ANNEX B

IN THE MATTER OF

THE ACCOUNTANCY AND ACTUARIAL DISCIPLINE BOARD

-and-

(1) RSM ROBSON RHODES LLP

(2) GLYN WILLIAMS

ADMITTED STATEMENT OF FACTS

To be read together with the Admitted Formal Complaint

A. Introduction

The AADB

1. The Accountancy and Actuarial Discipline Board ("**the AADB**") is the independent, investigative and disciplinary body for the accountancy and actuarial professions in the UK. The AADB's Rules and Procedures are set out in the Scheme ("**the Scheme**")[1].

2. This statement sets out admitted facts by reference to Executive Counsel's paragraph 6(9) Formal Complaint in respect of:
   a. RSM Robson Rhodes LLP, which is now called Clearr LLP ("**Robson Rhodes**"), a Former Member Firm of the Institute of Chartered Accountants in England and Wales ("**ICAEW**");
   b. Mr Glyn Williams ("**Mr Williams**"), a Member of the ICAEW; (together "**the Respondents**")

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[1] As amended - 26 February 2010

in relation to the preparation, approval and audit of the financial statements of iSoft plc (the most significant entity within the iSoft Group plc group) and iSoft Group plc for the financial years ended 30 April 2003, 2004 and 2005.

3. The Respondents only admit those facts set out in this Statement and in the Admitted Formal Complaint.

iSoft

4. References in this statement to "**iSoft**" are as appropriate to iSoft plc and to iSoft Group plc unless otherwise stated.

5. iSoft was incorporated in 1998. Its principal business was the development and supply of software application products and related services to the healthcare industry, particularly hospital trusts and health authorities. It listed on the London Stock Exchange on 19 July 2000 and attained FTSE 250 status following its merger with Torex Plc on 23 December 2003.

6. Robson Rhodes were appointed iSoft's auditors from its incorporation in 1998 and audited its annual accounts from the date of incorporation up to and including the accounts for the year ended 30 April 2005.

7. Deloitte and Touche LLP ("**Deloitte**") were appointed as iSoft's auditors on 25 July 2005 and audited its accounts for the year ended 30 April 2006.

8. iSoft's consolidated financial results (as originally stated) for the years ended 30 April 2003, 2004, 2005 and 2006 are summarised in the following table:

	iSoft Group				**iSoft plc**			
	2003	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Revenue	91	149	262	202	56	94	102	67
Profit Before Tax	19	18	45	(344)	205	29	12	(80)

Net Assets	73	452	478	25	205	215	213	7
Net Assets before goodwill	(19)	(21)	22	(119)	175	180	186	5
Gross Assets	170	678	698	318	271	345	385	233

9. iSoft's accounts for the year ended 30 April 2006 (**"the 2006 Accounts"**), which were published on 25 August 2006 showed turnover of £201.7m and pre-tax loss of £343.8m. The results also included:

   a. A prior year adjustment totalling £174m in respect of revenue recognised in prior periods as a result of a change in accounting policy for revenue recognition (£76m, £54m and £44m for years ended 30 April 2005, 2004 and 2003 respectively) some of which was then included in 2006 and the balance in subsequent years;

   b. An equal increase in both liabilities and receivables of £58 million as a result of a decision to recognise contract financing obligations in the balance sheet as liabilities (where previously they had been considered non-recourse and not recognised);

   c. An impairment charge of £351.4m in respect of goodwill, reducing the carrying value of goodwill on the balance sheet to £144.1m.

10. The 2006 Annual Report also announced that a number of possible accounting irregularities had come to light that had been the subject of investigation by Deloitte.

11. Deloitte's audit opinion on the 2006 Accounts stated that: *"Because of the possible effects of the limitations in evidence available to us, we are unable to form an opinion as to whether:... the individual company financial statements give a true and fair view...of the state of the company's affairs as at 30 April 2006; and ...the individual company financial statements have been prepared in accordance with the Companies Act 1985..."*

The Respondents

12. Robson Rhodes was at all material times a Member Firm of the ICAEW and thus a Member Firm for the purposes of the Scheme.

13. Mr Williams is and was, at all material times, a member of the ICAEW and thus a Member for the purposes of the Scheme. He was a partner at Robson Rhodes from 1992 to 2007 and was the audit engagement partner for the audit of iSoft's accounts for the years ended 30 April 1998 to 2005 inclusive. Mr Williams was an experienced audit partner, being the national head of audit of Robson Rhodes from 2004.

14. The Complaint concerns Robson Rhodes' and Mr Williams' conduct in relation to the audit of the financial statements of iSoft for the years ended 30 April 2003, 2004 and 2005 which fell short of the standard reasonably to be expected of, respectively, a Member firm of auditors and a Member, in the following areas:

    a. Revenue Recognition;
    b. Funded Contract Receivables; and
    c. Goodwill.

    The factual background to each of these areas are dealt with and particularised in turn below.

B. Revenue Recognition

iSoft Accounting Policies

15. The sale of software applications by iSoft to customers involved a contractual arrangement with the customer for the supply, implementation and integration of the software along with associated support services over a specified period. As iSoft's contracts got larger over the years, the contracts involved more modification, customisation and integration of the software including integration with the customer's existing software systems. Certain major contracts also included guaranteed future upgrades, including upgrades to meet future health service requirements. This was in contrast to older contracts which essentially involved the supply of a standard product, requiring little modification with short implementation

timeframes. The contract periods also lengthened as illustrated at paragraphs 28, 35 and 45.

16. In the Annual Reports for the iSoft Group for the years ended 30 April 2002 and 2003, the notes to the financial statements stated: "*In the absence of a United Kingdom accounting standard on revenue recognition, the Group believes that the best guidance is set out under US GAAP [Generally Accepted Accounting Principles] in particular SOP97-2 and SAB 101. The Group's approach closely mirrors US GAAP, with revenue only recognised when:*

- persuasive evidence of an arrangement exists;

- physical delivery has occurred or services have been rendered;

- the price to the customer is fixed or determinable;

- any services deliverable under the supply arrangement are clearly separable from the software supply; and

- collectability is reasonably assured and there are no material outstanding conditions or contingencies attached to the receipt of monies due".

17. In the Annual Report for the iSoft Group for the year ended 30 April 2004, the notes to the financial statements stated: "*Historically, in the absence of a United Kingdom accounting standard on revenue recognition, the Group followed guidance set out under US GAAP, in particular SOP97-2 and SAB101. During the current financial year, the Accounting Standards Board issued Application Note G to FRS5 which closely mirrors the principles historically followed by the Group. As a result there has been no change to the recognition of revenue in the Group's financial statements*".

18. In the Annual Report for the iSoft Group for the year ended 30 April 2005, the notes to the financial statements stated: "*The Group follows guidance set out under US GAAP, in particular SOP97-2 and SAB101, and Application Note G to FRS5, for all revenues other than those derived from the development of bespoke software. Revenue derived from the development of bespoke software for individual customers is recognised on a long-term contract basis.*"

19. iSoft's financial statements for the years ended 30 April 2003, 2004 and 2005 identified that in relation to revenue, iSoft followed the guidance provided by US GAAP and in particular SOP 97-2 and SAB 101 which requires that revenue is only recognised when:

    a. Persuasive evidence of an arrangement existed;
    b. The price to the customer was fixed or determinable;
    c. Any services deliverable under the supply arrangement were clearly separable from the software supply;
    d. Physical delivery had occurred or services had been rendered;
    e. Contract milestones had been achieved[2];
    f. Collectability was reasonably assured and there were no material outstanding conditions or contingencies attaching to the receipt of monies due.

20. The accounting policy notes went on to state that turnover from the sale of software product licences was recognised at the time that the software licence was granted in accordance with agreed contractual triggers. This was typically the supply of the software product to the customer.

21. iSoft stated that it adopted guidance provided by the US GAAP framework in relation to revenue recognition and the guidance under SOP 97-2 in particular. Within this guidance, SOP 97-2 (paragraph 7) states that if the contract requires: "*significant production, modification, or customization of software*", it should also be accounted for as a long term contract. This is broadly consistent with the requirements of SSAP 9.

22. In a number of the major contracts, the documentation indicates that customers were expecting the software to operate satisfactorily to their unique detailed requirements.

23. Under the guidance within SOP 97-2, if the contract includes multiple elements, then consideration should be given to an appropriate estimate of fair value for each constituent element. If there is such an estimate of fair value, by reference to Vendor Specific Objective Evidence ("VSOE"), as defined below, or similar, then revenue should be allocated to each element based on the VSOE or fair value.

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[2] This criterion was not included in the 2003 Financial Statements.

24. The existence of sufficient VSOE, or a suitable alternative method of assessing the fair value of the constituent parts of a bundled contract, is a basic principle of SOP 97-2. VSOE is defined in SOP 97-2 (paragraph 10) as: The price charged for the element when sold separately; or where the element has yet to be introduced to the market place, the price established by management for it. iSoft did not have any VSOE or any other adequate method for assessing the fair value of the constituent parts of the contracts.

25. Although explaining the criteria followed, the accounting policy notes do not specifically refer to this departure from SOP 97-2 in respect of VSOE nor was it reported by Robson Rhodes or Mr Williams to the audit committee. Had SOP 97-2 been fully applied, more of the revenue recognised on many of the major contracts would have been spread across the term of the contract rather than recognised upfront.

26. There is no evidence in the audit working papers of any consideration by Robson Rhodes or Mr Williams of whether VSOE or fair value existed in this respect, although their evidence is that they did consider it.

Major contract revenues recognised by iSoft

27. The following table, based on the audit working papers and the iSoft contract profit and loss forecast schedules, shows the major contract revenues recognised by iSoft in each year over the period 2003 to 2005.

Year	Major contracts	Revenue recognised	Total contract revenue	% of total contract revenue recognised in year	% of total iSoft Plc revenue	% of total iSoft Group revenue
		£'m	£'m			
2003	Epsom & St Helier	6.4	8.0	79%	11.3%	7.0%
2003	North Staffordshire	4.4	6.4	69%	7.8%	4.8%
2003	Plymouth	4.4	7.8	57%	7.8%	4.8%

2003	Mid Staffordshire	3.6	5.4	66%	6.4%	3.9%
2004	Irish Health Agencies	23.2	38.5	60%	24.8%	15.6%
2004	National Programme for IT – CSC	16.2	121.0	13%	17.3%	10.9%
2004	National Programme for IT – Accenture	14.1	131.0	11%	15.1%	9.4%
2005	National Programme for IT – CSC	24.8	121.0	20%	24.2%	9.5%
2005	National Programme for IT – Accenture	31.8	131.0	24%	31.1%	12.1%

Revenue Recognition in the year ended 30 April 2003

28. In the accounts for the year ended 30 April 2003 ("the 2003 Accounts"), iSoft recognised income in relation to the following major contracts:

Contract	Contract Period	Revenue. Recognised £m	Total contract revenue £m	% of total contract revenue recognised in year	% of total iSoft Group revenue
Epsom & St Helier	2003 - 2013	6.4	8.0	79%	7.0%
North Staffordshire	2003 - 2013	4.4	6.4	69%	4.8%
Plymouth	2003 - 2013	4.4	7.8	57%	4.8%
Mid Staffordshire	2003 - 2013	3.6	5.4	66%	3.9%

The accounting treatment for iSoft's major contracts in this year should have been such that more revenue was spread across the term of the contract and less recognised upfront.

29. To that extent, the accounting for them was not appropriate in the 2003 Accounts and these accounts therefore did not show a true and fair view of the state of affairs of iSoft as at 30 April 2003. Robson Rhodes' audit report, which was signed by Mr Williams on or around 26 June 2003, stated that the 2003 Accounts did show a true and fair view.

Robson Rhodes' Audit Work on the 2003 Accounts

30. An Audit Planning Memorandum for the 2003 audit was prepared by Firoj Babariya, an employee of Robson Rhodes and the audit senior. This document was reviewed by Mr Richard Baldwin, a senior audit manager between May 2003 and January 2005 and the Robson Rhodes Audit Director from January 2005 to November 2006 with responsibility for the iSoft audit. It was approved by Mr Williams. In relation to profit and revenue recognition it stated, amongst other things, as follows:

> "5.9 *Our review of the larger contracts at the half year highlighted licence fees of between 60 to 65% in the majority of instances with some exceptions where this could be as high as 80%.*
>
> 5.10 *We need to assess the split continues to be appropriate. There is now a contract accountant who is charged with this task and hence, appropriate evidence should be available on a contract by contract basis...*
>
> *Installation*
>
> 5.12 *Licence fee income is recognised in accordance with agreed contractual milestones, which are date driven and not performance related. Typical contractual triggers are contract signatures and installation of the product on the customer site."*

31. Robson Rhodes identified turnover and income recognition as an area of audit risk and focus. The planned response to address this risk was for Mr Babariya to perform the revenue recognition testing.

32. The audit work carried out by Mr Babariya in respect of revenue recognition testing was documented on the following working papers:

   a. 8400.05 "Lead Schedule";
   b. 8400.55 "Revenue Recognition Policy";
   c. 2600.15; and
   d. 2600.25

   Each of these working papers was prepared by Mr Babariya and reviewed by Mr Baldwin. In particular, working paper 2600.25 documented the results of Mr Babariya's review of several of the major contracts in respect of which income was recognised by iSoft in the 2003 Accounts.

33. Neither Mr Baldwin nor Mr Williams reviewed any of the actual contract documentation for the major contracts. Their evidence is that they did review relevant extracts of the contracts that were presented to them by the audit team, although there is no evidence of this on the audit file.

34. Robson Rhodes reported to iSoft's Audit Committee on 4 June 2003 that iSoft's accounting policy in respect of income recognition was compliant with SOP 97-2.

Revenue Recognition in the year ended 30 April 2004

35. In the accounts for the year ended 30 April 2004 ("the 2004 Accounts"), iSoft recognised income in relation to the following major contracts:

Contract	Contract Period	Revenue Recognised £m	Total contract revenue £m	% of total contract revenue recognised in year	% of total iSoft Group revenue
Irish Health Agencies	2004 - 2014	23.2	38.5	60%	15.6%
National Programme for IT-CSC	2004 – 2010/14*	16.2	121	13%	10.9%
National Programme for IT-Accenture	2004 – 2008/14*	14.1	131	11%	9.4%

* The completion of the development phases of these major contracts was 2010 and 2008 respectively, although subsequent ongoing support to 2014 is referred to in the iSoft contract profit and loss schedule.

36. In addition, further revenue was recognised in relation to the major contracts set out at paragraph 28 above.

37. These major contracts involved significant customisation, implementation and integration costs and timescales and the supply, or rollout, of the software was spread over several accounting periods and included the requirement for iSoft to provide software upgrades. In these circumstances, the accounting treatment should have been such as to spread more revenue across the term of the contract and recognise less upfront.

38. To that extent, the accounting for them was not appropriate in the 2004 Accounts.

39. Robson Rhodes and Mr Williams maintain that iSoft deceived them in 2004 and 2005 about (*inter alia*) the status of the contract with the Irish Health Agencies. Executive Counsel accepts that this is a legitimate concern.

40. iSoft's reported turnover was materially overstated in the 2004 Accounts. These accounts therefore did not show a true and fair view of the state of affairs of iSoft as at 30 April 2004 and of iSoft's profit for the year then ended. Robson Rhodes' audit report, which was signed by Mr Williams on or around 23 June 2004, stated that the 2004 Accounts did show a true and fair view.

Robson Rhodes' audit work on the 2004 Accounts

41. Robson Rhodes' planning documentation for 2004 identified revenue recognition as a risk area and one for audit focus. Robson Rhodes had reported to the Audit Committee following their 6 month review in October 2003 that "Income recognition policies will need to be reviewed in light of the National Programme".

42. The audit work carried out by Robson Rhodes in respect of revenue recognition was

documented on the following working papers:

a. 8400.05 "Lead Schedule"

b. 8400.55 "Revenue Recognition Policy"

c. 8400.10 "Contracts Review-Significant Contracts"

Each of these working papers was prepared by Mr Babariya and reviewed by Mr Baldwin. In particular, working paper 8400.10 documents Mr Babariya's review of the major contracts in the year and the accounting treatment adopted for each. In respect of each contract reviewed, the conclusion was:

"Based on the above, we can be confident revenues [in respect of] the above contract have not been materially misstated"

43. Neither Mr Baldwin nor Mr Williams reviewed any of the actual contract documentation for the major contracts. Their evidence is that they did review relevant extracts of the contracts that were presented to them by the audit team, although there is no evidence of this on the audit file.

44. Robson Rhodes reported to the Audit Committee as follows in 2004: "*Income recognition consistent with prior periods with significant amount of total contract value recognised as up front license fee...*" (As stated in the Robson Rhodes presentation slides to the iSoft Group Plc Audit Committee on 15 June 2004). Robson Rhodes also reported to the Audit Committee following their 6 month review in October 2003 and noted, in their presentation that, "*Income recognition policies will need to be reviewed in light of National Programme.*"

Revenue Recognition in the year ended 30 April 2005

45. In the accounts for the year ended 30 April 2005 ("the 2005 Accounts"), iSoft recognised income in relation to the following contracts[3]:

[3] The Irish Health Agencies contract was signed in 2005 but revenue was recognised by iSoft in the 2004 financial year.

Contract	Contract Period	Revenue Recognised £m	Total contract revenue £m	% of total contract revenue recognised in year	% of total iSoft Group revenue
National Programme for IT-CSC	2004 – 2010/14*[1]	24.8	121	20%	9.5%
National Programme for IT-Accenture	2004 – 2008/14*[1]	31.8	131	24%	12.1%
ACCL	2005 - *[2]	2.4	3.0	80%	0.9%

*[1] The completion of the development phases of these contracts was 2010 and 2008 respectively, although subsequent ongoing support to 2014 is referred to in iSoft contract profit and loss schedule.

*[2] The agreement does not specify any timeframes for rolling out software, or dates on which the service will commence, nor does it specify what implementation covers. However, Schedule 1 of the agreement shows the charges, payment terms and milestones.

46. In addition, further revenue was recognised in relation to the other contracts set out at paragraphs 28 and 35 above.

47. The National Programme for IT contracts were treated as long-term contracts. It was intended that income be recognised in accordance with the extent of progress. iSoft did not have sufficient evidence to support the measurement of progress on these contracts and thus the income recognised in the accounts.

Robson Rhodes' audit work on the 2005 accounts

48. Robson Rhodes' audit planning documentation for 2005 identified revenue recognition as a risk area and one for audit focus. Revenue recognition in relation to the National Programme for IT contracts was identified as a particular risk.

49. The audit work carried out by Robson Rhodes in respect of revenue recognition in the 2005 Accounts was documented on the following working papers:

a. 8400.05 entitled "Lead Schedule". This paper was prepared by Mr Babariya (who, in 2005, was an audit manager). There is no record of it having been reviewed;

b. 8400.55 entitled "Revenue Recognition Policy" .This paper was prepared by Mr Babariya. There is no record of it having been reviewed;

c. 2700.55 which documents the testing of income recognised in relation to the Irish Health Agencies, North Staffordshire and ACCL contracts. This paper was prepared by Martin Doerr (a Robson Rhodes employee), and reviewed by Mr Babariya;

d. 8400.200; 8400.210; 8400.220; 8400.230; 8400.240 and 8400.250 which document the testing of income in relation to the National Programme for IT contracts. These papers were prepared by Mr Babariya. There is no record of them having been reviewed;

e. 8400.130; 8400.150; 8400.170; 8400.180; 8400.190; 8400.192; 8400.193 and 8400.194 which document the testing of income in relation to the Department of Health contract. Some of these papers were prepared by Mr Baldwin and reviewed by Mr Babariya.

50. Mr Williams did not review any of the actual contract documentation for the major contracts. His evidence is that he did review relevant extracts of the contracts that were presented to him by the audit team, although there is no evidence of this on the audit file.

51. Robson Rhodes, and in particular, Mr Williams, reported to iSoft's audit committee on 15 June 2005 in presentation slides that:

a. With regard to the National Programme for IT contracts:

> *"Revenue recognised on milestone achievement in prior year reflecting delivery of existing product.*
>
> *Now in development phase and long term contract approach taken on license development with model developed for forecasting costs against contracted revenue to end of contract".*

b. In respect of other matters:

"Significant audit matters considered in other countries

- Australia – recognition of income on Queensland Health contract.....

- Holland – revenue recognition on new long term contracts in 2004/05."

52. In 2005, the National Programme for IT contracts were accounted for under SSAP 9. This differed from the treatment in 2004.

C. Funded Contract Receivables

iSoft's policy and practice

53. It was iSoft's practice to improve its cashflow by selling the future income streams from its contracts to third party funding providers ("**the funders**"), who would provide cash to iSoft immediately.

54. iSoft would then invoice its customers for the receivable balances (that had been 'sold on') as they became due and remit the full balance to the funder. Where the customer did not make full payment of the balance, iSoft still had to make the payment to the funder.

55. In the 2003, 2004 and 2005 Accounts, iSoft did not recognise contract receivable balances, which it had sold on to funders, on its balance sheet, nor did it recognise any associated liability to repay to the funders the amount of funding provided.

56. The levels of receivables funded by iSoft outstanding at the financial year ends were:

    a. 2003: £40m;
    b. 2004: £57.3m;
    c. 2005: £56.7m.

57. The impact of iSoft's accounting policy of derecognising the receivable balances and the equal associated liability to the funder was a significant but equal reduction in

both iSoft's gross assets and liabilities on the balance sheet. The reduction in gross assets was effected by reducing the accrued income balance which represented income recognised in advance of billing the customer. It had no effect on the net assets.

58. iSoft's accounting policy was changed in 2006 (i.e. after the termination of Robson Rhodes' retainer as auditors) so as to include the contract receivable balances on the balance sheet.

The Relevant Accounting Standards

59. Financial Reporting Standard 5 ("**FRS 5**") is the relevant standard under UK GAAP for the consideration of the treatment of financing arrangements. Derecognition of the contract receivables balances and associated liabilities would only be appropriate where, amongst other things, all significant benefits and all significant risks relating to the receivables have been transferred.

60. Application note C to FRS 5 provides specific guidance on the treatment of factored debts. This provides the following indicators that an entity has sold on the significant benefits and risks attached to the original asset:

   a. The transaction takes place at an arm's length price for an outright sale;
   b. The transaction is for a fixed amount of consideration and there is no recourse whatsoever, either implicit or explicit, to the seller for losses from either slow payment or non payment;
   c. The seller will not benefit or suffer in any way if the debts perform better or worse than expected.

61. If any of the three factors above is not present, this indicates that the benefits and risks attached to the original asset have not been transferred to the purchaser, and unless these benefits and risks are insignificant, the original asset should remain on the balance sheet.

62. In iSoft's case, the contract receivables and the associated liabilities to the funders should have been recognised in the 2003, 2004 and 2005 Accounts as certain risks

had been retained by iSoft. These included the ability of iSoft to deliver to the customers very extensive requirements, interfacing with existing systems. Risks would remain throughout all of the implementation periods until customer acceptance had been achieved.

63. The 2003, 2004 and 2005 Accounts therefore did not show a true and fair view of the state of affairs of iSoft in respect of Funded Contract Receivables as at 30 April 2003, 2004 and 2005.

The Financial Reporting Review Panel ("FRRP") enquiry

64. The FRRP wrote to iSoft by letter dated 13 October 2004 and stated that iSoft's financial statements for the year ending 2004 had come to their attention and that the Panel was considering whether to open a formal enquiry into iSoft's accounts. In particular, the FRRP:

a. Noted that iSoft did not recognise the equal and opposite balances of the present value of the customer receivable and the amount due to the funder;

b. Stated that paragraph 5 of schedule 4 to the Companies Act 1985 generally prohibited the netting of balances and paragraph 29 of FRS 5 set out the specific conditions that must be met in order for offsetting to occur;

c. Requested: *"an explanation of how the conditions for offset...have been met [and] a breakdown of the equal and opposite balances that have not been recognised"*.

65. Patrick Cryne, Chairman of iSoft, responded by letter dated 10 November 2004, which was reviewed by Mr Baldwin of Robson Rhodes. Mr Cryne stated that iSoft had not applied the offset principle (under paragraph 29 of FRS 5) but had: "*considered the debtor and liability balance under the conditions of ceasing to recognise an asset under paragraph 22 of FRS 5*". Mr Cryne stated that under the funding arrangements, the debt was factored and there was no recourse to iSoft and that it was appropriate to de-recognise the asset and the associated liability as: "*all significant rights or other access to benefits relating to that asset and all significant exposure to the risks inherent in those benefits have been transferred to the [funder] and the customer*". Mr Cryne further stated that: "*in no situation w[ould] iSoft be required to recompense*

the [funder] for any failure of the customer to pay a financing instalment on the due date…".
2
For the reasons stated in paragraph 64 above, this statement was not correct.

66. The FRRP confirmed in writing on 1 December 2004 that in light of the information provided by Mr Cryne, the Panel would not be pursuing the matter further.

Robson Rhodes work on funded contract receivables in the years ending 30 April 2003, 2004 and 2005

67. In May 2000, Robson Rhodes reviewed a framework agreement between iSoft and FALG (a funder).

68. A manager in the Robson Rhodes' technical department, who was asked to review the FALG agreement, stated in an e-mail to Mr Williams on 2 May 2000 that: "*My analysis…indicates that iSoft is exposed to some of the risks and benefits in relation to the invoices sold to FALG*" and: "*I do not think we can accept derecognition as appropriate…*".

69. However, Robson Rhodes and, in particular, Mr Williams, concluded that the risk of non-payment by the customer was considered to lie with FALG and the possibility of non performance by iSoft, which was a risk retained by iSoft, was considered to be extremely remote. Therefore it was concluded that substantially all the risks and rewards had been transferred. Robson Rhodes concluded that derecognition of the receivable asset and funding liability was acceptable.

70. The 2002 Audit Planning Memorandum stated:
"*iSoft…wished to derecognise the funding creditor and the earned income debtor in 30 April 2000 accounts…FRS 5 states that derecognition…is only appropriate when the company retains no significant benefits and risks relating to the debt…Following a review of the agreement between iSoft Plc and FALG, there appeared to be no significant risks or benefits retained by iSoft Plc that are likely to occur in practice. Hence derecognition of the earned income debtor with the funding creditor was considered appropriate…Any similar situations where the client wishes to derecognise*

the earned income debtor and the funding creditor must be carefully considered via a review of the contractual terms".

71. There was no audit planning documentation considering the balance sheet treatment of funded contracts for the audits of the 2003 and 2004 Accounts.

72. In September 2003, Deloitte was asked by Torex to prepare a due diligence report regarding the accounts of iSoft pursuant to the merger of iSoft and Torex. The report considered the accounting policy adopted by iSoft with regard to funded contract receivables.

73. Deloitte discussed these issues with Robson Rhodes in a conference call on 21 August 2003. Amongst other things Deloitte raised questions regarding the audit work undertaken by Robson Rhodes in respect of funded contracts in 2003 and the level of disclosure regarding funded contracts provided in the accounts. Deloitte's due diligence report stated that they were told by Robson Rhodes that a sample of funded contracts had been reviewed by them and that it was appropriate to use the derecognition principles of FRS 5 to treat the associated financing as off balance sheet.

74. In planning the audit of the 2005 Accounts, one of Robson Rhodes employees, Mr Houghton (Robson Rhodes Risk Management Director), prepared a document entitled "Public Client Risk Review" which stated under the heading "Accounting and auditing issues": "*Take into account the comments from the FRRP Review*". Robson Rhodes did not take the FRRP comments into account during the course of their audit.

75. Robson Rhodes did not review the funding contracts during their audit of the 2003, 2004 and 2005 accounts.

D. Goodwill

Introduction

76. In the relevant period, iSoft made a number of acquisitions which generated goodwill,

including:

a. Eclypsis Ltd acquired by iSoft plc in May 2001, generating goodwill at acquisition valued at £ 6.8 million;

b. Northgate, acquired by iSoft Plc in July 2002, generating goodwill at acquisition valued at £31.4m;

c. Revive, acquired by iSoft Group Plc in November 2002, generating goodwill at acquisition valued at £4.2m;

d. Torex, acquired by iSoft Group Plc in December 2003, generating goodwill at acquisition valued at £404.3m.

77. The table below shows the total goodwill balances as a percentage of the overall reported iSoft Group net assets at each relevant year end:

Year ended 30 April	**Goodwill (£m)**	**Net Assets (£m)**	**Goodwill as a % of Net Assets**
2003	92.0	73.3	126%
2004	473.2	452.2	105%
2005	456.4	478.5	95%

78. The accounting policy for goodwill as set out in iSoft's 2003 Accounts stated:

"...Positive goodwill relating to acquisitions is shown in the balance sheet as an asset. On completion of each acquisition the directors estimate the useful economic life and it is over this period that the goodwill is amortised on a straight line basis. For transactions where the primary objective is the acquisition of customer base, and where the customer relationships continue under multi-year contract arrangements, the directors believe it appropriate to ascribe useful economic lives of up to 20 years...In addition to systematic amortisation, the book value is written down to the recoverable amount when any impairment is identified".

The accounting policy for the years ended 30 April 2004 and 2005 was substantially the same.

79. A 20 year economic life was ascribed by iSoft to the goodwill arising from all the above acquisitions.

80. Impairment reviews of goodwill should have been carried out by iSoft management in accordance with FRS 10 at the end of the first full year of account following acquisition. First year impairment reviews should therefore have been performed as follows:

   a. Eclipsys Ltd – year ended 30 April 2003;
   b. Northgate and Revive – year ended 30 April 2004;
   c. Torex – year ended 30 April 2005.

81. The first year impairment review required by FRS 10 may be performed in two stages:

   a. initially identifying any possible impairment by comparing post-acquisition performance in the first year with pre-acquisition forecasts to support the purchase price; and
   b. performing a full impairment review in accordance with the requirements of FRS11 only if the initial review indicates that the post-acquisition performance has failed to meet pre-acquisition expectations or if any other previously unforeseen events or changes in circumstances indicate that the carrying value may not be recoverable.

A full impairment review is only necessary if "post-acquisition performance has failed to meet pre-acquisition expectations."

82. There are no working papers setting out such a comparison of "*post-acquisition performance in the first year with pre-acquisition forecasts used to support the purchase price*".

83. The representation letters provided by iSoft management to Robson Rhodes for each of the years in question specifically stated that adequate provision had been made for any impairment losses in relation to goodwill.

84. iSoft did not write down or impair the value of goodwill in respect of the above acquisitions in the 2003, 2004 and 2005 Accounts. In the 2006 Accounts, which were audited by Deloitte, goodwill was written down by £351.4 million as impaired.

Robson Rhodes work on Goodwill in the year ended 30 April 2003

85. The impairment of goodwill and intangibles was identified as an audit risk area in the 2003 planning memorandum. The memorandum specifically stated: *"A review for impairment should be carried out if events or changes in circumstances indicated that its carrying amount may not be recoverable ... "*.

86. iSoft was required to carry out a first year impairment review in the year ended 30 April 2003 in respect of the Eclipsys acquisition in May 2001. Robson Rhodes did not request a copy of iSoft's impairment review or check whether such a review had in fact been undertaken.

87. There is no recorded evidence any audit work performed in relation to comparisons of "*post-acquisition performance in the first year with pre-acquisition forecasts used to support the purchase price*" as part of the first year impairment review required by FRS10 for the goodwill arising on the Eclipsys acquisition in May 2001.

88. In 2003, Robson Rhodes did not report that they had neither seen the evidence of an impairment review being performed, nor reviewed it. They did not report that they had not considered the required comparisons of "*post-acquisition performance in the first year with pre-acquisition forecasts used to support the purchase price*".

Robson Rhodes work on Goodwill in the year ended 30 April 2004

89. There was no specific mention of goodwill or impairment reviews in the audit planning meeting agenda or minutes.

90. It is not known whether a first year impairment review was in fact carried out by iSoft in respect of the Northgate and Revive acquisitions. In any event, Robson Rhodes did not obtain a copy of any such review, check whether such reviews had been undertaken or report to iSoft management and the audit committee that such reviews needed to be carried out.

91. There is limited evidence of audit work performed in relation to the first year impairment review required by FRS 10 for the goodwill arising on the Northgate or Revive acquisitions.

92. Audit working paper 1100.25, prepared by Claire Deegan and marked as having been reviewed by Mr Baldwin, set out the steps required to assess any first year impairment review carried out by management. At the end of the said working paper was an incomplete paragraph, stating "*Northgate, as a division of plc, has made significant profit in 2003/04 and the Group as a whole has continued to trade profitably. There is no evidence that the carrying value of goodwill (sic)*". The paper was not completed.

93. Robson Rhodes did not report to iSoft management or to the Audit Committee that they had neither seen the evidence of an impairment review being performed, nor had they reviewed it.

Robson Rhodes work on goodwill in the year ended 30 April 2005

94. The Robson Rhodes 2005 Public Client Risk Review paper stated "[r]eview carrying values of goodwill and investments (for each subsidiary individually) for impairment".

95. Torex goodwill was also identified by Robson Rhodes as a high risk material balance in audit working paper 0430.MO.

96. In the year ended 30 April 2005, a first year impairment review was carried out by iSoft in respect of the Torex acquisition as required by the accounting standards but the said review was not obtained or examined by Robson Rhodes even though they requested it, and the audit working papers contained no evidence of comparisons of *"post-acquisition performance in the first year with pre-acquisition forecasts used to support the purchase price"*.

97. There is no evidence in the working papers of audit work having been performed by Robson Rhodes in relation to the first year impairment review for the goodwill arising

on the Torex acquisition.

98. Robson Rhodes have stated that they were satisfied (without seeing an impairment review) that Torex goodwill was not impaired because of the 'strategic nature' of the acquisition.

99. The Robson Rhodes Audit Committee meeting presentation slides made reference to the "First year impairment review of Torex acquisition". Robson Rhodes did not report to the committee (or to iSoft management) that they had not reviewed the impairment paper prepared by iSoft management. There was no reference to goodwill in any minute of the Audit Committee meetings held during that financial year.

I agree with the above Admitted Statement of Facts

.... 8/7/11.....................

Signed by Mr Glyn Williams Date

The above Admitted Statement of Facts is agreed on behalf of Clearr LLP

.... 11/7/11.....................

Signed by Mr Mick Biles on behalf of Clearr LLP Date