

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

KEVIN ENGEL

FINAL DECISION NOTICE

Pursuant to Rule 18 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 Respondent. It does not make findings against any persons or entities other than the Respondent 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 were not parties to the investigation

1. INTRODUCTION

- 1.1. The Financial Reporting Council (the “**FRC**”) is the competent authority for statutory audit in the UK and is responsible for the operation of the Audit Enforcement Procedure (the “**AEP**”), effective 17 June 2016. The AEP sets out the rules and procedure for the investigation, prosecution and sanctioning of breaches of “Relevant Requirements”.
- 1.2. 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.
- 1.3. This *Final Decision Notice* also uses the following definitions:
 - 1.3.1 “**FY2014**” means the financial year ended 30 April 2014.
 - 1.3.2 “**The Company**” means Conviviality Retail plc.
 - 1.3.3 “**2014 Statements**” means the Company’s financial statements for FY2014.
 - 1.3.4 “**2014 Audit**” means the statutory audit of the 2014 Statements.

- 1.4. Pursuant to Rule 16(b) of the AEP, Executive Counsel has decided that the Respondent is liable for Enforcement Action, having made Adverse Findings against him. This document is Executive Counsel's *Final Decision Notice* issued pursuant to Rule 18 of the AEP, in respect of Mr Engel's conduct in relation to the 2014 Audit. At all material times, Mr Engel was a partner of Grant Thornton UK LLP ("**the Audit Firm**"). For FY2014, he was the Statutory Auditor of the Company and signed off the FY2014 Independent Auditors' Report to the members of the Company, on behalf of the Audit Firm.
- 1.5. On 30 March 2020 Executive Counsel issued *Executive Counsel's Decision Notice* pursuant to Rule 17 of the AEP. On 31 March 2020, Mr Engel provided his written agreement to the *Executive Counsel's Decision Notice*.
- 1.6. Consequently, in accordance with Rule 18 of the AEP this *Final Decision Notice*:
 - 1.6.1 outlines the Adverse Findings with reasons;
 - 1.6.2 outlines sanctions with reasons; and
 - 1.6.3 outlines the position in respect of Executive Counsel's costs of the matter.
- 1.7. This *Final Decision Notice* is divided into the following sections:
 - 1.7.1 Section 2: Executive Summary of the Adverse Findings;
 - 1.7.2 Section 3: Background;
 - 1.7.3 Section 4: Relevant Requirements to which the Adverse Findings relate;
 - 1.7.4 Section 5: Detail of the Adverse Findings;
 - 1.7.5 Section 6: Sanctions; and
 - 1.7.6 Section 7: Costs.

2. EXECUTIVE SUMMARY

- 2.1. As the Statutory Auditor responsible for the 2014 Audit, Mr Engel was responsible (pursuant to paragraphs 8 and 15 of ISA 220) for the overall quality of the 2014 Audit and the direction, supervision and performance of the Audit in compliance with professional standards and applicable legal and regulatory requirements. Accordingly,

Mr Engel is responsible for any established breaches of *Relevant Requirements* set out in relation to the 2014 Audit.

2.2. During FY 2014 Mr Engel authorised (and in any event was aware of) a senior manager at the Audit Firm (“**the Secondee**”), being seconded to the Company to assist with the preparation of the 2014 Statements (the “**Secondment**”). This *Final Decision Notice* sets out details of the breaches of *Relevant Requirements* admitted by Mr Engel in relation to the Secondment.

2.3. In summary:

2.3.1 the Secondment was prohibited by the Relevant Requirements;

2.3.2 prior to authorising the Secondment, the Audit Firm, and Mr Engel, failed adequately to assess and respond to the threat that the Secondment posed to the Audit Firm’s independence;

2.3.3 as a result of the Secondment, the Audit Firm were not sufficiently independent from the Company, yet Mr Engel failed to reach that conclusion and instead signed the FY2014 Independent Auditors’ Report;

2.3.4 Mr Engel failed to provide the Ethics Partner with details of the fees for non-audit services the Audit Firm had provided to the Company, or to discuss them with the Ethics Partner, until those fees had already exceeded the audit fees;

2.3.5 Mr Engel failed to ensure that those charged with the governance of audited entities (“**TCWG**”) at the Company were appropriately informed on a timely basis of all significant facts and matters bearing on the Audit Firm’s objectivity and independence; and

2.3.6 Mr Engel failed to act with integrity by directing the Secondee to transfer a time entry from the 2014 Audit code to another code in order to conceal her involvement in the 2014 Audit.

2.4. This *Final Decision Notice* also sets out the sanctions for Mr Engel:

2.4.1 a published statement in the form of a severe reprimand in respect of the breaches of the Relevant Requirements as set out in this *Final Decision Notice*;

2.4.2 a permanent prohibition banning Mr Engel from signing audit reports.

3. BACKGROUND TO THE 2014 AUDIT AND THE SECONDMENT

- 3.1. The Company was incorporated on 14 October 2005, re-registered as a public company on 9 July 2013 and listed on the Alternative Investment Market (“**AIM**”) of the London Stock Exchange on 31 July 2013.
- 3.2. The Audit Firm were the auditors for the Company for the 2014 Audit. The 2014 Audit was performed by staff at the Audit Firm’s office in Manchester. Mr Engel was the audit engagement partner and in January 2014 the Secondee was allocated as the senior audit manager. An Associate Director, (“**the Associate Director**”) was also allocated to the 2014 Audit. To the knowledge of Mr Engel, the Associate Director and the Secondee, the 2014 Audit was within the scope of the FRC’s Audit Quality Review Team (“**AQR**”).
- 3.3. An audit planning meeting took place on 10 February 2014, which the Secondee did not attend. At the meeting the Finance Director of the Company (“**the Finance Director**”), asked if the Audit Firm could assist in producing the 2014 Statements as (a) the finance team was relatively inexperienced, and (b) the 2014 Statements were the Company’s first as a listed entity. Mr Engel undertook to consult the Audit Firm’s Ethics Function.
- 3.4. In the Audit Firm’s schedule of audit allocations, circulated on 6 March 2014, the Secondee was listed as the “*new manager*” for the 2014 Audit. On the same date, Mr Engel discussed the possibility of providing year end support to the Company with the Secondee.
- 3.5. On 11 March 2014, Mr Engel emailed the Secondee and the Associate Director to ask them whether they could draft an audit plan for submission to the Finance Director in advance of the Company’s next board meeting scheduled for 26 March 2014.
- 3.6. A few minutes later, Mr Engel emailed a director in Assurance at the Audit Firm, who assisted in monitoring audit manager work portfolios, identifying the opportunity to send the Secondee on secondment to the Company and seeking an alternative manager for the 2014 Audit.
- 3.7. Subsequently, on 11 March 2014, the Associate Director confirmed to Mr Engel that they would speak to the Secondee the following day about drafting the audit plan and that they were “*sure we can sort*”.
- 3.8. Mr Engel emailed the Finance Director on 13 March 2014 and offered the Secondee as the secondee to the Company, noting that although they would have been the audit

manager, as “*they had not had any involvement [in the audit] to date it would not compromise the audit*”.

3.9. The following day, Mr Engel sought confirmation from the Seconded and the Associate Director that they would have enough time to complete the audit plan by Thursday, 20 March 2014.

3.10. On or around 18 to 19 March 2014, the Seconded produced a first draft of the “**Audit Plan**”, which was a slide presentation for the client setting out, at a high level:

3.10.1 Developments relevant to the business and the 2014 Audit;

3.10.2 The Audit Firm’s risk-based approach to the 2014 Audit;

3.10.3 The significant risks and reasonably possible risks of material misstatement;

3.10.4 Logistics and the Audit Firm team for the 2014 Audit; and

3.10.5 Fees and Independence Issues.

On the front page, the Audit Plan named the Seconded as senior manager. They made a time entry for 18 March of 4.5 hours on the 2014 Audit time code with the narrative “*audit plan and briefing with [the Associate Director]*”. On 19 March 2014, the Seconded informed Mr Engel that they had drafted the Audit Plan.

3.11. The Associate Director reviewed the Audit Plan on 19 March 2014 and did not challenge the Seconded’s title as “Audit Manager”. The Seconded then sent the draft Audit Plan to Mr Engel for comments. By reply email, Mr Engel undertook to review the Audit Plan in detail the following day. He also noted two issues that needed to be discussed with the Ethics Partner, (“**the Ethics Partner**”):

“We need to clear the fees through [the Ethics Partner] as non audit > audit, ... could you liaise with [them] on this next week please, shout if you need my input. I have not liaised with [them] on potential secondment but will pick this up if [the Finance Director] wants to take it to the next stage.”

The phrase “*non audit > audit*” meant that the fees for non-audit services provided to the Company had exceeded the fees for audit services. At the time, non-audit fees for the Company were approximately £140,000 (not including fees in relation to the secondment), as against an expected audit fee of £40,000.

3.12. On 20 March 2014, the Seconded emailed the Associate Director saying that they would talk to the Ethics Partner the following week about fees. The same day, the draft Audit Plan was sent to the Finance Director.

3.13. On 27 March 2014, Mr Engel emailed the Seconded in the following terms:

"I spoke to [the Finance Director] about your secondment and [they are] keen to progress. The main focus will be getting the year end accounts in shape as a first year plc, front and back and helping with the year end close.

Their group FC has just resigned (highly confidential so please keep to just us for now) but will be there throughout the year end until announcement so I suspect there will be a good year end role to play.

... I will also need to speak to [the Ethics Partner] and clear the secondment and fees generally with [them]. Did you send [them] a note on the latter, if not leave it with me and I'll pick it all up at the same time."

3.14. The Seconded responded by email the same day in the following terms:

"All sounds good. I hadn't gone to [the Ethics Partner] on fees. Apologies, to be honest it had completely slipped my mind."

3.15. By email dated 30 March 2014, Mr Engel sought approval for the secondment from a senior manager in the Ethics Function ("**the Ethics Senior Manager**"), in the following terms:

"I have been asked by one of my AIM listed clients to second one of our senior managers to support their yer [sic] end close. The client is [the Company], they listed last summer and need support as an "emergency" measure as they do not have sufficient staff to deal with their first year end as a Plc.

The senior manager will help with the full set of plc accounts and prepare supporting schedules. [They have] not been involved with the client in the past and appreciate [they] will be prevented from doing so in the future.

This is very similar to a secondment that the same senior manager undertook [previously] which you approved a couple of months ago. The secondment will observe the same protocols you required for [the previous secondment],

ie anything prepared by the secondee will be reviewed by me and they will at all times act under the direction of the FD who has Plc experience.

Not sure if it makes any difference but [the Company] will be in AQRT scope for this year end. We have a meeting with the client on Tuesday to discuss this so would really appreciate your thoughts/clearance of this tomorrow.”

3.16. Paragraph 160 of Ethical Standard 5 provides that audit firms shall not provide accounting services to an audit entity that is a listed company unless there is an emergency situation and certain additional requirements are adhered to. Circumstances which may give rise to an emergency and the necessary requirements are set out at in paragraph 164. Paragraph 162 explains that for listed companies “*the threats to the auditor’s objectivity and independence that would be created are too high to allow the audit firm to undertake an engagement to provide any accounting services, save where the circumstances contemplated in paragraph 164 apply.*”

3.17. Paragraph 164 of Ethical Standard 5 provides as follows (emphasis added):

*“In **emergency situations**, the audit firm may provide a listed audited entity, or a significant affiliate of such a company, with accounting services **to assist the company in the timely preparation of its financial statements**. This might arise when, due to external and unforeseeable events, the audit firm personnel are the only people with the necessary knowledge of the audited entity’s systems and procedures. A situation could be considered an emergency where the audit firm’s refusal to provide these services would result in a severe burden for the audited entity (for example, withdrawal of credit lines), or would even threaten its going concern status. In such circumstances, **the audit firm ensures that:***

(a) any staff involved in the accounting services have no involvement in the audit of the financial statements; and

(b) the engagement would not lead to any audit firm staff or partners taking decisions or making judgments which are properly the responsibility of management.”

3.18. These provisions were reflected in the Audit Firm’s Ethics Memorandum 50, which provided that:

“In an emergency situation (as defined in paragraph 164 of ES 5) the firm (and therefore a secondee) can provide accounting assistance to listed companies and their significant affiliates, subject to the same constraints that apply to unlisted entities. Even in these circumstances our staff cannot take decisions or make judgments because these must remain the responsibility of management. They must have no involvement in the audit even if they may be on site at the same time as the audit visit.”

3.19. On 31 March 2014, the Ethics Senior Manager asked Mr Engel if they could discuss his proposal as *“I am not clear from your email what the emergency situation is”*.

3.20. Mr Engel subsequently submitted an Ethics Query Form to the Ethics Senior Manager, setting out the details of the proposed secondment and the justification for it, on 31 March 2014. In the form he elaborated on his justification for the secondment:

“Our client listed in August 2013 and recruited a full time finance director with plc experience in November 2013. Since that time the finance director has reviewed the structure and experience of the finance team and recognised that [they] needed more experience and people within the finance function.

[They have] been trying since January to recruit a more experienced financial controller/analyst with plc and industry experience but has not yet managed to attract the right calibre of individual, mainly due to their location ...

In addition to this their existing financial controller (who was with the business pre IPO) has recently resigned. Although [their] notice period will take [them] through to the end of the audit fieldwork, she does not have the necessary experience to support the finance director in closing the year end, in particular [they are] not experienced in drafting plc accounts and IFRS. There is also a key risk that [they] will have left the business before they announce their full year results.

We have been asked to provide an experienced manager on a short term secondment to support the year end close, specifically draft the first full set of plc accounts and provide supporting schedules to the auditors and other ad hoc activities. I consider that the lack of experienced individuals combined with the recent resignation of their only financial controller means if we did not accept the assignment it would create a severe burden for the audited entity in so far as it might jeopardise the ability of the entity to prepare their

year-end accounts in a timely manner which could create going concern and trading problems. The manager seconded will have no involvement in the audit of the business for the current and future years. They will also act at all times under the direction of the experienced finance director and will not be taking decisions or exercising judgments that are the responsibility of management.”

3.21. At the time Mr Engel submitted this form, the deadline for the Company to file the 2014 Statements, under section 442(2) of the Companies Act 2006, was 6 months after the end of its financial year, namely 31 October 2014,¹ or 7 months away. The Ethics Query Form did not refer to a date by which year-end results must be announced, or year-end accounts published.

3.22. The Ethics Senior Manager orally approved the Secondment on 31 March 2014, and formally granted approval for the Secondment on 3 April 2014, recording her reasoning in the same Ethics Query Form:

“I do view this as an emergency situation given the facts supplied. You are able to complete this assignment as long as appropriate safeguards are carried out:

- supervised/reviewed by informed management*
- mechanical entry only, no management type decisions (including mapping of tb to accounts)*
- not involved in the audit for one (possibly 2) years after the secondment*
- if the secondee is a manager, then any audit work on this should be at a more senior level to safeguard against familiarity/intimidation”*

3.23. There is no evidence that the Ethics Senior Manager discussed the Secondment with the Ethics Partner. Moreover, the fact that non-audit fees exceeded audit fees for the Company was not mentioned in the Ethics Query Form and it is inferred that the issue was not raised by Mr Engel or considered by the Ethics Senior Manager before they granted approval.

¹ Rule 19 of the AIM Listing Rules provides that companies must “*publish annual audited accounts which must be sent to its shareholders without delay and in any event not later than six months after the end of the financial year to which they relate.*”

3.24. On 2 April 2014, Mr Engel emailed the Seconded as follows: *“I know you have already raised this with me, but please could you make sure you have not charged any time to the 2014 audit code”*.

3.25. On 4 April 2014, Mr Engel emailed the Finance Director summarising a meeting they, and the Seconded, had attended on 1 April 2014 to discuss the Secondment and the relevant independence issues. Mr Engel set out the reasons for the Secondment as well as the broad restrictions on the work that the Seconded would be able to do, stating that they *“[are] a senior manager...who has extensive plc experience and has not been involved in the audit of [the Company] in the recent past”*. Mr Engel sought the Finance Director’s approval for the Secondment on those terms and recommended that it be formally approved by the Audit Committee Chair (**“the Audit Committee Chair”**). The restrictions proposed by Mr Engel were:

- *[They] must always work under the direction of the senior management team*
- *[They] must not engage in taking management decisions or exercising judgments affecting the financial results*
- *Work should be restricted to a mechanical entry, technical or informative nature*
- *[The Seconded] will not be permitted to work on the current or following year audit*
- *[Their] work, to the extent presented to us for audit, will be reviewed within [the Audit Firm] by someone more senior than [the Seconded] to safeguard against familiarity/intimidation risk.*
- *[They] must not authorise or approve transactions, prepare originating data (including valuation assumptions), determine or change journal entries, or the classifications for accounts or transactions, or other accounting records without management approval.*
- *[They] can provide assistance with the preparation of the financial statements where management takes all the decisions on issues requiring the exercise of judgement and has prepared the underlying accounting records.*

3.26. Mr Engel did not contact the Audit Firm’s Ethics Function about the non-audit fee issue until 11 April 2014. On that day he emailed the Ethics Partner, copying the Ethics Senior Manager, in the following terms:

"I am RI for [the Company], a business who listed on AIM last summer, market cap approx. £120m. I have been reviewing fees and identified that our non audit fees in the year significantly exceed audit fees, mainly in relation to fees pre IPO for our role as reporting accountant on IPO and a pre IPO acquisition DD assignment. I have discussed non audit fee with the management team and audit chair and they are comfortable with non audit fees in the year on the basis they are non recurring and unlikely to remain at this level going forward. The audit chair will be setting a policy of non audit fees being restricted to 250% of the audit fee in future years. I have analysed below the non audit fees.

I have consulted with [the Ethics Senior Manager] on the ongoing staff secondment and communicated the safeguards and restrictions to the FD and audit chair. Audit fee is 40k, and year end 30 April. Please let me know if you consider we need to document more or communicate any further with the client in relation to non audit fees."

3.27. The Ethics Partner did not respond to the email, but the Ethics Senior Manager did respond, requesting that Mr Engel submit a form "ES5 – Non audit services and fees greater than audit". The form was submitted by the Associate Director, rather than Mr Engel, on 16 April 2014. In the form, the Associate Director identified the Secondment as a non-audit service that posed a high perceived self-interest threat. The total non-audit fees, including an expected secondment fee of £15,000, were £187,550, as against the expected audit fee of £40,000.

3.28. The Ethics Senior Manager approved the submission on 28 April 2014, giving the following reasons:

"I am content that as the assignments were one-off and also the fee has been paid, the non-audit fees do not present a threat to the independence of the audit. I note the restriction going forward set by the audit chair, however, if non audit fees are greater than audit fees in future years, an assessment of independence each year will still be required."

The Secondment had in fact not yet begun and the fee had consequently not yet been paid. There is no evidence that the Ethics Partner considered the form submitted by the Associate Director, and the Executive Counsel infers that they did not.

3.29. Between 29 April 2014 and 10 July 2014 the Secondnee provided approximately 18 days of work (i.e at 7.5 hours per day) on secondment to the Company.

3.30. At some time prior to 7 May 2014, the Seconded transferred the time they recorded for 18 March 2014 off the 2014 Audit code with the narrative “*time incorrectly charged to audit – should have been secondment*”. The time was transferred to an internal administrative time code.

3.31. On 7 May 2014, the Company publicly announced, for the first time, that it intended to release its full year results on 14 July 2014. At the same time it announced that the Finance Director would be leaving the company on 27 June 2014.

3.32. On 25 June 2014:

3.32.1 Mr Engel emailed the Associate Director in relation to the Company and said: “*Please can you check to see who is down as the billing manager for this and check that there is no time on the audit code for [the Seconded]*”; and

3.32.2 The Seconded contacted a PMS Support Technician who recorded the Seconded as asking [them] to delete the time recorded on the 2014 Audit code for 18 March 2014 “*so it would no longer appear on [their] timesheet or the client WIP*”, stating that “*the partner would like to see the time removed*” and that they are “*about to go on secondment to the client, who is a PLC so there are independence issues surrounding [their] time being recorded against the audit job*”. The technician escalated the request and ultimately the Ethics Senior Manager contacted Mr Engel who told them that “*he had not intended that the time entries were deleted, merely that it was reversed out so it did not show as open WIP...*”. The time was therefore not deleted. In an email to the technician on 25 June 2014, the Ethics Senior Manager stated that “*I understand that the appropriate notes about the safeguards put in place for the secondment are on the audit file to explain why [the Seconded] was at a planning meeting and then did not participate in the audit*”.

3.33. During interview with the FRC, Mr Engel denied that he had asked the Seconded to delete the time from PMS but accepted that he had asked them to transfer it. Mr Engel also accepted that part of his reason for asking the Seconded to transfer their time off the 2014 Audit code was that he believed an independent observer may raise questions about the Audit Firm’s independence if they saw that the Seconded had recorded time on the 2014 Audit and then had also been seconded to the Company. For example:

3.33.1 Mr Engel was asked “*Why didn’t you want [the Seconded] to charge any time to the audit code?*” and he replied “*I suppose there were two main reasons. First*

is, as I said, I didn't consider that [they] had had any involvement in the audit, it was a minor role. I'm assessed on the recoveries that we get on the -- or part of my performance is the percentage recoveries of time against fees on an audit client, so I was quite keen to make sure that the time that didn't contribute towards the audit wasn't reflected on that. I'm also conscious that [they were] on secondment and if you look at it in the cold light of day, if [the Secondee has] got time to an audit code when [they were] on secondment, then it raises questions. So that was the only reason."

3.33.2 Mr Engel also acknowledged that there was a perceived independence issue *"because if someone looked at this blank and said "[the Secondee] went on secondment to this client and you've got some time charged to the audit code, prima facie, then you've breached independence requirements".*

3.33.3 Mr Engel also said *"...don't get me wrong, there is part of me that is thinking, "I don't want to see any time on the audit code for someone that's had a secondment, absolutely. [But] It's not the intention to hide it... an independent person looking at it cold would go, "Hang on a minute you've been doing some audit work on this client, and then you've been seconded", but actually, it's not audit work, my judgment is not audit at all. It's not the main driver for it, it was the recovery point, but I'm conscious of that perception"*

3.34. In her interview with the FRC, the Secondee confirmed that they believed that they were asked to transfer their time off the 2014 Audit code because of perceived independence issues: *"I think the reason I'm asked to take it out [i.e. transfer their time off the 2014 Audit code] is so that my name isn't on the audit code. So when people print a list of everybody who has charged time to the audit my name is not on it because then I went on secondment".*

3.35. On 26 June 2014 the Audit Firm presented its Audit Findings report to the Company. The presentation includes a slide entitled *"Non-audit fees and independence"*. In relation to the Secondment, the slide records that the safeguard of using separate engagement teams had been imposed and that the Audit Firm had *"reviewed activities, discussed the specific work undertaken with the individual seconded and consulted with the board and finance director."* The Audit Firm concluded that: *"Based on these enquiries we consider the independence safeguards have been satisfactory and the independence requirements communicated to the audit committee on 11 April have been observed. For completeness we attach these as an appendix to the report."* No appendix was

attached to the slides in the version which the Audit Firm provided, although the safeguards were referred to in the Company's representations letter dated 11 July 2014. Although Mr Engel had emailed the final Audit Plan to the Finance Director on 11 April 2014, the independence requirements were also not contained in that document. The reference to the "*independence requirements communicated to the audit committee on 11 April*" is therefore presumably meant to be a reference to the email Mr Engel sent to the Finance Director on 4 April 2014 in which Mr Engel recommended that they be approved by the Audit Committee Chair. There is no direct record of such approval having been given at that time, though the Finance Director did confirm that they had passed the email to the Audit Committee Chair and was "*happy we can proceed on this basis*".

- 3.36. On 9 July 2014, the Associate Director emailed the Seconded seeking their confirmation that their role at the Company had "*not been outside any of the points raised by the ethics team [...] and thus independence had been maintained*". On 10 July 2014, the Seconded emailed the Associate Director to confirm that they carried out their role at the Company without breaching the restrictions set out in Mr Engel's original email to the Finance Director on 4 April 2014 and asserted that "*I have remained independent of the audit throughout the time of my secondment*."
- 3.37. The Audit Firm's Audit Finding Document dated 26 June 2014, stated that the firm had implemented independence safeguards to meet the requirements of the FRC's Ethical Standards. In a letter to the Audit Firm dated 11 July 2014 the Company said: "*We can confirm that independence safeguards introduced for the staff secondment have been observed, as outlined in the Audit Findings Document, and all decisions on the financial statements have been made by management and the Board*." The same day, the Company approved and signed the 2014 Statements and Mr Engel signed the auditor's report to them.
- 3.38. The Company announced its full year end results on 14 July 2014.

4. RELEVANT REQUIREMENTS

- 4.1. Rule 1 of the AEP states that "Relevant Requirements" has the meaning set out in regulation 5(11) of the Statutory Auditors and Third Country Auditors Regulations 2016 ("**SATCAR**"). Those requirements include, but are not limited to:

- 4.1.1 The International Standards on Auditing (UK and Ireland) (“**ISAs**”) issued by the FRC. The ISAs relevant to this *Final Decision Notice* are those effective for audits of financial statements for periods ending on or after 15 December 2010.
- 4.1.2 The Ethical Standards issued by the Auditing Practice Board (“**Ethical Standards**”). The Ethical Standards relevant to this *Final Decision Notice* are those revised in December 2010 and updated in December 2011.
- 4.1.3 The Code of Ethics issued by the ICAEW, effective from 1 January 2011 (“**ICAEW Code of Ethics**”).
- 4.2. The Relevant Requirements referred to in this *Final Decision Notice* are the following:
- 4.2.1 ISA 200 (Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing).
- 4.2.2 ISA 220 (Quality control for an audit of financial statements).
- 4.2.3 Ethical Standard 1 (Integrity, Objectivity and Independence).
- 4.2.4 Ethical Standard 5 (Non-audit services provided to audited entities).
- 4.2.5 The Fundamental Principles contained in the ICAEW Code of Ethics.
- 4.3. The extracts of the ISAs, Ethical Standards and ICAEW Code of Ethics which are of particular relevance to the Adverse Findings are set out in Appendix 1 hereto.

5. **ADVERSE FINDINGS**

ADVERSE FINDING 1:

The Secondment was prohibited by the Ethical Standards

The Secondment breached paragraph 160 of Ethical Standard 5 and paragraph 14 of ISA 200 for the following reasons.

1. Paragraph 160 of Ethical Standard 5 prohibited an audit firm from providing accounting services to an audited entity that is a listed company unless the circumstances in paragraph 164 applied, namely that the audited entity faced an emergency situation. Paragraph 164 then requires that “*In such circumstances, the audit firm ensures that: (a) any staff involved in the accounting services have no involvement in the audit of the financial statements, and (b) the engagement would not lead to any audit firm staff or*

partners taking decisions or making judgments which are properly the responsibility of management.”

2. A “listed company” was defined in the Ethical Standards as:

*An entity whose shares, stock or debt are quoted or listed on a UK or Irish recognised stock exchange, or are marketed under the regulations of a UK or Irish recognised stock exchange or other equivalent body. **This includes any company in which the public can trade shares on the open market, such as those listed on the London Stock Exchange (including those admitted to trade on the Alternative Investments Market), ...** [emphasis added]*

3. The Company listed on the AIM market in August 2013 and was therefore a listed company for part of the 2014 financial year.
4. “Accounting services” was defined in paragraph 156 of Ethical Standard 5 “*as the provision of services that involve the maintenance of accounting records or the preparation of financial statements that are then subject to audit....*” Paragraph 157 expressly includes as an example, where the audited entity is requesting assistance “*with the preparation of ... the financial statements*”. As the Secondee was primarily seconded to the Company to assist with the preparation of its 2014 Statements, they were providing accounting services within the meaning of Ethical Standard 5.
5. The Company was, however, not facing an “emergency situation” within the meaning of paragraph 164 of Ethical Standard 5 at the time that the Secondment was approved, nor at the time that the Secondment began. The reason cited by Mr Engel, and approved by the Ethics Senior Manager, for concluding that the Company was facing an emergency situation was that the company did not have sufficiently experienced personnel to prepare the 2014 Statements in a timely fashion. However:
- (a) The fact that this was not an “emergency situation” is evidenced by the significant amount of time taken by Mr Engel between first becoming aware that the Company wanted assistance with the 2014 Statements (on 10 February 2014) and his seeking approval for that secondment (on 30 March 2014).
 - (b) The Secondee did not have any specific knowledge concerning the Company that was essential to the preparation of the 2014 Statements. Prior to March 2014, the Secondee had not been involved in the audit of the Company, and nor had they had any other professional dealing with the company. Further, the accounting

services that the Company required were generic services which did not require specific knowledge of the business. Accordingly, the Company did not require the Seconded, or any other person from the Audit Firm, to provide the accounting services, which could be equally well done by another competent accountant.

- (c) The work required by the Company amounted to approximately 18 days' work, which the Seconded delivered between 29 April and 10 July 2014.
- (d) As noted above, the deadline for the Company to publish its 2014 Statements was 31 October 2014, more than eight months after the Company first notified the Audit Firm of its need for assistance, and seven months after Mr Engel requested approval from the Audit Firm's Ethics Function. This left sufficient time for the Company to locate an accountant at another audit firm who could assist with the preparation of its 2014 Statements.
- (e) The Company did not publicly announce its intention to publish its 2014 Statements on 17 July 2014 (or at any other time prior to 31 October 2014) until 7 May 2014, which was more than one month after the Ethics Senior Manager had formally approved the Secondment. Thus, prior to 7 May 2014, there was no pressure on the Company to announce its year end results before 31 October 2014. The Audit Firm's refusal to provide the accounting services would not therefore have resulted "*in a severe burden for the audited entity (for example, withdrawal of credit lines), or ... threaten its going concern status*" (paragraph 164 of Ethical Standard 5). The Company could have announced that it intended to announce its final results at some later date up to and including 31 October 2014.
- (f) In any event, even if the Company had made its intention to announce its results on 17 July 2014 public at the end of March 2014, when Mr Engel sought approval from the Audit Firm's Ethics Function and the Ethics Senior Manager orally approved it, there was still three and a half months left before the self-imposed deadline. That was equally sufficient for the Company to locate an accountant at another audit firm who could assist with the preparation of its 2014 Statements. Alternatively, in April or May, the Company could have announced to the market that it intended to announce its year end results at a date later than originally proposed, up to and including 31 October 2014, due to the departure of key financial personnel (namely its Financial Controller and Financial Director). This would not have resulted in a severe burden for the Company or threatened its going concern status.

6. Further, the Seconded had been involved in the 2014 Audit prior to the commencement of the Secondment:
 - (a) In drafting the Audit Plan, the Seconded had performed work towards the 2014 Audit, including:
 - (i) Identifying significant risks in relation to the 2014 Audit, including risks related to goodwill and intangible assets as a result of the Company group acquiring the share capital of another company during the year.
 - (ii) Identifying other “reasonably possible risks” including inventory, revenue and operating expenses.
 - (iii) Categorising risks in terms of the level of risk (high, medium, low or remote); whether the risk was material or potentially material; planned control reliance; and the planned extent of substantive testing (enhanced, standard or limited).
 - (iv) Setting out the non-audit services that the Audit Firm’s teams had provided to the Company and the fees charged (although the first draft identified only £61,500 of the non-audit services that had been provided; the remaining non-audit services were identified in subsequent drafts).
 - (b) After drafting the Audit Plan, the Seconded was involved in further discussions concerning the plan:
 - (i) Mr Engel emailed the Seconded and the Associate Director on 19 March 2014, after receiving the draft plan, noting his initial thoughts and raising questions.
 - (ii) The Seconded responded to Mr Engel’s email the following morning, commenting on the non-audit fees and undertaking to make further updates to the plan.”
 - (iii) The Seconded subsequently sent a further email to the Associate Director concerning non-audit fees and was copied into a series of emails between Mr Engel and the Associate Director finalising the draft to be sent to the Finance Director.
7. In the light of the matters set out above, in seconding the Seconded to the Company to assist with the preparation of the 2014 Statements, Mr Engel approved the provision of

accounting services to a listed audited entity in circumstances in which it was not an emergency situation and the Seconded had been involved in the 2014 Audit, with the result that the exemption in paragraph 164 of Ethical Standard 5 did not apply and the Audit Firm, and thereby Mr Engel, was in breach of paragraph 160 of Ethical Standard 5 for having provided a prohibited service and thereby paragraph 14 of ISA 200.

ADVERSE FINDING 2:

Failure to adequately assess the threat to the Audit Firm's independence

For the reasons set out below, before the Secondment was authorised, Mr Engel failed adequately:

- (a) to consider whether it was probable that a reasonable and informed third party would conclude that the auditor's objectivity was or was likely to be impaired in relation to the 2014 Audit;**
- (b) to identify and assess the significance of any related threats to the auditor's objectivity, including any perceived loss of independence; and**
- (c) to identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level,**

and so breached paragraph 17(b) and (c) of Ethical Standard 5, and thereby paragraph 14 of ISA 200 and paragraph 11 of ISA 220.

1. As audit engagement partner, Mr Engel should have, but did not, specifically consider whether it was probable that a reasonable and informed third party would regard the objectives of the proposed secondment as being inconsistent with the objectives of the 2014 Audit because it could be perceived as evaluating its own work thereby threatening the perception of independence. He also failed to identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.
2. Although Mr Engel and the Ethics Senior Manager correctly identified the relevance of paragraphs 160 and 164 of Ethical Standard 5, and therefore that the Secondment was prohibited unless there was an "emergency situation" and safeguards were applied, for the reasons given above, they incorrectly concluded that the circumstances of the Secondment fell within the scope of the exemption in paragraph 164. In the circumstances, that conclusion was plainly incorrect.

3. Whilst Mr Engel sought to identify appropriate safeguards for the Secondment, he should have, but did not, adequately identify and assess the significance of the threat posed by the proposed secondment to the Audit Firm's independence. Consequently, he failed to conclude that the threat posed from the Secondment could not be eliminated or reduced to an acceptable level, and consequently should not have been taken on. In particular:
 - (a) Mr Engel did not consider, whether adequately or at all, the fact that the Seconded had been involved in drafting the Audit Plan, despite being aware that it impacted upon the Audit Firm's perceived independence.
 - (b) Although Mr Engel consulted with the Ethics Function, he did not inform them of the Seconded's involvement in the audit.

ADVERSE FINDING 3:

The Audit Firm's lack of independence during the 2014 Audit

For the reasons set out below, by the conclusion of the 2014 Audit, Mr Engel should have concluded: (i) that the Audit Firm was not independent, in that it was probable that a reasonable and informed third party would conclude that its objectivity either was impaired or was likely to be impaired; and (ii) that the threats to the Audit Firm's independence could not be, and had not been, addressed. In failing so to conclude, and in continuing instead to give an audit opinion, Mr Engel thereby breached paragraphs 6 and 54 of Ethical Standard 1, and thereby paragraph 14 of ISA 200, and paragraph 11 of ISA 220.

1. As noted above, (i) in its Audit Findings document dated 26 June 2014 Mr Engel stated that the Audit Firm had implemented independence safeguards to meet the requirements of the FRC's Ethical Standards; and (ii) in the auditor's report to the 2014 Statements he stated that, in performing the 2014 Audit, the Audit Firm had complied with the Ethical Standards. . In a letter to the Audit Firm dated 11 July 2014 the Company said: *"We can confirm that independence safeguards introduced for the staff secondment have been observed as outlined in the Audit Findings Document, and all decisions on the financial statements have been made by management and the Board."*
2. However, contrary to those statements, for the reasons given above:
 - (a) The Secondment had constituted a prohibited service pursuant to the Ethical Standards in circumstances where it was not an emergency situation and did not

comply with the further requirements set out at Ethical Standard 5 paragraph 164(a).

- (b) In all the circumstances, the Secondment posed a threat to its independence which could not be adequately addressed, and consequently should not have been taken on by the Audit Firm.
3. In the circumstances, Mr Engel was not in a position to make the independence statements referred to at paragraph 1 above and he should instead have concluded that the Audit Firm was not independent, and that any threats to its independence could not be addressed, and nor was Mr Engel in a position to state that the Audit Firm had complied with the Ethical Standards.

ADVERSE FINDING 4:

Failure to consult the Ethics Partner in relation to non-audit fees

By reason of the matters set out below, Mr Engel failed to provide the Ethics Partner with details of the fees for non-audit services, or to discuss them with him, until those fees had already exceeded the Audit Firm's audit fees, in breach of paragraph 28 of Ethical Standard 5 and thereby paragraph 14 of ISA 200.

1. As described above, the first time that Mr Engel consulted the Ethics Partner in relation to the independence threat posed by the fact that the fees for non-audit services provided to the Company exceeded the fees for audit services, was his email to the Ethics Partner on 11 April 2014.
2. By that point, the fees for non-audit services had already significantly exceeded the fees for audit services.
3. [REDACTED]
[REDACTED]. Instead, the Ethics Senior Manager dealt with Mr Engel's inquiry.

ADVERSE FINDING 5: Failure to notify TCWG

For the reasons set out below, Mr Engel failed to ensure that TCWG at the Company were appropriately informed on a timely basis of all significant facts and matters bearing on the Audit Firm's objectivity and independence in relation to the provision of

non-audit services, in breach of paragraph 63 of Ethical Standard 1 and paragraph 48 of Ethical Standard 5, and thereby paragraph 14 of ISA 200.

1. As noted above, in relation to the independence issues created by the Secondment, Mr Engel notified TCWG at the Company as follows:
 - (a) By email to the Finance Director dated 4 April 2014, Mr Engel set out the reasons for the Secondment as well as the restrictions on the work that the Secondee would be able to do. He incorrectly stated that the Secondee “*has not been involved in the audit of [the Company] in the recent past*”. Mr Engel sought the Finance Director’s approval for the Secondment on those terms and recommended that it be formally approved by the Audit Committee Chair. By reply email the same day, the Finance Director said that “*I have passed onto [the Audit Committee Chair] for approval and am happy we can proceed on this basis*”. There is no evidence that the Audit Committee Chair’s, or the Audit Committee’s, approval was in fact obtained.
 - (b) Mr Engel forwarded the final Audit Plan to the Finance Director on 11 April 2014. In his covering email Mr Engel noted that the Audit Firm “*would get the engagement letter [for the Secondment] drafted next week and [the Secondee] will liaise with you on specific dates*”. The Audit Plan relevantly noted that “*we are currently in discussions with the management team to engage for the ... secondment of a senior manager from our audit team to support the year end close process. Appropriate consideration will be given to our independence before accepting the assignments.*” The Audit Plan did not otherwise refer to the Secondment and, in particular, did not contain any indication that the Secondee had performed work on the Audit Plan. It stated that apart from the matters referred to “*there are no other significant facts or matters which impact on our independence that we are required or wish to draw your attention.*”
 - (c) In his email to the Finance Director on 11 April 2014, Mr Engel also noted that: “*[he] had a really good meeting with [the Audit Committee Chair] yesterday, went through non audit fees and the audit plan. [The Audit Committee Chair] also outlined [their] thinking for a policy on the provision of non audit fees going forward which [they] will no doubt share with you, but seems entirely sensible.*” There is, however, no evidence that the threat caused to the Audit Firm’s independence by the fact that non-audit fees exceeded audit fees (whether independently or cumulatively with the other relevant matters described above) was ever

communicated to the Audit Committee Chair or the Audit Committee before the Audit Findings Report.

- (d) On 26 June 2014 Mr Engel presented the Audit Findings report to the Company. The presentation includes a slide entitled “*Non-audit fees and independence*”. In relation to the Secondment, the slide states that the safeguard of using separate engagement teams had been imposed (although this was incorrect, given Mr Engel was assigned to review the Secondee’s work) and that the Audit Firm had “*reviewed activities, discussed the specific work undertaken with the individual seconded and consulted with the board and finance director.*” the Audit Firm concluded that: “... we consider the independence safeguards have been satisfactory and the independence requirements communicated to the audit committee on 11 April have been observed. For completeness we attach these as an appendix to the report.” No appendix containing the safeguards was attached in the version which the Audit Firm provided, although the safeguards were referred to in the Company representations letter dated 11 July 2014 (see below). There is also no evidence that the independence requirements were communicated to the Audit Committee on 11 April 2014: in particular, they were not attached to the Audit Plan. The Audit Findings document also confirmed that Audit Firm had implemented independence safeguards to meet the requirements of the FRC’s Ethical Standards. In a letter to the Audit Firm dated 11 July 2014 the Company said: “*We can confirm that independence safeguards introduced for the staff secondment have been observed as outlined in the Audit Findings Document, and all decisions on the financial statements have been made by management and the Board.*”

2. In these circumstances, Mr Engel failed to notify TCWG:

- (a) That the Secondment was prohibited by paragraph 160 of Ethical Standard 5;
- (b) That there were no safeguards that could have been put in place to reduce to an acceptable level the threat to the Audit Firm’s independence created by the Secondment; and
- (c) That the Secondee had worked on the Audit Plan. Although the Finance Director was aware that the Secondee was listed as senior manager on the first draft of the Audit Plan, they were not informed that the Secondee had been involved in its drafting and, in any event, there is no evidence that the Secondee’s involvement

was communicated to the Audit Committee Chair or any other member of the Audit Committee.

ADVERSE FINDING 6: Lack of Integrity

For the reasons set out below, Mr Engel failed to act with integrity by directing the Seconded to transfer their time entry from the 2014 Audit Code to another code in order to conceal their involvement in the 2014 Audit. In so doing, Mr Engel failed to act with integrity, in breach of paragraphs 100.5 and 110.1 of the ICAEW Code of Ethics and paragraphs 6 and 7 of Ethical Standard 1, and thereby paragraph 14 of ISA 200.

1. On 2 April 2014 Mr Engel asked the Seconded to “*make sure you have not charged any time to the 2014 audit code*”. In circumstances in which Mr Engel knew that the Seconded would have spent time working on the 2014 Audit (see paragraphs [3.5] to [3.11] in Section 3 above), which would have been billed by the Seconded to the 2014 Audit code in the normal course, this instruction to the Seconded would have been understood by the Seconded, as Mr Engel knew, to be an instruction to transfer any time that they had recorded from the 2014 Audit code to another code. In accordance with that direction, on or before 7 May 2014 the Seconded transferred the relevant time entry from the 2014 Audit code to an alternative, administrative code.
2. By 7 May 2014, the Seconded had transferred their time from the 2014 Audit Code to an administrative code. Nevertheless, on 25 June 2014 Mr Engel emailed the Associate Director asking them to ensure there was no time recorded on the 2014 Audit code for the Seconded. As a consequence of Mr Engel’s direction, the Seconded contacted a PMS Support Technician and requested that the time recorded on the 2014 Audit code for 18 March 2014 be entirely deleted because of “*independence issues*”. As noted above, the Seconded’s request was escalated and, as a result, the time was not deleted.
3. The effect of transferring time off the 2014 Audit code was, as Mr Engel was aware at the time, to conceal the Seconded’s involvement in the 2014 Audit (or, at least, to make it harder for a third party to identify it) in circumstances in which:
 - (a) A search of staff who had recorded time on the 2014 Audit code would no longer reveal that the Seconded had performed work on the audit.
 - (b) In particular, AQR routinely request a full print out or summary of all time spent by all individuals on an audit code at the start of an audit. As the Seconded’s time had been transferred, their involvement would not have been detected in the usual way.

- (c) The Seconded's involvement in the audit would also not have been discovered from a perusal of the audit file. The Seconded's name was not listed on the final Audit Plan which was placed on the audit file because they ceased to be the senior manager for the 2014 Audit before the Audit Plan was finalised.
 - (d) Mr Engel's email to the Finance Director on 4 April 2011 did not refer to the Seconded having performed any work on the Audit Plan, or as having any other involvement in the 2014 Audit.
 - (e) The Seconded's work on the Audit Plan was also not recorded in the documentation concerning Mr Engel's consultations with the Ethics Function, as Mr Engel did not inform the Ethics Function of the Seconded's involvement.
4. The purpose of Mr Engel's directions to the Seconded was in order to conceal their involvement in the 2014 Audit (or to make it harder for a third party to identify it) so as to make it less likely that the threat to the Audit Firm's independence would be discovered, as is evidenced by the following facts:
- (a) Mr Engel was aware that the Company was within AQR scope in 2014.
 - (b) As set out above in Section 3 at paragraph [3.33], Mr Engel has admitted at interview that at least part of the reason for directing the Seconded to transfer their time was because of the threat to the Audit Firm's perceived independence.
 - (c) That this was Mr Engel's motivation is also supported by:
 - (i) The Seconded's statement at interview that they believed they were asked to transfer their time so that "*when people print a list of everybody who has charged time to the audit my name is not on it because then I went on secondment.*"
 - (ii) The Seconded's subsequent request to the PMS technician that their time be deleted for "*independence*" reasons.
 - (d) Contrary to Mr Engel's assertions at interview, there was no legitimate reason for the Seconded to transfer all their time off the 2014 Audit code. The work the Seconded performed in relation to the Audit Plan was legitimate, billable work. Had the Seconded not been seconded to the Company, there is no reason to consider that this time would not have been billed to the Company (and none has been suggested by Mr Engel or the Seconded).

6. SANCTIONS

6.1. 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:

6.1.1 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;

6.1.2 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 or the accountancy profession;

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

6.1.4 to deter Statutory Auditors and Statutory Audit Firms from breaching the Relevant Requirements relating to Statutory Audit

6.2. Paragraph 12 of the Policy provides that the primary purpose of imposing Sanctions for breaches of the Relevant Requirements is not to punish, but to protect the public and the wider public interest.

6.3. Executive Counsel proposes the following *Sanctions* against Mr Engel:

6.3.1 a published statement in the form of a severe reprimand; and

6.3.2 a permanent prohibition banning Mr Engel from signing audit reports.

6.4. In reaching this decision, Executive Counsel has, in summary, considered the following matters in accordance with the Policy.

Seriousness of the breaches of Relevant Requirements

6.5. The breaches were serious. The first five Adverse Findings relate to a failure to comply with Ethical Standards which resulted in the firm taking on an audit engagement and providing an audit opinion when the threats of independence were so great that Mr Engel should not have provided an audit opinion. The Executive Counsel has not however found that these breaches were dishonest, deliberate or reckless. The sixth Adverse Finding relates to Mr Engel encouraging the Seconded, who was a more junior member of the audit team, to transfer their time from the audit code to an administrative code to conceal the Seconded's involvement in the 2014 Audit so as to make it less likely that

the threat to the Audit Firm's independence would be discovered. This is particularly serious as it represents a breach of the fundamental principle of integrity.

- 6.6. Mr Engel did not personally benefit financially from the breaches of *Relevant Requirements*.
- 6.7. Mr Engel has previously admitted, and been sanctioned for, Misconduct in relation to an FRC investigation under the Accountancy Scheme in respect of his role as the statutory auditor for Nichols plc on behalf of the Audit Firm for the year 2010. The Misconduct included recklessly signing off on a memo which was incomplete and inaccurate, the effect of which was to fail to disclose facts and matters relevant to Grant Thornton's independence. In August 2018, the FRC agreed terms of settlement with Mr Engel which included a severe reprimand and a Fine of £100,000 (discounted for admissions and early settlement to £75,000). This is therefore the second time that Mr Engel has been found to have breached Ethical Standards.
- 6.8. The breaches, particularly the breach relating to the fundamental principle of integrity, could potentially undermine confidence in the standards of conduct in general of Statutory Auditors.

Identification of *Sanction*

- 6.9. Having assessed the seriousness of the breaches of *Relevant Requirements*, Executive Counsel has identified the combination of *Sanctions* as set out in paragraph 6.3 above.
- 6.10. Executive Counsel has then 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

- 6.11. The following aggravating factors have been identified in this case:

- 6.11.1. Mr Engel held a senior position at the Audit Firm and was a senior audit partner within the Manchester office. He was also head of the audit practice for the North West and was responsible for staff development.

Mitigating factors

- 6.12. The following mitigating factors have been identified in this case:

- 6.12.1. Mr Engel has provided an exceptional level of cooperation during Executive Counsel's investigation;

6.12.2. Mr Engel has apologised and demonstrated contrition for the breaches of *Relevant Requirements*.

Deterrence

6.13. 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

6.14. The Executive Counsel does not consider that the proposed sanction should be adjusted for admissions and settlement having regard to paragraph 83 of the Policy.

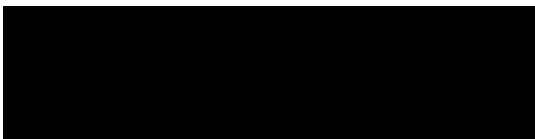
Other considerations

6.15. In accordance with paragraph 47(d) of the Policy, and in deciding not to impose a financial sanction, Executive Counsel has taken into account the financial resources of Mr Engel and the effect of any financial penalty on him.

7. COSTS

7.1. Having regard to the financial position of Mr Engel, Executive Counsel does not propose that any amount should be payable in respect of the Executive Counsel's costs in this matter.

Signed:

A large black rectangular redaction box covering the signature of Claudia Mortimore.

CLAUDIA MORTIMORE

DEPUTY EXECUTIVE COUNSEL

Date: 31 March 2020

Appendix 1

Extracts of the Relevant Requirements relevant to the Adverse Findings

1. Ethical Standard 1, paragraph 6 requires auditors to “*conduct the audit of the financial statements of an entity with integrity, objectivity and independence.*”
2. Ethical Standard 1, paragraph 7 states that integrity “*is a prerequisite for all those who act in the public interest*” and that “[i]t is essential that auditors act, and are seen to act, with integrity, which requires not only honesty but a broad range of related qualities such as fairness, candour, courage, intellectual honesty and confidentiality.”
3. Ethical Standard 1, paragraph 54 provides as follows:

At the end of the audit process, when forming an opinion but before issuing the report on the financial statements, the audit engagement partner shall reach an overall conclusion that any threats to objectivity and independence on an individual and cumulative basis have been properly addressed in accordance with APB Ethical Standards. If the audit engagement partner cannot make such a conclusion, he or she shall not report and the audit firm shall resign as auditor.

4. Ethical Standard 1, paragraph 63 requires audit engagement partners to “*ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor’s objectivity and independence.*”
5. Ethical Standard 5, paragraph 17 provides as follows:

Before the audit firm accepts a proposed engagement to provide a non-audit service, the audit engagement partner shall:

(a) consider whether it is probable that a reasonable and informed third party would regard the objectives of the proposed engagement as being inconsistent with the objectives of the audit of the financial statements; and

(b) identify and assess the significance of any related threats to the auditor’s objectivity, including any perceived loss of independence; and

(c) identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.

6. Ethical Standard 5, paragraph 28 provides that “[i]n the case of listed companies where the fees for non-audit services for a financial year are expected to be greater than the annual audit fees, the audit engagement partner shall provide details of the circumstances to the Ethics Partner and discuss them with him or her.”

7. Ethical Standard 5, paragraph 48 provides as follows:

The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of:

(a) all significant facts and matters that bear upon the auditor’s objectivity and independence, related to the provision of non-audit services, including the safeguards put in place; and

(b) for listed companies, any inconsistencies between APB Ethical Standards and the company’s policy for the supply of non-audit services by the audit firm and any apparent breach of that policy.

8. Ethical Standard 5, paragraph 160 prohibits audit firms from undertaking “an engagement to provide accounting services to: (a) an audited entity that is a listed company or a significant affiliate of such an entity, save where the circumstances contemplated in paragraph 164 apply”

9. Ethical Standard 5, paragraph 164 provides as follows:

In emergency situations, the audit firm may provide a listed audited entity, or a significant affiliate of such a company, with accounting services to assist the company in the timely preparation of its financial statements. This might arise when, due to external and unforeseeable events, the audit firm personnel are the only people with the necessary knowledge of the audited entity’s systems and procedures. A situation could be considered an emergency where the audit firm’s refusal to provide these services would result in a severe burden for the audited entity (for example, withdrawal of credit lines), or would even threaten its going concern status. In such circumstances, the audit firm ensures that:

(a) any staff involved in the accounting services have no involvement in the audit of the financial statements; and

(b) the engagement would not lead to any audit firm staff or partners taking decisions or making judgments which are properly the responsibility of management

10. The ICAEW Code of Ethics provides at:

(a) paragraph 100.5 that professional accountants “shall comply with the following fundamental principles: (a) Integrity – to be straightforward and honest in all professional and business relationships.”

(b) Paragraph 110.1 that “*the principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.*”

11. ISA 200, paragraph 14 requires auditors to “*comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.*”

12. ISA 220, paragraph 8 requires the engagement partner to “*take responsibility for the overall quality on each audit engagement to which the at partner is assigned.*”

13. ISA 220, paragraph 11 provides as follows:

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:

(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.

14. ISA 220, paragraph 15 requires the audit engagement partner to take responsibility for:

“(a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulator requirements; and

(b) The auditor’s report being appropriate in the circumstances.”