

**IN THE MATTER OF
THE ACCOUNTANCY AND ACTUARIAL DISCIPLINE BOARD**

Applicant

and

IAN MATTHEW STOREY

Respondent

**REPORT PURSUANT TO
RULE 8(7) of the SCHEME**

1. Ian Matthew Storey is now aged 33. He is a chartered accountant, becoming a member of the ICAEW in 2001.
2. Mr Storey has made admissions in respect of those acts and omissions which have resulted in his facing these disciplinary proceedings. We here summarise the important features to explain our decision in terms of the appropriate sentence we consider should be imposed upon Mr Storey. We stress the word summarise - if we do not mention a particular fact it does not mean we have not considered it. We have had the benefit of submissions and of limited evidence which we have carefully considered.
3. In 2002 he joined iSoft Group plc (iSoft) as Group Accountant. On 1st July 2003 he was appointed iSoft's European Financial Controller, and in April 2005 he became iSoft's Group Business Planning Manager. He was responsible for the finance function for the UK and Ireland business units and was responsible for monthly management accounts.
4. The core business of iSoft was the provision of software applications in connection with the administrative and clinical information management needs of healthcare provider organisations. Its customers were traditionally in the secondary healthcare market, that is hospitals and NHS trusts.
5. It provided software products requiring little modification or installation to individual customers, together with support services and implementation and training services. iSoft was listed on the London Stock Exchange in 2000 and had FTSE 250 status.

6. The events with which we are concerned cover the financial years ending 30th April 2004 and 2005. During that period RSM Robson Rhodes LLP (RR) were iSoft's auditors.
7. Mr Storey was a principal point of contact for RR in relation to their audit work for the years we have mentioned. In December 2003, iSoft carried out a merger with Torex Group, which approximately doubled its size.
8. For the year ended April '03, the iSoft finance team was headed by the Finance Director Tim Whiston. John Whelan was appointed Finance Director in February 2004 (although he may have acted as Finance Director for 2003). Mr Whelan left iSoft on sick leave in late autumn 2004 and did not return.

Financial year ending April 2004.

9. In 2003 iSoft was approved as the preferred supplier by South Eastern Health Board in Ireland for a multi agency Hospital Information System procurement process. This gave rise to complex negotiations in respect of the services to be provided and a draft contract emerged. This looked to be a very valuable and profitable contract for iSoft and would have been highly material for iSoft's interim results (31st October 2003) and for the final year-end results (30th April 2004). The licence fee revenue from this contract would amount to some £22.2 million.
10. Such revenue (a significant proportion of which would be treated as operating profit) was highly material for the interim results in October 2003. Without the Alleged Irish Contract revenues the retained profit would have moved from a healthy profit to a significant loss. The merger with Torex could have been jeopardised.
11. £22.2 million was in fact "recognised" as revenue from the Irish contract – in the interim accounts for 6 months ending 31st October 2003.
12. The fact is there was no concluded Irish contract. It had not been signed. It was not legally binding and ministerial approval was required and had not been given. The revenue should not have been recognised.
13. Mr Storey, while he seemed to think the contract had been agreed (which it had not), was well aware that ministerial approval was required and had not been obtained. Mr Whelan told him that such approval was imminent. But he

knew that the revenue should not have been recognised either in the interim or final accounts for 2004 but he did not inform RR of this.

14. Hanover Asset Finance (HAF) were negotiating with Mr Whelan for the sale of cash flows to be receivable under the Irish contract. There was a linked interest swap arrangement. A letter from HAF was written regarding this subject, but it depended on the Irish contract being entered into, and of course it had not been entered into at that time.
15. Although no funding was actually provided by HAF, £16,943m was posted in ISoft's books as cash received from this arrangement. This was completely untrue. The half-year results including the supposed "revenue" from the Irish Contract were approved and published.
16. A letter dated 27th November 2003 from HAF in respect of the funding and supposedly supporting the cash balance was supplied to RR. It was supplied by Mr Storey, who knew that RR relied upon it. He knew it was misleading.
17. Mr Storey did not disclose (under pressure from Mr Whelan) that approval for the Irish contract was required and had not been obtained. The year-end financial statements for 2004 also included the £22.2m supposedly generated by the Irish Contract (still not concluded) and included the £16.943 in cash from the supposed HAF funding. Mr Storey failed again to give RR the proper and full picture.
18. The HAF arrangement having been unwound in December 2003, in order to continue the fiction, income from a totally separate source was identified and misdescribed. A proportion of the revenue from CSC (a genuine customer) was posted to make it appear as cash received in respect of the Irish contract. Mr Storey obtained 2 faxes from the Bank of Ireland to support this subterfuge, and informed RR on the 4th June 2004 that this was cash from the Irish contract.
19. This was plainly deliberate conduct on Mr Storey's part. He knew these documents were used improperly by him.

Financial year ending April 2005

20. We turn to the financial year ended 30th April 2005. Despite the fact that no implementation or support work had been carried out, £1.6m was booked into the accounts as revenue as Mr Storey well knew.

21. A further letter from HAF dated 5th November 2004 was produced justifying the cash position. Mr Storey had to manipulate the cash balances to make it look as if funding was in place for the Irish Contract – the cash balances were overstated by £17m.
22. Mr Whelan was now on sick leave. Again, Mr Storey misled RR as to these cash balances. We come to this shortly.
23. On 30th April the Irish contract was actually signed. Deloitte were asked by the Irish Health Authority to carry out due diligence on iSoft. This report incorporated historic financial results. Those results included revenue which should not have been there, and significantly overstated the cash balance to the extent of £17 million as at 31st October 2004.
24. Mr Storey confirmed to Deloitte by email on the 5th April 2005 that the Deloitte report had been reviewed and was accurate. Insofar as it relied upon historic financial results, this was not true. When funding for the Irish contract was in fact received in May 2005, it was necessary to reverse the £17 million posting. Mr Storey explained this away to RR with a tale of funding being unwound and replaced with a new funding arrangement. It was plainly untrue.
25. Deloitte became the new auditors of iSoft in June 2005. In July 2006, consequent on enquiries they made, Mr Storey made contact and revealed the true position regarding the Irish Contract to Mr Sanders.
26. We record the fact that Mr Storey has admitted his role in this sad affair. He has disputed that he has acted dishonestly and we are asked not to find him dishonest. But in our judgement it is plain that he undoubtedly acted deliberately and he intentionally made statements which were untrue, and carried out a series of improper actions, manipulating the cash entries and providing false documentation to the auditors.
27. The formal complaint against Mr Storey sets out a number of ways in which it is said that Mr Storey fell short of the standards required of him as a Chartered Accountant. He admits such shortcomings, which we have summarised during the preceding section of this ruling.
28. We now turn to the question of the sanction we should impose.
29. First, we do bear in mind that the maintenance of the reputation of the profession is the primary justification for a sanction. A profession's most

valuable asset is its collective reputation and the confidence which it inspires. We bear in mind that any sanction may have (and should have) a deterrent effect. It is essential to maintain the reputation of the profession and public confidence in its integrity.

30. Secondly, in our judgement Mr Storey's actions were serious breaches of the standards of the profession, in particular breaches of the ICAEW Ethical Code. He failed to behave on a number of occasions with integrity, that is not merely honesty, but fair dealing and truthfulness. He allowed himself to be influenced by others. He did not carry out his professional work with skill, care and diligence. He was responsible for the book keeping entries which led to the making of materially false or misleading statements on several occasions. Financial statements are of critical importance to the market, to investors and to financial institutions. They are entitled to rely upon the integrity of the financial statements.

31. On behalf of the Board, we were asked to consider the following points-

- a. The very significant sums of money involved.
- b. This was a high flying listed plc. There would be a significant impact on the market of misleading financial statements. Investors would have been misled. The actions were deliberate and carried out in full knowledge of the consequences.
- c. There was deception of the auditors, and of Deloitte.
- d. There were a number of repeated incidents over a period of some 2 years. They have a cumulative impact.
- e. Although there was pressure from others within the company, an accountant should be able to withstand such pressure. Mr Storey could have consulted the Institute, or a non-executive director, or Mr Sanders who was present from October 2004 to July 2006. He did not do so.
- f. He apparently spoke to Mr Malley voicing unarticulated concerns in autumn 2004 over some cash postings in the accounts. He did not follow this up (nor did Mr Malley).
- g. He did co-operate with these proceedings and with the FSA.

32. We were helped by Mr Gregory's submissions in mitigation. He relied on a number of factors and called evidence from Mr Gossage and Mr Sanders.

33. He relied upon

- a. Mr Storey's youth- he was only 26.
- b. His frank admission of his role.
- c. The fact that it was only one contract and its consequences which give rise to the charges with which we are concerned.
- d. His acceptance of the telling of untruths and serious fault.
- e. He does not seek to blame others.
- f. There was no direct personal gain.
- g. His co-operation.
- h. The culture of self-confidence and aggression in iSoft and pressure from his seniors.
- i. The prime influence of the Financial Director, Mr Whelan.
- j. The false picture painted to him that approval of the Irish contract was a formality and expected daily.
- k. He was not responsible for the downfall of iSoft.
- l. His eventual acceptance that this was not all about a 'timing difference'. It was a matter of considerable substance.
- m. We take into account the fact that if excluded Mr Storey will not retain his current role as Finance Director and his short-term outlook may well be bleak.

34. We have considered with care all these factors.

35. We remind ourselves of the important objectives of maintaining the reputation of the profession, deterring misconduct, upholding proper standards of conduct in the profession and protecting the public.

36. Although in no way binding upon us we have reviewed the sentencing guidelines of the Institute and have received submissions upon them.

37. In our judgement, although this was not presented to us as a case of dishonesty, it is a serious case of the deliberate telling of untruths, improper manipulations, false assurances and reliance upon documents which were highly misleading. This was not a one off. It was a course of conduct.

38. After careful consideration the unanimous view of the Tribunal is that:

- a. We exclude Mr Storey as a Member of the Institute of Chartered Accountants and we recommend that the exclusion be for a minimum period of 8 years.
- b. An application for re-admission after the specified period will not necessarily be approved and will be considered by the Re-admissions Sub-Committee on its merits.
- c. After careful consideration we do not consider that this is a case for the additional imposition of a fine.
- d. By consent Mr Storey is to pay £20,000 towards the costs of the AADB.
- e. It is ordered that such sum be paid on or before 25th February 2011.
- f. The exclusion order shall (by consent) take effect on 25th March 2010 whether or not any appeal is lodged, as the Tribunal considers such immediate action is necessary in the public interest.



Richard Jones QC (Tribunal Chairman)



George Bardwell CBE (Lay Member)



Ian Plaistowe (Accountant)