

IN THE MATTER OF

THE EXECUTIVE COUNSEL OF THE FINANCIAL REPORTING COUNCIL

-and-

(1) GRANT THORNTON UK LLP

(2) MR PHILIP WESTERMAN

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.

Amendments were made to this document for publication in line with the FRC's Publication Policy (Audit Enforcement Procedure).

1. INTRODUCTION

- 1.1 The Financial Reporting Council (the "**FRC**") is the competent authority for statutory audit in the UK and operates 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 "**SDI**" means Sports Direct International Plc (now known as Frasers Group Plc).
- 1.3.2 "**SDR**" means Sportsdirect.com Retail Limited, a subsidiary of SDI.

- 1.3.3 “**FY2016**” means the 52 weeks ended 24 April 2016, “**2016 financial statements**” means SDI’s consolidated financial statements for that period, and “**FY2016 Audit**” means the statutory audit of the 2016 financial statements.
- 1.3.4 “**IAS 24**” means International Accounting Standard 24.
- 1.3.5 “**GT**” means Grant Thornton UK LLP, the First Respondent and the Statutory Audit Firm for the FY2016 Audit.
- 1.3.6 “**Mr Westerman**” means Philip Westerman, the Second Respondent and a former partner of GT. For the FY2016 Audit, he was the Statutory Auditor of SDI and signed off the FY2016 Audit report on behalf of GT.
- 1.3.7 “**Respondents**” means Mr Westerman and GT.
- 1.3A Under the AEP, the *Executive Counsel* is concerned only with the conduct of the Respondents. Reference is made to SDI and SDR to explain the context of the findings and sanctions against the Respondents. *Executive Counsel* makes no finding about SDI or SDR, or anyone else, other than the Respondents
- 1.4 Pursuant to Rule 16(b) of the AEP¹, *Executive Counsel* has decided that the Respondents are liable for *Enforcement Action*, having made *Adverse Findings* against each of them that are set out in this *Final Decision Notice*.
- 1.5 This *Final Decision Notice* is issued pursuant to Rule 18 of the AEP in respect of the conduct of the Respondents in relation to the FY2016 Audit.
- 1.6 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 an amount payable 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 This reference to the AEP, and the references to the AEP in the following paragraphs 1.5 and 1.6, is to a previous version of the AEP effective 1 January 2021 (reissued 30 March 2021) that was in force when this Final Decision Notice was signed by the FRC.

- 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 OF THE ADVERSE FINDINGS

- 2.1 SDI is a well-known retailer consisting largely of sports retail companies with 733 high-street stores in the UK and internationally employing almost 29,000 people². It was founded in 1982 and its shares have been listed on the main market of the London Stock Exchange since 2007.
- 2.2 The 2016 financial statements were the financial statements for the consolidated SDI group and thus reported transactions entered into by SDI's subsidiaries, including SDR.
- 2.3 The 2016 financial statements reported:
 - 2.3.1 Revenue of £2.9bn (an increase from the previous year's revenue of £2.8bn); and
 - 2.3.2 Operating profit of £223.2m (as compared with £295.6m in the previous year).
- 2.4 As is set out in this *Final Decision Notice*, there were serious failings by the Respondents in the manner in which the FY2016 Audit was conducted with regard to their consideration of whether [Delivery Company A] was a related party to SDI, in accordance with IAS 24. The *Adverse Findings* in this *Final Decision Notice* relate solely to this area of the audit work.
- 2.5 In particular, in relation to this issue, the Respondents failed in the FY2016 Audit:
 - 2.5.1 to exercise sufficient professional scepticism;
 - 2.5.2 to obtain sufficient appropriate audit evidence;
 - 2.5.3 to exercise appropriate professional judgment or to document the exercise of that judgment; and
 - 2.5.4 to communicate adequately to those charged with governance.

² As of 7 July 2016

- 2.6 As a result, the audit failed in its principal objective: that of providing reasonable assurance that the 2016 financial statements were free from material misstatement.
- 2.7 This *Final Decision Notice* explains the failings in the Respondents' audit work for the FY2016 Audit. It does not make any finding that the 2016 financial statements failed to provide a true and fair view and/or contained material misstatements. In particular, whilst the Respondents' audit work in relation to the assessment of whether SDI and [Delivery Company A] were related parties was inadequate, this *Final Decision Notice* does not make a finding that SDI and [Delivery Company A] were in fact related parties.
- 2.8 Section 5 of this *Final Decision Notice* sets out the *Adverse Findings*.
- 2.9 This *Decision Notice* proposes the following *Sanctions* in respect of the Respondents:

GT

- 2.9.1 A financial penalty of £1,700,000, discounted for admissions and early disposal by 30% [contingent upon settlement] so that the financial penalty payable is £1,190,000;
- 2.9.2 A published statement in the form of a severe reprimand;
- 2.9.3 A declaration that the FY2016 Audit report signed on behalf of GT did not satisfy the *Relevant Requirements*, as set out in this *Decision Notice*; and
- 2.9.4 a requirement – particulars of the wording to be discussed and agreed with Grant Thornton UK LLP.

Mr Westerman

- 2.9.5 A financial penalty of £90,000 adjusted for aggravating and mitigating factors and discounted for admissions and early disposal by 30% [contingent upon settlement] so that the financial penalty payable is £63,000; and
- 2.9.6 A published statement in the form of a severe reprimand;

3. BACKGROUND

The Respondents

- 3.1 In 2020, Grant Thornton UK LLP was ranked as the 6th largest audit firm in the UK, with revenues of £496m (of which £131m was income from audit work) and 45 audit principals.
- 3.2 At the time of the FY2016 Audit:

- 3.2.1 GT had acted as auditor to SDI continuously since SDI's listing in February 2007;
and
- 3.2.2 Mr Westerman was a partner of GT, with 17 years of auditing experience, and he had been the Statutory Auditor for SDI since 2014.
- 3.3 The Respondents' statutory responsibility was to form an opinion as to whether the 2016 financial statements showed a true and fair view and had been properly prepared in accordance with IFRS and the Companies Act 2006.
- 3.4 An audit involves obtaining sufficient appropriate "audit evidence" about the amounts and disclosures in the financial statements in order to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
- 3.5 Audit evidence is defined in ISA 500 as "information used by the auditor in arriving at the conclusions on which the auditor's opinion is based". Audit evidence is primarily obtained from audit procedures performed during the course of the audit.

IAS 24

- 3.6 IAS 24 is the International Accounting Standard regarding Related Party Disclosures.
- 3.7 IAS 24 is the standard required to be applied when:
- 3.7.1 determining whether related party relationships exist, and
- 3.7.2 identifying the circumstances in which disclosure of such relationships is required.
- 3.8 The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit and loss may have been affected by relationships with related parties.
- 3.9 IAS 24 sets out that, although related party relationships are a normal feature of commerce and business, a related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not and transactions between related parties may not be made at the same amounts as between unrelated parties.
- 3.10 Further, the mere existence of a related party relationship may be sufficient to affect the transactions of the entity with other parties.

3.11 For these reasons, knowledge of an entity's transactions, outstanding balances and relationships with related parties may affect assessment of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

3.12 IAS 24 defines a related party as follows:

“A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.”

3.13 Pursuant to paragraph 9, close members of the family of a person are:

“those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.”

3.14 The guidance for IAS 24 (issued in May 2015) explains that the list in paragraph 9 of IAS 24 is non-exhaustive and does not preclude other family members from being considered as close family members.

3.15 The application of IAS 24 involves the use of judgement to determine whether members of the family of a person are related parties or not, having regard to the specific facts and circumstances of the situation.

SDI's online sales structure

3.16 In February 2015, SDI restructured its arrangements for online retail sales, having received external advice. This was not provided by GT. The restructuring was designed to ensure that SDI was registered and accounted for UK VAT on all of its online sales of goods to non-business customers wherever located within the European Union and,

accordingly, was designed to ensure that SDI did not have to register for VAT and file VAT returns in EU member states outside of the UK.³

3.17 As part of the restructuring, SDI also changed the way in which delivery services were offered to non-UK EU non-business customers. SDI had previously used a 100 per cent owned subsidiary of SDI to deliver those orders (“**[Subsidiary A]**”) using a contract for international deliveries with a separate delivery company (“**[Delivery Company B]**”).

3.18 Under the new arrangements:

3.18.1 Non-UK EU non-business customers who wished to have their online orders delivered to them entered into a delivery contract with [Delivery Company A] instead of [Subsidiary A]; and

3.18.2 Until the international delivery contract with [Delivery Company B] was transferred from [Subsidiary A] to [Delivery Company A], [Subsidiary A] invoiced [Delivery Company A] for the non-UK deliveries on a monthly basis, including a handling charge.

3.19 GT was informed about the restructure on 15 July 2015.

3.20 A subsequent email from a member of GT’s tax team to a member of the audit team noted that the arrangements described above were “*at risk of challenge in most member states. The tax at stake is significant*”. The risk of challenge to the manner in which SDI accounted for VAT arose from uncertainty as to when an online sale by a UK company to an EU consumer would be caught by the EU VAT distance selling regulations. The risk of such challenge was reflected in SDI’s 2016 Annual Report. That report contained a general disclosure, in the section detailing “*risks and uncertainties relating to the group’s business*”, regarding the risk arising from “*sales taxes in relation to online sales made to overseas customers from the UK*”.

Incorporation and ownership of [Delivery Company A]

3.21 [Delivery Company A] was incorporated on 6 February 2015. Its founding shareholder and director was Founder Director of [Delivery Company A], who also worked as a consultant to SDI. On 7 July 2015, [Founder Director of Delivery Company A] resigned as a director of [Delivery Company A] and [Member 1 of Delivery Company A] (the brother of [Member 1 of SDI Senior Management Team]) and [Member 2 of Delivery Company A]

³ Amendments were made by the FRC to this document for publication in line with the FRC’s Publication Policy (Audit Enforcement Procedure). In some places, including paragraphs 3.16 to 3.18, the wording differs from the wording agreed between the Respondents and Executive Counsel on 5 November 2021.

([Member 1 of Delivery Company A]’s partner) were appointed directors. [Delivery Company A]’s first annual return, made up to 6 February 2016, disclosed that [Delivery Company A]’s share capital (being two £1 ordinary shares) was transferred from [Founder Director of Delivery Company A] to [Member 1 of Delivery Company A] on 7 July 2015.

3.22 [Delivery Company A] filed its first set of abbreviated financial statements at Companies House on 4 November 2016 for the period 6 February 2015 to 30 April 2016.

3.23 The notes to [Delivery Company A]’s 2016 accounts state that the company was under the control of [Member 1 of Delivery Company A], who owned 100% of the company’s issued share capital. It also recorded that, during the period to 30 April 2016, neither [Member 1 of Delivery Company A] nor [Member 2 of Delivery Company A] had received any remuneration from the company in the form of either salary or dividends.

3.24 [Member 1 of Delivery Company A] had been a director of four SDI group companies until his resignation on 14 February 2014. He was also an employee of SDI from 1989 until 30 April 2015 and had been listed as a core member of the management team in the prospectus when SDI floated on the London Stock Exchange in 2007. Mr Westerman also understood that following his resignation as a director, [Member 1 of Delivery Company A] had a consultancy agreement with SDI and still spent time there supporting on systems and process and the warehouse.

SDI’s contractual arrangements with [Delivery Company A]

3.25 A Services Agreement between [Delivery Company A] and SDR, effective from 20 February 2015, was signed by [Member 1 of Delivery Company A], on behalf of [Delivery Company A], on 20 August 2015 (the “**SDR/[Delivery Company A] Agreement**”).

3.26 Under the SDR/[Delivery Company A] Agreement:

3.26.1 [Delivery Company A] was required to offer a delivery service to SDI’s international customers on such terms, and prices, as [Delivery Company A] determined for which SDR agreed to pay [Delivery Company A] a fee calculated as a percentage of SDR’s sales; and

3.26.2 SDR also provided services to [Delivery Company A] under the SDR/[Delivery Company A] Agreement including, among other things, the collection of customer delivery fees on behalf of [Delivery Company A]; providing all data and information relating to each order; providing a staffed and fully operational call centre; and applying labels bearing [Delivery Company A]’s logo to each package to be

delivered by [Delivery Company A]. [Delivery Company A] agreed to pay SDR a fee calculated as the cost of providing the services plus 10%.

Audit work in relation to related parties during the 2015 Audit and the 2016 interim review

3.27 The issue of related party disclosure in relation to [Delivery Company A] first arose during the course of, and following, the Respondents' audit of SDI's 2015 financial statements:

3.27.1 Having been informed that [Member 1 of Delivery Company A] was likely to become a director of [Delivery Company A] after the 2015 Audit, the Respondents minuted the issue noting that "*disclosure of these transactions will need to be made next year*".

3.27.2 Mr Westerman considered, at that stage, that this "*raised a flag*".

3.27.3 During a meeting between members of the Respondents' audit team and members of the Respondents' tax team, the audit team were made aware that SDI's restructured online retail sales arrangements could be open to challenge in "*a number of European jurisdictions, with potentially significant penalties*". The audit team were also told by GT's tax team that the restructured arrangements "*would be weakened if a related party was appointed to [Delivery Company A's] board*".

3.27.4 A member of the Respondents' audit team considered the position under IAS 24 and emailed Mr Westerman. He noted that the judgment to be taken was "*whether [Member 1 of SDI Senior Management Team]'s brother may be expected to be influenced by [Member 1 of SDI Senior Management Team] in the company dealings of SDI (not whether he actually is) and it would be hard to justify the answer to that is no*".

3.27.5 In subsequent email exchanges with a member of the Respondents' tax team, Mr Westerman noted that "*the best angle might well be to pursue the argument that [Member 1 of Delivery Company A] (or the trading relationship) is not influenced by [Member 1 of SDI Senior Management Team] in any way...would still be open to tax challenge but might get there from an accounts perspective if they document it properly*". Mr Westerman was told by the member of the tax team that avoiding making the related party disclosure would make the tax position easier to argue.

3.28 Mr Westerman therefore understood that disclosure under IAS 24 might have a negative impact on intended VAT outcome that the re-structuring had been designed to achieve.

3.29 The issue arose again during the course of the Respondents' 2016 interim review (which was performed between October 2015 and December 2015), although the Respondents ultimately agreed with management's conclusion that the transactions between [Delivery Company A] and SDI had a minimal impact on both the results and the financial position of SDI for the purposes of the 2016 interim review such that disclosure was not required at that stage. In particular:

3.29.1 The draft Interim Review Findings Memorandum described [Delivery Company A] as *"an entity related to [SDI] through the directorship of [Member 1 of Delivery Company A], [Member 1 of SDI Senior Management Team]'s brother"*. In a note of a call with management to discuss the Memorandum Mr Westerman referred, under the heading *"Related parties"*, to the disclosure of the [Delivery Company A] relationship being *"very sensitive as expected"*. Mr Westerman explained that the sensitivity was in relation to the VAT distance selling regime.

3.29.2 Mr Westerman emailed a member of the Respondents' tax team as follows: *"This should be sorted for purposes of the interim if they can provide evidence for offsetting amounts ie no mention needed. For full year accounts they will have a disclosure issue if [Member 1 of Delivery Company A] remains a director. ... Unless they can evidence properly that he has no power or influence over [Delivery Company A] activity they will have to disclose nature of relationship and transactions and balances in year end accounts – I will have nowhere to go with this in terms of flex in audited accounts"*.

3.30 The Respondents' workpaper which concluded on the issue, and which was reviewed by a Senior Manager, included the following:

"[Delivery Company A] is a company SDI use to manage the delivery of their online goods, a role previously performed by [Subsidiary A].... The reason for using [Delivery Company A] is to strengthen an existing distance selling VAT scheme operated by the Group.

[Delivery Company A] is not part of the Group, but [Member 1 of SDI Senior Management Team]'s brother [Member 1 of Delivery Company A] is a director, which potentially makes [Delivery Company A] a related party. Under IAS 24 a party is related if the reporting entity or it's [sic] key management can exert significant influence over it.

[Member 1 of Delivery Company A] is not the sole director of [Delivery Company A], as his partner is also on the board (evidenced by the board minute on file). This potentially reduces his influence and therefore [Member 1 of SDI Senior Management Team]'s potential influence over [Delivery Company A]. However, SDI collects cash on behalf of [Delivery Company A] and [Delivery Company A] appears to transact solely with SDI therefore it does appear that SDI has significant influence.

...

Apart from flow through transactions the only P&L impact for SDI is the service fees charged by [Delivery Company A], of which £6m is accrued at period end. This is below material and therefore SDI's judgement that it does not represent a material change in related party transactions and does not have a significant impact on SDI's interim results is accepted.

It will however require disclosure in the year-end annual report and this has been flagged to management."

- 3.31 The Respondents subsequently notified management of the need to "fully document and then disclose the nature of the trading (and other) relationships it has with related parties".

Audit work in relation to related parties during the 2016 Audit

- 3.32 The audit work for FY2016 took place between March 2016 and July 2016. A meeting with the Audit Committee was held on 5 July 2016 and the 2016 financial statements were signed on behalf of SDI on 7 July 2016.
- 3.33 Transactions with [Delivery Company A] were not disclosed in note 34 of the financial statements 'related party transactions' or referred to in any other context in the 2016 financial statements.
- 3.34 Related party transactions were a known audit risk area for the FY2016 Audit:
- 3.34.1 Related parties were identified as an area of focus and a significant risk at the Respondents' audit planning meeting.
- 3.34.2 Related parties were identified as an area of significant audit risk in the FY2016 Audit Plan.
- 3.35 In light of the work undertaken on related parties during the 2015 Audit and the 2016 interim review, the Respondents were aware, at the outset of the FY2016 Audit, that:

- 3.35.1 The issue of whether or not to disclose [Delivery Company A] as a related party was important in the context of the restructure of SDI's distance selling VAT arrangements and that the tax at stake was significant;
- 3.35.2 Their preliminary view by the end of the 2015 Audit and the 2016 interim review (completed in December 2015), which had been communicated to management, was that [Delivery Company A] was, or at least might be, a related party requiring disclosure in the 2016 financial statements;
- 3.35.3 They had identified a need for SDI to prepare a paper to cover related parties for sign off by the Board, and the intention was to discuss this with the Audit 10 Committee; and
- 3.35.4 That paper had not been completed by the time of the 2016 Interim Review and therefore the Respondents would need to give consideration to the issue as part of the FY2016 Audit.
- 3.36 The Respondents' evidence is that they discussed the matter with management as part of ongoing discussions during the audit. However, there is no evidence on the audit file which records communications between the Respondents and SDI's management in the period from the commencement of the FY2016 Audit in around April 2016 until 5 July 2016 concerning the question of whether [Delivery Company A] should be disclosed as a related party.
- 3.37 A copy of the SDR/[Delivery Company A] Agreement was provided to the audit team on 23 June 2016, and a copy was saved on the audit file. It is the Respondents' evidence that the Agreement was reviewed in order to confirm whether it was consistent with their understanding that the relationship between [Delivery Company A] and SDI was a commercial one. However, there is no evidence on the audit file of review of this document that documents the audit team's considerations as to whether or not [Delivery Company A] should be disclosed as a related party.
- 3.38 A draft Audit Findings Report ("**AFR**") was circulated to the Audit Committee on 1 July 2016. This report made no reference to [Delivery Company A]. The related party section on page 9 included two outstanding points:
- 3.38.1 That the Respondents were yet to receive formal confirmation that management had assessed the materiality of related party transactions, taking into account both quantitative and qualitative factors, and considering materiality from the perspective of the related party; and

- 3.38.2 That the Respondents were to have further discussions with management before concluding on the appropriateness of the related party disclosure.
- 3.39 The minutes of the Audit Committee, held on the morning of 5 July 2016, make no reference to [Delivery Company A].
- 3.40 On 5 July 2016 at 21:06, Mr Westerman emailed management noting that management were going to *“think on disclosure relating to transactions with [Delivery Company A] as a related party”*.
- 3.41 Later that evening, at 22:55, Mr Westerman sent another email to management in which he stated, in relation to [Delivery Company A]: *“[Delivery Company A] – value of service fees paid to [Delivery Company A] 9.8m. Balance sheet position is nil. Is this consistent with your understanding? Given [Member 1 of SDI Senior Management Team]’s brother is director of [Delivery Company A] could be perceived as falling under IAS 24 disclosures as someone who could be influenced by [Member 1 of SDI Senior Management Team] and therefore require disclosure. Can you consider? Ultimately will come down to assessment of influence, and what justification to support no influence if you don’t agree to disclose. Secondly there is materiality consideration. Not material to SDI but what about to [Member 1 of Delivery Company A] and [Delivery Company A]? Could it be considered useful info to reader of accounts? Have a think and let’s speak tomorrow”*.
- 3.42 Mr Westerman’s evidence is that he spoke to management on the phone a number of times on 6 July 2016. Those conversations are not documented in writing by the Respondents, but Mr Westerman’s recollection is that:
- “...over the course of the 6th management formed a view that having re-visited IAS 24 and looked at the arrangements that it didn’t qualify as a related party, so the discussions would’ve been all around that in terms of that specific area... They concluded that there was no influence able to be applied either by [Member 1 of Delivery Company A] over [Member 1 of SDI Senior Management Team] or by [Member 1 of SDI Senior Management Team] over [Member 1 of Delivery Company A] in relation to this arrangement, and therefore that it didn’t require disclosing under IAS 24... SDI were very mindful of how sensitive this was from a VAT perspective, and therefore I suspect they went away and put proper effort into thinking about reading the accounting standard again and having a proper think about whether this should sit as a related party or not...”*
- 3.43 Neither the discussions that took place between the Respondents and management on 6 July 2016 - nor any analysis by the Respondents - regarding whether [Delivery Company

A] needed to be disclosed as a related party are documented by the Respondents on the audit file.

3.44 On 7 July 2016, SDI signed the management representations letter which was provided to the Respondents. This stated, in relation to related parties, that: *“Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.”*

3.45 The final AFR, dated 8 July 2016, included the following reference to [Delivery Company A] in the related parties section:

“No disclosure has been made of transactions with [Delivery Company A], a company where [Member 1 of Delivery Company A] is a director. Management have assessed that no significant influence is able to be made in relation to this agreement, and that the benefit to [Member 1 of Delivery Company A] and [Delivery Company A] of the trading relationship is not material to either party. We have agreed with this conclusion.”

3.46 This final AFR post-dated the Audit Committee meeting on 5 July 2016. A copy of the final AFR was sent by Mr Westerman to those charged with governance on 8 July 2016, stating *“No material changes from the version discussed at audit committee”*. Mr Westerman did not draw attention to the amendment to the AFR in relation to [Delivery Company A].

3.47 A note prepared by the Respondents, which must have been prepared or finalised after the final AFR of 8 July 2016 because of its reference to the content of that document, stated that:

“We have obtained sufficient evidence, but note that [Delivery Company A] (a company of which [Member 1 of SDI Senior Management Team]'s brother is a director) is not considered a related party by the client and has not been disclosed. They assert that [Member 1 of SDI Senior Management Team] does not have influence over his brother. We consider it likely to be perceived that he could have influence, but note that if he does not then [Delivery Company A] not being a related party is consistent with IAS 24. We have disclosed this relationship and management’s assessment in the AFR to ensure the audit committee is aware and note that the services fees for delivery services that [Delivery Company A] provides are not material as per the analysis of our TRS [Transaction Risk Services] team. No modification to the audit report is required as the non-disclosure is correct based on management’s assertion.”

4. RELEVANT REQUIREMENTS TO WHICH THE ADVERSE FINDINGS RELATE

- 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**”). The *Relevant Requirements* include, but are not limited to, the International Standards on Auditing (UK and Ireland) (“**ISAs**”) issued by the International Auditing and Assurance Standards Board.
- 4.2 The ISAs relevant to *Executive Counsel’s Final Decision Notice* are those effective for audits of financial statements for periods ending on or after 15 December 2010, unless stated otherwise.
- 4.3 The *Relevant Requirements* referred to in this *Final Decision Notice* are:
- 4.3.1 ISA 200 (*Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK and Ireland)*);
 - 4.3.2 ISA 230 (*Audit Documentation*);
 - 4.3.3 ISA 260 (*Communication with those charged with governance*) (Effective for audits of financial statements for periods commencing on or after 1 October 2014);
 - 4.3.4 ISA 330 (*The auditor’s response to assessed risks*);
 - 4.3.5 ISA 500 (*Audit Evidence*); and
 - 4.3.6 ISA 550 (*Related Parties*).
- 4.4 Extracts from the ISAs setting out these parts which are of particular relevance to the *Adverse Findings* are set out in Appendix 1.

5. ADVERSE FINDINGS

Adverse Finding 1 – Exercise of professional scepticism

- 5.1 Paragraph 15 of ISA 200 requires an auditor to plan and perform an audit with professional scepticism. This is defined as being “*an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.*”
- 5.2 In the context of related parties, ISA 550, paragraphs 6 and 7 note that the exercise of professional scepticism is particularly important, given the potential for undisclosed related party relationships.

5.3 Related parties were identified as a significant audit risk in the FY2016 Audit plan. The Respondents had therefore determined there was an identified and assessed risk of material misstatement that required special consideration.

5.4 As the Respondents were aware, when performing the FY2016 Audit, circumstances existed which might cause the 2016 financial statements to be materially misstated. In particular, it appeared to the Respondents that:

5.4.1 [Delivery Company A] was a potential related party, given the conclusion reached following the FY2015 Audit and their 2016 interim review;

5.4.2 A successful challenge to SDI's distance selling VAT arrangements was believed to have significant financial implications for SDI; and

5.4.3 Disclosure of [Delivery Company A] as a related party would be a sensitive issue.

The determination of whether or not [Delivery Company A] was a related party was therefore an important one, given there was a risk of a successful challenge to SDI's distance selling VAT arrangements which might have had significant financial implications for SDI.

5.5 Despite this risk, the Respondents failed to treat with professional scepticism management's assertion that [Delivery Company A] was not a related party of SDI (on the basis that [Member 1 of Delivery Company A] would not be expected to be influenced by [Member 1 of SDI Senior Management Team] in his dealings with SDI through [Delivery Company A], and thus that [Member 1 of Delivery Company A] and [Member 1 of SDI Senior Management Team] were not close family members within the meaning of IAS 24), even though:

5.5.1 Management's conclusion was made verbally (without any documentary support or evidence) one day before the 2016 financial statements were due to be issued; and

5.5.2 They were not aware of any apparent material change of circumstances since the conclusion of the 2016 interim review in December 2015.

5.6 There were also a number of relevant factors which were relevant to this question and which should have been, but were not, considered or followed up by the Respondents (as documented in the audit file). These factors (whilst not necessarily individually or collectively determinative of the question) should have formed part of the consideration

under IAS 24 and evidence should have been documented on the audit file accordingly. The relevant factors as they appeared to the Respondents included the following:

- 5.6.1 [Member 1 of Delivery Company A] had an existing relationship with SDI, having worked for SDI for a number of years in various areas (including logistics).
- 5.6.2 [Member 1 of Delivery Company A] was still an employee of SDI at the time the SDR/[Delivery Company A] Agreement took effect and, following the end of his employment with SDI, he appears to have maintained links with SDI including: (i) carrying out work for SDI pursuant to a consultancy agreement; and (ii) retaining his use of an SDI email address.
- 5.6.3 The wider circumstances relating to the setting up and operations of [Delivery Company A], namely:
 - (a) [Delivery Company A] had been set up by [Founder Director of Delivery Company A], who had an existing relationship with SDI. Ownership of [Delivery Company A] was then transferred from [Founder Director of Delivery Company A] to [Member 1 of Delivery Company A] five months after its incorporation.
 - (b) [Delivery Company A] was incorporated just two weeks before the effective date of the SDR/[Delivery Company A] Agreement.
 - (c) There is no evidence that SDI conducted a tender process to select its new third party distributor or as to why [Delivery Company A], as a new company with no bank account and no track record in providing delivery services, was selected by SDI.
 - (d) SDI appears to have been [Delivery Company A]'s sole customer (albeit [Delivery Company A] was a new company). [Delivery Company A] had no staff or operations centre and the contractual arrangements were such that warehousing facilities, administrative staff and customer services were provided by SDR via a contract between [Delivery Company B] and [Subsidiary A].
 - (e) The contract between [Delivery Company A] and SDR was very similar to that previously used for the similar arrangement between SDR and [Subsidiary A] (although the audit team concluded the contract was on normal commercial terms).

- (f) Pursuant to the SDR/[Delivery Company A] Agreement, [Delivery Company A]'s fee was directly tied to the value of SDI's sales.
- (g) [Member 1 of Delivery Company A] and [Member 2 of Delivery Company A] had not, at that point, taken any remuneration from [Delivery Company A] other than [Member 1 of Delivery Company A]'s ownership of the share capital.

5.7 Taking these factors together, it should have been apparent to the Respondents that there remained a possibility, that:

5.7.1 [Member 1 of Delivery Company A] might have been expected to be influenced by [Member 1 of SDI Senior Management Team] in his dealings with SDI through [Delivery Company A], and therefore that [Member 1 of Delivery Company A] and [Member 1 of SDI Senior Management Team] were close family members within the meaning of IAS 24; and

5.7.2 Accordingly, the nature of the related party relationship and the amount of the transactions between SDI and [Delivery Company A] required disclosure under IAS 24.

5.8 As a result, the Respondents breached paragraph 15 of ISA 200.

Adverse Finding 2 – Obtaining sufficient appropriate audit evidence

5.9 Paragraph 17 of ISA 200 requires an auditor to obtain “*sufficient appropriate audit evidence*”.

5.10 In accordance with paragraph 16 of ISA 200, an auditor is required to exercise professional judgment when evaluating whether sufficient appropriate audit evidence has been obtained.

5.11 Obtaining sufficient appropriate evidence allows the auditor to reduce audit risk to an acceptably low level and allows the auditor to draw reasonable conclusions on which to base their opinion.

5.12 Paragraph 6 of ISA 500 requires the auditor “*to design and perform audit procedures that are appropriate in the circumstances*”, to allow the auditor to obtain sufficient evidence to meet the obligation in ISA 200. ISA 550, paragraph 20, imposes similar obligations specifically in relation to related party relationships and transactions.

- 5.13 In relation to SDI's relationship with [Delivery Company A], there was a risk of material misstatement at the financial statement level in the FY2016 Audit. The factors as they appeared to the Respondents were:
- 5.13.1 Related parties were identified as a significant audit risk for the purposes of the FY2016 Audit;
 - 5.13.2 The Respondents had provisionally concluded, following the 2016 interim review, that [Delivery Company A] would, or at least might, need to be disclosed as a related party in the 2016 financial statements.
 - 5.13.3 The disclosure of [Delivery Company A] as a related party was a sensitive issue for SDI, in particular in view of the potential impact on its distance selling VAT arrangements.
- 5.14 The Respondents should have obtained audit evidence which was commensurate with the level of risk presented by the issue. However, the Respondents failed to perform audit procedures appropriate in the circumstances to seek and obtain the information and/or documentation which would have reduced the audit risk to an acceptably low level and thereby enable them to draw a reasonable conclusion as to whether the relationship between SDI and [Delivery Company A] had been properly disclosed in the financial statements.
- 5.15 The Respondents relied on management's verbal assertion on 6 July 2016 that [Delivery Company A] was not a related party of SDI. The basis for this assertion was not documented on the audit file, nor did the Respondents document their assessment of this assertion.
- 5.16 There are no documents on the audit file which demonstrate how the Respondents satisfied themselves that management's assessment that SDI and [Delivery Company A] were not related parties was appropriate.
- 5.17 The only evidence which the Respondents obtained from management as to the relationship between SDI and [Delivery Company A] during the FY2016 Audit was a copy of the SDR/[Delivery Company A] Agreement.
- 5.18 No other evidence was sought from management, including as to the nature of the relationship between [Member 1 of Delivery Company A] and [Member 1 of SDI Senior Management Team], including on the issue of financial dependency or influence.

- 5.19 This evidence was insufficient for the Respondents to reach a reasonable conclusion as to the appropriateness of the related parties disclosure.
- 5.20 The Respondents thus failed to properly evaluate whether sufficient appropriate audit evidence had been obtained as to whether [Delivery Company A] was a related party of SDI or whether more evidence needed to be obtained to achieve the objectives of ISA 200, ISA 500 and ISA 550 and thereby the overall objectives of the auditor.
- 5.21 The Respondents' conduct therefore breached paragraph 16 of ISA 200, paragraph 17 of ISA 200, paragraph 6 of ISA 500 and paragraph 20 of ISA 550.

Adverse Finding 3 – Exercise and documentation of professional judgment

- 5.22 Paragraph 16 of ISA 200 requires an auditor to exercise professional judgment in the planning and performing of an audit. This requires, in accordance with paragraph 13(k) of ISA 200 *“the application of relevant training, knowledge and experience...in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.”*
- 5.23 Paragraph 24 of ISA 330 requires the auditor to evaluate, using appropriate audit procedures, whether the overall presentation of the financial statements accords with the applicable reporting framework.
- 5.24 Paragraph 8 of ISA 230 requires an auditor to prepare adequate audit documentation in relation to significant matters arising during the audit, the conclusions reached about those matters and significant professional judgements made in reaching those conclusions.
- 5.25 The Respondents failed to adequately evaluate management's judgments in applying IAS 24 to the relationship between [Member 1 of Delivery Company A] and [Member 1 of SDI Senior Management Team]. In particular:
- 5.25.1 The circumstances set out at paragraph 5.6 above raised the possibility that [Member 1 of Delivery Company A] may have been expected to be influenced by [Member 1 of SDI Senior Management Team] in [Member 1 of Delivery Company A]'s dealings with SDI and/or [Delivery Company A], within the meaning of IAS 24.
- 5.25.2 No evaluation was made of management's judgment (since no such judgment had been reached or communicated by management) in the period from the commencement of the FY2016 Audit until 6 July 2016.

- 5.25.3 There is no evidence on the audit file that any evaluation of management's judgments was made by the Respondents following management's assertion on 6 July 2016.
- 5.26 In light of those failures, the Respondents therefore failed to evaluate whether the overall presentation of the relationship between SDI and [Delivery Company A] in the financial statements was in accordance with the applicable financial reporting framework.
- 5.27 The identification of related parties as a significant audit risk for the FY2016 Audit increased the importance of proper audit documentation.
- 5.28 Nevertheless, in so far as the Respondents did consider the issue of related parties under IAS 24, they failed to document their consideration or conclusions and the professional judgments made in reaching those conclusions and to document the audit evidence obtained in support of those judgments and conclusions.
- 5.29 The Respondents' conduct therefore breached paragraph 16 of ISA 200, paragraph 24 of ISA 330 and paragraph 8 of ISA 230.

Adverse Finding 4 – Communicating to those charged with governance

- 5.30 Paragraph 16 of ISA 260 requires an auditor to communicate with those charged with governance "*significant matters*" which arose in the audit that were discussed or subject to correspondence with management. Paragraph 21 requires that such communication must take place on a "*timely basis*".
- 5.31 Nevertheless, despite:
- 5.31.1 related parties having been identified as a significant audit risk for the purpose of the FY2016 Audit;
- 5.31.2 the Respondents having provisionally concluded in December 2015 following their 2016 interim review that [Delivery Company A] would, or at least might, need to be disclosed as a related party in the 2016 financial statements; and
- 5.31.3 the Respondents' awareness that the disclosure of [Delivery Company A] as a related party was a matter of sensitivity for SDI, which heightened the need for consultation and discussion with those charged with governance,
- the Respondents failed to communicate with those charged with governance more generally, on this issue, whether on a timely basis or at all, prior to the finalisation of the 2016 financial statements.

5.32 In particular:

5.32.1 The note of Mr Westerman's pre-Audit Committee meeting on 29 June 2016 makes no reference to [Delivery Company A].

5.32.2 The Respondents' draft AFR circulated to the Audit Committee on 1 July 2016 made no reference to [Delivery Company A] as a potential related party.

5.32.3 The minutes of the Audit Committee held on 5 July 2016 make no reference to [Delivery Company A].

5.32.4 An updated version of the Respondents' AFR was sent by Mr Westerman to those charged with governance on 8 July – the day after the financial statements were signed. The updated AFR was sent with a covering note which stated: "*Updated version of our report for your records. No material changes from the version discussed at audit committee...*" The Respondents did not identify that the updated AFR referred to [Delivery Company A] in the related parties section, noting that no disclosure had been made of transactions with [Delivery Company A], that management had assessed that there was no significant influence in relation to the agreement between SDI and [Delivery Company A], and that the auditors agreed with that conclusion. This was a material change from the Respondents' draft AFR that had been circulated on 1 July 2016.

5.33 The Respondents' conduct thereby breached paragraphs 16 and 21 of ISA 260.

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 has considered the Policy in relation to each of the Respondents individually and proposes the following *Sanctions*:

In respect of Grant Thornton UK LLP

- 6.3.1 A financial penalty of £1,700,000, adjusted for mitigating factors by a reduction of 5% and further discounted for admissions and early disposal by 30% so that the financial penalty payable is £1,130,500. The financial penalty shall be paid no later than 28 days after the date of this Final Decision Notice;
- 6.3.2 A published statement in the form of a severe reprimand;
- 6.3.3 A declaration that the FY2016 Audit report signed on behalf of Grant Thornton UK LLP did not satisfy the *Relevant Requirements*, as set out in this *Decision Notice*; and
- 6.3.4 A non-financial sanction, in the form of a requirement to ensure that changes made to Grant Thornton UK LLP's audit methodology, including the use of matter for partner attention forms ("MFPA"), are resulting in a better exercise and documentation of an audit team's judgement regarding key audit matters. To establish the efficacy of the MFPA template, Grant Thornton UK LLP will analyse the outcome of annual internal and external file reviews before and after the implementation of the MFPA template (and related measures) to determine whether the MFPA template (and related measures) have resulted in a reduction in the number of professional scepticism-related findings. Grant Thornton UK LLP will report to the FRC's Executive Counsel and Firm Supervisor the findings from this analysis.

In respect of Mr Westerman

- 6.3.5 A financial penalty of £90,000, discounted for admissions and early disposal by 30% so that the financial penalty payable is £63,000. The financial penalty shall be paid no later than 28 days after the date of this Final Decision Notice; and
- 6.3.6 A published statement in the form of a severe reprimand.

6.4 In reaching this decision, Executive Counsel has, in summary, considered the following matters in accordance with the Policy. Where a consideration is specific to one Respondent alone this has been specified. Otherwise, the considerations apply to each Respondent equally.

Nature, seriousness, gravity and duration of the breaches

6.5 As a result of the breaches of *Relevant Requirements*, the FY2016 Audit failed in its principal objective namely to obtain reasonable assurance about whether the 2016 financial statements as a whole were free from material misstatement.

6.6 The breaches related to important *Relevant Requirements* which are designed to ensure the quality and effectiveness of an audit; they are fundamental to the work of an auditor.

6.6.1 It is of the utmost importance that related parties are audited in accordance with *Relevant Requirements*. When performed properly, it is an important control to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. Knowledge of an entity's transactions, outstanding balances and relationships with related parties may affect assessment of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity. In the circumstances of the 2016 Audit, the determination of whether or not [Delivery Company A] was a related party was an important one, given there was a risk of a successful challenge to SDI's distance selling VAT arrangements which might have had significant financial implications for SDI.

6.6.2 Users of financial statements expect auditors to adopt a mindset of professional scepticism in conducting audits and place reliance on an auditor's statement that a company's financial statements are free from material misstatement. The exercise of professional scepticism is therefore fundamentally linked to the confidence users can have in the financial statements. In the circumstances of the 2016 Audit, there were a number of factors, relevant to the question of whether [Delivery Company A] was a related party, which should have been, but were not, considered or followed up by the Respondents.

6.6.3 An audit cannot be properly conducted without the exercise of adequate professional judgment. It is central to the audit process because the interpretation of relevant ISAs, and the informed decisions required throughout an audit cannot be made without the exercise of reasonable judgment. A user of the accounts

needs to have confidence that, when an auditor is evaluating management's judgments, they are exercising the judgment expected of an auditor whose training, knowledge and experience have assisted in developing the necessary competence to achieve reasonable judgments upon which the user of the accounts can rely. In the circumstances of the 2016 Audit the Respondents failed to adequately evaluate management's judgments.

- 6.6.4 Obtaining sufficient appropriate audit evidence is critical to support the auditor's opinion and report. Without it, an auditor cannot obtain reasonable assurance that the audit risk has been reduced to an acceptably low level, and a user of the accounts therefore cannot have confidence that the auditor is expressing an appropriate opinion about whether or not the financial statements are materially misstated. The exercise of judgment in relation to whether sufficient appropriate audit evidence has been obtained is therefore of fundamental importance to the effectiveness of the audit process. In the circumstances of the 2016 Audit, there are no documents on the audit file which demonstrate how the Respondents satisfied themselves of the appropriateness of management's assessment of whether Delivery Company A was a related party, despite the Respondents concluding following the FY2015 Audit and their 2016 interim review that [Delivery Company A] was a potential related party.
- 6.6.5 Audit documentation is the foundation which records the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. The documentation of professional judgment is particularly important, so that it is possible to understand the significant professional judgments made in reaching conclusions on significant matters arising during the audit. In the circumstances of the 2016 Audit, the Respondents failed to document the discussions with management which were critical to their ability to explain their own change of position between their initial view at the interim review and the 2016 audit.
- 6.7 The breaches of Relevant Requirements committed by the Respondents were therefore serious and occurred in relation to an area of the audit that had been identified as a significant risk
- 6.8 It follows that, in aggregate, the breaches:
 - 6.8.1. Could have harmed investor, market and public confidence in the truth and fairness of the financial statements published by Statutory Auditors or Statutory Audit Firms; and

6.8.2 undermine confidence in the standards of conduct in general of StatutoryAuditors and Statutory Audit Firms, and/or in Statutory Audit.

In respect of Grant Thornton UK LLP

6.9 In addition to the points set out at 6.5 to 6.8 above Executive Counsel has also taken into account that:

6.9.1. SDI's shares are listed on the main market of the London Stock Exchange;

6.9.2 This Final Decision Notice does not make a finding that the 2016 financial statements were in fact misstated;

6.9.3. The breaches of Relevant Requirements were isolated, relating only to one audit year and one related party;

6.9.4. The audit fee for the 2016 Audit, charged by GT, was approximately £729,000⁴;

6.9.5. Whilst the breach risked the loss of significant sums of money (in terms of a reduction in market value or a loss to creditors) it does not appear any such loss was caused by the breach;

6.9.6. The breaches of Relevant Requirements were neither intentional, dishonest, deliberate nor reckless;

6.9.7. Shortcomings in relation to similar Relevant Requirements were identified to GT in an Audit Quality Review report in 2013;

6.9.8. It is not likely that the same type of breach will occur, in light of the audit methodology improvements subsequently adopted by GT; and

In respect of Mr Westerman

6.10 In addition to the points set out at 6.5 to 6.8 and 6.9.1 to 6.9.6 above Executive Counsel has also taken into account that:

6.10.1. There have been no previous breaches by Mr Westerman;

6.10.2. Mr Westerman did not cause or encourage other individuals to breach theRelevant Requirements.

Identification of Sanction

6.11 Having assessed the nature, seriousness, gravity and duration of the breaches, Executive Counsel has identified the following combination of Sanctions as appropriate:

⁴ This was the relevant fee for the Audit of the SDI Group and UK subsidiaries.

In respect of Grant Thornton UK LLP

- 6.11.1. A financial penalty of £1,700,000;
- 6.11.2. A published statement in the form of a severe reprimand;
- 6.11.3. A declaration that the FY2016 Audit report signed on behalf of Grant Thornton ...UK LLP did not satisfy the Relevant Requirements, as set out in this Final ...Decision Notice; and
- 6.11.4. A non-financial sanction, in the form of a requirement to ensure that changes made to Grant Thornton UK LLP's audit methodology, including the use of matter for partner attention forms ("MFPA"), are resulting in a better exercise and documentation of an audit team's judgement regarding key audit matters. To establish the efficacy of the MFPA template, Grant Thornton UK LLP will analyse the outcome of annual internal and external file reviews before and after the implementation of the MFPA template (and related measures) to determine whether the MFPA template (and related measures) have resulted in a reduction in the number of professional scepticism-related findings. Grant Thornton UK LLP will report to the FRC's Executive Counsel and Firm Supervisor the findings from this analysis.

In respect of Mr Westerman

- 6.11.5. A financial penalty of £90,000; and
- 6.11.6. A published statement in the form of a severe reprimand.

Aggravating and Mitigating factors

- 6.12 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).
- 6.13 There are no aggravating factors that have not already been considered in the context of determining the seriousness of the breaches. In relation to mitigating factors GT have provided an exceptional level of co-operation, particularly in relation to ancillary litigation associated with this investigation. In light of the mitigating factors, Executive Counsel considers that a discount to GT's financial penalty of 5% is appropriate.

Deterrence

- 6.14 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

6.15 Having taken into account the full admissions by the Respondents and the stage at which those admissions were made (at an early point within Stage 1 of the case in accordance with paragraph 84 of the Policy), Executive Counsel determined that a reduction of 30% as to the financial penalty is appropriate in relation to both GT and Mr Westerman, such that a financial penalty of £1,130,500 is payable by GT and a financial penalty of £63,000 is payable by Mr Westerman.

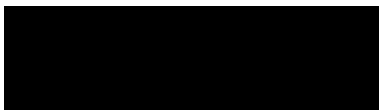
Other considerations

6.16 In accordance with paragraph 47(c) and (d) of the Policy, Executive Counsel has taken into account the size of GT, and the financial resources and strength of the Respondents, the effect of a financial penalty and whether the financial penalty is likely to be covered by insurance.

7. COSTS

7.1 Executive Counsel requires the Respondents to pay a contribution to her costs in thismatter, being £277,463.16. Such costs shall be paid no later than 28 days after thedate of this Final Decision Notice.

Signed:

A solid black rectangular box redacting the signature of Jamie Symington.

**JAMIE SYMINGTON
DEPUTY EXECUTIVE COUNSEL**

Date: 5 November 2021

APPENDIX 1 – EXTRACTS OF RELEVANT REQUIREMENTS

International Standards on Auditing (UK and Ireland) (“ISA”)

1. ISA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with ISAs

1.1 Paragraph 15 states as follows:

“The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.”

1.2 Paragraph 16 states as follows:

“The auditor shall exercise professional judgment in planning and performing an audit of financial statements.”

1.3 Paragraph 17 states as follows:

“To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.”

2. ISA 230: Audit Documentation

2.1 Paragraph 8 states as follows:

“The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

(a) The nature, timing and extent of the audit procedures performed to comply with the ISAs (UK and Ireland) and applicable legal and regulatory requirements;

(b) The results of the audit procedures performed, and the audit evidence obtained; and

(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”

3. ISA 260: Communication with those charged with governance

3.1 Paragraph 16 states as follows:

“The auditor shall communicate with those charged with governance:

[...]

[...]

(c) Unless all of those charged with governance are involved in managing the entity:

(i) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management”

3.2 Paragraph 21 states as follows:

“The auditor shall communicate with those charged with governance on a timely basis.”

4. ISA 330: The auditor’s response to assess risks

4.1 Paragraph 24 states as follows:

“The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.”

5. ISA 500: Audit Evidence

5.1 Paragraph 5(c) states as follows:

“Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.”

5.2 Paragraph 6 states as follows:

“The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.”

6. ISA 550: Related parties

6.1 Paragraph 6 states as follows:

“Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK and Ireland). In the context of related parties, the potential effects of inherent limitations on the auditor’s ability to detect material misstatements are greater for such reasons as the following:

? Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.

? Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.”

6.2 Paragraph 7 states as follows:

“Planning and performing the audit with professional skepticism as required by ISA (UK and Ireland) 2006 is therefore particularly important in this context, given the potential for undisclosed related party relationships and transactions. The requirements in this ISA (UK and Ireland) are designed to assist the auditor in identifying and assessing the risks of material misstatement associated with related party relationships and transactions, and in designing audit procedures to respond to the assessed risks.”

6.3 Paragraph 20 states as follows:

“As part of the ISA (UK and Ireland) 330 requirement that the auditor respond to assessed risks, the auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions. These audit procedures shall include those required by paragraphs 21-24.”