

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

(1) UHY HACKER YOUNG LLP

(2) JULIE ZHUGE WILSON

**EXPLANATORY MEMORANDUM TO
EXECUTIVE COUNSEL'S FINAL DECISION NOTICE**

The FRC has published the Final Decision Notice issued by the Executive Counsel to the FRC to (1) UHY Hacker Young LLP and (2) Julie Zhuge Wilson ("the Respondents").

The Final Decision Notice sets out the Adverse Findings made by Executive Counsel against the Respondents following an investigation relating to, and admissions made by, the Respondents. In reaching the Final Decision Notice it was not necessary for the Executive Counsel to receive or consider any representations from any parties other than the Respondents.

Accordingly this Final Decision Notice has not made, and should not be taken to have made, any finding against any individual or entity other than the Respondents (including Inch Kenneth Kajang Rubber plc, any of its subsidiaries or any individual who was a director, member of management or employee at Inch Kenneth Kajang Rubber plc or any of its subsidiaries).

It would not be fair to treat any part of this Final Decision Notice as constituting or evidencing findings against anyone other than the Respondents.

[...]

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

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(1) UHY HACKER YOUNG LLP

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EXECUTIVE COUNSEL'S 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 Respondents. It does not make findings against any persons other than the Respondents and it would not be fair to treat any part of this document as constituting or evidencing findings against any other persons or entities since they are not parties to the proceedings.

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: "**FY16**" means the financial year ended 31 December 2016, "**FY16 Financial Statements**" means the consolidated financial statements of Inch Kenneth Kajang Rubber plc ("**IKKR**") for that period, and the "**Audit**" means the statutory audit of the FY16 Financial Statements.

- 1.4. Pursuant to Rule 16(b) of the AEP, Executive Counsel has decided that UHY Hacker Young LLP (“**UHY**”) and Ms Julie Zhuge Wilson (“**Ms Wilson**”) are liable for *Enforcement Action*, having made *Adverse Findings* against each of them.
- 1.5. This *Final Decision Notice* is issued pursuant to Rule 18 of the AEP in respect of conduct of:
 - 1.5.1. UHY in relation to the Audit. UHY was the *Statutory Audit Firm* for the Audit.
 - 1.5.2. Ms Wilson, a partner at the time of the audit of UHY, in relation to the Audit. For FY16, she was the *Statutory Auditor* of IKKR and signed off the audit report on behalf of UHY. Ms Wilson subsequently left UHY, although she remains a registered auditor and a member of the Association of Chartered Certified Accountants.
- 1.6. In this *Final Decision Notice*, UHY and Ms Wilson are referred to as the “**Respondents**”.
- 1.7. In accordance with Rule 18 of the AEP this *Final Decision Notice* sets out Executive Counsel’s *Adverse Findings* and *Sanctions*, together with reasons.
- 1.8. This *Final Decision Notice* is divided into the following sections:
 - 1.8.1. Section 2: Executive Summary of the *Adverse Findings*;
 - 1.8.2. Section 3: Background;
 - 1.8.3. Section 4: *Relevant Requirements* to which the *Adverse Findings* relate;
 - 1.8.4. Section 5: Detail of the *Adverse Findings*;
 - 1.8.5. Section 6 and 7: *Sanctions* and costs.

2. EXECUTIVE SUMMARY OF THE ADVERSE FINDINGS

- 2.1. The IKKR Group (the “**Group**”) is engaged in rubber manufacture, tourism, construction and property development/leasing. At all times relevant to the Audit, its operations were entirely based in South East Asia, primarily Malaysia. Whilst its registered office was in Scotland, the activities of the parent company were minimal and the operational and financial management of the Group was also based in Malaysia. At the time of the Audit, IKKR was listed on the main market of the London Stock Exchange and, accordingly, was a Public Interest Entity.¹ It was a small group with a market capitalisation under £50 million, and reported revenue of less than £2 million in FY16.
- 2.2. The *Adverse Findings* in this *Final Decision Notice* relate to a number of areas which were fundamental to the Audit: the acceptance, planning and resourcing of the Audit; assessing the capabilities of component auditors, instructing the component auditors and involvement in their assessment as to risk; the review of the work of a component auditor; the Engagement Quality Control Review and the signing of the audit report. There are also *Adverse Findings* in relation to two specific areas of the Audit: audit work on an industrial land transaction and on the carrying value of an associate.
- 2.3. Section 5 of this *Final Decision Notice* sets out the detailed *Adverse Findings*.
- 2.4. Executive Counsel imposes the following *Sanctions* in respect of the Respondents:

UHY

- 2.4.1. A declaration that the Statutory Audit Report signed on behalf of UHY did not satisfy the *Relevant Requirements*, as set out in this *Final Decision Notice*;
- 2.4.2. a published statement, in the form of a Severe Reprimand; and
- 2.4.3. non-financial sanctions, in the form of an order pursuant to rule 96(c) of the AEP, requiring UHY to take remedial action to prevent the recurrence of the breaches:
- 2.4.3.1. implement and monitor enhanced mandatory training for all Responsible Individuals, to be reported to the FRC’s Executive Counsel and Executive Director of Supervision on an annual basis for a period of three years;

¹ IKKR ceased to be listed on the London Stock Exchange on 6 November 2017 but remains listed in Malaysia and Singapore.

- 2.4.3.2. implement a Root Cause Analysis Programme, whereby all Root Cause Analysis on Public Interest Entity audits are undertaken by an external provider;
 - 2.4.3.3. following an independent review of UHY's audit practice, to report on the implementation of recommended actions to the FRC's Executive Counsel and Executive Director of Supervision within 12 months of the date of this *Final Decision Notice*;
 - 2.4.3.4. to report to the FRC's Executive Counsel and Executive Director of Supervision on an annual basis the outcomes of Root Cause Analysis on Public Interest Entity audits and a summary of the outcomes of hot and cold files reviews on Public Interest Entity audits, and any remedial action, for a period of three years.
- 2.4.4. In determining the *Sanctions* to be imposed on UHY, Executive Counsel has noted that, in response to the FRC's Audit Quality Review team's findings that led to the referral to enforcement, UHY has undertaken significant remedial action.

Ms Wilson

- 2.4.5. A declaration that the Statutory Audit Report signed by Ms Wilson did not satisfy the *Relevant Requirements*, as set out in this *Final Decision Notice*;
- 2.4.6. a published statement, in the form of a Severe Reprimand; and
- 2.4.7. non-financial sanctions, in the form of an order pursuant to rule 96(c) of the AEP, requiring Ms Wilson to take remedial action to prevent the recurrence of the breaches:
 - 2.4.7.1. Ms Wilson shall not act as Statutory Auditor of a Public Interest Entity nor sign a Statutory Audit Report in respect of a Public Interest Entity for a period of two years;
 - 2.4.7.2. Ms Wilson is required to have regular external hot and cold reviews on a selection of non-PIE audits for which she is the engagement partner, to be agreed with the FRC's Executive Counsel. The outcomes of these reviews are to be reported to Executive Counsel annually for a period of three years;

2.4.7.3. Ms Wilson is required to provide the FRC's Executive Counsel with ACCA inspection outcomes in relation to any inspections of non-PIE audits for which she is the engagement partner for a period of three years;

2.4.7.4. Ms Wilson is required to agree a training programme with the FRC's Executive Counsel, including periodic reporting. She is required to confirm her completion of training and to provide any certificates of completion (where applicable). The training programme should be completed within 18 months of the date of this *Final Decision Notice*. Ms Wilson is required to complete training in relation to the following areas: audit quality control, audit documentation, audit evidence and professional scepticism.

3. BACKGROUND

3.1. UHY had been the auditor of IKKR since 2007. The Audit was the fifth year that Ms Wilson was the Senior Statutory Auditor and Group Audit Engagement Partner. The team from UHY conducting the Audit primarily comprised Ms Wilson and an audit manager, who joined UHY in January 2017 (the "**Audit Manager**"), collectively (the "**Audit Team**"). The Audit was the third year that the same individual had carried out the Engagement Quality Control Review on audits for IKKR (the "**EQCR**").

3.2. In respect of the Audit, all of the audit work in relation to IKKR's subsidiaries was performed by overseas component auditors outside of the UHY network, "**Component Auditor A**" for the majority of the subsidiaries, and "**Component Auditor B**" for one subsidiary (collectively the "**Component Auditors**"). Given the minimal level of activity of the parent company, the Component Auditors' work covered substantially all the activities of the group.

3.3. The financial statements for FY16 were signed in the very early morning on 29 April 2017; the audit report was dated 28 April 2017. The deadline for this report was 30 April 2017. UHY's audit report in relation to the FY16 Financial Statements was unmodified.

4. RELEVANT REQUIREMENTS

4.1. Pursuant to Regulation 4(1) of the Statutory Auditors and Third Country Auditors Regulations 2016, a person appointed to conduct a statutory audit must conduct that audit in accordance with the relevant standards for the conduct of statutory audits, which include the *Relevant Requirements*.

- 4.2. *Relevant Requirements* include, but are not limited to, the International Standards on Auditing (UK and Ireland) (the “ISAs”).
- 4.3. Aspects of the following *Relevant Requirements* are referred to in this *Final Decision Notice*:
- 4.3.1. ISA 200 (Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing);
 - 4.3.2. ISA 220 (Quality control for an audit of financial statements);
 - 4.3.3. ISA 230 (Audit documentation);
 - 4.3.4. ISA 240 (The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements);
 - 4.3.5. ISA 300 (Planning an audit of financial statements);
 - 4.3.6. ISA 315 (Identifying and assessing the risks of material misstatement through understanding the entity and its environment);
 - 4.3.7. ISA 330 (The auditor's responses to assessed risks);
 - 4.3.8. ISA 500 (Audit evidence);
 - 4.3.9. ISA 540 (Auditing accounting estimates);
 - 4.3.10. ISA 600 (Special considerations – audits of group financial statements including the work of component auditors);
 - 4.3.11. ISA 620 (Using the work of an auditor’s expert); and
 - 4.3.12. ISA 700 (The independent auditor’s report on financial statements).

5. ADVERSE FINDINGS

Overview

- 5.1. The structure of IKKR's operations meant that, as should have been clear to UHY and Ms Wilson from their previous audits, the Audit would be potentially complex and logistically challenging. In particular: (i) the Audit Team, which was based in the UK, would be geographically remote from the financial management of the Group; (ii) in circumstances in which the Component Auditors' work covered substantially all of the activities of the Group, the Audit Team could not benefit from any common network firm procedures, audit methodologies or quality metrics; and (iii) the Audit Team would need to be competent in the laws, regulations and reporting requirements of the three jurisdictions in which IKKR was listed (London, Malaysia and Singapore).
- 5.2. In an audit for a group such as this, planning should have been completed in advance of the year-end in order to allow sufficient time for UHY to meet with management, to understand changes to the business, to assess risks, to properly resource the Audit Team, to brief the EQCR, to assess the competence of the Component Auditors, to instruct the Component Auditors, and to participate in the risk assessment of the Component Auditors. In circumstances in which none of this was adequately achieved for the Audit, audit quality suffered, and there were, as a result, multiple significant shortcomings in the execution of the work.
- 5.3. Whilst the demands of the Audit required an engagement partner who would exercise strong supervision over the work being performed in Malaysia by firms outside its global network, it is evident that Ms Wilson did not adopt such an approach. Rather, she exercised insufficient supervision and relied heavily upon the Component Auditors to carry out the audits of the subsidiaries competently.
- 5.4. Similarly, despite the fact that the Audit Manager assigned to the Audit only joined UHY in January 2017 (when the Component Auditors' fieldwork was underway), Ms Wilson did not check whether he had any experience of a group audit or otherwise take any steps to satisfy herself as to his suitability. Nor did she take any steps to supervise him more closely as a result, but rather relied on UHY to allocate suitable resource.
- 5.5. The problems caused by the inadequate planning of the Audit and Ms Wilson's approach to supervision were then in turn compounded by the fact that audit work on important areas in the Audit was left until the final days before the sign off deadline of 30 April

2017, and was therefore carried out under inevitable time pressure, in circumstances in which:

- 5.5.1. Ms Wilson had not prioritised work on the Audit from early April 2017 because she was not anticipating the EQCR's Malaysian audit licence being renewed in time for her to sign the auditor's report.
 - 5.5.2. Having learnt on 27 April 2017 that it was likely they would receive the licence by the following day, Ms Wilson then worked through the night of the 28 April to the early morning of 29 April 2017 in order to sign the audit on time.
- 5.6. In those circumstances, the execution of the audit was poor:
- 5.6.1. In relation to the audit work carried out by the Audit Team on an industrial land transaction and the carrying value of an associate, there was a marked lack of professional scepticism. Overall, the work that is evidenced on the audit file is inadequate to support the accounting treatment in these two areas.
 - 5.6.2. There is no evidence on the audit file to show, at the date of the audit report: (i) that all outstanding queries raised in respect of the Component Auditors' work had been resolved; (ii) that the Audit Team had reviewed all the group reporting documents; or (iii) that the EQCR review was complete.
 - 5.6.3. The EQCR had in fact only commenced his substantive review of the audit file 4 days before the signing deadline (on 26 April 2017). As a result, and in circumstances in which the EQCR had not been briefed by Ms Wilson and there is no evidence that Ms Wilson ever discussed any significant matters arising on the Audit with him, the review was largely ineffective and therefore inadequate.
 - 5.6.4. The documentation is incomplete and inadequate for the purposes of enabling an understanding of important issues.
 - 5.6.5. The Annual Report was approved by those charged with governance just after midnight on 29 April 2017, and the audit report was signed following that approval, with the result that the audit report was incorrectly dated 28 April 2017.
 - 5.6.6. The deficiencies in the audit work were such that, as at 28 (or 29) April 2017, Ms Wilson had not considered all the available evidence and, as such, the audit report should not have been signed.

Adverse Finding 1: The acceptance, planning and resourcing of the Audit

5.7. Despite the obvious challenges facing the Audit, including the significance of the Component Auditors and the fact that the resource requirements and the timing of the work that would be required would have been well known to UHY and Ms Wilson from their previous audits:

5.7.1. No audit planning was carried out prior to Ms Wilson's production of the Audit Service Plan (the "**ASP**") on 17 November 2016, which she sent to the client as requested that day, 5 days before the scheduled Audit Committee planning meeting on 22 November 2016 (the "**November Audit Committee Meeting**").

5.7.2. Consistent with the failure to plan the Audit properly, there is no evidence or documentation that anyone at UHY had undertaken any proper consideration prior to the Component Auditors commencing their fieldwork in January 2017 as to whether UHY had the necessary competency, capabilities, time and resources to perform the Audit or that Ms Wilson had taken any steps to satisfy herself that any appropriate procedures regarding the acceptance of the Audit had been followed (or that the conclusion reached with regard thereto was reasonable). Audit acceptance procedures were documented in February 2017, following the Audit Manager joining the team, based on Ms Wilson's and UHY's previous experience of the audit.

5.8. Ms Wilson has said that she had been orally asking UHY for an audit manager since the end of October 2016, and there is an email from Ms Wilson asking UHY for support on the Audit dated 16 November 2016 in which she asked for assistance with the ASP and preparing the instructions for the Component Auditors. That request appears to have been prompted by receipt by Ms Wilson of the email from an accountant at IKKR that day asking for a copy of the ASP. Ms Wilson was told that the person best placed to be the Audit Manager was joining UHY in January 2017.

5.9. In circumstances in which the November Audit Committee Meeting was only days away, and in which there was no UHY resource available to assist Ms Wilson, the appropriate response would have been to have requested a delay to the meeting. Instead, however, Ms Wilson prepared the ASP herself under time pressure, with no substantive work having been carried out to support statements in the ASP. Prior to attending the November Audit Committee Meeting, Ms Wilson had not: (i) discussed the audit risks with the client; or (ii) had any communications with the Component Auditors, but placed

reliance on the fact that by the time she produced the ASP, IKKR had confirmed to her that there had been no changes to the business and she had reviewed the trial balances. The Audit Team did not have any communications with the Component Auditors until January and February 2017.

- 5.10. Contrary to the guidance issued by UHY in February 2016 as to Engagement Quality Control Reviews (the “**2016 EQCR Policy**”), the EQCR did not review the planning of the Audit before he reviewed the audit file in late April 2017. As a result, audit planning was not reviewed by the EQCR in advance of the Audit fieldwork, and by the time Audit planning was reviewed, it was not practicable for the EQCR to have any meaningful input into the audit approach and work. Nor was the EQCR briefed by Ms Wilson at the planning stage, contrary to the 2016 EQCR Policy. The EQCR was briefed at a later date by the Audit Manager.
- 5.11. In light of the matters set out above, the Respondents’ conduct in relation to the acceptance, planning and resourcing of the Audit, constituted breaches of ISAs 220 and 300 in the following ways:
- 5.11.1. In circumstances in which, despite the challenges facing the Audit, there is no evidence of any assessment (as to whether UHY had the competence, necessary capabilities, time and resources) having been carried out prior to the Component Auditor fieldwork being underway, Ms Wilson failed to take adequate steps to satisfy herself that appropriate procedures regarding the acceptance of the Audit had been followed and/or that any conclusion reached in that regard was reasonable, in breach of paragraph 12 of ISA 220.
- 5.11.2. In circumstances in which work had not been undertaken on the Audit by UHY prior to 17 November 2016, there were no discussions with the client or with the Component Auditors prior to the November Audit Committee Meeting and the EQCR did not review the planning of the Audit in advance of the Audit fieldwork, the Respondents failed to plan the Audit so that it would be performed in an effective manner having regard to the complexities and challenges that it faced, in breach of paragraph 4 of ISA 300.
- 5.11.3. Ms Wilson failed, in circumstances in which the EQCR was not involved in the planning of the Audit and was not briefed by Ms Wilson at the planning stage, to ensure that the EQCR review was performed in accordance with the 2016

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EQCR Policy, in breach of paragraph 16 of ISA 220.

Allegation 2: Assessing the capabilities of Component Auditors, instructing the Component Auditors and involvement in their assessment as to risk

- 5.12. Whilst a consideration of the competence of the Component Auditors needed to be taken into account when deciding on the degree of appropriate supervision, Ms Wilson confirmed in her interview that there would not have been any assessment as to their competence as they had been “*inherited*” from the previous audits. Ms Wilson had been involved in the audit for five years, and UHY had audited IKKR since 2007. Consistent with that, aside from checking the professional registration of Component Auditor A in the Malaysian Institute of Accountants Membership Directory, there is no evidence of any independent enquiries having been made by the Audit Team as to the competence of the Component Auditors (including as to whether they had sufficient resources and possessed any relevant specialist skills) and/or as to whether they operated in a regulatory environment that actively oversaw auditors. The proforma letters from the Component Auditors to UHY as to their competence and ethical compliance were received after the Component Auditors had commenced fieldwork. The explanations that have since been provided by UHY and Ms Wilson as to what they say they knew about the Component Auditors were not recorded on the file.
- 5.13. The Respondents’ conduct in relation to assessing the capabilities of the Component Auditors, instructing the Component Auditors and involvement in their assessment as to risk constituted breaches of ISAs 230 and 600 in the following ways:
- 5.13.1. Despite the importance of the Component Auditors to the overall effectiveness and quality of the Audit, the Respondents failed to take adequate steps to obtain an understanding as to their professional competence and as to whether the Component Auditors operated in a regulatory environment that actively oversaw auditors, in breach of paragraph 19 of ISA 600.
- 5.13.2. In circumstances in which it is not possible to determine on the basis of the documents on the audit file what understanding the Audit Team had of the Component Auditors, the Respondents failed to prepare audit documentation that was sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, and the results of the audit procedures performed and the audit evidence obtained, in breach of paragraph 8 of ISA 230.

- 5.13.3. In circumstances in which the group instructions were delivered to the Component Auditors at a point when their fieldwork had either finished or was well underway and contained a material omission as to risk, the Respondents failed to communicate their requirements to the Component Auditors on a timely basis, in breach of paragraph 40 of ISA 600.
- 5.13.4. The Respondents failed to be involved in the risk assessments carried out by the Component Auditors so as to identify significant risks of material misstatement of the group financial statements, in breach of paragraph 30 of ISA 600.

Allegation 3: Audit work relating to an industrial land transaction

The transaction's history and the subsequent restatement

5.14. Pursuant to a sale and purchase agreement dated 29 December 2016 (the “**SPA**”), a subsidiary of IKKR (the “**subsidiary**”), agreed to purchase an industrial land plot (the “**plot**”) from “**SI**”, a wholly owned subsidiary of “**AB**” for RM 20 million (around £3.5 million) (the “**Land Transaction**”). To put it in context, the Land Transaction was less than 4% of total non-current assets, less than 3% of total assets and just over 3% of total equity.

5.15. The ASP (which preceded the SPA): (i) identified that this had been a potential transaction in both 2014 and 2015; (ii) noted that a member of IKKR management was also a director of AB; and (iii) included the deposit previously paid by the subsidiary in respect of the potential transaction within the explanation of the significant audit risk of recovery of receivable balances. In the FY16 Financial Statements, IKKR recognised a freehold land asset of RM 20 million, comprising the deposit of RM 14.65 million and deferred consideration of RM 5.4 million payable upon completion of the transaction (in other payables). This transaction was reversed in the 2017 financial statements by a prior year adjustment, as the method of completing the transaction changed and it was decided that the subsidiary would purchase the entire company, rather than just the plot. This transaction completed in 2018.

Consideration of the business rationale for the Land Transaction and any relevant controls

5.16. Whilst arguably not outside the normal course of business for the Group, the Land Transaction should have been considered an unusual transaction by reason of its particular features, which raised questions as to the business rationale behind it:

5.16.1. The subsidiary was purchasing the plot for RM 20 million. It had been valued in 2014 for RM 26.9 million by an independent valuer, with a desktop valuation of RM 20 million in 2016.

5.16.2. It had taken several years for the transaction to reach the SPA stage.

5.16.3. The fact that a member of IKKR management was also a director of AB indicated a prima facie conflict of interest and gave rise to an increased risk that the transaction might not have been on an arm's length basis. There is some inconsistency in the audit file as to the conclusion on whether it was a related

party transaction.

- 5.16.4. Despite the repeated references in the SPA to the purchaser (the subsidiary) being represented by lawyers in respect of the transaction, a member of IKKR management told the Audit Team that no lawyers had in fact been involved for the subsidiary/IKKR.
- 5.17. Further, it was a significant transaction in circumstances in which: (i) the value of the transaction was twice that of Group materiality (RM 10 million); and/or (ii) the risk associated with the transaction was unusual (by reason of the conflict of interest aspect identified above). The transaction was regarded by the Audit Team at the time as being significant, as evidenced by the facts that: (i) the deposit previously paid by the subsidiary in respect of the potential transaction was included within the explanation of the significant audit risk of recovery of receivable balances; and (ii) the Audit Team took over the audit work of the Land Transaction from Component Auditor A.
- 5.18. Notwithstanding the features set out in paragraph 5.16 above, which constituted fraud risk factors, however, there is no evidence on the audit file of the Audit Team: (i) analysing whether the fact that a member of IKKR management was also a director of AB made the Land Transaction a related party transaction under International Accounting Standard 24 ("**IAS 24**"); (ii) obtaining an understanding of the subsidiary/IKKR's controls relevant to the risk; (iii) evaluating the business rationale of the Land Transaction; (iv) checking that the Land Transaction had been conducted on terms equivalent to those prevailing in an arm's length transaction; or (v) considering the potential risk posed by the position of a member of IKKR management as a director of AB.
- 5.19. UHY has since explained that:
- 5.19.1. There is no record on the audit file of the business rationale for the subsidiary purchasing the land as the purchase had been discussed previously and so this was not a new transaction.
- 5.19.2. A desktop valuation of the land had been obtained by IKKR in June 2016 for RM 20 million, which had been discussed during a meeting in February 2017 attended by the Audit Team, representatives of Component Auditor A and IKKR, although no copy of the valuation was taken (or put on the audit file).

UHY say further that, whilst the Audit Manager had met the valuers of the plot in February 2017 and had assessed their competence, the valuation of the plot was not specifically discussed during this meeting.

5.20. In light of the matters set out above, the Respondents' conduct in relation to the Land Transaction constituted breaches of ISAs 230, 240 and 315 in that:

5.20.1. The Respondents failed, in circumstances in which the Land Transaction was significant and unusual, to evaluate the business rationale of the transaction, in breach of paragraph 32(c) of ISA 240.

5.20.2. The Respondents failed, when relying upon Ms Wilson's knowledge of the potential transaction as to the business rationale for the Land Transaction, to determine whether changes had occurred since the previous audit that might affect its relevance to the current audit, in breach of paragraph 9 of ISA 315.

5.20.3. In circumstances in which the documents on the audit file are inconsistent as to whether the Land Transaction was considered by the Audit Team to be a related party transaction or not, and it is not possible to understand what analysis was undertaken of the relationship by reference to the definitions in IAS 24 and ISA 550, the Respondents failed to prepare audit documentation that was sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, and the results of the audit procedures performed and the audit evidence obtained, in breach of paragraph 8 of ISA 230.

The terms of the SPA and the audit evidence obtained to support IKKR management's accounting treatment

5.21. Whilst in previous years the deposit paid in respect of the plot had been treated as a debtor and tested as part of the recoverability of receivables balances, IKKR indicated that, in light of the SPA, they wanted to treat the land as a fixed asset in FY16.

5.22. The sale of the plot was stated in the SPA to be subject to three conditions (collectively the "**Conditions of Sale**"). Further, the SPA provided:

5.22.1. That the balance of the purchase price would be paid in stages, with the final balance of RM 5 million being paid within 14 days of the Conditions of Sale

being fulfilled (the “**Balancing Payment**”).

- 5.22.2. That upon execution of the SPA, SI would deposit with the subsidiary’s solicitors various documents as was required to effect the transfer of the plot.
- 5.22.3. That the sale and purchase of the land would be deemed completed upon payment of the Balancing Payment.
- 5.23. Whilst the status at the year-end of the Conditions of Sale was critical to the assessment of whether the criteria for recognition of the plot as an asset had been met: (i) the documents provided to the Audit Team did not on their face clearly establish that they had been met (rather, they indicated that the Conditions of Sale had not been met, or had not all been met); and (ii) whether they had been met or not would be a matter of Malaysian law. The audit file does not contain sufficient evidence that the Audit Team gave consideration at the time to whether the Conditions of Sale had been satisfied.
- 5.24. Further, aside from the evidence indicating that the Conditions of Sale had not been fulfilled, there were other factors that strongly indicated that the subsidiary did not in fact have control of the land as at 31 December 2016, which included that, as at 28 April 2017: (i) the Balancing Payment had not been paid; (ii) title to the plot had not been transferred; and (iii) no leaseback had been agreed.
- 5.25. In light of the matters set out above, the Respondents’ conduct in relation to the Land Transaction constituted breaches of ISAs 200, 230, 330 and 500 in the following ways:
- 5.25.1. The Respondents failed to perform this aspect of the Audit with professional scepticism in breach of paragraph 15 of ISA 200 by accepting without adequate challenge management’s treatment of the transaction despite the strong indications that, as at the year-end: (i) the subsidiary did not have control of the land; and accordingly (ii) management’s treatment of the land as a fixed asset was not correct.
- 5.25.2. The Respondents failed to obtain sufficient appropriate audit evidence from which to draw a reasonable conclusion that the land was a fixed asset, in breach of paragraph 4 of ISA 500.
- 5.25.3. The Respondents failed to prepare audit documentation that was sufficient to

enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, and the results of the audit procedures performed and the audit evidence obtained, in breach of paragraph 8 of ISA 230.

5.25.4. The Respondents failed to document how they had addressed the inconsistency between information identified during the Audit, which indicated that the subsidiary did not have control of the land, and their final conclusion that the land should be treated as a fixed asset, in breach of paragraph 11 of ISA 230.

5.25.5. The Respondents failed to consider all relevant audit evidence, regardless of whether it appeared to corroborate or to contradict the assertions in the FY16 Financial Statements that the land was a fixed asset, in breach of paragraph 26 of ISA 330.

5.25.6. The Respondents failed to perform audit procedures to evaluate adequately whether the overall presentation of the financial statements was in accordance with the applicable financial reporting framework, in breach of paragraph 24 of ISA 330.

The absence of consultation

5.26. Despite the strong indications that the subsidiary did not have control of the land as at 31 December 2016, and the absence of any evidence that the Audit Team themselves had specialist knowledge of the legal aspects of executing property transactions under Malaysian law, the Audit Team did not consult colleagues who may have had such knowledge, or engage a legal expert in relation to the Land Transaction. Rather, their enquiries in relation to the legal aspects of the transaction were dealt with by a member of IKKR management, however they did not independently verify what they had been told by him, nor did they explicitly identify him as a management expert.

5.27. In light of the matters set out above, the Respondents' conduct in relation to the Land Transaction constituted breaches of ISAs 220, 500 and 620 in the following ways:

5.27.1. In circumstances in which the legal status of the Land Transaction was subject to Malaysian law and raised questions that were difficult and/or contentious, the

Respondents failed (i) to consult appropriately, in breach of paragraph 18 of ISA 220; or (ii) to appoint an auditor's expert, or to consider adequately or at all whether such an appointment was necessary in order to obtain sufficient appropriate audit evidence, in breach of paragraph 7 of ISA 620.

- 5.27.2. In relation to their reliance upon a member of IKKR management as to the legal status of the transaction, the Respondents failed to identify him as a management expert and/or to evaluate his competence, capabilities and objectivity to be treated as a management expert upon whom reliance should be placed, in breach of paragraph 8 of ISA 500.

Allegation 4: Audit work in relation to the carrying value of an associate

The investment and supporting model

5.28. IKKR held a 22.4% investment in “**Company A**”, a company quoted on the Malaysian Stock Exchange (the “**Investment**”). The Investment was: (i) accounted for as an associate under the equity accounting method in the FY16 Financial Statements; and (ii) held at its carrying value of RM 24.6 million in the FY16 Financial Statements. The market value of the Investment was RM 15.5 million, based on the prevailing share price, and IKKR’s share of Company A’s 2016 loss was RM 0.17 million (2015: RM 4.6 million share of profit). To put it in context, the carrying value of the Investment was less than 5% of total non-current assets, less than 3.5% of total assets and less than 4% of total equity.

5.29. The carrying value of RM 24.6 million in the FY16 Financial Statements was supported by a value-in-use model produced by management and based on discounted future cash flows (the “**Model**”). In the Audit Committee Report, UHY stated that they had reviewed the Model, the key assumptions and the inputs, that their review had resulted in no impairment charge, and that, accordingly, they were comfortable with the values on the company and consolidated balance sheet. The maximum potential impairment charge would have been less than materiality, in circumstances in which the difference between the carrying value and the market value was RM 9.1 million.

The testing that was done to the Model

5.30. The evidence on the audit file is that the Audit Team initially concluded that the key assumptions in the Model were reasonable.

5.31. UHY say that they produced a tested model following discussions with a member of IKKR management and following these discussions, the Audit Team were satisfied the assumptions were reasonable and the assumption in respect of sales growth for 2017 was reduced from 10% to 4%. UHY has confirmed that there are no records of these calls. There are insufficient records on the audit file of discussions between the Audit Team and IKKR’s management as to the Model or as to the testing that was done to the Model.

5.32. In addition to reducing the forecast revenue rate for 2017, it appears that the Audit Team also carried out the following testing: (i) removing the working capital adjustment

between depreciation and capital expenditure; and (ii) eliminating tax receipts/payments and cash inflows/outflows from financing activities in order to comply with International Accounting Standard 36.

5.33. Overall, however, it is not possible to ascertain on the basis of the documentation on the audit file:

5.33.1. The nature and extent of the work carried out by the Audit Team in respect of the assumptions in the Model.

5.33.2. What discussions took place with IKKR as to those assumptions.

5.33.3. On what basis the Audit Team was seemingly satisfied that the key assumptions in the Model were reasonable.

5.33.4. The rationale for the testing that was done to the Model.

5.33.5. The impact that the testing had on the Audit Team's confidence in the forecasting ability of IKKR's management as to the other key assumptions in the Model.

5.34. In light of the matters set out above, the Respondents' conduct in relation to the carrying value of the associate undertaking constituted breaches of ISA 230 in that, in relation to the testing that was done to the Model:

5.34.1. The Respondents failed to prepare audit documentation that was sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the results of the audit procedures performed and the audit evidence obtained, and significant matters arising during the audit, in breach of paragraph 8 of ISA 230.

5.34.2. The Respondents failed to document discussions of significant matters with IKKR's management, in breach of paragraph 10 of ISA 230.

The evidence on the audit file does not support the conclusion that the carrying value of the Investment was reasonable and that no impairment charge was necessary

5.35. The Respondents' conduct in relation to the carrying value of the associate undertaking (and the Model supporting the carrying value of the investment) constituted breaches of ISAs 200, 230, 300, 330, 500 and 540 in the following ways:

5.35.1. The Respondents failed to obtain an adequate understanding of how IKKR had made the assumptions underpinning the Model and the data on which they were based in breach of paragraph 8(c) of ISA 540.

5.35.2. The Respondents failed to evaluate adequately when using information provided by IKKR said to support the assumptions underpinning the Model, whether the information was sufficiently reliable, in breach of paragraph 9 of ISA 500.

5.35.3. The Respondents failed to perform the audit with professional scepticism by accepting without adequate challenge the assumptions made by management in the Model, in breach of paragraph 15 of ISA 200.

5.35.4. The Respondents failed to consider all relevant audit evidence, regardless of whether it appeared to corroborate or to contradict the assessment by IKKR's management of the assumptions underpinning the Model, in breach of paragraph 26 of ISA 330.

5.35.5. The Respondents failed, when responding to the assessed risks of material misstatement in relation to the carrying value of Company A, to undertake adequately one or more of steps (a) to (d) of paragraph 13 of ISA 540 in relation to the Model.

5.35.6. In relation to the discount rate and the calculation of the terminal value used in the Model, the Respondents failed to consider adequately whether specialised skills or knowledge were required in order to determine whether IKKR's management had appropriately applied the requirements of the applicable financial reporting framework relevant to the accounting estimate, in breach of paragraph 14 of ISA 540.

5.35.7. In carrying out an incomplete sensitivity analysis and/or in failing to perform reverse testing, the Respondents failed to obtain an understanding of whether,

and if so, how, management had assessed the effect of estimation uncertainty, in breach of paragraph 8(c)(vi) of ISA 540.

- 5.35.8. In circumstances in which the decision to carry out a sensitivity analysis on only two of the key assumptions and/or the decision not to perform reverse testing were significant changes to the audit plan, the Respondents failed to include the change in the audit documentation or the reasons for the changed approach, in breach of paragraph 12(c) of ISA 300.
- 5.35.9. The Respondents failed to obtain sufficient appropriate audit evidence from which to draw a reasonable conclusion that the carrying value of the Investment was reasonable and that no impairment charge was necessary, albeit the maximum potential impairment charge was less than materiality, in breach of paragraph 4 of ISA 500.
- 5.35.10. The Respondents failed to document how, in respect of the Model, they had addressed the inconsistency between information identified during the audit and their final conclusion regarding a significant matter, in breach of paragraph 11 of ISA 230.

Allegation 5: The review of the work of Component Auditor A

- 5.36. During the Audit Team's site visit to Kuala Lumpur to review the documentation of Component Auditor A in February 2017, the Audit Team concluded that UHY needed to take over the audit of the Land Transaction as the work done by Component Auditor A was insufficient. There is no evidence that the concerns of the Audit Team about the approach taken by Component Auditor A in respect of the Land Transaction led the Audit Team to question their approach to the other areas of audit work. Ms Wilson reviewed Component Auditor A's audit files (in respect of the other work) and she was satisfied with them.
- 5.37. As regards these other areas of audit work, work papers on the audit file record the notes made by the Audit Team from their review during the February site visit. Within those documents, the Audit Team: (i) recorded the results of their analytical review of the various files; (ii) listed queries arising from the review; and (iii) documented the results of the additional testing carried out by the Audit Team. In each work paper there was a list of outstanding items following that review, which Component Auditor A were to resolve (the "**Component Auditor A Work Papers**"). In addition, the Audit Team compiled a table and a list of outstanding audit queries (the "**List of Component Auditor A Queries**").
- 5.38. Whilst the Audit Team's final report to the Audit Committee dated 28 April 2017 did not list any outstanding queries with Component Auditor A, in the rush to complete the Audit work on 27 and 28 April 2017, there is no evidence on the audit file to show that all the queries identified in the Component Auditor A Work Papers (or the List of Component Auditor A Queries) had been resolved, and on the face of the documentation, they remain incomplete. Ms Wilson has said she was satisfied that the outstanding queries did not impact the audit opinion, though this was not recorded on the audit file.
- 5.39. The Audit Team received a number of group reporting documents, including 11 Key Features Memoranda ("**KFM**") which contained a list of intercompany transactions and very brief, identical comments to indicate that no auditing, accounting and control issues had been identified by Component Auditor A in respect of any of the subsidiaries. The KFMs were not saved to the audit file, but were saved elsewhere, and there is no evidence on the audit file of a review of the KFMs by the Audit Team. UHY did not receive a component audit opinion from Component Auditor A, instead relying upon Component Auditor A's audit report in the financial statements of the subsidiaries.

5.40. In light of the matters set out above, the Respondents breached ISAs 230 and 600 in relation to their review of the work of Component Auditor A:

5.40.1. The Respondents failed to document the Audit Team's review of relevant parts of Component Auditor A's audit documentation and the conclusions thereon, in breach of paragraph 50 of ISA 600.

5.40.2. The Respondents failed to prepare audit documentation that was sufficient to enable an experienced auditor, having no previous connection with the audit, to understand in respect of the Audit Team's review of the work carried out by Component Auditor A the nature, timing and extent of the audit procedures performed, and the results of the audit procedures performed, and the audit evidence obtained, in breach of paragraph 8 of ISA 230.

Allegation 6: The EQCR

5.41. The Respondents' failure to involve the EQCR in relation to the planning of the Audit is addressed at paragraphs 5.9 to 5.11 above. In relation to his involvement in the Audit overall, the EQCR charged a total of 9.5 hours between 23 April 2017 and 28 May 2017. Ms Wilson appears to have had little, if any, direct interaction with the EQCR, which she delegated to the Audit Manager. Consistent with that, and contrary to the 2016 EQCR Policy, there is no evidence that Ms Wilson at any point gave a full and frank briefing to the EQCR or that she discussed significant matters arising out of the Audit with him. The EQCR commenced his review on 26 April 2017, and the 'Second Partner Checklist' was signed off by the EQCR on 19 and 26 May 2017.

5.42. In light of the matters set out above, the Respondents' conduct in relation to the EQCR review constituted breaches of ISAs 220 and 230 in the following ways:

5.42.1. Ms Wilson failed, in circumstances in which she did not give the EQCR a full and frank briefing or document the information provided to him, or ensure that he had not identified any significant weaknesses in the Audit, to ensure that the EQCR review was performed in accordance with UHY's review policies and procedures, in breach of paragraph 16 of ISA 220.

5.42.2. Ms Wilson failed to discuss significant matters arising during the Audit with the EQCR (such as the correct accounting treatment of the Land Transaction and/or the evidence said by IKKR's management to support the assumptions underpinning the Model on which the carrying value of the Investment was based), in breach of paragraph 19(b) of ISA 220.

5.42.3. The auditor's report was dated and issued prior to the completion of the EQCR review, in breach of paragraph 19(c) of ISA 220.

5.42.4. In circumstances in which it is not possible to tell from the documentation on the audit file what discussions the EQCR had with the Audit Team about matters arising out of the EQCR review and/or at what point the EQCR concluded his review, the Respondents failed to prepare audit documentation that was sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the

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audit procedures performed, and the results of the audit procedures performed and the audit evidence obtained, in breach of paragraph 8 of ISA 230.

Allegation 7: The signing of the audit report

5.43. It is understood that the Annual Report was approved by those charged with governance of IKKR at an audit committee meeting in the early hours of 29 April 2017. Ms Wilson says that, having spoken to a member of IKKR management, she signed the audit report at 01:21 and then, having received the letter of representation, letter of support and signing pages from IKKR at 06:05, she released the signed audit report to the client at 06:38 GMT on 29 April 2017.

5.44. Despite the fact, therefore, that the Annual Report was not approved by those charged with governance of IKKR until the Audit Committee meeting in the early hours of 29 April 2017, the audit report to IKKR's Financial Statements was dated 28 April 2017, with Ms Wilson having worked through the night to finalise the audit.

5.45. In light of the matters set out above, the Respondents' conduct in relation to the signing of the audit report constituted breaches of ISA 700 in the following ways:

5.45.1. By dating the audit report 28 April 2017 when Ms Wilson signed the audit report on 29 April 2017, the Respondents failed to date the auditor's report on the date on which Ms Wilson signed the report expressing an opinion on the FY16 Financial Statements, in breach of paragraph 23 of ISA 700.

5.45.2. In circumstances in which, as at 29 April 2017, the Component Auditor A Work Papers were incomplete and/or the List of Component Auditor A Queries had not been resolved and/or the KFMs from Component Auditor A had not been considered, and/or the EQCR review was not complete, Ms Wilson had not considered all necessary available evidence when she signed the audit report, in breach of paragraph 23 of ISA 700.

6. SANCTIONS AND COSTS – UHY

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 imposes the following *Sanctions* against UHY:

- 6.3.1. A declaration that the Statutory Audit Report signed on behalf of UHY did not satisfy the *Relevant Requirements*, as set out in this *Final Decision Notice*;
- 6.3.2. a published statement, in the form of a Severe Reprimand; and
- 6.3.3. non-financial sanctions, in the form of an order pursuant to rule 96(c) of the AEP, requiring UHY to take remedial action to prevent the recurrence of the breaches:
 - 6.3.3.1. implement and monitor enhanced mandatory training for all Responsible Individuals, to be reported to the FRC's Executive Counsel and Executive Director of Supervision on an annual basis for a period of three years;
 - 6.3.3.2. implement a Root Cause Analysis Programme, whereby all Root Cause Analysis on Public Interest Entity audits are undertaken by an independent external provider;

6.3.3.3. following an independent review of UHY's audit practice, to report on the implementation of recommended actions to the FRC's Executive Counsel and Executive Director of Supervision within 12 months;

6.3.3.4. to report to the FRC's Executive Counsel and Executive Director of Supervision on an annual basis the outcomes of Root Cause Analysis on Public Interest Entity audits and a summary of the outcomes of hot and cold file reviews on Public Interest Entity audits, and any remedial action, for a period of three years.

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

Nature, seriousness, gravity and duration of the breaches

6.4. The breaches in this case are numerous and significant. The *Relevant Requirements* breached were fundamental to the Audit, and designed to ensure the quality and effectiveness of the Audit. Many of the breaches are of a basic nature across multiple areas of the Audit, including the acceptance, planning and resourcing of the Audit; assessing the capabilities of component auditors, instructing the component auditors and involvement in their assessment as to risk; the review of the work of a component auditor; the engagement with EQCR; and the signing of the audit report. The breaches include a failure to prepare sufficient audit documentation, failure to obtain sufficient appropriate audit evidence and a lack of professional scepticism.

6.5. Despite the significance of the breaches, they did not cause any loss nor did they adversely affect a significant number of people in the United Kingdom. Given the limited size and business model of IKKR, it is not likely that there was a risk of the loss of significant sums of money in the United Kingdom, or a potential to adversely affect a significant number of people. Other than in relation to the subsequent prior year adjustment in relation to the land transaction, there is no allegation that the FY16 financial statements were materially misstated.

6.6. The breaches relate to only one audit year.

6.7. The breaches were neither intentional, dishonest, deliberate nor reckless.

Identification of *Sanction*

6.8. Having assessed the nature, seriousness, gravity and duration of the breaches, Executive Counsel has identified the combination of *Sanctions* specified above as appropriate.

6.9. 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 nature, seriousness, gravity and duration of the breaches).

Aggravating factors

6.10. There are no aggravating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

Mitigating factors

6.11. UHY did not stand to gain any profit or benefit from the breaches of the *Relevant Requirements*, beyond the audit fee.

6.12. UHY has a good compliance history and disciplinary record with no prior sanctions under the AEP or Accountancy Scheme.

6.13. UHY has undertaken significant remedial action in relation to the breaches of *Relevant Requirements* identified. Executive Counsel has taken the following remedial action into account is determining the appropriate combination of *Sanctions*:

6.13.1. UHY has performed an in-depth review of its audit technical materials, training processes and quality control assessments, and introduced updated guidance and procedures in relation to, inter alia and most notably in the context of the breaches outlined in this *Final Decision Notice*, dealing with component auditors, EQCR, use of experts, client take on and continuance;

6.13.2. UHY has addressed oversight of resourcing of audits, particularly PIE audits, including through closer involvement of UHY's Head of Audit and Audit Compliance Partner;

6.13.3. UHY has introduced an enhanced training programme, and mandatory training sessions for all Responsible Individuals;

6.13.4. UHY has strengthened its Training and Technical team resource and introduced reviews by this team on the Financial Statements of all listed and high risk entities;

6.13.5. UHY has introduced a new Root Cause Analysis policy;

6.13.6. UHY has introduced a new Quality Control Policy, including a system of regular file reviews for all Responsible Individuals; and

6.13.7. UHY has instructed a comprehensive independent review by an external consultancy of its audit control procedures and audit compliance and quality systems, which centred on Public Interest Entity audits.

Deterrence

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

Other considerations

6.15. Executive Counsel has carefully considered the matters set out at paragraph 45 of the Policy and has taken into account the size / financial resources and financial strength of UHY and the effect of a financial penalty on its business, as well as the extensive remedial action already undertaken and investment in improving audit quality, in determining that no financial penalty is appropriate. UHY is a smaller audit firm with 28 principals, audit fee income of £7 million and total fee income of £19 million.

Costs

6.16. Executive Counsel requires that UHY pay her costs in the matter, amounting to £146,751.97. Such costs shall be paid no later than 28 days after the date of this *Final Decision Notice*.

7. SANCTIONS AND COSTS – Ms Wilson

7.1. Executive Counsel imposes the following *Sanctions* against Ms Wilson:

7.1.1. A declaration that the Statutory Audit Report signed by Ms Wilson did not satisfy the *Relevant Requirements*, as set out in this *Final Decision Notice*;

7.1.2. a published statement, in the form of a Severe Reprimand; and

7.1.3. non-financial sanctions, in the form of an order pursuant to rule 96(c) of the AEP, requiring Ms Wilson to take remedial action to prevent the recurrence of the breaches:

7.1.3.1. Ms Wilson shall not act as Statutory Auditor of a Public Interest Entity nor sign a Statutory Audit Report in respect of a Public Interest Entity for a period of two years;

7.1.3.2. Ms Wilson is required to have regular external hot and cold reviews on a selection of non-PIE audits for which she is the engagement partner, to be agreed with the FRC's Executive Counsel. The outcomes of these

reviews are to be reported to Executive Counsel annually for a period of three years;

7.1.3.3. Ms Wilson is required to provide the FRC's Executive Counsel with ACCA inspection outcomes in relation to any inspections of non-PIE audits for which she is the engagement partner for a period of three years;

7.1.3.4. Ms Wilson is required to agree a training programme with the FRC's Executive Counsel, including periodic reporting. She is required to confirm her completion of training and to provide any certificates of completion (where applicable). The training programme should be completed within 18 months of this *Final Decision Notice*. Ms Wilson is required to complete training in relation to the following areas: audit quality control, audit documentation, audit evidence and professional scepticism.

7.2. In reaching this decision, Executive Counsel has, in summary, considered the following stages and taken account of the following factors in accordance with the Policy.

Nature, seriousness, gravity and duration of the breaches

7.3. The breaches in this case are numerous and significant. The *Relevant Requirements* breached were fundamental to the Audit, and designed to ensure the quality and effectiveness of the Audit. Many of the breaches are of a basic nature across multiple areas of the Audit, including the acceptance, planning and resourcing of the Audit; assessing the capabilities of component auditors, instructing the component auditors and involvement in their assessment as to risk; the review of the work of a component auditor; the engagement with EQCR; and the signing of the audit report. The breaches include a failure to prepare sufficient audit documentation, failure to obtain sufficient appropriate audit evidence and a lack of professional scepticism.

7.4. Despite the significance of the breaches, they did not cause any loss nor did they adversely affect a significant number of people in the United Kingdom. Given the limited size and business model of IKKR, it is not likely that there was a risk of the loss of significant sums of money in the United Kingdom, or a potential to adversely affect a significant number of people. Other than in relation to the subsequent prior year adjustment in relation to the land transaction, there is no allegation that the FY16 financial statements were materially misstated.

7.5. The breaches relate to only one audit year.

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7.6. The breaches were neither intentional, dishonest, deliberate nor reckless.

Identification of *Sanction*

7.7. Having assessed the nature, seriousness, gravity and duration of the breaches, Executive Counsel has identified the combination of *Sanctions* specified above as appropriate.

7.8. 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

7.9. There are no aggravating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

Mitigating factors

7.10. Ms Wilson did not stand to gain any profit or benefit from the breaches of the *Relevant Requirements*.

7.11. Ms Wilson has a good compliance history and disciplinary record with no prior sanctions under the AEP or Accountancy Scheme.

7.12. Personal mitigating circumstances.

Deterrence

7.13. 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.

Costs

7.14. Executive Counsel requires that Ms Wilson pays her costs in the matter, amounting to £62,893.70. Such costs shall be paid no later than 28 days after the date of this *Final Decision Notice*.

Signed:



**CLAUDIA MORTIMORE
DEPUTY EXECUTIVE COUNSEL**

Date: 31 March 2021