

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

(1) ARRANDCO AUDIT LTD (FORMERLY RSM TENON AUDIT LTD)

(2) JEREMY FILLEY

**EXPLANATORY MEMORANDUM TO THE SETTLEMENT AGREEMENT AND
PARTICULARS OF FACT AND MISCONDUCT**

The FRC has published the Settlement Agreement and Particulars of Fact and Misconduct agreed between the Executive Counsel to the FRC and (1) Arrandco Audit Ltd and (2) Jeremy Filley (“the Respondents”).

The Settlement Agreement reflects the terms of settlement agreed between the Executive Counsel and the Respondents, and has been approved by an independent person. In reaching the Settlement Agreement, it was not necessary for the Executive Counsel to receive or consider any evidence or representations from any parties other than the Respondents.

Accordingly this Settlement Agreement and Particulars of Fact and Misconduct has not made, and should not be taken to have made, any finding against any individual or entity other than the Respondents (including Quindell plc, any of its subsidiaries or any individual who was a director, member of management or employee at Quindell plc or any of its subsidiaries).

It would not be fair to treat any part of this Settlement Agreement and Particulars of Fact and Misconduct as constituting or evidencing findings against anyone other than the Respondents.

The published Settlement Agreement and Particulars of Fact and Misconduct anonymises several third parties, who are instead identified by ciphers. To assist readers with the

intelligibility of these documents, and in order to understand the nature of the Misconduct found, the relationship between the cipher and the nature of the third party is set out below.

Cipher	Third party
TP1	A company that entered into agreements with Quindell and Quindell Portfolio plc
TP2	A former subsidiary of TP1 that was acquired by Quindell
TP3	An entity that was acquired by Quindell

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

(1) ARRANDCO AUDIT LTD (FORMERLY RSM TENON AUDIT LTD)

(2) JEREMY FILLEY

SETTLEMENT AGREEMENT

1. This Settlement Agreement ("**Agreement**") is made on the *11 December* 2017 between Claudia Mortimore as the Interim Executive Counsel of the Financial Reporting Council ("**FRC**"), of 125 London Wall, London, EC2Y 5AS ("**the Executive Counsel**") and Arrandco Audit Limited (formerly RSM Tenon Audit Limited) ("**Tenon**") and Jeremy Filley ("**Mr Filley**"). The Executive Counsel, Tenon and Mr Filley together are described as "**the Parties**". The Agreement is evidenced by the signatures of the Executive Counsel on her own behalf, by Penrose Foss on behalf of Arrandco Audit Limited and by Mr Filley on his own behalf.
2. The Particulars of Fact and Acts of Misconduct against Tenon and Mr Filley ("**the Particulars**") were prepared by the Executive Counsel in accordance with the FRC Accountancy Scheme ("**the Scheme**") and are annexed. The Particulars relate to the conduct of each of Tenon and Mr Filley in relation to the audit of the financial statements of Quindell Portfolio plc for the period ended 31 December 2011. Tenon and Mr Filley admit the Acts of Misconduct set out in the Particulars.
3. The Parties recognise that the determination to be made in this case is a matter for the Tribunal member in accordance with paragraph 8(4)(ii) of the Scheme.

Sanction

4. The Parties have agreed the following terms of settlement:
 - a. That Tenon and Mr Filley each receive a Reprimand;
 - b. That Tenon pay a Fine of £1,000,000 (discounted for settlement by 30% to £700,000).
 - c. That Mr Filley pay a Fine of £80,000 (discounted for settlement by 30% to £56,000).

- d. The Fines shall be paid not later than 28 days after the date when this Agreement takes effect.
5. In reaching this Agreement, the Executive Counsel considered the following stages and took account of the following factors in accordance with the FRC's Sanctions Guidance:

Nature and Seriousness of the Misconduct

6. The Misconduct was concerned with the audit of a listed company and thus potentially adversely affected a significant number of people in the United Kingdom. The Misconduct involved failings in two areas of the audit, including in relation to the exercise of insufficient professional scepticism. The Misconduct could undermine confidence in the standards of conduct in general of Members and/or in financial reporting and/or in the profession generally. As the engagement partner, Mr Filley was the senior member of the audit team with overall responsibility for the conduct of the audit.
7. The Misconduct was not dishonest, deliberate or reckless and did not involve a failure to act with integrity. The Misconduct related to a single audit year and was the first year that Tenon or Mr Filley had audited the relevant entity. The Misconduct was not repeated. No financial benefit was derived or intended to be derived from the Misconduct, in that the fees received were unconnected with and not dependent on the failings identified.

Identification of Sanction

8. Having assessed the seriousness of the Misconduct, the Executive Counsel considers that a Reprimand and a Fine is an appropriate sanction. In reaching that conclusion Executive Counsel has taken into account any aggravating and mitigating factors, to the extent that they have not already been taken into account in considering the nature and seriousness of the Misconduct. Having considered the additional factors set out below, Executive Counsel has determined that no adjustment to sanction is necessary.

Aggravating Factors

9. No aggravating factors have been identified.

Mitigating Factors

10. The following mitigating factors were identified:
 - a. Tenon and Mr Filley have a good compliance history and disciplinary record.

- b. Neither Tenon nor Mr Filley benefitted from the Misconduct.

Deterrence

11. No adjustment for deterrence is required in this case.

Discount for Settlement

12. Having taken into account the admissions made by Tenon and Mr Filley and the stage at which those admissions were made (in Stage 1 of the case in accordance with paragraph 59 of the Sanctions Guidance), the Executive Counsel determined that a reduction of 30% as to the Fine as a settlement factor is appropriate.

Amount of fine

13. The Executive Counsel considers that, having had regard to the circumstances of this case and the Parties, and previous relevant outcomes of cases under the Scheme, fines of £1,000,000 and £80,000 before any discount for Tenon and Mr Filley respectively are proportionate to the Misconduct and will act as an effective deterrent. In accordance with paragraph 32(iii) of the Sanctions Guidance, the Executive Counsel has taken into account the financial resources of Tenon and Mr Filley and whether there are arrangements that would result in part or all of the Fine being paid or indemnified by insurers.

Costs

14. The Parties have agreed the following terms of settlement:

- a. That a total sum of £90,000 be paid as an appropriate contribution to the costs of, and incidental to, the investigation in respect of Tenon and Mr Filley.
- b. The costs shall be paid no later than 28 days after the date when the Settlement Agreement takes effect.

In accordance with paragraph 62 of the Sanctions Guidance, the Executive Counsel has taken into account the financial position of Tenon and Mr Filley and the impact of the Fine; and whether there are arrangements that would result in part or all of any award of costs being paid or indemnified by insurers.

15. If the decision of the Tribunal is to approve the Settlement Agreement, including the sanctions set out above, then the Settlement Agreement shall take effect from the next working day after the date on which the notice of the decision is sent to the Parties in accordance with paragraph 8(5) of the Scheme.

[Redacted]

Claudia Mortimore

Interim Executive Counsel

[Redacted]

Penrose Foss

On behalf of ARRANDCO AUDIT LTD

11/12/17

Date

7/12/17

Date

[Redacted]

Jeremy Filley

4/12/17

Date

IN THE MATTER OF:

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

(1) ARRANDCO AUDIT LTD (FORMERLY RSM TENON AUDIT LTD)

(2) JEREMY FILLEY

PARTICULARS OF FACT AND ACTS OF MISCONDUCT

INTRODUCTION

1. The Financial Reporting Council ("**the FRC**") is the independent disciplinary body for the accountancy profession in the UK. The FRC's rules and procedures relating to accountants are set out in the Accountancy Scheme of 8 December 2014 ("**the Accountancy Scheme**").
2. On 14 July 2015 the Conduct Committee of the FRC directed the Executive Counsel to investigate the conduct of the Respondents (and others) in relation to:

"the preparation, approval and audit of the financial statements of Quindell Plc for the period ended 31 December 2011 to the year ended 31 December 2013 and for the preparation and review of the company's interim results for the half year ended 30 June 2014."
3. This is the Executive Counsel's Particulars of Fact and Acts of Misconduct ("**the Particulars**") in respect of Arrandco Audit Limited (formerly RSM Tenon Audit Limited) ("**Tenon**"), and Mr Jeremy Filley ("**Mr Filley**", together "**the Respondents**") as regards their conduct in relation to the audit of the financial statements of Quindell Portfolio plc ("QPP") and Quindell Limited ("Quindell") for the periods ended 31 December 2011 ("**the 2011 QPP Financial Statements**" and "**the 2011 Quindell Financial Statements**", together "**the Financial Statements**").

Quindell

4. Quindell was a private company founded in 2000 [...]. The principal activity of the company was described by Tenon as *"the provision of solutions to both consumers and businesses within technology, telecommunications, finance, insurance and utilities. These activities are conducted both directly and on an outsourced or white labelled basis for other major brands..."*¹
5. Quindell experienced significant growth after listing on AIM in 2011, reaching a market capitalisation of £2.7 billion in April 2014.

The Respondents

6. Tenon was, during the period of the relevant audit engagements, a member firm of the Institute of Chartered Accountants in England and Wales ("**ICAEW**") and Mr Filley is a current member; consequently Tenon is a Former Member Firm and Mr Filley is a Member for the purposes of the Accountancy Scheme.
7. Tenon was appointed as auditor of QPP and its subsidiaries (including Quindell) in the latter part of 2011. Mr Filley was the engagement partner responsible for the conduct of the audits and providing the audit opinions in the Financial Statements. Tenon was subsequently acquired by Baker Tilly UK Audit LLP, now re-named RSM UK Audit LLP. [...].

The Financial Statements

8. QPP produced financial statements for the 15 months ended 31 December 2011, signed on 16 March 2012. Quindell produced financial statements for the year ended 30 December 2011, which were signed on 26 September 2012. Both sets of financial statements included an unqualified audit opinion.

¹ "Quindell Limited- Summary of work performed in respect of HFI information"

THE RELEVANT STANDARDS & NATURE OF MISCONDUCT

Misconduct

9. Paragraph 2(1) of the Accountancy Scheme defines an "Adverse Finding" (inter alia) as a *"finding by a Disciplinary Tribunal that a Member or Member Firm has committed Misconduct."* "Misconduct" is defined under Paragraph 2(1) of the Scheme as:-

"...an act or omission or series of acts or omissions, by a Member or Member Firm in the course of his or its professional activities (including as a partner, member, director, consultant, agent, or employee in or of any organisation or as an individual) or otherwise, which falls significantly short of the standards reasonably to be expected of a Member or Member Firm or has brought, or is likely to bring, discredit to the Member or the Member Firm or to the accountancy profession."

The relevant standards of conduct

10. The standards of conduct reasonably to be expected of the Respondents included those set out in the Fundamental Principles contained in Part A of the Code of Ethics ("**the Code**") issued by the ICAEW. The Fundamental Principles contained in the Code are made in the public interest and they are designed to maintain a high standard of efficiency and professional conduct by all members of the ICAEW.
11. The Fundamental Principles set out in paragraph 100.5 of the Code required the Respondents, inter alia, to act with "Professional Competence and Due Care" and to:

*"maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and **in accordance with applicable technical and professional standards.**"* (emphasis added).

The applicable technical standards

12. The applicable auditing standards were the ISAs (UK and Ireland), issued by the Auditing Practices Board. The purpose of the ISAs is to establish standards and general principles with which auditors are required to comply in the conduct of any audit of financial statements. Together with the Ethical Standards, they form a body of standards that should be applied before an auditor can express an opinion that financial statements give a "true and fair view" and thus comply with section 393 of the Companies Act 2006.

ISA 200 (Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing)

13. ISA 200 sets out the Objective and General Principles governing an audit of financial statements.
14. ISA 200, paragraph 11 requires an auditor to:

"obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework"

The applicable financial reporting framework in this case was International Financial Reporting Standards ("IFRSs").

Paragraph 15 further provides:

"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)

15. ISA 220 sets out the specific responsibilities of an auditor regarding quality control procedures for the audit of financial statements.
16. The Engagement Partner is defined in paragraph 7(a) of ISA 220 as:

"The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm..."

ISA 220 further provides, at paragraph 15:

"The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (b) The auditor's report being appropriate in the circumstances..."

ISA 500 (Audit evidence)

17. ISA 500 sets out the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.
18. ISA 500 paragraph 11 provides:

"If

(a) audit evidence obtained from one source is inconsistent with that obtained from another; or

(b) the auditor has doubts over the reliability of information to be used as audit evidence, the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit."

THE FACTUAL BACKGROUND TO THE ADMITTED ACTS OF MISCONDUCT

The Mission Capital Acquisition

19. In May 2011 Quindell's entire share capital was acquired by Mission Capital plc in a share for share exchange. Mission Capital was an AIM listed company that had been formed to invest in commercial property, but was, by 2011, effectively a cash shell. Its shares had been suspended from AIM in March 2011.
20. Following the acquisition of Quindell its shares were re-listed and it was renamed Quindell Portfolio plc. An adjustment was made to the year-end reporting date, resulting in the QPP financial statements being published in respect of the 15 month period ended 31st December 2011. [QPP senior management's] review in the financial statements made reference to the acquisition of Quindell Limited.
21. Tenon were the Reporting Accountants for the re-admission to AIM of QPP, and Mr Filley was part of the team for that engagement in that he reported on the accounts of Quindell. The transaction was described by Tenon as follows:

*"The directors of Quindell intend to obtain a listing through the reverse acquisition of Quindell by Mission in order to facilitate the future acquisition strategy. The directors of Quindell will become directors of the new Mission group together with one of the current Mission non-executive directors."*²
22. The **QPP** financial statements for the 15 month period disclosed goodwill arising from the acquisition of Quindell Limited of nearly £22 million.
23. The 2014 financial statements of QPP recorded a prior year adjustment to goodwill, reserves and retained earnings attributable to the restatement of the acquisition of Quindell Limited by Mission Capital as a reverse acquisition. Intangible assets were reduced by £25 million, retained Earnings were reduced by £14 million and a Reverse Acquisition Reserve of £11 million was created.

² Ibid

The accounting treatment of the Mission Capital acquisition

24. Paragraph B15 of IFRS 3 identifies a number of factors that should be taken into account to determine who is the acquirer in a business combination, where it might otherwise be unclear.

(a) the relative voting rights in the combined entity after the business combination - The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity...

(b) the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest - The acquirer is usually the combining entity whose single owner or organised group of owners holds the largest minority voting interest in the combined entity.

(c) the composition of the governing body of the combined entity - The acquirer is usually the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.

(d) the composition of the senior management of the combined entity - The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity.

(e) the terms of the exchange of equity interests - The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

And further, at paragraph B16:

The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.

Application of these factors to the information available at the time of the audit indicates that Quindell should have been treated as the acquirer in the Mission Capital acquisition:

- The former Quindell shareholders held [...] % of the shares of the new group;
- [A member of Quindell's senior management] held over [...] % of the shares of the new group;
- With the exception of one Mission Capital non-executive director, both the board and the senior management of the new group were composed of individuals who were either former directors of Quindell or were closely associated with Quindell and with [a member of Quindell's senior management];
- Mission Capital had c£600,000 of assets, but post combination its shareholders owned shares in the combined group worth >£2 million at the listing price; the increase in value can be seen as the premium paid by Quindell over the fair value of Mission Capital's shares.

25. IFRS 3 paragraph B19 describes circumstances in which treating a business combination as a reverse acquisition may be appropriate:

...reverse acquisitions sometimes occur when a private operating entity wants to become a public entity but does not want to register its equity shares. To accomplish that, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity...

This example resembles the acquisition of Quindell by Mission Capital, as described by Tenon in the document quoted at paragraph 21 (above).

26. Notwithstanding the above, the transaction was treated in QPP's financial statements as a conventional acquisition. The notes to the accounts recorded the acquisition of Quindell in May 2011, with total consideration valued at £30.7 million, of which c. £22 million was recognised as goodwill. This was incorrect.
27. Note 1 to the 2011 accounts is titled "General Information" and includes the following commentary regarding acquisitions made in the period:

"The Board has considered whether the acquisitions of Quindell Limited and [TP3] constitute reverse acquisitions under IFRS 3 'Business Combinations'. Having considered the criteria for determining the acquirer and acquire set out in appendix B of IFRS 3 the Board is satisfied that the acquirer in both cases is Quindell Portfolio Plc and therefore has adopted acquisition accounting for the business combination of those companies"

28. If it was a business combination the Mission Capital acquisition should have been treated as a reverse acquisition, with no (or no material) goodwill being recognised. Therefore the 2011 QPP Financial Statements did not comply with IFRS 3 and did not give a true and fair view in this respect.

The 2011 [TP1] transactions

29. In 2011 Quindell and subsequently QPP entered into a series of four agreements with a company called [TP1]. In outline the transactions were as follows:
- (i) In April 2011 Quindell acquired the beneficial interest in [TP1]'s contracts. The consideration paid was an initial tranche of 1.825 million Quindell shares (each valued at £1) and £175,000 by settlement of an intercompany account, plus a further variable tranche of up to 3.5 million shares, payment of which depended on the extent to which [TP1] met an 'earn out' profit target in a period of 12 months within the following 18 month period. Quindell was to invoice [TP1] for the sales under the contracts and [TP1] was to invoice Quindell for its costs in servicing those contracts.
 - (ii) In July 2011 [TP1] assigned to **QPP** the right to receive the proceeds from the sale of approximately 35% of the initial consideration shares (now **QPP** shares rather than Quindell), subsequently valued at £1 million. The explanation for this was that [TP1] owed £50,000 under the April agreement and could not pay the debt in cash. QPP in fact directed that some of the shares to be sold, and others used as consideration for businesses acquired by QPP during the year.
 - (iii) In October 2011 [TP1] assigned to **QPP** the right to receive the proceeds from the sale of the balance of the initial consideration shares. The agreement provided that [TP1] owed a further debt under the April agreement and could not pay in cash. The shares were sold and the proceeds split between [TP1] and QPP.

- (iv) In December 2011 [TP1] transferred the contracts into a subsidiary ([TP2]), which was then acquired by QPP. Consideration for the acquisition was 140 million QPP shares, which replaced the variable shares under the April agreement. Although the earn out provisions were said to remain in place, there was an 'early settlement' of this aspect of the agreement before the end of 2011, and all 140 million shares were transferred to [TP1]. As part of the December agreement, [TP1] re-acquired a single contract from QPP, for £2 million. This was seemingly paid in cash from the proceeds of the sale of the 140 million QPP shares.

The accounting treatment of the [TP1] transactions

30. The April 2011 transaction was reflected in the Quindell Financial Statements, with this description:

"Goodwill has arisen on the purchase of the beneficial interest in certain commercial contracts. The recoverable amount is determined based on value in use calculations"

Goodwill can only arise following a business combination³, but no business combination was disclosed and nor was any of the other information required to be disclosed under IFRS 3. In particular, there was no disclosure of the fair value of the consideration transferred at the acquisition date, and no information regarding the allocation of consideration between different classes of assets acquired. There was thus no explanation why, for example, the acquired interests in the contracts were not considered to be intangible assets. It is not clear from the Quindell Financial Statements whether the April 2011 transaction had been treated as a business combination (in which case the disclosures required by IFRS3 are deficient) or as a purchase of assets (in which case no goodwill should have been recognised). The treatment of the April 2011 transaction therefore did not comply with IFRS 3 and the Quindell Financial Statements did not give a true and fair view in this respect.

³ IFRS 3 paragraph 2 provides that *"This IFRS does not apply to...the acquisition of an asset or a group of assets that does not constitute a business...Such a transaction or event does not give rise to goodwill."*

31. The total proceeds of the shares sold or transferred under the July 2011 agreement, and Quindell's share of the proceeds of the shares sold under the October 2011 agreement, were recognised as revenue by QPP, amounting to £1.5 million. QPP sought to justify this on the basis that the agreements provided for the proceeds to be invoiced by QPP as "management fees", and that **QPP** had in fact provided services to [TP1] by finding buyers for the shares when there was not a liquid market for them. However, this ignored the economic reality of the transactions i.e. that once Quindell had the right to receive the proceeds of sale of the shares it had in substance reacquired its own equity instruments, and no revenue should have been recognised. The transactions should have been treated as treasury share transactions.

32. The acquisition of [TP2] under the December 2011 agreement was disclosed as a business combination in the QPP Financial Statements, even though this transaction concerned the same contracts where the acquisition of the beneficial interest had been treated under the April agreement as giving rise to goodwill in Quindell. These treatments were therefore inconsistent. The disposal of the single contract was treated as giving rise to £2 million revenue, even though this was a contract in which the beneficial interest had been acquired in April. The disposal should not have been treated as giving rise to any revenue, but as a reduction in the value of the assets previously acquired. The treatment of the July, October and December 2011 transactions did not comply with the relevant accounting framework and the QPP Financial Statements did not give a true and fair view in this respect.

The 2014 restatements

33. By 2014 QPP had been renamed Quindell plc and a new management team had been installed. The Quindell plc financial statements for the year ended 31 December 2014 included adjustments to the 2011 QPP financial statements in respect of the Mission Capital acquisition and the [TP1] transactions. The Mission Capital acquisition was treated as a reverse acquisition and the goodwill previously recognised was eliminated. In respect of the [TP1] transactions:

- (i) The disposal of shares under the July and October agreements were treated as treasury share transactions and the revenue previously recognised was removed; and
- (ii) The transfer back to [TP1] of the single contract under the December agreement was treated as giving rise to a reduction in goodwill, and the revenue previously recognised was removed.

ADMITTED ACTS OF MISCONDUCT

ACT 1

The conduct of the Respondents fell significantly short of the standards reasonably to be expected of, respectively, a Member and a Member Firm in that, in respect of the Mission Capital acquisition:

- (i) the Respondents failed to obtain reasonable assurance that the financial statements as a whole were free from material misstatement;**
- (ii) the Respondents failed to obtain sufficient appropriate audit evidence from which to draw a reasonable conclusion; and**
- (iii) the Respondents failed to demonstrate sufficient professional scepticism,**

and thereby the Respondents failed to comply with the requirements of ISA 200, ISA 220 and ISA 500 and failed to act in accordance with the Fundamental Principle of Professional Competence and Due Care contained in the Code.

Particulars

34. The goodwill recognised as a result of the acquisition accounting treatment adopted was material to the QPP Financial Statements and the Respondents were thus obliged to consider as part of the audit whether that treatment was appropriate. To support the treatment a paper was produced by [a member of QPP's senior management], and supplied to the auditor ("the [...] paper"). The [...] paper recognised that the majority of the factors identified in IFRS 3 indicated that treatment as a reverse acquisition was appropriate. However, it sought to justify treatment as a conventional acquisition by

reference to a number of assertions, including:

- That Mission Capital paid a premium over the pre-combination fair value of Quindell. It is not explained in the paper how this conclusion was reached —see paragraph 21 above.
 - That the post-acquisition Board of QPP was not dominated by the old Quindell team. This was also incorrect - see paragraph 21 above.
 - That the strategy for the Group was to pursue further acquisitions, and that there had been further acquisitions within the period. This was irrelevant in determining the appropriate accounting treatment for the initial acquisition. In any event, as noted by Tenon above, the acquisition strategy of the new group was that of Quindell, not Mission Capital.
35. Having received the [...] paper the Respondents were obliged to approach the issue with professional scepticism, and obtain sufficient appropriate evidence to support the treatment adopted.
36. However, the Respondents failed sufficiently to question or challenge the contents of the [...] paper and failed to identify that the key assertions it contained were either incorrect or largely irrelevant to the characterization of the acquisition. The Respondents failed to conduct a proper analysis of the information available to them in light of the requirements of IFRS 3. As a result, they wrongly concluded that the accounting treatment adopted by management was appropriate, when in fact it resulted in assets being overstated by some £22 million. They provided an unqualified opinion in respect of the QPP Financial statements when they did not comply with the relevant accounting framework and did not give a true and fair view.

ACT 2

The conduct of the Respondents fell significantly short of the standards reasonably to be expected of, respectively, a Member and a Member Firm in that, in respect of the 2011 [TP1] transactions:

- (i) the Respondents failed to obtain reasonable assurance that the financial statements as a whole were free from material misstatement;**
- (ii) the Respondents failed to obtain sufficient appropriate audit evidence from which to draw reasonable conclusions; and**
- (iii) the Respondents failed to demonstrate sufficient professional scepticism,**

and thereby the Respondents failed to comply with the requirements of ISA 200, ISA 220 and ISA 500 and failed to act in accordance with the Fundamental Principle of Professional Competence and Due Care contained in the Code.

Particulars

37. As identified at paragraph 32 above, the Financial Statements were inconsistent in their treatment of the April and December 2011 transactions. The Respondents failed to identify this inconsistency. The audit working papers do not show a clear conclusion being reached as to whether or not the April agreement gave rise to a business combination; consequently, the Respondents failed to identify that the Quindell Financial Statements recognised goodwill but did not contain any of the disclosures required if a business combination had occurred.
38. The Respondents did consider whether the share disposals under the July and October agreements should have been treated as treasury share transactions. However, they demonstrated insufficient professional scepticism regarding management's explanation as to how these agreements were reached, given the apparent lack of commercial benefit for [TP1], and also as regards the purported services provided by QPP. They failed to identify that the economic reality of the transactions indicated that they should have been treated as treasury share transactions not resulting in revenue for QPP.
39. The Respondents considered whether the disposal of the single contract should have

been treated as a reduction in the value of the assets previously acquired, but demonstrated insufficient scepticism regarding the explanations of management regarding this aspect of the transaction.

40. The Respondents wrongly concluded that the accounting treatment adopted by management in respect of the [TP1] transactions was appropriate when in fact it resulted in revenue being overstated by some £3.5 million. This amount was material to the Financial Statements. They provided an unqualified opinion in respect of the QPP Financial statements when they did not comply with the relevant accounting framework and did not give a true and fair view.