturing business. At a minimum, the Respondents should have made enquiries with management, or those charged with governance, in order to understand the controls in place around the teams in Dubai/London who were entering into trades purportedly on behalf of Newport.

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157. Seventh, the Respondents did not give any, or sufficient consideration as to how to resource the engagement, and specifically to audit the commodities trading, and whether and to what extent more senior input/supervision would be required given the trades were (i) outside the normal business operations of Newport (ii) managed through a related party entity and (iii) not settled in cash.

(2) Sales and purchases testing

158. The Respondents adopted a substantive approach to testing purchases and sales. The Respondents' audit work was deficient in a number of material respects.

159. First, as was the case at the planning stage, so too at the testing stage, the Respondents failed to ask management about Newport's role in the commodities trading and the economic substance of those transactions, and failed to perform a walkthrough of a trade.

160. Second, there was no consideration of the appropriateness of the revenue recognition policy and, in particular, of the following facts and matters:

160.1 the risks and rewards in relation to the trades (which was required under paragraph 23.10 (a) of FRS 102 (revenue recognition));

160.2 whether it was probable that the economic benefits associated with the trade would flow to Newport (which was required under paragraph 23.10 (d) of FRS 102 (revenue recognition));

160.3 how the apparent profit from the trades converted into cash given the acknowledged existence of assignment agreements; and

160.4 whether Newport was making the sales as an agent as opposed to a principal. If Newport was acting as an agent, revenue should have been recognised on a net basis (i.e. the profit element only) (paragraph 23.4 of FRS 102 and example 27 at paragraphs 23A.37 - 23A.41 of FRS 102).

161. Third, the Respondents did not perform any checks of completeness of purchases and sales. The Respondents were wholly reliant on the trial balance and supporting documents provided by LCFT.

162. Fourth, the Respondents failed to consider a fraud risk specifically in respect of commodities transactions, despite (i) revenue recognition generally being considered a significant risk with high risk of fraud (ii) the involvement of related parties and (iii)

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the commodities transactions being significant transactions outside the normal course of business or otherwise unusual. The Respondents also failed to obtain an understanding of Newport's related controls relevant to such risks.

163. Fifth, an unusual feature of Newport's sales was a late cost of sales adjustment of US\$13.3m (about £10m). This adjustment was created eight months after the yearend and some four months after year-end creditor balances had purportedly been confirmed by the creditors. The adjustment related to three credit notes issued by three different sellers in connection with damages claims for shortfalls and quality issues. The credit notes flipped Newport from an overall loss before tax of £5m to a profit of £5m. The Respondents should have been particularly sceptical about these credit notes because they arose only after the Respondents had challenged an earlier cost of sales adjustment involving related party B Co for £14.5m (and corresponding debtor). Despite various red flags associated with the credit notes, the Respondents did not carry out any investigation into them. The lack of rigour in Mr Patel's approach to the credit notes represented a failure to act with objectivity.
164. The commodities trading business was a very important part of Newport's business. It turned the company from loss-making to profit-making. In failing to challenge management, or ask any questions about it, Mr Patel lost sight of the need to act independently of the client and apply independent scrutiny. This represented a failure to act with objectivity.

(3) Debtors and creditors testing

165. The Respondents audit work was deficient in a number of material respects.
166. First, as was the case at the planning stage, so too at the testing stage, the Respondents failed to ask management about Newport's role in the commodities trading and the economic substance of those transactions, and failed to perform a walkthrough of a trade.
167. Second, the Respondents relied on the debtor and creditor confirmations provided by LCFT. The Respondents ought to have insisted that the customers and suppliers sent the confirmations directly to them.
168. Third, the Respondents should have made further enquiries of management and/or the customers and suppliers when, in July 2019, the Respondents received two different versions of two creditors' confirmations, and again in November 2019, following the

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late costs of sales adjustment relating to three credit notes each dated 31 March 2019 (paragraph 163). These events should have raised red flags in respect of the external confirmation process. This is a particularly striking omission, given LCFT was the single source of all confirmations but was not independent of Newport, the previous auditors had raised similar issues and the Respondents had identified risks at the planning stage.

169. Fourth, the Respondents failed to obtain an adequate understanding of the assignment agreements. There was a number of highly unusual features about these assignments which required further inquiry, including the fact that the assignments were made to parties other than the counterparties of the trades and always represented the full amount of the debt (i.e. it is not clear how Newport recovered their profit element from the customer / purchaser).
170. These unusual and elaborate assignments, and the absence of independent confirmations directly from suppliers and customers, were evidence of possible fraudulent financial reporting. In particular, on the face of it, it appeared doubtful whether any future economic benefits flowed to Newport. In other words, the alleged profit appeared not to have been realisable. The Respondents failed to consider this possibility. The Respondents should have raised queries with management. Nor did Mr Patel question the provision of revised assignment agreements together with debtor/creditor confirmations following the reversal of the B Co debtor and updates to the trial balance in November 2019, despite the relevant counterparties having ostensibly already agreed their balances in July 2019. Mr Patel's failure to question management represents a failure to act with objectivity.

(4) Disclosures in financial statements

171. The Strategic Report in Newport's financial statements for FY19 describes Newport's principal activity as "*that of the manufacture, stock sale and trade of Hot Rolled Coils and other supplementary steel products.*" No mention is made in the financial statements of the commodities trading business undertaken by Newport. There is no disaggregation of profits between the two different business lines. Whilst a breakdown of revenue between "*sale of manufactured hot rolled coils*" and "*sale of other goods*" is provided in the Notes to the financial statements, there is no further explanation as to what this relates, and no breakdown at all in relation to profits. There is no indication that the manufacturing business is loss-making and that Newport as a whole is only profit-making because of the commodities trading.

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Breaches of Relevant Requirements

172. Through the conduct set out at paragraphs 150 to 157 above, at the planning and risk assessment stage of the FY19 audit of Newport, the Respondents breached:
- 172.1 Paragraph 12 of ISA 240, in that they did not critically assess the nature, scale and purpose of the commodities trading and recognise the risk of material misstatement due to fraud and so did not plan the audit with adequate professional scepticism.
 - 172.2 Paragraph 26 of ISA 240, in that they did not analyse Newport's revenue (and its two totally different businesses) and evaluate which types of revenue gave rise to risks of fraud.
 - 172.3 Paragraph 11 of ISA 315, in that they did not obtain any, or any sufficient, understanding of:
 - 172.3.1 the nature of Newport and its operations, and specifically, its commodities trading business;
 - 172.3.2 the selection and application of accounting policies, specifically, its treatment of revenue arising from the commodities trading business;
 - 172.3.3 Newport's objective and strategies underlying its commodities trading business, and the related business risks that may have resulted in risks of material misstatement; and
 - 172.3.4 the measurement and review of Newport's financial performance.
 - 172.4 Paragraph 25 of ISA 315, in that:
 - 172.4.1 they failed to identify and assess the risk of material misstatement specifically in relation to commodities trading; and
 - 172.4.2 insofar as they identified any such risk, they failed to consider whether the risk was a risk of fraud and whether the risk involved significant transactions that were outside the normal course of business and/or otherwise appeared to be unusual.

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173. For the reasons set out above (paragraphs 158 to 170), in respect of sales and purchase testing and debtors and creditors testing in the FY19 audit of Newport, the Respondents breached:

173.1 Paragraph 12 of ISA 240, in that they did not approach these areas with adequate professional scepticism.

173.2 Paragraphs 27 and 32(c) of ISA 240, in that they:

173.2.1 did not obtain an adequate understanding of Newport's related controls;

173.2.2 did not evaluate whether the business rationale for the trades (which were outside the normal business for Newport) suggested that they may have been entered into to engage in fraudulent financial reporting or otherwise to facilitate fraud; and

173.2.3 did not obtain an adequate understanding of the assignment agreements supporting the trades (which were outside of the normal business for Newport) and did not consider the possibility that they may have been entered into to facilitate fraudulent financial reporting.

173.3 Paragraph 6 of ISA 500, in that they did not perform the audit procedures necessary to obtain sufficient appropriate audit evidence to:

173.3.1 support Newport's accounting treatment of the commodities trading;

173.3.2 critically assess the credit notes;

173.3.3 verify that the trades would result in profit being realised in cash;

173.3.4 verify the outstanding creditor and debtor balances;

173.3.5 critically assess the assignment agreements; and

173.3.6 verify that the outstanding balances were recoverable and would result in profit being realised in cash.

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173.4 Paragraph 7 of ISA 505, in that they failed to maintain control of the external confirmation requests when seeking to verify the outstanding creditor and debtor balances.

173.5 ES 2016, Overarching Principle 1 in that K&K (through Mr Patel) failed to act with objectivity. In particular:

173.5.1 As set out above (paragraphs 159 to 170), there were a number of highly unusual features about the commodities trading business which warranted investigation: these features were indicative of possible fraudulent financial reporting in relation to revenue recognition and profitability.

173.5.2 Mr Patel was aware of each of these unusual features. Nonetheless, Mr Patel failed to properly question management regarding Newport's involvement in the commodities trading. There is no record of Mr Patel seeking to understand the economic substance of these transactions or challenging management.

173.5.3 The commodities trading business was a very important part of Newport's business, which allowed the company to report an overall profit before tax. Mr Patel's failure to challenge management, or ask any questions about it, is evidence that he had lost sight of the need to act independently of the client and apply independent scrutiny. He displayed a loss of objectivity.

174. For the reasons set out above at paragraph 171, in relation to disclosures in the financial statements in the FY19 audit of Newport, the Respondents breached:

174.1 Paragraph 13(d) and (e) of ISA 700, in that they did not adequately evaluate whether the information in the financial statements was appropriately disaggregated and characterised, and whether there were appropriate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.

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Part D GOING CONCERN

GOING CONCERN ASSESSMENT OF SPECIALITY

Overview

175. Speciality's consolidated financial statements for FY19 were prepared on a going concern basis.
176. The Auditor's Report stated that: (i) there was nothing to report in regard to the directors' use of going concern as being inappropriate; and (ii) the directors had not disclosed any material uncertainties that might have cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months.
177. The Respondents' responsibility (under paragraph 6 of ISA 570) was to obtain sufficient appropriate audit evidence and to conclude, based on the audit evidence, whether there was a material uncertainty about Speciality's ability to continue as a going concern. The Respondents failed to discharge that responsibility. In summary:
- 177.1 The Respondents failed adequately to test management's going concern assessment.
- 177.2 There was a heightened need for audit testing. There were several events or conditions that cast significant doubt over Speciality's ability to continue as a going concern including the fact that it had made losses in the two previous years and that net current liabilities had increased to £45.6m.
- 177.3 The Respondents failed to obtain sufficient appropriate audit evidence. Based on the audit evidence obtained, the Respondents were not in a position to conclude whether a material uncertainty existed about Speciality's ability to continue as going concern.

Audit work

(1) Management's assessment covered less than 12 months

178. Management's going concern assessment only covered the period FY20. The Respondents failed to consider any detailed forecasts for FY21 or beyond in their going concern assessment and/or request that management extend its assessment of going

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concern to at least 12 months from the time the Respondents both prepared the going concern working paper and signed off on the audit.

(2) Challenging SSUK's forecasts

179. The Respondents failed to identify, follow up on and resolve several incorrect references, errors and inconsistencies in SSUK's forecasts.

180. In addition, the Respondents did not sufficiently challenge management regarding the SSUK forecasts (and the assumptions underlying them), specifically, some of the key drivers of the budgeted and forecast increase in profitability and cash flow:

180.1 There is no documented consideration of the fact that, excluding the impact of the release of the Environmental Provision, Speciality and SSUK management were forecasting a significant increase in profitability from FY19 to FY20.

180.2 The Respondents did not scrutinise whether the Brexit uncertainty and market spread blamed for adverse Q1 performance would be likely to continue in FY20 and FY21. Instead, the possible advantages of pre-Brexit stockpiling and currency depreciation were considered. Thus, the Respondents did not perform sufficient work to conclude that the uncertainty contributing to the Q1 performance would be resolved in Q2 or by March 2021.

180.3 The Respondents failed to recognise that the actual performance in the first three months of FY20 was significantly below budget with a resulting impact on the full year forecast. Consequently, they failed to challenge management as to which line items in the Profit & Loss statement ("P&L") were affected, and to understand whether and to what extent the poor performance in FY20 was reversible.

181. These deficiencies represent, amongst other things, a failure by the Respondents to challenge management with regard to their assumptions and failure to maintain professional scepticism (given that, excluding the release of the Environmental Provision, Speciality was loss making in FY19).

(3) Existing external funding facilities

182. An entity ("D Co") (which was a GFG entity) and Third Party Financier 1 were SSUK's key providers of finance at FY19 year-end; management had represented that there

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was an expectation that the facilities would continue into FY20, and be extended in size; and management had noted that one of the available levers to manage adverse performance included increasing Third Party Financier 1 and D Co's financing.

183. Since Speciality and SSUK were reliant on existing funding facilities, then, as part of their going concern evaluation, the Respondents should have considered any renewal dates or covenants, reviewed letters of support and assessed whether the forecast cash flows from those facilities were realistic.
184. The Respondents failed to take these steps.

(4) Group Support

185. Speciality was reliant on group support. It was incumbent upon the Respondents to obtain sufficient appropriate audit evidence that LHG Pte was willing and able to provide financial support to its subsidiaries.
186. The Respondents obtained various iterations of a letter of group support and referred to group support as one of the reasons for concluding that there were "*no indications that SSUK is at risk of not being a going concern*".
187. The Respondents maintained a separate file to assess management reliance upon the financial support of LHG Pte in support of the going concern assumption. In summary, the Respondents reviewed LHG Pte's FY18 financial statements and FY19 management accounts, and Mr Patel held discussions with the CFO of LHG and Simec Group and the Shareholder regarding LHG Pte's ability and willingness to provide funding. The audit work was deficient in several material respects:
- 187.1 The Respondents did not assess the willingness of LHG Pte to provide funding to the Audited Entities, nor its rationale for so doing.
- 187.2 The Respondents did not review whether LHG Pte was in fact *capable* of providing the financial support that may have been required.
- 187.3 The Respondents failed to obtain the Group's forecasts and budgets for FY20. Management's apparent unwillingness to provide audit evidence requested by auditors is an example of a red flag in the context of potential fraud (Appendix 3 to ISA 240). In this case, it is not clear why LHG Pte withheld the budgets. This warranted investigation. The group forecasts were key to understanding LHG Pte's ability to continue financing Newport, Alvance and

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Speciality. Mr Patel's failure to challenge management and to obtain and review the Group's forecasts and budgets is evidence that he had lost sight of the need to act independently of the client and apply independent scrutiny. Mr Patel failed to show rigorous and robust independence of his client and displayed a lack of objectivity.

188. The Respondents therefore also failed to perform the audit procedures necessary to obtain sufficient appropriate audit evidence that LHG Pte was willing and able to provide financial support to its subsidiaries. In addition, the Respondents did not approach this area with adequate professional scepticism, and so did not critically assess the absence of Group forecasts and budgets.

Breaches of *Relevant Requirements*

189. In light of the matters set out above, the Respondents failed adequately to test management's going concern assessment and did not have sufficient appropriate audit evidence to conclude whether a material uncertainty existed about Speciality's ability to continue as a going concern.

190. Through the conduct set out at paragraphs 178 to 188 above, in respect of the FY19 audit of Speciality, the Respondents breached:

190.1 Paragraph 15 of ISA 200 and paragraph 12 D-1 of ISA 570, in that they did not approach the assessment of Speciality's ability to continue as a going concern with adequate professional scepticism and so did not critically assess the evidence in relation to Speciality and SSUK's future cash flow and the ability of LHG Pte to provide support.

190.2 Paragraph 13 of ISA 570, in that they did not request management to extend its assessment of going concern to at least 12 months from the time when the Respondents prepared the going concern working paper and signed off on the audit.

190.3 Paragraphs 6 and 16 of ISA 570, in that they failed to perform adequate audit procedures and failed to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty existed. In particular, they failed to obtain adequate support for the assumptions underlying SSUK's forecasts. Based on the audit evidence obtained, the Respondents were not

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in a position to conclude whether a material uncertainty existed about Speciality's ability to continue as a going concern.

190.4 Overarching Principle 1 of the ES 2016 in that K&K (through Mr Patel) failed to act with objectivity. In particular:

190.4.1 The existence of group support was a factor underpinning management's going concern assessment.

190.4.2 The Respondents had acknowledged that for the prior year SSUK had made a loss, it was expected to be loss-making in the early years, and that group support would have a significant impact on whether the accounts would be required to be prepared on a going concern basis.

190.4.3 However, Mr Patel failed to assess whether, and if so to what extent, LHG Pte was able to support Speciality. His failure to challenge management and to obtain and review the Group's forecasts and budgets was a striking omission, especially since the Respondents had requested the forecasts, but management appeared unwilling to provide the audit evidence sought. Management's apparent unwillingness to provide the audit evidence sought was a red flag in the context of potential fraudulent financial reporting and warranted investigation.

GOING CONCERN ASSESSMENT OF ALVANCE

Overview

191. Alvance's financial statements for FY19 were prepared on a going concern basis.

192. The Respondents failed to obtain sufficient appropriate audit evidence and to conclude, based on the audit evidence, whether there was a material uncertainty about Alvance's ability to continue as a going concern. In summary:

192.1 The Respondents failed adequately to test management's going concern assessment.

192.2 There was a heightened need for audit testing since there were several events or conditions that appeared to cast significant doubt over Alvance's ability to continue as a going concern. In particular, Alvance was loss-making, and had

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net current liabilities and net total liabilities in FY18 and in FY19 (before taking into account the profit share arrangements, which were scheduled to expire in March 2021, and group support).

- 192.3 The Respondents failed to obtain sufficient appropriate audit evidence. Based on the audit evidence obtained, the Respondents were not in a position to conclude whether a material uncertainty existed about Alvance's ability to continue as a going concern.

Audit work

193. In the Respondents' Planning Memorandum, going concern was identified as a key audit risk.
194. The Respondents (rightly) concluded that Alvance was reliant on group support: even with the profit share arrangement, Alvance was forecasting negative cash balances and cash flows in FY20 and FY21.
195. The Respondents' audit procedures were deficient in the ways set out below.

(1) Future funding requirements

196. The Respondents should have assessed how much cash would be required in order to continue trading. However, the Respondents failed adequately to understand, and document, Alvance's future funding requirements. In particular:
- 196.1 The Respondents did not consider the cash flow forecasts in detail, or Alvance's cash flow requirements for FY20 and FY21. They relied on a simplified model which forecast negative EBITDA in FY20 and FY21 before taking into account the profit share arrangements.
- 196.2 There is no evidence of any management accounts on the audit file. Whilst the Respondents queried the poor FY20 performance to date, and management responded stating that the shortfall related primarily to LME prices, there is no evidence on file that the Respondents verified this.
- 196.3 There is no evidence that the Respondents obtained a sufficient understanding of how Alvance was performing against budget.

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197. The need to understand and quantify Advance's future funding requirements was particularly important given that group support was discretionary and dependent on a "*reasoned application*". The Respondents' failures in this regard represent:

- 197.1 a failure to plan and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence;
- 197.2 a failure to obtain adequate support for the assumptions underlying the forecasts; and
- 197.3 a failure to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty existed relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

(2) Group Support

198. The Respondents recognised (correctly) that Alvance was dependent on group support to continue as a going concern. It was incumbent upon the Respondents to obtain sufficient appropriate audit evidence that LHG Pte was willing and able to provide financial support to its subsidiaries.

199. As was the case with Speciality, the Respondents obtained the letter of group support from LHG Pte but they failed to assess whether, and if so to what extent, LHG Pte was able to support Alvance. The criticisms made of the Respondents' audit work of group support in the context of Speciality apply equally in respect of Alvance (paragraphs 187 to 188).

200. Mr Patel's failure to challenge management and to obtain and review the Group's forecasts and budgets, is evidence that he had lost sight of the need to act independently of the client and apply independent scrutiny. Mr Patel failed to show rigorous and robust independence of his client and displayed a lack of objectivity.

(3) Alvance's and A Co's profit share arrangements

201. Management's model also assumed that substantial income would be generated from A Co from FY20 up to the financial year ending 31 March 2050 in relation to a profit share agreement.

202. There was a number of difficulties with this assumption. As explained above (paragraph 127), the Respondents appear to have failed to evaluate whether the Profit

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Share Agreement was appropriately accounted for, and to understand how the receivable balance from A Co is comprised and whether, when and how it is to be recovered. Based on the audit evidence on the audit file, it is impossible to evaluate how much, if any, of the annual income from the Profit Share Agreement was expected to be received in cash.

203. Further, and in any event, the agreement obtained by K&K did not provide for profit sharing for financial years after 31 March 2021.

Breaches of Relevant Requirements

204. In light of the matters set out above, the Respondents failed adequately to test management's going concern assessment and did not have sufficient appropriate audit evidence to conclude whether a material uncertainty existed about Alvance's ability to continue as a going concern.
205. Through the conduct set out at paragraphs 193 to 203 above, in respect of the FY19 audit of Alvance, the Respondents breached:
- 205.1 Paragraph 15 of ISA 200 and paragraph 12 D-1 of ISA 570, in that they did not approach their assessment of Alvance's ability to continue as a going concern with adequate professional scepticism and so did not critically assess the evidence in relation to Alvance's future cash flow and the ability of LHG Pte to provide support.
- 205.2 Paragraphs 6 and 16 of ISA 570, in that they failed to perform adequate audit procedures and failed to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty existed. Based on the audit evidence obtained, the Respondents were not in a position to conclude whether a material uncertainty existed about Alvance's ability to continue as a going concern.
- 205.3 Overarching Principle 1 of the ES 2016 in that K&K (through Mr Patel) failed to act with objectivity. In particular, the existence of group support was a factor underpinning management's going concern assessment, but Mr Patel failed to assess whether, and if so to what extent, LHG Pte was able to support Alvance. His failure to challenge management and to obtain and review the Group's forecasts and budgets was a striking omission, especially since the Respondents had requested the forecasts, but management appeared

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unwilling to provide the audit evidence sought. This was a red flag which warranted investigation.

GOING CONCERN ASSESSMENT OF NEWPORT

Overview

206. Newport's financial statements for FY19 were prepared on a going concern basis.
207. The Respondents failed to obtain sufficient appropriate audit evidence and to conclude, based on the audit evidence, whether there was a material uncertainty about Newport's ability to continue as a going concern. The Respondents failed to discharge that responsibility. In summary:
- 207.1 The Respondents failed adequately to test management's going concern assessment.
- 207.2 There was a heightened need for audit testing since there were several events or conditions that appeared to cast significant doubt over Newport's ability to continue as a going concern. In particular:
- 207.2.1 The manufacturing business was loss-making (and the commodities trading business had been introduced to compensate for those losses) and the commodities trading business did not generate cash.
- 207.2.2 Newport was dependent on group support to continue as a going concern. K&K's predecessors had been asked to step aside because they had been unable to obtain the required understanding of LHG Pte's financial position and complete their review within the time frame set by Newport for the audit.
- 207.3 The Respondents failed to obtain sufficient appropriate audit evidence. Based on the audit evidence obtained, the Respondents were not in a position to conclude whether a material uncertainty existed about Newport's ability to continue as going concern.

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Audit work

(1) *The Respondents' analysis of FY20 budget and FY21 projections*

208. The Respondents reviewed and analysed the FY20 budget and FY21 projections. Whilst the Respondents questioned some of the assumptions on which management's going concern assessment was based, including the projected increases in sales and reductions in costs and capital expenditure, the responses they received from management were inadequate. The Respondents should have pursued their questions with management and obtained evidence to verify management's assertions.
209. In addition, the Respondents failed adequately to interrogate the accuracy of, and query potential errors in, the forecast P&L. There was a number of significant discrepancies in key figures, including sales and cost of sales, between a consolidated forecast model and the supporting reporting packs. The Respondents' failure to identify and resolve those inconsistencies represents a failure to evaluate the reliability of the data used to prepare management's forecasts.

(2) *The cash flow position at the FY19 year-end*

210. The commodities trading business of Newport was not forecast to generate any cash in the two-year period to FY21.
211. Even after taking into account Group loan facilities, Newport was forecast to generate negative cashflows in FY20. However, in FY21, significant part of Group facilities was to be repaid and Newport was forecast to generate positive cashflow, notwithstanding the lack of cash flow forecast from the commodities trading.
212. The Respondents considered the cash flow position at the FY19 year-end. The Respondents stated that the negative cashflows would be financed by external funding provided by Third Party Financier 1 and another financial institution ("**Third Party Financier 2**"), and referenced Newport's receipt of a letter of group support from LHG Pte.
213. Even taking into account funding from the existing facilities (considered further below), Newport was still forecasting negative cash flow, so it would need an additional future facility (which was not at that point confirmed). The Respondents therefore acknowledged that Newport was reliant on both existing financing facilities and future group support in order to continue as a going concern.

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214. The Respondents' audit work was deficient in this area in several respects.
215. First, there is no record that the Respondents specifically considered the material increase in forecast cash flows from negative in FY20 to positive in FY21, and whether it was overstated, in circumstances where there were such indications (see paragraph 217 below).
216. Second, although the Respondents recognised that future cash flows would be negative, as set out above they did not adequately follow up on management's responses in relation to some of the key drivers of the increase in profitability and cash flow. The Respondents thereby failed to obtain a proper understanding of, and document, Newport's future funding requirements. The need to do so was particularly important given that group support was again dependent on a "*reasoned application*". The Respondents' failure to do so represented, amongst other things, a failure to properly challenge management with regard to their assumptions and, accordingly, a failure to maintain professional scepticism.
217. Third, there were warning signs that the data used by management to calculate cash flows and balances was unreliable as they included potential errors arising from discrepancies between management's going concern assessment, a consolidated forecast model and the supporting reporting packs. These were not identified and resolved by the Respondents.

(3) Existing external finance facilities

218. There were two relevant external finance facilities:
- 218.1 Third Party Financier 2 provided a facility described variously as a "*stock funding*" facility and an invoice discounting facility.
- 218.2 Secondly, Third Party Financier 1 indirectly provided a facility to Newport. This was described as IDF [invoice discounting facility] funding. The Respondents did not explain the difference between the balance of the funding recorded in LHG Pte's borrowings schedule (included in the FY19 group support assessment) and that in the Respondents' Going Concern Working Paper.
219. As noted earlier, the Respondents concluded that Newport was reliant on both existing financing facilities and future group support in order to continue as a going concern. It was therefore particularly important for the Respondents to perform audit work in respect of the existing financing facilities. The Respondents should have considered

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renewal dates and any covenants and reviewed any letters of support in order to ascertain the likelihood of the continuance of funding and gain comfort on the amounts available to Newport. In Newport's case, this was also important in the context of assessing how much additional funding would be required from any future potential group facilities.

220. The Respondents' audit work was deficient in several respects:
- 220.1 The Respondents failed to consider the terms (including the renewal dates) of either facility; nor did they consider the facility limits and any covenants. The Respondents therefore did not consider the reliability of any forecast cash flows from the facilities.
- 220.2 In respect of Third Party Financier 2, although the Respondents stated that they had obtained the facility agreement in their working paper containing the audit testing on creditors, there is no evidence of this.
- 220.3 If the Third Party Financier 1 and the Third Party Financier 2 facilities were both invoice discounting facilities, then the Respondents should have considered: (i) how Newport and the funders determined which invoices were to be financed by which funder and how any potential double financing could be avoided; and (ii) the impact on funding of invoices not being settled on due dates. There is no evidence the Respondents considered such matters.

(4) Group Support

221. The Respondents recognised (correctly) that Newport was dependent on group support to continue as a going concern. As was the case with Speciality and Alvance, they obtained a letter of group support from LHG Pte. However, they failed to assess whether, and if so to what extent, the group was able to support Newport. The criticisms made of the Respondents audit work of group support in the context of Speciality apply equally in respect of Newport (paragraphs 187 to 188). In the context of Newport, this was a particularly striking omission because K&K's predecessors had been asked to step aside because they had been unable to obtain the required understanding of LHG Pte's financial position and complete their review within the time frame set by Newport for the audit.
222. Mr Patel's failure to challenge management and to obtain and review the Group's forecasts and budgets is evidence that he had lost sight of the need to act

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independently of the client and apply independent scrutiny. Mr Patel failed to show rigorous and robust independence of his client and displayed a lack of objectivity.

(5) Newport's commodities trading business

223. As set out elsewhere, as a result of their audit work in respect of Newport's commodities trading, the Respondents were aware (or ought to have been aware) that:

223.1 the commodities trading transactions were not settled in cash but by way of assignment agreement;

223.2 there is no evidence as to whether, and how, Newport realised the profit element of each trade; and

223.3 credit notes relating to defective products had been issued by suppliers to Newport but, despite those products having been sold on to Newport's customers, Newport did not itself issue any credit notes.

224. Management forecast that the commodities trading business would generate £13-14m of profit in both FY20 and FY21 without apparently generating any cash. This warranted investigation. If the trades (including those from FY19) would never result in a cash inflow for Newport, then the recoverability of the debtor balances (and hence the profitability of the trades themselves) ought to have been questioned. There is no evidence, however, that the Respondents investigated this or challenged management. In the circumstances, the Respondents failed to maintain professional scepticism in relation to management's forecasts.

Breaches of Relevant Requirements

225. In light of the matters set out above, the Respondents failed adequately to test management's going concern assessment and did not have sufficient appropriate audit evidence to conclude whether a material uncertainty existed about Newport's ability to continue as a going concern.

226. Through the conduct set out at paragraphs 208 to 224 above, in respect of the FY19 audit of Newport, the Respondents breached:

226.1 Paragraph 15 of ISA 200 and paragraph 12 D-1 of ISA 570, in that they did not approach their assessment of Newport's ability to continue as a going concern with adequate professional scepticism and so did not critically assess

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the (inadequate and conflicting) evidence on this issue, including the ability of LHG Pte to provide support.

- 226.2 Paragraphs 6 and 16 of ISA 570, in that they failed to perform adequate audit procedures and failed to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty existed. Based on the audit evidence obtained, the Respondents were not in a position to conclude whether a material uncertainty existed about Newport's ability to continue as a going concern.
- 226.3 Overarching Principle 1 of the ES 2016 in that K&K (through Mr Patel) failed to act with objectivity. In particular, the existence of group support was a factor underpinning management's going concern assessment, but Mr Patel failed to assess whether, and if so to what extent, LHG Pte was able to support Newport. His failure to challenge management and to obtain and review the group's forecasts and budgets was a striking omission, especially since: (i) the Respondents had requested the forecasts, but management appeared unwilling to provide the audit evidence sought; and (ii) K&K's predecessors had been asked to step aside because they had been unable to obtain the required understanding of LHG Pte's financial position. These were red flags that warranted investigation.

GOING CONCERN ASSESSMENT OF LIBERTY PERFORMANCE

Overview

227. Liberty Performance's financial statements for FY20 were prepared on a going concern basis. They did not disclose any material uncertainty.
228. In the course of their audit work, the Respondents (rightly) acknowledged that Liberty Performance was reliant on LHG Pte's funding to survive. They also acknowledged (again, rightly) that LHG Pte could only provide funding if LHG Pte itself secured external funding. In the absence of external funding, there was a material uncertainty related to events or conditions that may have cast significant doubt on Liberty Performance's ability to continue as a going concern. The Respondents requested and received a letter from Third Party Financier 1 (see paragraph 48 above) stating:

In view of our long-term relationship and upon your request for additional funding support, we are willing to extend credit lines of up to a further USD\$1 billion. These

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credit lines can be availed to support existing business units within your group and new acquisitions which are in line with group's strategic objectives and goals.

This credit line will be subject to our usual lending criterion and due diligence.

This support is available for a period of 24 months from date of this letter and can be extended by mutual agreement..

229. For the reasons explained above at paragraph 49 the Respondents failed to obtain sufficient appropriate evidence that LHG Pte had secured external funding and failed to consider the implications for the Auditor's Report and the financial statements.

Audit work

230. In their preliminary assessment, the Respondents noted that Liberty Performance was reliant on group funding for survival.
231. In their final review, the Respondents explained that, because Liberty Performance was reliant on LHG Pte to meet its liabilities as and when they fell due, they had carried out a review of the Group budget, forecast and cash flow.
232. The Respondents' audit work in respect of group support (a critical issue as regards going concern) was seriously deficient. The Respondents correctly identified that whatever Liberty Performance's funding requirements were from LHG Pte, LHG Pte could only provide funding if LHG Pte itself obtained external funding. The Respondents evidently attached great weight to the letter from the Third Party Financier 1 offering funding support to LHG Pte which was otherwise forecasting negative cash flows (referred to at paragraphs 49 and 228 above). They were wrong to do so for two reasons. First, the letter did not offer a firm, unconditional facility. Second, the letter referred to the extension of credit lines (without explicitly specifying which credit lines) as opposed to new credit lines. Financing was receivables-based and therefore, by definition, could not be drawn down if the need for cash resulted from a fall in sales.
233. Therefore, the Third Party Financier 1 letter did not constitute sufficient appropriate evidence that LHG Pte had access to external funding. In the absence of external funding, Liberty Performance could not safely rely on group support and consequently there was a material uncertainty related to events or conditions that may have cast significant doubt on Liberty Performance's ability to continue as a going concern. The

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Respondents failed to identify this important issue and disclose that there was, as a result, a material uncertainty.

Breaches of *Relevant Requirements*

234. Through the conduct set out at paragraphs 230 to 233 above, in respect of the FY20 audit of Liberty Performance, the Respondents breached:

234.1 Paragraph 18 of ISA 570, in that they: (a) failed to identify, in the absence of sufficient appropriate audit evidence that LHG Pte had access to external funding, the existence of a material uncertainty; and in the circumstances (b) concluded erroneously that there was no material uncertainty.

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Part E SANCTIONS

235. Paragraph 10 of the FRC’s Sanctions Policy (Audit Enforcement Procedure) (the “**Policy**”) provides that *Sanctions* are intended to be effective, proportionate and dissuasive. The reasons for imposing *Sanctions* are identified in paragraph 11 of the Policy as the following:

235.1 to declare and uphold proper standards of conduct amongst *Statutory Auditors* and *Statutory Audit Firms* and to maintain and enhance the quality and reliability of future audits;

235.2 to maintain and promote public and market confidence in *Statutory Auditors* and *Statutory Audit Firms* and the quality of their audits and in the regulation of the accountancy profession;

235.3 to protect the public from *Statutory Auditors* and *Statutory Audit Firms* whose conduct has fallen short of the *Relevant Requirements*; and

235.4 to deter *Statutory Auditors* and *Statutory Audit Firms* from breaching the *Relevant Requirements* relating to *Statutory Audit*.

236. In considering *Sanctions* to be imposed on K&K, Executive Counsel has, in summary, considered the following matters in accordance with the Policy.

Nature, seriousness, gravity and duration of the breaches

237. The breaches of *Relevant Requirements* affected four separate single-year audits. In each of the Audits, the breaches were serious, numerous, and pervasive throughout the audit. They relate to the overarching principles of objectivity and independence, which are paramount, and provide a basis for user trust and confidence in the audits performed by *Statutory Auditors* and *Statutory Audit Firms*.

238. As a result of the breaches of *Relevant Requirements*, the Audits failed to:

238.1 obtain reasonable assurance about whether the FY19 financial statements of Speciality, Alvance, and/or Newport were, as a whole, free from material misstatement;

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- 238.2 obtain sufficient appropriate audit evidence to conclude whether a material uncertainty existed about Speciality's, Alvance's, and/or Newport's ability to continue as a going concern; and
- 238.3 disclose the existence of a material uncertainty related to events or conditions that may have cast significant doubt on Liberty Performance's ability to continue as a going concern.
239. The audit areas relevant to the breaches (recognition of income and expenses, and going concern) are fundamental to the business of the relevant entities and it is of the utmost importance that they are audited in accordance with *Relevant Requirements*. In each of the FY19 audits of Speciality, Alvance and Newport, there were unusual events or transactions that exhibit risks of potential fraudulent financial reporting, which the Respondents failed to audit to the required standards. The going concern assessments for these entities were made all the more important given, amongst others, these unusual events or transactions had the effect of turning the entities from loss-making to profitable or near-profitable, and in the context of the FY20 audit of Liberty Performance, the entity's reliance on group support.
240. Whilst it is not alleged that the FY19 financial statements of Speciality, Alvance, or Newport, or the FY20 financial statements of Liberty Performance were in fact misstated, in aggregate the breaches:
- 240.1 undermine confidence in the standards of conduct in general of *Statutory Auditors* and *Statutory Audit Firms*, and/or in *Statutory Audit*.
- 240.2 have the potential to adversely affect the creditors, employees and suppliers to the entities, or other market users, and could have harmed investor, market and public confidence in the truth and fairness of the financial statements published by *Statutory Auditors* or *Statutory Audit Firms*.
241. The Respondents derived financial gain or benefit from the breaches, being the audit and non-audit fee income from GFG Alliance, which gave rise to a self-interest threat that compromised the Respondents' objectivity and independence. This is a factor that Executive Counsel will consider below, in the context of *Sanctions* imposed on Mr Patel, because all such financial gain or benefit was allocated to him. Insofar as *Sanctions* to be imposed on K&K, Executive Counsel has taken into account the partnership's collective decision to approve the engagements with GFG Alliance notwithstanding their awareness of the fees and consequently the self-interest threat.

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242. Whilst the self-interest threat caused the Respondents to adopt a flawed and artificial approach to the independence provisions in the Ethical Standards, the breaches of the Ethical Standards in this regard did not involve dishonesty or recklessness.
243. Neither were the other breaches of *Relevant Requirements* intentional, deliberate, dishonest or reckless.
244. K&K either resigned or were asked to stand-down by the GFG Alliance entities in 2022 and took steps to improve its audit quality following commencement of the investigation. Inspections of K&K by the ICAEW in April and July 2023 concluded that K&K had demonstrated that it had made progress in improving audit quality. K&K also appointed a new Ethics Partner on 1 April 2025. Notwithstanding this, Executive Counsel considers it necessary to impose *Sanctions* to reduce the risk of the same type of breach recurring.
245. The financial strength of the Respondents is a relevant consideration when determining the appropriate *Sanctions*. In that regard, K&K is a small firm compared with the majority of those that have been the subject of enforcement action under the AEP. It currently has seven partners.

King & King

246. Having assessed the nature, seriousness, gravity and duration of the breaches, Executive Counsel has identified the following combination of *Sanctions* to be applied to K&K as appropriate:
- 246.1 a financial sanction of £70,000, discounted for admissions and early disposal by 25% so that the financial sanction payable is £52,500. The financial sanction shall be paid in instalments, as follows:
- (i) the first instalment, being 40% of the financial sanction, shall be paid within three months from the date of the *Final Decision Notice*;
 - (ii) the second instalment, being 30% of the financial sanction, shall be paid within 12 months from the date of the first instalment;
 - (iii) the third instalment, being 30% of the financial sanction, shall be paid within 12 months from the date of the Second Instalment. Should K&K experience significant financial difficulties such that it is not in a position to pay the third instalment when it is due, Executive Counsel may, upon

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considering representations to be provided by K&K at least three months before the third instalment is due, consider alternative arrangements for the payment of the Third Instalment.

- 246.2 a published statement in the form of a severe reprimand;
- 246.3 a declaration that the FY19 Audit reports for Speciality, Alvanca, and Newport, and the FY20 Audit report for Liberty Performance signed on behalf of K&K did not satisfy the *Relevant Requirements*, as set out in this *Final Decision Notice*;
- 246.4 an order that K&K shall not seek to obtain registration on the PIE Auditor Register (or any equivalent qualification, as decided by the relevant prevailing registration body) for a period of five years from the date of the *Final Decision Notice*. Any application for registration on the PIE Auditor Register (or equivalent qualification) after the specified period shall comply with the standard processes and be considered by the prevailing registration body on its merits;
- 246.5 an order that K&K shall not accept any new appointment as *Statutory Auditor* to any private company which meets the definition of a “*high turnover company*” in section 414CA(2A) of the Companies Act 2006 ⁵, for a period of two years from the date of the *Final Decision Notice*. By agreement, a condition shall be applied to K&K’s audit licence to that effect;
- 246.6 an order that a personal undertaking be given by each of the Responsible Individuals in K&K that they will ensure compliance with the restriction in respect of Mr Patel as set out in paragraph 260.4(ii) below;
- 246.7 an order that K&K will within 14 days of the date of the *Final Decision Notice* provide to Executive Counsel proposals regarding firm-wide training (with mandatory attendance for all partners and fee-earners) on ethical compliance and audit areas (which shall include fraud risk and going concern) which it

⁵ Section 414CA(2A) of the Companies Act 2006 provides:

“A company is a “*high turnover company*” in relation to a financial year—

(a) where the company was not a parent company in that financial year, if in that year the company’s turnover was more than £500 million;

(b) where the company was a parent company at any time within that financial year, if in that year a group headed by the company had an aggregate turnover of more than £500 million net.”

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intends to implement, with such training to take place within a time period to be agreed with Executive Counsel;

246.8 an order that K&K shall pay for an accelerated audit monitoring review by the ICAEW within 18 months of the date of the *Final Decision Notice* (the “**First Inspection**”) to include the following:

- (i) K&K’s compliance with ISQM1, including relevant ethical requirements, client acceptance and continuance procedure; and
- (ii) review of a sample of audit files as selected by the ICAEW, with specific focus on the audit areas where breaches have been identified in the investigation.

Depending on the outcome of the First Inspection, the ICAEW may arrange a further supervisory visit, to be paid for by K&K, within 24 months of the First Inspection, to ensure that any remaining risk of recurrence is addressed.

247. Executive Counsel has taken into account any aggravating and mitigating factors that exist (to the extent that they have not already been taken into account in relation to the nature, seriousness, gravity and duration of the breaches).

Aggravating factors

248. There are no aggravating factors that have not already been considered in the context of the seriousness of the breaches.

Mitigating factors

249. K&K has a clean disciplinary record but this is not regarded as meriting any further reduction in the *Sanctions* against K&K, in the circumstances.

250. K&K provided the level of cooperation required of them during the investigation.

Deterrence

251. Having considered the matters set out at paragraphs 72 and 73 of the Policy, Executive Counsel considers that no adjustment for deterrence is required in this case.

Discount for Admissions and Settlement

252. Having taken into account the full admissions by K&K and the stage at which those admissions were made (at an early point within Stage 1 of the case in accordance with

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paragraph 84 of the Policy), Executive Counsel determined that a reduction of 25% as to the financial sanction is appropriate, such that a financial sanction of £52,500 is payable.

Other considerations

253. In accordance with paragraph 47(c) of the Policy, Executive Counsel has taken into account the size / financial resources and financial strength of K&K and the effect of a financial sanction on its business.

Milankumar Patel

254. In considering the *Sanctions* to impose on Mr Patel, Executive Counsel has, in summary, considered the following factors in accordance with the Policy.

Nature, seriousness, gravity and duration of the breaches

255. The factors cited at paragraphs 237 to 245 above are repeated.

256. Mr Patel is an audit partner and the Senior Partner holding 60% of K&K's voting rights during the period under investigation. He had over thirty years of audit experience at the time of the Audits.

257. The Policy provides, at paragraph 13(d), that in order to achieve its objectives, Executive Counsel may impose *Sanctions* which "*eliminate any financial gain or benefit derived as a result of the breach of the Relevant Requirements*". Paragraph 24(c) of the Policy includes, as a factor to be considered when assessing the nature and seriousness of the breach of *Relevant Requirements*, "*the financial benefit derived or intended to be derived from the breach (the amounts of the profits gained or losses avoided by the Respondent, in so far as they can be determined)*". Paragraph 81 further directs that no discount should be applied to the amount of any financial penalty that equates to the disgorgement of any benefit gained or loss avoided.

258. This is a case where the financial gain or benefit derived from the breaches (being the audit and non-audit fee income from GFG Alliance) gave rise to a self-interest threat that compromised the Respondents' objectivity and independence. Executive Counsel considers that disgorgement of the financial gain or benefit derived as a result of the breaches is therefore appropriate.

259. As explained at paragraph 63 above, all of the profits that flowed from work for GFG Alliance entities were allocated to Mr Patel. The parties have agreed for the purposes

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of this decision that the applicable financial gain or benefit derived by Mr Patel as a result of the breaches of *Relevant Requirements* is £288,684 (having taken into account taxes and what would be considered, in the circumstances of this case, an appropriate level of fees that the Respondents could have earned from GFG Alliance without potentially compromising their objectivity and independence).

Identification of Sanction

260. Having assessed the nature, seriousness, gravity and duration of the breaches, Executive Counsel has identified the following combination of *Sanctions* as appropriate:

260.1 a financial sanction comprising:

- (i) £288,684 in respect of the financial gain or benefit Mr Patel derived as a result of the breaches, i.e. the disgorgement element; and
- (ii) £50,000 which is the additional component of the financial sanction, separate to disgorgement, and subject to a discount of 25% for admissions and early settlement,

The total financial sanction will be £338,684. This shall be paid in instalments, as follows:

- (i) the first instalment, being 40% of the financial sanction, shall be paid within three months from the date of the *Final Decision Notice*;
- (ii) the second instalment, being 30% of the financial sanction, shall be paid within 12 months from the date of the first instalment;
- (iii) the third instalment, being 30% of the financial sanction, shall be paid within 12 months from the date of the second instalment. Should Mr Patel experience significant financial difficulties such that he is not in a position to pay the third instalment when it is due, Executive Counsel may, upon considering representations to be provided by Mr Patel at least three months before the third instalment is due, consider alternative arrangements for the payment of the third instalment.

260.2 a published statement in the form of a severe reprimand;

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260.3 a declaration that the FY19 Audit reports for Speciality, Alvanca, and Newport, and the FY20 Audit report for Liberty Performance signed by Mr Patel did not satisfy the *Relevant Requirements*, as set out in this *Final Decision Notice*; and

260.4 following his agreement not to sign *Statutory Audit* Reports, an order that Mr Patel's status as Responsible Individual be withdrawn and that:

(i) for a period of three years from the date of the *Final Decision Notice* he shall not perform any *Statutory Audit* work or exert or seek to exert any influence upon any individual performing *Statutory Audit* work, and

(ii) he shall not apply for Responsible Individual status until the expiry of a further two years. Any application after the specified period shall comply with the standard processes and be considered by the prevailing registration body on its merits.

260.5 an order that a personal undertaking be given by Mr Patel to Executive Counsel regarding his compliance with the order in paragraph 260.4 above.

261. Executive Counsel has taken into account any aggravating and mitigating factors that exist (to the extent that they have not already been taken into account in relation to the seriousness of the breaches).

Aggravating factors

262. There are no aggravating factors that have not already been considered in the context of the seriousness of the breaches.

Mitigating factors

263. At the time of the Audits Mr Patel had a clean disciplinary record with the FRC, ICAEW and ACCA (the Association of Chartered Certified Accountants), but this is not regarded as meriting any further reduction in the *Sanctions* against him, in the circumstances.

264. Mr Patel provided the level of cooperation required of him during the investigation.

Deterrence

265. Having considered the matters set out at paragraphs 72 and 73 of the Policy, Executive Counsel considers that no adjustment for deterrence is required in this case.

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Discount for Admissions and Settlement

266. Having taken into account the full admissions by Mr Patel and the stage at which those admissions were made Executive Counsel determined that a reduction of 25% as to the financial sanction is appropriate.
267. As per paragraph 81 of the Policy, this discount will not apply to the amount of the financial sanction which equates to the disgorgement of benefit gained. The discount will therefore only apply to the additional component of £50,000, reducing the total amount payable to £326,184.

Other considerations

268. Executive Counsel has considered the applicability of paragraphs 47(d) and 50 of the Policy as regards Mr Patel.

Costs

269. Executive Counsel has taken into account the Respondents' financial position and the impact of the financial sanctions identified in this *Final Decision Notice*, and the Respondents' ability to pay. In the circumstances, Executive Counsel does not seek any amount in respect of her costs

Signed:

[Redacted.]

DEPUTY EXECUTIVE COUNSEL

Date: 17 December 2025

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Appendix A – Relevant Requirements, Standards and Guidance.

International Standards on Auditing (UK)	
ISA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK) Effective for audits commencing on or after 17 June 2016
Paragraph 15	The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.
ISA 220	Quality Control for an Audit of Financial Statements Effective for audits commencing on or after 17 June 2016
Paragraph 11	<p>The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:</p> <ul style="list-style-type: none"> (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence; (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.
ISA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements Effective for audits commencing on or after 17 June 2016
Paragraph 12	In accordance with ISA (UK) 200 (Revised June 2016), the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.
Paragraph 13	Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.
Paragraph 26	When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.

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<p>Paragraph 27</p>	<p>The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.</p>
<p>Paragraph 32</p>	<p>Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:</p> <p>(b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall:</p> <p style="padding-left: 40px;">(i) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall reevaluate the accounting estimates taken as a whole; and</p> <p style="padding-left: 40px;">(ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.</p> <p>(c) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p>
<p>ISA 315</p>	<p style="text-align: center;">Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment</p> <p style="text-align: center;">Effective for audits commencing on or after 17 June 2016</p>
<p>Paragraph 11</p>	<p>The auditor shall obtain an understanding of the following:</p> <p style="padding-left: 40px;">(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.</p> <p>(b) The nature of the entity, including:</p> <p style="padding-left: 80px;">(i) its operations;</p> <p style="padding-left: 80px;">(ii) its ownership and governance structures;</p> <p style="padding-left: 80px;">(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and</p> <p style="padding-left: 80px;">(iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.</p> <p>(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.</p> <p>(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.</p>

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	(e) The measurement and review of the entity's financial performance.
Paragraph 25	The auditor shall identify and assess the risks of material misstatement at: (a) the financial statement level; and (b) the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures.
ISA 330	The Auditor's Responses to Assessed Risks Effective for audits commencing on or after 15 December 2017
Paragraph 24	The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate: <ul style="list-style-type: none"> • Classification and description of financial information and the underlying transactions, events and conditions; and • Presentation, structure and content of the financial statements.
ISA 500	Related Parties Effective for audits commencing on or after 15 December 2010
Paragraph 6	The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.
ISA 505	External Confirmations Effective for audits commencing on or after 15 December 2010
Paragraph 7	When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including: <ul style="list-style-type: none"> (a) Determining the information to be confirmed or requested; (b) Selecting the appropriate confirming party; (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (d) Sending the requests, including follow-up requests when applicable, to the confirming party.
ISA 550	Related Parties Effective for audits commencing on or after 15 December 2010
Paragraph 23	For identified significant related party transactions outside the entity's normal course of business, the auditor shall: <ul style="list-style-type: none"> (a) Inspect the underlying contracts or agreements, if any, and evaluate whether: (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets; (ii) The terms of the transactions are consistent with management's explanations; and (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and (b) Obtain audit evidence that the transactions have been appropriately authorized and approved.

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<p>Paragraph 25</p>	<p>In forming an opinion on the financial statements in accordance with ISA (UK) 700 the auditor shall evaluate:</p> <p>(a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and</p> <p>(b) Whether the effects of the related party relationships and transactions:</p> <p style="padding-left: 40px;">(i) Prevent the financial statements from achieving fair presentation (for fair presentation frameworks); or</p> <p style="padding-left: 40px;">(ii) Cause the financial statements to be misleading (for compliance frameworks).</p>
<p>ISA 570</p>	<p style="text-align: center;">Going Concern</p> <p style="text-align: center;">Effective for audits commencing on or after 17 June 2016</p>
<p>Paragraph 6</p>	<p>The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.</p>
<p>Paragraph 9</p>	<p>The objectives of the auditor are:</p> <p>(a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;</p> <p>(b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and</p> <p>(c) To report in accordance with this ISA (UK).</p>
<p>Paragraph 10</p>	<p>When performing risk assessment procedures as required by ISA (UK) 315 (Revised June 2016), the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and:</p> <p>(a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them;</p> <p style="padding-left: 40px;">or</p> <p>(b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.</p>

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Paragraph 12	The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8–A10, A12–A13)
Paragraph 12D-1	In accordance with ISA (UK) 200 (Revised June 2016), the auditor shall maintain professional skepticism throughout the audit and in particular when reviewing future cash flow relevant to the entity's ability to continue as a going concern.
Paragraph 13	In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in ISA (UK) 560, the auditor shall request management to extend its assessment period to at least twelve months from that date
Paragraph 16	<p>If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:</p> <p>(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.</p> <p>(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances</p> <p>(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:</p> <p style="padding-left: 40px;">(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and</p> <p style="padding-left: 40px;">(ii) Determining whether there is adequate support for the assumptions underlying the forecast.</p> <p>(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.</p> <p>(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.</p>
Paragraph 18	Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate ISA (UK) 570 – Revised June 2016 disclosure of the nature and implications of the uncertainty is necessary for:

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	<p>(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or</p> <p>(b) In the case of a compliance framework, the financial statements not to be misleading.</p>
ISA 600	<p>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</p> <p>Effective for audits commencing on or after 17 June 2016</p>
Paragraph 44	<p>The auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion.</p>
ISA 620	<p>Using the Work of an Auditor's Expert</p> <p>Effective for audits commencing on or after 17 June 2016</p>
Paragraph 7	<p>If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.</p>
ISA 700	<p>Forming an Opinion and Reporting on Financial Statements</p> <p>Effective for audits commencing on or after 17 June 2016</p>
Paragraph 12	<p>The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.</p>
Paragraph 13	<p>In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:</p> <p>(a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner;</p> <p>(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;</p> <p>(c) The accounting estimates made by management are reasonable;</p> <p>(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:</p> <ul style="list-style-type: none"> • The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.

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	<ul style="list-style-type: none"> The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. <p>(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and</p> <p>(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.</p>
Ethical Standard 2016	
Part A, Overarching Principle 1	The firm, its partners and all staff shall behave with integrity and objectivity in all professional and business activities and relationships.
Part A, Overarching Principle 2	In relation to each engagement, the firm, and each covered person, shall ensure (in the case of a covered person, insofar as they are able to do so) that the firm and each covered person is free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude the independence of the firm or any covered person is compromised.
Ethical Standard 2019	
Part A, Overarching Principle A1	The firm, its partners and all staff shall behave with integrity and objectivity in all professional and business activities and relationships.
Part A, Overarching Principle A2	In relation to each engagement, the firm, and each covered person, shall ensure (in the case of a covered person, insofar as they are able to do so) that the firm and each covered person is free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude the independence of the firm or any covered person is compromised.
Part A paragraph 1.35	When identifying and assessing threats to the integrity or objectivity of the firm or any covered persons, including any that may compromise independence, the engagement partner shall take into account current relationships with the entity (including non-audit / additional services provided and known relationships with connected parties of the entity) and with other parties in certain circumstances (see paragraph 1.37), that existed prior to the current engagement and any known to be in prospect following the current engagement.
FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland Effective for accounting periods beginning on or after 1 January 2015	
Section 2 Concepts and Pervasive Principles	
Paragraph 23.4	An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. In an agency relationship, an entity (the agent) shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.
Paragraph 23.10	An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:

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	<p>(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;</p> <p>(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;</p> <p>(c) the amount of revenue can be measured reliably;</p> <p>(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and</p> <p>(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.</p>
	<p>Example 27 Determining whether an entity is acting as a principal or as an agent</p>
Paragraph 23A.37	<p>Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances</p>
Paragraph 23A.38	<p>An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as principal include:</p> <p>(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer; (b) the entity has inventory risk before or after the customer order, during shipping or on return;</p> <p>(c) the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and</p> <p>(d) the entity bears the customer’s credit risk for the amount receivable from the customer.</p>
Paragraph 23A.39	<p>An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.</p>
Paragraph 23A.40	<p>When an entity has entered into a contract as an undisclosed agent, it is normally acting as principal.</p>
Paragraph 23A.41	<p>The amounts collected by an agent on behalf of a principal are not revenue. Instead, revenue is the amount of commission</p>