

**IN THE MATTER OF:**

**THE EXECUTIVE COUNSEL TO THE  
FINANCIAL REPORTING COUNCIL**

**- and -**

- (1) GRANT THORNTON UK LLP**
- (2) KEVIN ENGEL**
- (3) JOANNE KEARNS**
- (4) DAVID BARNES**
- (5) ERIC HEALEY**

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**PARTICULARS OF FACT AND ACTS OF MISCONDUCT**

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*The Settlement Agreement (which includes the Particulars of Fact and Acts of Misconduct) is a document agreed between Grant Thornton UK LLP, Kevin Engel, Joanne Kearns, David Barnes and Eric Healey (the Respondents) and the Executive Counsel. 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 since they are not parties to the proceedings.*

**INTRODUCTION**

1. The Financial Reporting Council (“**the FRC**”) is the independent disciplinary body for the accountancy and actuarial professions in the UK. The FRC’s rules and procedures relating to accountants are set out in the Accountancy Scheme of 8 December 2014 (“**the Scheme**”).
2. This is the Executive Counsel to the FRC’s (“**the Executive Counsel**”) Particulars of Fact and Acts of Misconduct (“**the PFAM**”) as referred to in the Settlement Agreement dated 9 July 2018 in respect of:

- Grant Thornton UK LLP (“**Grant Thornton**”), a member firm<sup>1</sup> of the Institute of Chartered Accountants in England and Wales (“**ICAEW**”);
- Kevin Engel (“**Mr Engel**”), a former partner of Grant Thornton and member of the ICAEW;
- Joanne Kearns (“**Ms Kearns**”), a former partner of Grant Thornton and member of the ICAEW;
- David Barnes (“**Mr Barnes**”), a former partner of Grant Thornton and member of the ICAEW; and
- Eric Healey (“**Mr Healey**”), a former senior partner of Grant Thornton and member of the ICAEW.

Together referred to herein as “**the Respondents**”, in connection with the Respondents’ conduct in relation to:

- (i) the continued participation by Mr Healey, following his retirement from Grant Thornton on 30 June 2009, in Grant Thornton’s business and professional activities despite (a) his appointment on 27 May 2010 to the Audit Committee<sup>2</sup> and thereafter on 25 March 2011 to the Council of the University of Salford (“**the University**”), at that time an audit client of Grant Thornton; and (b) his appointment on 6 January 2011 as non-executive director and Chair of the Audit Committee of Nichols plc (“**Nichols**”), at that time an AIM- listed audit client of Grant Thornton;
- (ii) Grant Thornton’s continued role as auditor to Nichols and to the University following (a) the appointment of Mr Healey on 27 May 2010 to the Audit Committee and thereafter to the Council of the University on 25 March 2011; and (b) the appointment of Mr Healey to the board of Nichols

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<sup>1</sup> References to “Member Firm” and “Member” in this document relate to the definition as set out in paragraph 2(1) of the Scheme, references to ‘member firm’ and ‘member’ denote their membership of the ICAEW.

<sup>2</sup> Albeit that Mr Healey did not in fact attend his first meeting until September 2010 and recollects that he considered this to be the effective commencement date of his role.

as non- executive director and Chair of the Audit Committee on 6 January 2011;

- (iii) the failure on the part of Grant Thornton, Mr Engel and Ms Kearns to provide appropriate disclosure to Nichols and the failure on the part of Grant Thornton and Mr Barnes to provide appropriate disclosure to the University, as to the implications of Mr Healey's appointments;
- (iv) the failure on the part of Mr Engel and Ms Kearns to ensure that their considerations of objectivity and independence were appropriately documented on a timely basis;
- (v) the serious failure to establish an appropriate control environment within Grant Thornton's Manchester office during the material period that set the tone when it came to placing adherence to ethical principles above commercial considerations and led to widespread failures to comply with Grant Thornton's policies and procedures in respect of ethical principles; and
- (vi) Mr Healey's failure to appropriately evaluate threats to his compliance with the fundamental principle of objectivity identified in the ICAEW Code of Ethics and his knowingly engaging in business which impaired or might impair objectivity and was otherwise incompatible with the fundamental principle of Objectivity.

### **Grant Thornton**

3. Grant Thornton's website states that it is "*is one of the world's largest professional services network of independent accounting and consulting member firms*". Grant Thornton is the UK member firm of Grant Thornton International Ltd, an umbrella organisation with numerous independent member firms in over 130 countries. Grant Thornton in the UK has over 4,500 staff and its financial statement for the year ended 30 June 2017 reported a revenue of £499,875,000 and total comprehensive income of £79,314,000. Grant Thornton's Transparency Report for 2013 states that it is "*committed to providing the rigorous, independent audit oversight that shareholders, investors and the public at large require...*" and records that "*the ultimate*

*responsibility for delivering quality lies with each client engagement team, specifically the engagement leader". It goes on to say that "Our culture, our shared values and our collaborative approach create an environment where each person recognises their individual responsibility to understand the firm's key policies and procedures and take personal responsibility for delivering quality at all times". Similar statements appear in the 2011 and 2012 versions of the Transparency Report.*

4. At all material times, Grant Thornton had policies and procedures in place designed to provide guidance on the APB Ethical Standards. These included guidance on chain of command.

### **Mr Engel**

5. Mr Engel was admitted to membership of the ICAEW on 1 December 1995 and was made a partner in Grant Thornton on 9 October 2007. In the year ended 31 December 2010, Mr Engel conducted the half year review of Nichols whilst Ms Kearns was on annual leave. For the financial years ending 31 December 2011, 31 December 2012 and 31 December 2013, Mr Engel was the Senior Statutory Auditor to Nichols, appointed to that role for and on behalf of Grant Thornton. Mr Engel departed from Grant Thornton on 30 June 2016.

### **Ms Kearns**

6. Ms Kearns was admitted to membership of the ICAEW on 1 March 1995. ICAEW's records show that her relationship with Grant Thornton ceased on 30 June 2011. For the financial year ending 31 December 2010, Ms Kearns was the Senior Statutory Auditor to Nichols, appointed to that role for and on behalf of Grant Thornton.

### **Mr Barnes**

7. Mr Barnes was admitted to membership of the ICAEW on 1 August 1986 and joined Grant Thornton as a partner in 2007 following a merger with RSM Robson Rhodes and was a member of the firm's Partnership Oversight Board. In April 2009, Mr Barnes relocated from Grant Thornton's Manchester office to its London office. After that date, Mr Barnes continued to be an audit partner on a number of Manchester clients but had no involvement in the leadership of the Manchester office. For the

financial years ending 31 July 2010, 31 July 2011, 31 July 2012 and 31 July 2013, Mr Barnes was the audit engagement partner for the University, appointed to that role for and on behalf of Grant Thornton. Mr Barnes departed from Grant Thornton in December 2015.

### **Mr Healey**

8. Mr Healey was admitted to membership of the ICAEW on 2 June 1971. Prior to his retirement from Grant Thornton on 30 June 2009, Mr Healey was a senior partner of Grant Thornton's Manchester practice. Until he was replaced by Mr Engel, in or around April 2009, Mr Healey held the position of Manchester Head of Audit.
9. In addition, Mr Healey was, until on or about 30 June 2009, a member of the Partnership Committee (a committee that was responsible for monitoring the management of the business), the Risk Assurance Committee (a sub-committee of the Partnership Committee that was responsible for effective risk management including monitoring the implementation and effectiveness of the firm's risk management policies and strategy across all areas of the business) and the National Managing Partner ("**NMP**") Remuneration Committee (a sub-committee of the Partnership Committee that was responsible for setting the remuneration framework for the Chief Executive Officer).

### **Other Grant Thornton employees**

10. The names of other Grant Thornton partners and employees have been anonymised in circumstances in which no allegations have been made against these individuals by the Executive Counsel. [...].

## **THE TEST FOR MISCONDUCT AND APPLICABLE STANDARDS**

11. Misconduct is defined in the Scheme as:

*"an act or omission or series of acts or omissions, by a Member or Member Firm in the course of his or its professional activities (including as a partner, member, director, consultant, agent, or employee in or of any organisation or as an individual) or otherwise, which falls significantly short of the standards reasonably to be expected of a Member or Member Firm or has brought, or is*

*likely to bring, discredit to the Member or the Member Firm or to the accountancy profession.”*

12. Paragraph 5(11) of the Scheme provides at sub-paragraph (i) that *“anything said, done or omitted by an employee of a Member Firm within the scope of his employment, either actual or ostensible, or as an agent of the Member Firm within the scope of his authority, either actual or ostensible, shall be taken as having been said, done or omitted by that Member Firm”*.
13. The standards of conduct reasonably to be expected of Grant Thornton, Mr Engel, Ms Kearns and Mr Barnes included those set out in:
  - (i) APB Ethical Standard 1: Integrity, objectivity and independence.
  - (ii) APB Ethical Standard 2: Financial, business, employment and personal relationships<sup>3</sup>.
  - (iii) ISQC UK and Ireland 1: Quality Control for firms that perform audits and reviews of financial statements and other assurance and related services engagements<sup>4</sup>.
  - (iv) The ICAEW Code of Ethics (the **“Code”**).<sup>5</sup>
14. The standards of conduct reasonably to be expected of Mr Healey at the time of the appointments to the University and to Nichols (and current at the relevant time) included those set out in the Code.
15. The Executive Counsel relies upon the applicable standards as extracted and annexed to these Particulars at Annexes A to C. These standards are made in the public interest and they are designed to maintain a high standard of integrity, objectivity and independence.
16. By paragraph 51 of the Sanctions Guidance, a Member may be taken to have acted recklessly if the Member (i) knew that a proposed course of action or inaction might

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<sup>3</sup> For convenience, the version of the APB Ethical Standards as in force up to 29 April 2011 is referred to in this PFAM. Annex A sets out the applicable provisions over the course of the relevant period.

<sup>4</sup> For convenience, the version of ISQC1 in force for engagements relating to financial periods on or after 15 December 2010 is referred to in this PFAM. Annex B sets out the applicable provisions over the course of the relevant period.

<sup>5</sup> For convenience, the version of the Code as in force from January 2011 is referred to in the body of this PFAM. Annex C sets out the provisions over the course of the relevant period.

involve a breach of the applicable professional standards, and (ii) proceeded nevertheless.

## **FACTUAL BACKGROUND**

### **Nichols**

17. Nichols is a listed company operating in the UK soft drinks sector. Its Annual Report for 2010 stated that it had a “*leading market position in both the stills and carbonates drinks categories and also in the soft drinks on dispense market*”. Its portfolio includes drinks which are sold in over 65 countries. Group revenue for the year is recorded in this report as £83.9 million and profit before tax of £15.1 million. Its Annual Reports for 2011 and 2012 shows audit (and audit related) fees of £57,000 and £60,000 respectively for those years. Ms Kearns is identified in the 2010 Annual Report as the Senior Statutory Auditor. Mr Engel is identified in the 2011, 2012 and 2013 Annual Reports as the Senior Statutory Auditor.
18. Mr Healey was appointed as non-executive director and Chair of the Audit Committee on 6 January 2011 and resigned in March 2015. Mr Healey was paid £22,000 per annum during the period of his employment at Nichols.
19. At all material times since 2010, and until its resignation in or about May 2014, Nichols was a listed audit client of Grant Thornton.

### **The University**

20. The University described itself in its financial statements for the year ending 31 July 2011 as “*an enterprising University which transforms individuals and communities through excellent teaching, research, innovation and engagement*”. It is an exempt charity under the terms of the Charities Act 1993 and its objects, as set out in its Charter are “*to advance education and knowledge by teaching and research...*”. Its total student population in this year was 20,955 and its total income was £187.4 million. Audit (and audit related) fees totalled £84,000. Its financial statements for the year ending 31 July 2012 shows audit (and audit related) fees of £97,000 for that year.

21. Mr Healey was appointed a member of the University's Audit Committee on 27 May 2010<sup>6</sup>. He resigned from the University in February 2015. Mr Healey's role at the University was unpaid.
22. At all material times since 2010, and until its resignation in or about May 2014, the University was an audit client of Grant Thornton.

**Mr Healey's early knowledge of ethical issues affecting retiring partners**

23. On 14 January 2009 Mr Healey received an email entitled "*Information for Retiring Partners*" from the partner at Grant Thornton responsible for Partner and Director Affairs ("**M1**"). The email contained advice as to how ethical standards may affect Mr Healey as a retiring partner (the "**Note to Retiring Partners**"), including the following:

*"... Generally speaking, the standards allow partners leaving an audit firm to join audit clients of that firm in a director or key management position but there are conditions in doing so and there is one particular situation where an important consequence is that the firm would be required to cease to be auditors of the entity in question and remain so for a period of two years.*

*This particular circumstance is one where you have acted as, in our terms, the audit partner, review partner or "key partner involved in the audit" of the client that you are proposing to join, within two years of your appointment to that client. You may not be familiar with the term "key partner involved in the audit". Following the revision in April 2008 of the APB ethical standards, the firm has identified the role of key partner as one which applies to any partner, whether an audit specialist or not, who has contributed to the formation of the audit opinion of an entity.*

*The same restriction applies to anyone within the chain of command of the firm, which in our firm would extend through the office managing partner to a business unit managing partner and onwards up to the chief executive. Given the changing structure of our management line over the last two years any individuals who might be caught by this "chain of command" clause, and who*

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<sup>6</sup> Albeit that Mr Healey did not in fact attend his first meeting until September 2010 and recalls that he considered this to be the effective commencement date of his role.

*are otherwise retiring from the firm, should discuss this matter directly with the ethics partner.*

*The remainder of this briefing note assumes that your relationship, as a partner in the firm, to the prospective client is one that is not caught by this particular consideration.*

*If you are to join an audit client of the firm, the firm must take action before any further work is done in connection with the audit of that client to ensure that no significant connections remain between yourself and the firm. This will include arrangements such that you do not participate or appear to participate in the firm's business or professional activities. All arrangements for the settlement of capital balances and any other financial interests need to be determined such that they cannot be influenced by any remaining connections between yourself and the firm...".*

24. The Note to Retiring Partners was again sent directly to Mr Healey by Mr Engel on 30 March 2009. Mr Healey also received a third copy on 15 March 2010.

**Internal discussions within Grant Thornton prior to Mr Healey's departure from the firm**

25. On 11 March 2009, M1 raised a number of questions with a senior member of Grant Thornton's Assurance function ("M2") and a senior member of Grant Thornton's Ethics Team ("M3") concerning Mr Healey's potential involvement with clients of the firm following his retirement.

26. The specific points raised for consideration were:

*" - Understanding the firm's position regarding the application of ES2 (particularly para 48 should Eric [Mr Healey] be offered a NED position at an existing client of his) by reference to arrangements with other retired partners.*

- *Understanding how this is formally addressed as part of his retirement arrangements i.e. is there provision in the partnership deed prohibiting such appointments?*
- *Clarifying who needs to discuss this with Eric [Mr Healey] and when (if it has not already been picked up)".*

27. Discussion ensued between Assurance and a partner responsible for Partner and Director Affairs (“M4”) culminating in the conclusion in an email dated 16 March 2009 from M3 that although Mr Healey did not at that time have any non-executive appointments in the pipeline:

*“If the situation should change between now and the date of Eric’s [Mr Healey’s] retirement it will be vital for the ethics team to be formally consulted on his proposals. We can be sure that with all the partner changes that have occurred of late and others that are due, the next AIU review will be looking very carefully at how our processes and policies were operated in this area so as to ensure that both the quality and independence of our audits were maintained after the retirements.”*

#### **Internal discussions within Grant Thornton prior to Mr Healey entering the Consultancy Agreements**

28. In September 2009, a senior leader in Grant Thornton’s Manchester office (“M5”), contacted a senior colleague (“M6”), proposing that Mr Healey be appointed as a consultant to Grant Thornton for 1 day a week at £1,000 per day, with a contractual term of 12 months. His colleague noted that it was “probably OK” on the assumption that he had no part to play or influence over audit opinions but that it should be run past M2. He noted that rate wise it would make Mr Healey GT’s highest paid consultant.
29. The proposal was duly mentioned to M2, who was “*happy with the role*”.
30. In consequence, on 21 September 2009 Mr Healey was appointed by Grant Thornton to act as a consultant.

31. By an email to all of the Manchester partners, including Ms Kearns and Mr Engel, dated 16 September 2009, M5 provided notification of Mr Healey's appointment as a consultant:

*"...I have reached agreement with Eric for him to return to GT as a consultant, working 1 day per week. Eric has a vast amount of experience and knowledge of the firm and tapping into this will be invaluable. The 3 key areas that Eric will be supporting us on are as follows: Assisting Kevin [Mr Engel] and the audit partners in driving forward the Assurance Practice – Support to ... Key Account Management, including conducting client care interviews – Helping with profile raising in the wider business community...I know it will bring real value to the business. I am meeting Eric [Mr Healey] again next week to agree logistics, but it is pretty much "with immediate effect". In the main Eric will be spending half a day a week in the office..."*

32. Mr Engel picked up on this information in an email sent to all Manchester Grant Thornton assurance partners the following day providing them with similar information. A week earlier Ms Kearns had also received an email from a Manager at Grant Thornton confirming that Mr Healey would be carrying out Client Satisfaction Reviews ("CSRs")<sup>7</sup> for Grant Thornton.

### **The Consultancy Agreements**

33. Following his retirement, Mr Healey entered into three Consultancy Agreements (collectively referred to as "**the Consultancy Agreements**") with Grant Thornton. The key contractual details of the Consultancy Agreements are as follows:

- (i) A Consultancy Agreement effective from 21 September 2009 ("**the 2009 Consultancy**") whereby it was agreed, inter alia, that Mr Healey would provide Consultancy Services for a minimum of 48 Working Days per annum at a fee of £1,000 per day. The 2009 Consultancy was to terminate on 17 September 2010. The Consultancy Services were stated to include:

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<sup>7</sup> These were wide ranging interviews with senior members of clients of Grant Thornton in which feedback was sought and given across the range of services offered by the firm. Typically, comments would be provided on individual Grant Thornton team members and overall scores then awarded for performance in each service (e.g. tax/audit) and written up by Mr Healey. Copies of the review papers would then be provided to the relevant engagement partners and the Office Managing Partner.

- a. Partner mentoring; in particular, Mr Healey was to “*Act as a coach to Kevin Engel in his role of Head of Audit [and would] provide non-executive input to key decision making and strategic direction, support through understanding of broader Grant Thornton dynamics, provide input into development of leadership skills*”. He would also “*Act as mentor to other Partners as agreed with OMP<sup>8</sup>. Provide non-executive input to broader office business planning, working with OMP*”;
  - b. Coordination of client satisfaction review process; In particular he was to be the “*Non-executive chairman of client satisfaction programme [and would] ensure Key Account Management Plans in place for Top 20 clients, monitor delivery against plan, review all telephone interviews, ensuring remedial action taken on low scores and providing summary of individual’s performance over year to OMP, [undertake] conduct of key client interviews*”. He would also “*Carry out client reviews on ad hoc basis, outside of structured plan, where specific circumstances require review (e.g. intention to tender audit) [and] conduct client satisfaction reviews with [two Grant Thornton clients] (in conjunction with [a Grant Thornton partner])*”;
  - c. Professional relationships; In particular he would “*support development of strategy for building Grant Thornton representation within social, cultural and political fabric of Manchester, coach new partners in building professional relationships [and] transfer existing relationships with senior decision-makers to Grant Thornton Partners.*”
- (ii) A Consultancy Agreement effective from 1 October 2010 (“**the 2010 Consultancy**”) whereby it was agreed, inter alia, that Mr Healey would provide Consultancy Services for a daily fee of £1,000.<sup>9</sup> The 2010 Consultancy was to terminate on 30 September 2011. The Consultancy Services were to include:
- a. Partner mentoring; in particular, Mr Healey was to “*Act as a coach to Kevin Engel in his role of Head of Audit [and would] provide non-executive input to key decision making and strategic direction, support*

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<sup>8</sup> Office Managing Partner

<sup>9</sup> The two week gap between the 2009 and 2010 Consultancy Agreements was to ensure Mr Healey could not be deemed to be an employee with consequent employment rights.

*through understanding of broader Grant Thornton dynamics, provide input into development of leadership skills". He would also "Act as mentor to other Partners as agreed with OMP, identify development areas and encourage learning, coach partners in building professional relationships [and] provide ad hoc support to OMP."*

- (iii) A Consultancy Agreement effective from 1 October 2011 ("**the 2011 Consultancy**") whereby it was agreed, inter alia, that Mr Healey would provide Consultancy Services for a monthly fee of £1,500. The 2011 Consultancy was to terminate on 30 September 2012 and the Consultancy Services were to include:
- a. Mentoring of individuals: *"The individuals being mentored will change over time, but initially will include [two Grant Thornton personnel] ...Mentoring is intended to support the individuals by acting as an independent sounding board and providing support as they develop their own skill set"*;
  - b. Facilitation of certain partner meetings: *"Meetings expected to be facilitated include quarterly Advisory Board meeting (including Strategic Opportunities Group) and partner dinners. Role will be to ensure a smooth running of the meetings, ensuring participation from all involved and providing challenge to partners on key actions. This role will include OMP mentoring, and include discussion on agenda, format for reporting etc, as well as an independent sounding board as required"*;
  - c. Partner Relationship building *"On an ad hoc basis, interaction with partners (including attendance at quarterly all-partner dinners). This may include informal mentoring if partners have particular issues they wish to discuss outside of management structures, and also a means of feedback to OMP of partner "mood"*.

**Work undertaken by Mr Healey for Grant Thornton after his retirement**

34. Pursuant to the terms of the 2009 Consultancy, Mr Healey carried out at least 20 CSRs including a CSR for Nichols on 7 July 2010 (“**the Nichols CSR**”) and a number of other CSRs of entities in relation to which Ms Kearns and Mr Engel were the audit engagement partners. The reviews were of (i) top 20 clients of the Manchester office (ii) other key clients in Manchester (iii) top clients of the Liverpool office and (iv) law firm “intermediaries” of Grant Thornton. Mr Healey’s CSR reports were referenced in both Mr Engel’s and Ms Kearns’ appraisals and their full share partnership applications.
35. Until at least April 2011, Mr Healey mentored Mr Engel as envisaged by the terms of the 2009 Consultancy and the 2010 Consultancy. Mentoring sessions with Mr Healey typically took place once a month and were an opportunity for Mr Engel in his new role as Head of Audit to draw on Mr Healey’s experience both with the firm and generally. Their discussions were wide ranging and included topics such as new work gains, client losses and client service, key performance indicators for financial results, Mr Engel’s management style, his relationships with staff and fellow partners and the development of his role in the audit department. As late as 7 June 2011 Mr Engel and Mr Healey were discussing (*inter alia*) outturns, budget, recruitment, pipeline, managers/promotion, and specific clients<sup>10</sup> and this formed part of Mr Healey’s work under the 2010 consultancy for which Mr Healey was remunerated.
36. In addition, Mr Healey mentored other Grant Thornton personnel during the course of the terms of the Consultancy Agreements, including a partner with significant regional management responsibilities and M1.
37. Mr Healey attended a number of partner meetings during the term of the 2009 Consultancy. He attended Grant Thornton’s strategy morning on 31 August 2010, at which the firm’s business strategy for the next three to five years was discussed.
38. Pursuant to the terms of the 2010 Consultancy (and in addition to the mentoring role described above), Mr Healey also provided “ad hoc support” to the Office Managing Partner which included: the collation and circulation of themes and slides from the client satisfaction reviews undertaken during the 2009 Consultancy; conduct of a final

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<sup>10</sup> As evidenced in a note made by Mr Healey recording this discussion and its duration: 1 hour.

CSR for a Grant Thornton client<sup>11</sup> on 9 November 2010; the provision of feedback on a CSR carried out by Grant Thornton in or about June 2011; mentoring a team at Grant Thornton for a re-tender to a client; reviewing and providing feedback on Client Satisfaction Programmes (“**CSPs**”) and attending team meetings at which discussion of the CSPs could take place and reviewing the format of key account plans. Mr Healey also met with M5 on an informal and regular basis who would bounce ideas off Mr Healey in view of the amount of experience he had with the firm. Mr Healey also attended a number of partner meetings during the currency of the 2010 Consultancy.

39. Pursuant to the terms of the 2011 Consultancy (and in addition to the mentoring role described above) Mr Healey supplied various ad hoc services including: chairing a Strategic Opportunities Group meeting, providing ongoing support for the Advisory Board (which included Mr Engel), attending quarterly Advisory Board meetings, attending preliminary planning meetings for the Advisory Board, facilitating partner meetings, attending Partner dinners and attending further social events.
40. From around September 2010 to April 2011, and outside the scope of the Consultancy Agreements, Grant Thornton’s legal department instructed Mr Healey to (i) assist with technical and quantum issues which arose in relation to potential professional indemnity claims against the firm and (ii) draft a protocol for reviewing professional indemnity claims (“**PI work**”). Mr Healey was paid an hourly rate of £135 for this work, receiving over £10,000 in total in relation to this activity.
41. The 2011 Consultancy was terminated prior to its contractual term on 29 June 2012.
42. The fees earned by Mr Healey in respect of the Consultancy Agreements and the PI work were as follows:
  - (i) 2009 Consultancy period: £45,708.41
  - (ii) 2010 Consultancy period: £23,374.87
  - (iii) 2011 Consultancy: £13,500.00

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<sup>11</sup> Mr Healey had agreed to undertake a CSR in relation to another GT client in January 2011 but did not do so due to a skiing accident.

**Total: £82,583.28**

### **A Continuing Significant Connection**

43. Not only did each of the Consultancy Agreements and the PI work give rise to an appearance of participation on the part of Mr Healey in Grant Thornton's business but each of the Consultancy Agreements and each of the services provided pursuant to those agreements and the PI work in fact amounted to and ensured continuing participation in Grant Thornton's business on the part of Mr Healey and thus constituted a significant connection between Mr Healey and Grant Thornton within the meaning of ES2, paragraphs 42 and 43.
44. In the circumstances, upon each of the appointments identified in paragraph 2(i) above, Grant Thornton should have immediately terminated the Consultancy Agreements.

### **Consideration of Chain of Command**

45. Despite the content of the Note to Retiring Partners referred to at paragraph 23 above, inadequate consideration was given by Grant Thornton at the time of the appointment of Mr Healey to either the University or to Nichols, or at any time thereafter to the question of whether or not Mr Healey had been in the chain of command prior to his retirement. Grant Thornton failed to investigate the full scope and extent of Mr Healey's roles as Head of Audit of its Manchester practice and his roles on various of the firm's committees and it failed to consider whether or not each role was within the chain of command as defined in the APB definition and in Grant Thornton's own policies and procedures.

### **Mr Healey's Appointments**

46. Following his retirement and despite his continuing participation in Grant Thornton's business, Mr Healey accepted the following appointments:
- (i) on 27 May 2010, the Council of the University approved his co-option to the Audit Committee and the minutes of the relevant Nominations Committee

meeting confirm he was appointed on this date, albeit Mr Healey did not attend this Nominations Committee meeting. He attended his first Audit Committee meeting on 16 September 2010<sup>12</sup>. On 25 March 2011 Mr Healey was appointed to the Council of the University.

- (ii) on 6 January 2011 he was appointed as non-executive director and Chair of the Audit Committee of Nichols.

### **Approach taken by Grant Thornton in relation to Mr Healey's appointment to the University and Nichols**

#### *Communications relating to the University appointment*

- 47. In a chain of emails dated 18 March 2010 to 15 April 2010, Mr Barnes and M5 discussed the potential appointment of Mr Healey to the Council of the University with a senior individual within Practice Protection (“M7”) and M3. Mr Barnes had raised this issue with M5, and subsequently with M7 as well.
- 48. Mr Barnes considered with M3 the ethical implications of Mr Healey's appointment by reference to paragraphs 42 and 43 of ES2 and initially concluded, correctly, that his ongoing consultancy arrangement with Grant Thornton posed a potential threat to the independence of the audit of the University, thereby preventing Mr Healey from taking up an appointment with the University.
- 49. However, in response to that conclusion, M5 emailed these colleagues on 24 March 2010 arguing in favour of Mr Healey's appointment at the University by reference to commercial considerations. He said:

*“As I acknowledged when we spoke, I know next to nothing about audits and associated ethics, but from an ill-informed position it strikes me that a degree of common-sense can be applied: (1) The reference below [ES2] talks about*

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<sup>12</sup> Mr Healey was sent a letter from the University's Head of Governance on 7 June 2010 confirming the appointment and confirming that his first scheduled meeting of Audit Committee was on 15 June 2010. He was subsequently sent the papers for the 15 June audit meeting, albeit he did not attend and he recollects he considered that the meeting of 16 September was the effective commencement date of his role. Additionally, the notes of the Audit Committee meeting dated 15 June 2010 state “It was noted that Council, at its meeting on 27 May 2010, appointed Mr E Healey as a co-opted member of the Committee. He will attend his first meeting in September 2010.”

*'significant connection' – I would argue that Eric has some influence on the firm (or at least on me) but given his role is non-executive this is not 'significant'. (2) Where do you draw the line on 'the individual does not participate...'. At an extreme you could argue that all alumni 'participate' if they are active promoters of the firm in the market-place, but I'm not convinced this is what is intended. From my ignorant perspective, does the executive vs non-executive position not represent the best division? I am keen to help Eric secure such appointments, and if I need to change the legalistic nature of the consultancy agreement to achieve this will do so. If nothing else, having Eric in such positions will be valuable to the firm in terms of potential for future work-referral. Ultimately, I am very surprised that this is causing an issue, albeit I acknowledge my lack of experience in this area. Obviously, if the client has any concerns then the matter is totally different, but in the absence of that I am keen to reach agreement on what Eric can do, and can't, under present arrangements on this and future opportunities. Please can I ask that I be kept in the loop on all discussions, given the client is Manchester-based and the opportunity has been introduced to Eric by a major intermediary relationship."*

50. In light of this email, the matter was referred to M7 by M3 in an email dated 24 March 2010, which expressed concerns as follows:

*"Given the description of EH's continuing consultancy role, my main concern is that he [Mr Healey] will be meeting with clients as part of the client satisfaction reviews so will appear to be participating in the firm's business. I do not believe that the distinction between non-executive vs executive positions is relevant: the ES does not refer to influence over the firm's decision making (which it could have done). To argue that alumni continue to participate in the firm's business is ridiculous. Finally, I believe that we do not have scope for applying the concept of significance to the analysis of EH's role: "significant connections" is defined in para 43 below and it is worded such that any real or apparent participation would represent a significant connection. I am therefore loathe to try to argue that EH's role as described would not constitute "significant" participation. Can we discuss please."*

51. At the same time, M3 sent an email to M5 copying in Mr Barnes and M7, suggesting that if Mr Healey's consultancy with Grant Thornton was terminated before he took

up his role with the audit committee at the University, that would “*avoid any issue altogether*”. In response, M5 said that he would prefer not to “*force our hand on the consultancy by any decisions taken on the UofS opportunity*”. He noted “*I am struggling to understand where the conflict arises, as we seem to be taking everything at an extreme. In reality, this one situation is more of a precedent for what Eric can do going forward.*”

52. M3 then met with M7 to discuss the matter. Despite reaching an initial, correct, conclusion that Mr Healey could not accept appointment at the University whilst remaining a consultant to Grant Thornton M3 changed his mind following the correspondence from M5 and a meeting with M7. Instead, it was decided that Mr Healey’s appointment at the University would be unobjectionable so long as the consultancy arrangement was amended to limit Mr Healey’s consultancy services to “mentoring” only and did not continue to involve CSRs. This view was incorrect. Furthermore, it was reached without undertaking additional investigations into the nature of the services that were being provided by Mr Healey to Grant Thornton, and without checking whether (and if so, how) Mr Healey’s 2009 Consultancy had been, or would be, amended prior to his appointment.
53. The decision reached by M3 and M7 was communicated to M5 and Mr Barnes in an email dated 29 March 2010.
54. On or around 31 March 2010 Mr Barnes spoke to the then Registrar and Secretary and Deputy Vice-Chancellor of the University (“**the Deputy Vice-Chancellor**”). Mr Barnes summarised the nature of his conversation with the Deputy Vice-Chancellor in an email to M7, copied to M5 and M3 dated 31 March 2010 and timed at 08:45, saying “*I have now had a conversation with the [Deputy Vice-Chancellor] regarding Eric. For the record the University are enthusiastic at having Eric join the committee, but in any event will only approve the appointment once all arrangements with GT have formally ceased. They will revert back to Eric. I explained that once the current arrangement has ended there would be no other reasons why Eric could not take up the appointment.*”
55. On 15 April 2010 M5 emailed M7, M3 and Mr Barnes, copying in Mr Healey, confirming that Mr Healey would be taking up the appointment at the University, that he would be completing the internal CSR programme by June / July, and that his

consultancy arrangement would be amended to reflect his mentoring role only. The Deputy Vice Chancellor recollects, that following Mr Healey's appointment on 27 May, Mr Barnes informed him and the Audit committee on 15 June, that Grant Thornton had cleared Mr Healey to provide mentoring work only under the consultancy (for which he would be remunerated) but not any other services.

56. In fact, unbeknown to Mr Barnes, Mr Healey carried out CSR work, including undertaking a CSR after September 2010 (and hence after Mr Healey began attending meetings of the University Audit Committee), and his work under the 2010 Consultancy and 2011 Consultancy went well beyond mere mentoring.
57. M7 emailed Mr Healey on 15 April 2010 to congratulate him on his future appointment. Mr Healey responded saying, inter alia: "*Not only with Salford executives, but with individual committee and possibly council members, should be able to spread the GT gospel...*" at the University.
58. In March 2011 Mr Barnes had cause to reconsider the potential issues surrounding Mr Healey's role with the University when Grant Thornton engaged in a tender exercise with the University for the provision of its internal audit work. In emails dated 11 March 2011 at 11:14 and 14:00, Mr Barnes (the University's external audit partner) stated that Mr Healey would clearly not be able to participate in the selection process for the internal tender, and that Grant Thornton's ability to tender for the internal audit depended on Mr Healey having no appointments with Grant Thornton. However, neither Mr Barnes nor any of the other participants to this email correspondence checked what appointments Mr Healey had with Grant Thornton, or the nature of any services he was providing to the firm. Further, upon learning that Mr Healey had sat on the selection panel for the internal audit, Mr Barnes did not escalate this matter within Grant Thornton or inform the University of the threats to independence and objectivity which Mr Healey's involvement in the selection process posed. Instead Mr Barnes wrongly relied on the assumption that he did not need to take further action in circumstances where the tender had been the University's process.
59. No further communications within Grant Thornton regarding Mr Healey's role with the University took place until 10 February 2012 at which point, and following information provided to him by one of the Manchester audit partners that Mr Healey was continuing to carry out work for Grant Thornton, Mr Barnes corresponded with M5 about the nature of the role being performed by Mr Healey for Grant Thornton. In an

email dated 6 March 2012, copying in Mr Healey, M5 confirmed that he had spoken to Mr Healey who had confirmed that there had been “no changes” in circumstance since the original Grant Thornton approval of his appointment with the University. This was wrong, given the number of further activities Mr Healey had since performed under the Consultancy Agreements and PI Work. Separately, Mr Barnes elevated the fact of Mr Healey’s ongoing role as a consultant with a senior risk partner in Grant Thornton (“**M8**”).

60. Thereafter, Mr Healey did not undertake any further work under the 2011 Consultancy, which was formally terminated prior to its stated contractual term, on 29 June 2012.

*Communications relating to the Nichols appointment*

61. Mr Healey accepted the role as non-executive director and Chair of the Audit Committee of Nichols in December 2010, to commence (subject to board approval) on 6 January 2011. He did so without reference to the Ethics Team at Grant Thornton, informing only M5 and Ms Kearns.
62. Mr Healey has said that in November 2010 he informed M5 and Ms Kearns of his intention to accept the position at Nichols. Mr Healey and M5 wrongly treated the decision of M3 and M7 as to the appointment to the University in 2010 as a precedent for Mr Healey’s appointment at Nichols. They took this approach notwithstanding the fact that these conclusions concerning Mr Healey’s appointment to the University were not expressed to be a precedent against which other appointments should be judged, and notwithstanding the fact that the condition imposed by M7 (namely that Mr Healey’s work at Grant Thornton should be restricted to mentoring only) had not been complied with.
63. Ms Kearns, as audit engagement partner for Nichols at the time of Mr Healey’s appointment, did not consult Grant Thornton’s Ethics Team about Mr Healey’s appointment at Nichols. However, on 7 March 2011 (immediately prior to Ms Kearns’ sign off of the audit of the 2010 year accounts) M3 emailed Ms Kearns raising ethical issues about Mr Healey’s appointment in the following terms:

*“I understand that Eric became a director on 7 January 2011. I do not believe that I have been informed or consulted about this...I assume (but please confirm) that either two years have elapsed since Eric had a role in the audit or that he did not have a role whilst at GT. Regardless of the above, have the following been considered: whether Eric has any continuing significant connections with the firm e.g. through a consultancy agreement; The nature of the role to which Eric has been appointed and whether it will lead to interactions with the audit team. In the light of the second answer, whether the composition of the audit is appropriate, given that Eric was a senior partner in Manchester office until relatively recently. As this is the sort of thing that the AIU<sup>13</sup> could pick up, I would like to be prepared for these obvious questions”.*

64. In addition, on 8 March 2011, an audit partner who was also the review partner for Nichols (“**M9**”), emailed a senior manager at Grant Thornton, who was also a member of the core audit team for Nichols (“**M10**”), copying in Ms Kearns, about the Key Information Memorandum for Nichols. He asked, *“Have we considered ethical/independence issues in respect of Eric Healey’s appointment as a non exec director?”*
65. Ms Kearns believes that she contacted Mr Healey and discussed his situation. On 8 March 2011 he forwarded the chain of emails to her discussing his appointment with the University referred to at paragraph 47 above commenting *“This should complete the circle”*. There is no documentary evidence of any conversation between Ms Kearns and Mr Healey but Ms Kearns believes that during a conversation with Mr Healey she formed the impression that GT had given clearance for his appointment to the University and that this clearance included Nichols specifically. Neither Ms Kearns nor the Ethics Team at Grant Thornton reconsidered whether Mr Healey had continuing connections with Grant Thornton which posed a threat to the independence and objectivity of the audit for Nichols. Instead, they relied on the previous incorrect conclusion that there was no such threat to the fundamental principles of independence and objectivity.
66. In an email dated 8 March 2011 M3 instructed Ms Kearns to prepare a memorandum to be attached to Ms Kearns’ final stage independence sign off for Nichols, summarising Ms Kearns’ conclusions about independence and objectivity (*“The*

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<sup>13</sup> The FRC’s Audit Inspection Unit

*concern when a senior partner joins a client of his former office in a role that will involve interaction with the auditors is that the team will be more easily influenced as they have worked for or with him recently. Consideration of this possible threat must be documented on the file"). Ms Kearns set out in an email of 8 March 2011 to M3, copied to M2, M7 and M9: "We did not have any contact with Eric during the audit process, I met with him this week for the first time to take him through a draft KIM but all issues had been identified and our conclusions documented by that stage."*

67. There is no note of this contact with Mr Healey on the audit file. In a further email later that day, M3 reiterated that a note reflecting what Ms Kearns had told them needed to be on the file. This email chain was provided to M10. However, Ms Kearns omitted to ensure that a note was put on the file. In an email to M10 dated 8 March 2011, Ms Kearns stated, in relation to the paperwork required to document consideration of independence issues: *"The world of independence has gone mad!"*

#### Communications in late 2011

68. Grant Thornton reconsidered the threats to independence and objectivity posed by Mr Healey's appointments at the University and Nichols in September 2011, concluding (incorrectly) that there were no such threats.
69. In September 2011, Mr Healey was required to complete his Annual Regulatory Statutory Declaration ('**ARSD**') for Grant Thornton. Prompted at least in part by this, he sent an email to a senior employee in the business risk department of Grant Thornton ("**M11**") on 1 September 2011 forwarding the sequence of emails referred to concerning his appointment at the University.
70. M11 emailed Mr Healey on 1 September 2011 saying: *"...I have also discussed this with [M7] and he is of the same view as me – that your position doesn't present a conflict or threat to the firm's independence. Your mentor role clearly doesn't and the role as facilitator of management team meetings – as you describe it - doesn't either - although I do accept its important that you are very very clear as to why it doesn't. You and we should be transparent and confident about our views".* M11 went on to advise that M5 would have responsibility for recording his views/judgment i.e. that he has considered any conflicts and doesn't believe they exist or that if they do exist

there are sufficient safeguards in place to protect the firm's independence. M11 did not see a copy of the 2010 Consultancy or the 2011 Consultancy.

71. Mr Healey responded on the same day stating "*...I had already completed non audit staff return on full disclosure basis so no doubt system will pick up any further action needed.*"
72. On 1 September 2011 Mr Healey completed his ARSD for 2011 in which he stated "*I am a council member of the University of Salford and a non-executive director of Nichols plc. My independence was considered in 2010 and the firm concluded that there was no threat.*"
73. On 29 September 2011 it would appear that the form was updated to state "*Eric Healey's situation vis-à-vis University of Salford and Nichols plc was considered in 2010 and the firm concluded that there was no threat. A member of the NLB [M7], ... was involved in that decision.*"
74. Neither statement in Mr Healey's ARSD was accurate. M7 had not been involved in any approval of Mr Healey's appointment to Nichols. In connection with the appointment to the University, the Ethics Team had concluded that there was a threat to independence and objectivity, but that this could be managed by way of safeguards (namely by restricting Mr Healey's consultancy services for Grant Thornton to mentoring only).
75. In an email dated 15 September 2011, M5 set out three key aspects of Mr Healey's proposed role under the 2011 Consultancy (being mentoring of individuals, facilitation of certain partner meetings, and partner relationship building), and provided Mr Healey with justification as to why the roles he was to undertake pursuant to the 2011 Consultancy Agreement did not create "a conflict of interest".
76. In a further email dated 23 September 2011, M5 referred to additional services he wanted from Mr Healey, saying: "*I'm quite keen that there is some scope in your time to continue building relationships with the various partners – I actually think this will add a lot of value, albeit informal.*" These additional services were not cleared by the Ethics Team, but the 2011 Consultancy Agreement included "*partner relationship building*" and "*OMP mentoring*" as services to be provided. These activities (which

involved participation in Grant Thornton's business and professional activities) were agreed between Mr Healey and M5 only.

77. On 10 October 2011 all North West Partners, including Mr Engel, received an email from M5 announcing Mr Healey's 2011 Consultancy in the following terms "*We have agreed to a continuation of Eric Healey's consultancy services with us, so hopefully you will continue to see him around the office. Eric will be performing 2 roles: Mentoring partners and staff, on a 1-on-1 basis, Facilitation of partner meetings, bringing an independent perspective, Support to partner interaction, helping build relationships and as sounding board for myself.*"

### **Approach taken by Mr Healey to his appointment to the University and Nichols**

#### *Approach to the University appointment*

78. Mr Healey was first approached about an appointment to the Audit Committee of the University by a recruitment consultant on or around 3 February 2010.
79. Mr Healey initially concluded that he was precluded from accepting the appointment, on the basis of the Ethical Standards, in particular ES2.48.
80. [...] Mr Healey changed his mind and formed the (incorrect) view that he could accept the appointment at the University without any threat to independence or objectivity.
81. Mr Healey reached the (incorrect) conclusion that he could accept the appointment at the University having consulted Mr Engel, who on 15 March 2010 forwarded Mr Healey a copy of the Note to Retiring Partners stating, incorrectly "*I think this confirms our discussion that independence would not be an issue here.*" It appears from Mr Engel's email that he had concluded, wrongly, that Mr Healey's appointment would not pose independence issues. Mr Healey was interviewed for a position at the University later that same day.
82. Mr Healey did not raise his proposed appointment with Grant Thornton's Ethics Team but only with M5. The Ethics Team was consulted when Mr Barnes raised issues of independence posed by Mr Healey's appointment to the University.

83. Thereafter, Mr Healey failed to give appropriate or proper consideration to the ethical issues posed by his appointment. Instead, in an email to M5 dated 24 March 2010, he said that he would “*sit on [his] hands*” and await the decision of the Ethics Team. In the same email Mr Healey recorded his view, which was incorrect, that he was permitted to take up the appointment at the University according to the terms of the Note to Retiring Partners, particularly where he had not been involved in the audit of the University.
84. At a meeting on 12 April 2010 the University’s Nominations and Governance Committee recommended Mr Healey’s appointment to the University. On 27 May 2010 the Council of the University approved Mr Healey’s appointment to the Audit Committee on the basis that he would not undertake any work commissioned by Grant Thornton. [...] Although Mr Barnes had no knowledge of the decision criteria on the basis of which the University had appointed Mr Healey, he recollects stating to both the Deputy Vice-Chancellor and the Audit Committee that Mr Healey would be undertaking continuing work for Grant Thornton, albeit Mr Barnes understood and explained that this was restricted to mentoring. Mr Healey never provided the University with accurate information as to the full extent of the services that he had agreed to provide to Grant Thornton under the terms of the Consultancy Agreements.
85. In fact, as set out above and contrary to what was recorded in the minutes of meetings of the University, Mr Healey did not end his work with Grant Thornton, and continued to undertake work which extended well beyond mentoring.

*Approach to the Nichols appointment*

86. Mr Healey informed Nichols that he had been in a similar position with another Grant Thornton client (namely the University) and that independence issues had been considered at that time. Insofar as the information Mr Healey gave Nichols to understand that his appointment had been cleared by Grant Thornton, this was not correct, and Mr Healey did not inform Nichols of the full scope and extent of the services that he was continuing to provide to Grant Thornton.
87. Mr Healey failed to consult with or obtain permission from Grant Thornton’s Ethics Team in respect of his appointment to Nichols but raised this only with M5. Despite

this, Mr Healey completed an ARSD in September 2011 in which it is stated that M7 approved his appointment to Nichols in 2010. This assertion was incorrect.

88. When issues of independence were raised by the audit engagement partner, Ms Kearns, in March 2011, Mr Healey simply forwarded her the emails relating to the defective approval process in relation to the University appointment. He failed to give any, or any proper, consideration to the ethical issues raised by his appointment.
89. Mr Healey knew that his consultancy activities with Grant Thornton had extended beyond the mentoring which M3 and M7 had, wrongly, considered acceptable. Mr Healey did not draw this fact to Ms Kearns' attention or to the attention of the Ethics Team.

#### **Mr Healey's role on the University's tender panel for Internal Audit in 2011**

90. In the spring of 2011 Grant Thornton tendered to become the University's internal auditors. Mr Barnes, who was the University's external auditor and, while not part of this internal audit tender process, identified (correctly) that Mr Healey would not be able to participate in the internal audit tender process. However, upon learning that Mr Healey had been on the tender panel for the University, neither Mr Barnes nor anyone else at Grant Thornton raised with the University the threats to independence and objectivity which this posed.
91. Prior to the tender, in March 2011, the Finance Controller of a different institution of higher education offered Grant Thornton copies of tender documentation submitted by other firms in a similar tender exercise carried out by that entity. Neither Mr Barnes nor the partner presenting the internal audit tender to the University ("**M12**") expressed any concern about the issues of confidentiality arising when reviewing that confidential tender documentation. Instead: (1) in an email dated 11 March 2011, M12 asked a colleague at Grant Thornton "*when I get the opposition bundle, I presume you'll be up for doing a careful analysis?*"; (2) in an email dated 13 March 2011 Mr Barnes described the tender documentation in the following terms: "*interesting market intelligence – and valuable to know what latest docs look like from other firms...*".

92. M12 did not appear to have any concern about Mr Healey's involvement on the panel. On the contrary, he said in an email dated 19 May 2011: "*it [the tender presentation] went very well.*"
93. In the event, Grant Thornton were not appointed internal auditors to the University.

### **The audit documentation**

#### **a. The University**

*The financial year ended 31 July 2010, 31 July 2011, 31 July 2012 and 31 July 2013*

94. Mr Barnes signed off the Summary of Significant Matters for the audit of the University for the years ended 31 July 2010 to 31 July 2012. He prepared or approved the Audit Approach Memorandum ("**AAM**") and Key Issues Memorandum ("**KIM**") for the years ended 31 July 2010 to 31 July 2012 and the Audit Findings for the year ended 31 July 2013. Mr Barnes also signed unqualified audit reports for the University for the years ended 31 July 2010 to 31 July 2013.
95. When preparing the audit documentation above, Mr Barnes failed to note in the documents any threats to independence or objectivity posed by Mr Healey's appointment to the Audit Committee of the University (and subsequently, as a member of the Council of the University), by reason of Mr Healey's continuing participation in Grant Thornton's business.

#### **b. Nichols**

*The financial year ended 31 December 2010*

96. In the Audit Closeout Meeting for the audit of the financial statements for the year ended 31 December 2010, which took place on 24 February 2011 and was attended by, amongst others, Ms Kearns, it was noted that the appointment of Mr Healey as a non-executive director was a post balance sheet event. However, there is no recorded further comment over the appointment and no recorded suggestion that it was an event that might reasonably be thought to bear on Grant Thornton's independence and the objectivity of the audit team. This approach was reflected in

the Summary of Significant Matters prepared or approved by Ms Kearns for the year ended 31 December 2010, which simply contained the following note:

*“Eric Healey was appointed as non-executive director in Jan 11. Independence considered to be appropriate as Eric left GT over a year ago and had not been involved in the client for over 5 years. In addition Eric has not been contacted throughout the audit. Furthermore [M10] has not worked with Eric and therefore little influence”*

97. Ms Kearns prepared and approved the KIM for Nichols for the year ended 31 December 2010, which confirmed that there were no matters impacting upon Grant Thornton’s independence as auditors.
98. On 9 March 2011 Ms Kearns signed an unqualified audit report for Nichols for the year ended 31 December 2010.
99. When preparing the audit documentation for Nichols for the year ended 31 December 2010, Ms Kearns failed to document any threats to independence or objectivity posed by Mr Healey’s appointment as a non-executive director and Chair of the Audit Committee at Nichols, by reason of Mr Healey’s continuing participation in Grant Thornton’s business.

*The financial years ended 31 December 2011, 31 December 2012 and 31 December 2013*

100. Mr Engel prepared or approved the Summary of Significant Matters for the audit of Nichols for the years ended 31 December 2011 to 31 December 2013. He prepared or approved the AAM and KIM for the years ended 31 December 2011 and 31 December 2012, and 31 December 2013. Mr Engel also signed audit unqualified audit reports for Nichols for the years ended 31 December 2011 to 31 December 2013.
101. When preparing the audit documentation above, Mr Engel failed to document any threats to independence or objectivity posed by Mr Healey’s appointment as a non-executive director and Chair of the Audit Committee at Nichols, by reason of Mr Healey’s continuing participation in Grant Thornton’s business.

**Interaction with Mr Healey on the part of Mr Barnes, Ms Kearns and Mr Engel**

a. Mr Barnes

102. Mr Barnes was aware of the existence of the 2009 Consultancy and of the mentoring work that Mr Healey was undertaking under it, prior to Mr Healey's appointment to the University's Audit Committee in May 2010.
103. Mr Barnes was copied in to an email dated 24 March 2010, attaching a copy of the 2009 Consultancy Agreement from which it was clear that, at that point, Mr Healey's consultancy role extended beyond CSRs and mentoring.
104. Mr Barnes was copied into an email dated 24 March 2010 which confirmed that Mr Healey performed a non-executive role at Grant Thornton enjoying a certain degree of influence in the Manchester Office, that Mr Healey conducted face to face CSRs, which role took up well in excess of 50% of his time, and that the balance of Mr Healey's time was spent as a partner mentor and general advisor to M5.
105. Mr Barnes had discussed the ethical implications of Mr Healey's appointment at the University with M3 in March 2010, raising his concerns in an email of 19 March 2010: *"My view is there is still a contractual arrangement in the firm which would exclude Eric from taking up this position. Would you concur or have a different view?"*
106. Mr Barnes knew, having received an email from M7 dated 29 March 2010, that the Ethics Team at Grant Thornton had approved Mr Healey's appointment at the University only on the basis that his consultancy services for Grant Thornton were restricted to mentoring only. Mr Barnes informed the Deputy Vice-Chancellor and the University Audit Committee of this fact.
107. By no later than 19 May 2011 Mr Barnes was aware that Grant Thornton was proposing to tender for the University's internal audit and that Mr Healey sat on the Audit Committee for the University and had been asked to be the Chair.
108. While Mr Barnes has stated to the Executive Counsel that he was "reassured" that Mr Healey recorded his consultancy in the University's Register of Interests, he cannot recall whether he reviewed the Register himself or left that to the audit team. These reviews were undertaken only as part of general connected party audit checks

for all members of the Council rather than as a specific check relating to Mr Healey's consultancy and the audit engagement partner would only be informed if there were any particular issues. The audit team did not report or any such issues in this instance.

b. Ms Kearns

109. Ms Kearns had a long-standing working relationship with Mr Healey, as demonstrated by a reference Ms Kearns provided for Mr Healey on 19 January 2010, when she said:

*"I have known Eric as a work colleague and friend since 2001 when I joined Grant Thornton. I joined Grant Thornton as an audit senior manager but quickly progressed through to partnership under Eric's leadership. Eric invested significant time in mentoring and coaching me through to partnership and played a large part in my own career development...Such was Eric's influence and ability as a partner at Grant Thornton, he has since been asked to return on a consultancy basis to continue to contribute to the strategic development of the Manchester office".*

110. This reference demonstrates the potential for influence which Mr Healey had on Ms Kearns, Mr Healey's senior position within Grant Thornton prior to his departure and Ms Kearns' knowledge of Mr Healey's consultancy role involving contribution to the "strategic development" of the Manchester office.

111. While they were both at Grant Thornton, Ms Kearns and Mr Healey had socialised out of the office on occasion, Mr Healey had attended Ms Kearns' wedding, and Mr Healey had used his contacts at a Premiership football club to help secure Ms Kearns season tickets for the 2010- 2011 season. However, Ms Kearns only met with Mr Healey once during the Nichols audit, because of her awareness of the potential familiarity threat Mr Healey posed to her independence and to perceptions of her independence.

112. Following Mr Healey's retirement Ms Kearns knew that Mr Healey continued to provide paid consultancy services to the firm, and that his services included work on CSRs. She arranged for Mr Healey to undertake CSRs and worked with him on a number of those CSRs. She was aware that Mr Healey undertook CSRs during the 2010 audit year, including for Nichols.

113. Ms Kearns knew that Mr Healey mentored individuals within the firm. She received an email dated 16 September 2009 summarising Mr Healey's consultancy role. On 24 September 2009 Mr Healey emailed her asking for her input on his consultancy role at Grant Thornton.
114. Ms Kearns used Mr Healey as a sounding board on two occasions during the course of 2010 albeit not during the Nichols audit. The Manchester Office Managing Partner's sponsoring partner report for Ms Kearns' promotion to full partnership had stated that "*Eric Healey was Joanne's line partner prior to his retirement last Summer... Joanne will still use Eric as a sounding-board, through his ongoing consultancy arrangement with the office. From my discussions with Eric he is very supportive of her promotion to full equity...*".
115. On 8 March 2011 Ms Kearns received a copy of the correspondence referred to at paragraph 47 in March and April 2010 concerning Mr Healey's appointment to the University. This correspondence was insufficient to provide comfort on the question of whether there was a threat to independence posed by Mr Healey's appointment to and ongoing work for, Nichols because it related to the University only.
116. Ms Kearns took no steps to obtain a copy of the 2010 Consultancy Agreement and did not seek to investigate thoroughly the nature of the services that Mr Healey was supplying to Grant Thornton, although she was aware of various of those services. As a result, Ms Kearns concluded (incorrectly) that there was no threat to independence or objectivity as a result of Mr Healey's appointment at Nichols.

c. Mr Engel

117. Mr Engel was aware of the existence of the Consultancy Agreements and the services provided by Mr Healey thereunder, including Mr Healey's work on CSRs. On 17 September 2009 Mr Engel emailed the Assurance team at Grant Thornton describing the areas in which Mr Healey would be supporting the Manchester office. Mr Engel had meetings with Mr Healey to formulate how Mr Healey's role would best work. Mr Engel was the designated note taker for the Nichols CSR in July 2010, on which Mr Healey took the lead for Grant Thornton. Mr Engel attended an audit meeting within Grant Thornton at which Mr Healey was also present, and he was a

member of the Advisory Board which received “*ongoing support*” from Mr Healey as a mentor under the 2011 Consultancy.

118. Mr Engel was himself mentored by Mr Healey under the 2009 and 2010 Consultancy Agreements, until at least April 2011 and was having wide-ranging discussions with Mr Healey pursuant to the consultancy agreement until at least June 2011. In his sponsoring report for Mr Engel’s promotion to full partnership, M5 stated, *inter alia*, the following: “*Kevin is currently mentored by Eric Healey, as part of Eric’s consultation arrangements with the office...Despite potentially being seen as oversight of his role, Kevin has approached this mentoring with a positive frame of mind and opportunity to improve*”.
119. Mr Engel knew that potential threats to independence and objectivity were posed by Mr Healey’s consultancy and his appointment to audit clients of the firm. On 30 March 2009 Mr Engel emailed Mr Healey a copy of the Note to Retiring Partners. On 15 March 2010 Mr Engel again forwarded to Mr Healey the Note to Retiring Partners and said, “*I think this confirms our discussion that independence would not be an issue here*”. It appears from Mr Engel’s email that he had concluded, wrongly, that Mr Healey’s appointment would not pose independence issues, at this stage. Upon replacing Ms Kearns as audit engagement partner for Nichols in April 2011, Mr Engel states that he had a discussion with Ms Kearns about the ethical implications of Mr Healey’s ongoing consultancy work. Mr Engel states that he had a discussion with M5 before the Partners’ Advisory Group meeting and Strategic Opportunities meeting in October 2011 about the scope of Mr Healey’s participation in those meetings.
120. On 8 February 2012 a hot audit review paper was sent from a Grant Thornton senior manager which included the following “*I see that Eric Healey is a director. I don’t know the dates or even if he had a role on this client but was appropriate consultation done at the time and is there any impact on this year? ES2*”. There is no documented response from Mr Engel and the only evidence on the audit file relating to Mr Healey is an email with, *inter alia*, the incorrect assertion that he did not have a consultancy with the firm.
121. Mr Engel also had a relationship with Mr Healey outside the context of the consultancy arrangements, as demonstrated by the following:

- (i) On 1 February 2011 Mr Engel forwarded a confidential email to Mr Healey from a prospective audit client in which that prospective client had confirmed to Mr Engel that the company would instruct Grant Thornton as its new auditor but that he “*would prefer not to say anything until 2009 is put to bed*”;
  - (ii) On 7 June 2011 Mr Engel was sent an email by a colleague in relation to a client seeking potential candidates for a Non-Executive Director position. Mr Engel forwarded the email to Mr Healey 5 minutes later stating “*Eric, might be of interest, we can discuss at 11am*”. A note of the subsequent call indicates that Mr Healey and Mr Engel had a one hour call covering a range of high- level Grant Thornton related activity, some of which was client specific and confidential;
  - (iii) Mr Healey and Mr Engel sat at the same table at a London Stock Exchange dinner on 15 November 2011;
  - (iv) Mr Engel arranged work experience for a close relative of Mr Healey at Grant Thornton and sought to assist with an internship application;
  - (v) Mr Engel brought to Mr Healey’s attention a possible Non-Executive-Director role at an existing audit client of Grant Thornton.
122. The relationship between Mr Healey and Mr Engel went beyond what would reasonably be expected between the Chair of the Audit Committee for an audited entity and the audit engagement partner for that entity and Mr Engel should have been aware of the familiarity threats posed by Mr Healey's role as Chair of the Audit Committee.
123. However, Mr Engel took no independent steps to investigate the question of independence and in particular he took no steps to obtain a copy of any of the Consultancy Agreements and did not seek to investigate the nature of the services that Mr Healey was supplying to Grant Thornton. He failed to identify the threats to independence and objectivity posed by Mr Healey’s appointments at Nichols. Instead, Mr Engel concluded (incorrectly) that there was no potential threat to independence or objectivity as a result of Mr Healey’s appointment at Nichols. The information available to Mr Engel was insufficient to provide comfort on the question

of whether there was a threat to independence or objectivity posed by Mr Healey's appointment to, and ongoing work for, the University and Nichols. Indeed such information as was available to him should have led him to appreciate that the appointments posed a potential threat to independence and objectivity.

124. In February 2012, in the context of planning for the audit of the 2011 financial year, Mr Engel signed off on an email memo from M10 to another Grant Thornton employee dated 6 February 2012 which stated as follows: *“Eric Healey was appointed as Non-Executive Director on 7 January 2011 of Nichols plc, Eric Healey is a previous partner of Grant Thornton in Manchester, we have therefore considered our independence with regards to the relationship: Eric Healey has no continuing significant connections with the firm eg through a consultancy agreement, from time to time he is involved in mentoring GT staff but these staff are not directly involved in the audit of Nichols Plc. Eric Healey is chair of the audit committee and our contact with him is in this capacity. In addition the Audit Team have never worked for Eric directly while he was at GT and therefore did not establish a relationship which could be considered to affect independence.”*
125. Mr Engel has stated that he assumed that M10 must have had information that the consultancy had terminated but (i) Mr Engel knew that the 2012 Consultancy involved Mr Healey's attendance at partner meetings, (ii) a number of emails evidence the fact that Mr Healey (to Mr Engel's knowledge) was attending such meetings until at least 20 February 2012. In any event, Mr Engel had contact with Mr Healey outside his role of Chair of the Nichols' Audit Committee so it was not correct to say that the only interactions between Mr Healey and the audit team were in the context of his role with Nichols, and (iii) even if the consultancy had been terminated, Mr Engel knew it had been in operation during the course of the relevant audit year.

**ADMITTED ACTS OF MISCONDUCT IN RELATION TO GRANT THORNTON**

**Acts relating to Mr Healey's appointment to the board of Nichols and Chair of the Audit Committee**

**ACT 1:**

Between 6 January 2011 (when Mr Healey was appointed to the board of Nichols as a non-executive director and Chair of the Audit Committee) and June 2012 (when the 2011 Consultancy terminated), Grant Thornton failed to take action as quickly as possible, and in any event before any further work was done by it in connection with the audit of Nichols, to ensure that no significant connection remained between Grant Thornton and Mr Healey. In particular, Grant Thornton failed to sever its connections with Mr Healey by terminating the 2010 Consultancy. Grant Thornton's conduct in failing to sever its connections with Mr Healey was contrary to ES2.42 and fell significantly short of the standards reasonably to be expected of a Member Firm, in that:

- (i) In January 2011 when Mr Healey was appointed to the board of Nichols, he was also providing services under an existing retainer with Grant Thornton, namely the 2010 Consultancy;
- (ii) Despite Mr Healey's appointment to the board of Nichols, Grant Thornton continued to undertake work on the audit of Nichols for the financial year ending 31 December 2010 and the audit report was signed off by Grant Thornton on 9 March 2011;
- (iii) At no time after January 2011 did Grant Thornton seek to terminate the 2010 Consultancy, but instead the consultancy arrangement was renewed on 30 September 2011 when Grant Thornton entered into the 2011 Consultancy with Mr Healey on 1 October 2011;
- (iv) The work on the audit of Nichols for the financial year ending 31 December 2011 was undertaken by Grant Thornton and the audit report was signed off on 7 March 2012;

- (v) **Between 1 October 2011 and June 2012, when the 2011 Consultancy was terminated, Grant Thornton took no action to sever its connections with Mr Healey under the 2011 Consultancy; and**
- (vi) **The work on the audit of Nichols for the financial year ending 31 December 2012 was undertaken by Grant Thornton and the audit report signed off on 6 March 2013.**

**In all the circumstances, Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the audits of the 2010, 2011, 2012 and 2013 Nichols financial statements.**

Particulars of Act 1:

1. Grant Thornton learned that Mr Healey was going to be appointed as a non-executive director and Chair of the Audit Committee of Nichols in or around November 2010.
2. Mr Healey was appointed to the board of Nichols and as Chair of the Audit Committee on 6 January 2011.
3. At the date of his appointment at Nichols, and thereafter until June 2012, Mr Healey continued to have a significant connection with Grant Thornton, in that he was participating in Grant Thornton's business or its professional activities under the 2010 Consultancy and, thereafter, the 2011 Consultancy, and by undertaking the PI Work.
4. The services provided by Mr Healey to Grant Thornton posed independence threats. The "mentoring" activities performed by Mr Healey did not simply involve assisting more junior members of staff with their career development but entailed providing senior members of management within the Manchester office with strategic advice. Under the 2010 Consultancy Mr Healey was to act as a coach to Mr Engel in his role as Head of Audit, by providing non-executive input to key decision making and strategic direction; he was to provide support through understanding broader Grant

Thornton dynamics, he was to provide input into development of leadership skills, and he was to mentor the Office Managing Partner.

5. In the circumstances, upon Mr Healey's appointment at Nichols, Grant Thornton should have taken action as quickly as possible, and in any event before it did any further work in connection with the audits of Nichols, to terminate the Consultancy Agreements by reason of ES2, paragraph 42. However, at no time following Mr Healey's appointment did Grant Thornton identify that ES2.42 required it to take immediate steps to sever its connection with him.
6. On the contrary:
  - a) when the appropriateness of the appointment was raised by M3 and M9 team in March 2011:
    - i. it was noted that the audit engagement partner for the 2010 year, Ms Kearns, was incorrect in her earlier belief that Mr Healey's appointment to Nichols specifically had been approved by M7;
    - ii. Ms Kearns stated that Mr Healey's consultancy agreement had been amended to remove carrying out CSRs;
    - iii. M3 failed to fully investigate the nature of the services being provided to Grant Thornton by Mr Healey;
    - iv. Ms Kearns failed to ensure, when preparing the audit documentation for the year ended 31 December 2010, and contrary to an express instruction from M3, that any threats to independence or objectivity posed by Mr Healey's appointment as a non-executive director and Chair of the Audit Committee at Nichols by reason of Mr Healey's continuing participation in Grant Thornton's business were documented.
  - b) Mr Engel, the audit engagement partner for the years ended 31 December 2011 and 31 December 2012, failed to investigate the services provided to Grant Thornton by Mr Healey, and failed to identify that ES2.42 required Grant Thornton to sever its connection with Mr Healey;

- c) Mr Engel signed off a memorandum from the relevant Grant Thornton audit manager in February 2012 which stated that Mr Healey did not have a significant connection with Grant Thornton (such as a consultancy), and he did not carry out his own further investigations, as he should have done given his awareness of facts and matters suggesting that Mr Healey might have a significant ongoing connection with the firm;
- d) the KIM for the year ended 31 December 2010 and the KIM and AAM for the years ended 31 December 2011 and 31 December 2012 incorrectly recorded that there were no threats to independence;
- e) upon the termination of the 2010 Consultancy Grant Thornton entered into the 2011 Consultancy;
- f) Grant Thornton continued to carry out work on the audits for Nichols for the years ending 31 December 2010, 31 December 2011 and 31 December 2012, and the audit reports were signed off on 9 March 2011, 7 March 2012 and 6 March 2013 respectively;
- g) Grant Thornton did not formally sever its connection with Mr Healey until 29 June 2012 when it terminated the 2011 Consultancy.

**ACT 2:**

**At the time of the appointment of Mr Healey to Nichols, Grant Thornton failed adequately to consider or investigate whether or not Mr Healey had been in the chain of command prior to his retirement and therefore whether his appointment would be in breach of ES2.48. Grant Thornton failed to investigate the full scope and extent of Mr Healey's roles as Head of Audit of its Manchester practice and his roles on various of the firm's committees and it failed to consider whether or not each role was within the chain of command as defined in the APB definition and in Grant Thornton's own policies and procedures. This was notwithstanding the fact that Grant Thornton had specifically identified in 2009 that it would be important to understand the firm's position regarding the application of ES2.48 in the event of any proposed appointments of Mr Healey to third parties. Grant Thornton thereby**

**acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and paragraph 130 of the Code.**

Particulars of Act 2:

1. Grant Thornton discovered that Mr Healey was going to be appointed as a non-executive director of Nichols in or about November 2010 but the issue of his appointment was not referred to the Ethics Team and no approval was given by Grant Thornton prior to the appointment. Further, at the time of the appointment and at all material times thereafter Grant Thornton gave inadequate consideration to the scope and extent of the roles that had been undertaken by Mr Healey prior to his retirement from the firm. Grant Thornton failed to investigate the full scope and extent of Mr Healey's roles as Head of Audit of its Manchester practice and roles on various of the firm's committees, and therefore failed to consider whether or not each role was within the chain of command as defined in the APB definition and in Grant Thornton's own policies and procedures.

**ACT 3:**

**Between 6 January 2011 and about May 2014 Grant Thornton failed to inform Nichols, an audit client, on a timely basis of all significant facts and matters that bore upon Grant Thornton's objectivity and independence, contrary to the requirements of ES1.56 and thereby the conduct of Grant Thornton fell significantly short of the standards reasonably to be expected of a Member Firm, in that Grant Thornton failed to inform Nichols that Mr Healey's appointment as non-executive director and Chair of the Audit Committee was a significant fact or matter which bore upon Grant Thornton's objectivity and independence. Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the 2010, 2011, 2012 and 2013 financial statements.**

Particulars of Act 3:

1. Grant Thornton did not provide Nichols with any adequate or accurate information about the impact or significance of Mr Healey's appointment as a non-executive director and Chair of the Audit Committee. None of the audit documents made available by Grant Thornton referred to, or commented upon, Mr Healey's position or the question of whether his appointment as a non-executive director at Nichols might bear on Grant Thornton's independence as auditor.
2. In particular, Grant Thornton did not inform Nichols of the 2010 Consultancy or the 2011 Consultancy, that Mr Healey acted as mentor to Mr Engel between 21 September 2009 and April 2011, that Mr Healey had carried out the Nichols CSR on 7 July 2010 (as well as a number of other CSRs in relation to which Mr Engel and Ms Kearns were the audit engagement partners) and the familiarity threats posed by the closeness of Mr Healey's relationship with both Ms Kearns and Mr Engel. The AAM and KIM documents for the audits in respect of the 2010, 2011 and 2012 financial statements made no reference to the Consultancy Agreements or the threats to Grant Thornton's independence and objectivity these posed.
3. Ms Kearns states that she had a discussion with a director of Nichols "*during this period*" whereby she confirmed to such director that Grant Thornton had considered and cleared Mr Healey's appointment to existing clients from an independence perspective (although Grant Thornton says that no such clearance had been given and Ms Kearns now admits that she was mistaken about this). However, Ms Kearns did not fully inform such director of the actual extent of Mr Healey's services under the 2010 Consultancy Agreement (a copy of which she had never seen or asked to see) and never provided Nichols with any detailed information as to the services that were being provided under the 2010 Consultancy Agreement and the threats to independence posed by that agreement. Ms Kearns "*cannot remember*" if she specifically disclosed the existence of the 2010 Consultancy Agreement to Nichols.
4. Mr Engel asserts that during the Nichols Board Meeting that took place in July 2011 he confirmed that although Mr Healey had been his mentor, this mentoring arrangement had ceased and that Mr Healey's ongoing Consultancy Agreement had been cleared by the firm. However, Mr Engel did not fully inform the Nichols Board of the extent of Mr Healey's services under the 2010 Consultancy

Agreement or the 2011 Consultancy Agreement and did not provide Nichols with further information as to those services and the threats to independence that this posed. He also failed to inform Nichols of the nature of his interactions with Mr Healey outside the Consultancy Agreement identified above. The “clearance” he conveyed to Nichols appears to have been based on a conversation he had with Ms Kearns in April 2011. However (i) no prior clearance had in fact been given in respect of Nichols; (ii) he should not have relied on the oral assurances of the previous audit engagement partner but should have considered the matter afresh; and (iii) any such clearance would have been given prior to his appointment as audit engagement partner. This appointment raised particular threats to independence due to the mentoring relationship between Mr Engel and Mr Healey (albeit this had ceased in April 2011), as he should have been aware.

5. Mr Engel’s failure to consider the significance and scope of the ethical standards is demonstrated by the fact that he signed off a planning memo in February 2012 which he understood to state that no consultancy agreement existed at that time between Mr Healey and Grant Thornton. Mr Engel has said his understanding at the time was that the writer of the memo had obtained knowledge that the consultancy had terminated; a point which Mr Engel should have personally investigated. Given that the memorandum was in the context of planning for the 2011 audit year (running from January to December 2011) however and to Mr Engel’s knowledge the consultancy agreement was in force until at the earliest April 2011 there was an independence risk.
6. The Particulars in relation to Act 1 above are repeated.
7. The Particulars in relation to Act 1 against Mr Engel are also repeated as if set out herein. In particular, it is alleged that Grant Thornton, acting through Mr Engel, was reckless in failing to comply with the requirements of ES1.56 in the respect set out in those Particulars.

**ACT 4:**

**Between 6 January 2011 and about May 2014, Grant Thornton failed to provide the Audit Committee of Nichols, a listed company, with full written disclosure of relationships that bore on the auditor’s objectivity and independence together with**

any safeguards that had been put in place, contrary to the requirements of ES1.59 and thereby the conduct of Grant Thornton fell significantly short of the standards reasonably to be expected of a Member Firm, in that:

- (i) Grant Thornton failed to inform Nichols' Audit Committee in writing that Mr Healey's appointment as non-executive director and Chair of the Audit Committee created a relationship that potentially bore upon Grant Thornton's objectivity and that did bear upon its independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired; and
- (ii) Grant Thornton failed to inform the Nichols Audit Committee in writing of the safeguards (if any) that it had put in place.

Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the audits of the 2010, 2011, 2012 and 2013 Nichols financial statements.

Particulars of Act 4:

1. Grant Thornton's management, staff and processes did not ensure the provision (and did not provide) to Nichols' Audit Committee any written information about the impact or significance of Mr Healey's appointment as a non-executive director and Chair of the Audit Committee or about the threats to its independence that such appointments created. In particular, Grant Thornton did not inform Nichols in writing of the existence of, or details of, activity undertaken pursuant to the 2010 Consultancy and the 2011 Consultancy, that Mr Healey acted as mentor to Mr Engel between 21 September 2009 and April 2011, that Mr Healey had carried out the Nichols CSR on 7 July 2010 (as well as a number of other CSRs in relation to which Mr Engel and Ms Kearns were the audit engagement partners) and the familiarity threats posed by Mr Healey's relationship with both Ms Kearns and Mr Engel. The AAM and KIM documents for the audits in respect of the 2010, 2011 and 2012 financial statements made no reference to the Consultancy Agreements or the threats to Grant Thornton's independence and objectivity these posed.

2. The Particulars in relation to Acts 1 and 3 are repeated.

**ACT 5:**

**At the end of the audit process in or about March 2011, March 2012, March 2013 and March 2014 respectively when forming an opinion, Grant Thornton arrived at the overall conclusion that any threats to objectivity and independence in the Nichols audit had been properly addressed in accordance with the APB Ethical Standards, pursuant to ES1.48, when instead it should have concluded that there was a threat to objectivity and independence which had not been properly addressed, it should have refused to report and it should have resigned as auditor in accordance with ES1.48. Grant Thornton's conduct in failing to take these steps fell significantly short of the standards reasonably to be expected of a Member Firm, in that:**

- (i) Grant Thornton failed to identify that there was a threat to the objectivity and independence of the audit by reason of Mr Healey's appointment as non-executive director of Nichols and Chair of the Audit Committee;**
- (ii) Grant Thornton signed audit reports on 9 March 2011, 7 March 2012, 6 March 2013 and 12 March 2014 despite the threat to the objectivity and independence of the audit caused by Mr Healey's appointment as non- executive director of Nichols and Chair of the Audit Committee; and**
- (iii) Until May 2014, Grant Thornton failed to resign as auditor, as required by ES1.48.**

**Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the audits of the 2010, 2011, 2012 and 2013 Nichols financial statements.**

Particulars of Act 5

1. Grant Thornton formed an opinion and issued a report when it should instead have concluded that Mr Healey's appointment as non-executive director at Nichols and Chair of the Audit Committee created a threat to the independence and objectivity of the audit such that no report could be given and such that Grant Thornton's resignation was appropriate and necessary. The AAM and KIM documents for the audits in respect of Nichols' 2010, 2011 and 2012 financial statements made no reference to the Consultancy Agreements or the threats to Grant Thornton's independence and objectivity that these posed.
2. Grant Thornton's senior management should have recognised the need to resign as auditor in circumstances where it knew the facts and matters set out, as known by members of the senior management of the Manchester office, in the particulars to Act 1.
3. The Particulars in relation to Acts 1, 3 and 4 are repeated.

**Acts relating to Mr Healey's appointment to the Audit Committee and the Council of the University**

**ACT 6:**

Between 27 May 2010 (when Mr Healey was appointed to the Audit Committee of the University) and June 2012 (when the 2011 Consultancy terminated), Grant Thornton failed to take action as quickly as possible, and in any event before any further work was done by it in connection with the audit of the University, to ensure that no significant connection remained between Grant Thornton and Mr Healey. In particular, Grant Thornton failed to sever its connections with Mr Healey by terminating the 2009 Consultancy but rather entered into the 2010 Consultancy and thereafter the 2011 Consultancy. Grant Thornton's conduct in failing to sever its connections with Mr Healey was contrary to ES2.42 and fell significantly short of the standards reasonably to be expected of a Member Firm, in that:

- (i) In May 2010 when Mr Healey was appointed to the Audit Committee of the University, he was also providing services under an existing retainer with Grant Thornton, namely the 2009 Consultancy;
- (ii) Despite Mr Healey's appointment to the Audit Committee the work on the audit of the University for the year ending 31 July 2010 was carried out by Grant Thornton and the audit of the financial statements was signed off on 25 November 2010;
- (iii) At no time after 27 May 2010 did Grant Thornton seek to terminate the 2009 Consultancy. Instead it renewed the consultancy arrangement on 1 October 2010 and then again on 1 October 2011 and at no time took any action to formally sever its connections with Mr Healey under the 2011 Consultancy until June 2012; and
- (iv) The work on the audit of the University for the years ending 31 July 2011 and 31 July 2012 was completed and the audits of the financial statements were signed off on 25 November 2011 and 25 November 2012 respectively.

**Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the audits of the 2010, 2011 and 2012 financial statements.**

Particulars of Act 6:

1. Grant Thornton learned that Mr Healey was going to be appointed to the Audit Committee of the University no later than March 2010.
2. Mr Healey was appointed to the Audit Committee of the University from 27 May 2010, albeit that he attended his first Committee meeting on 16 September 2010, which he considered to be the effective start of his work. Mr Healey attended an informal briefing meeting on 1 September 2010.
3. At the time of his appointment to the Audit Committee of the University in May 2010, and thereafter until June 2012, Mr Healey continued to have a significant connection with Grant Thornton, in that he was participating in Grant Thornton's business or its professional activities under each of the 2009, 2010 and 2011 Consultancy Agreements, and by undertaking the PI Work.
4. The services provided by Mr Healey to Grant Thornton posed clear independence threats for the same reasons identified in paragraph 4 of the Particulars to Act 1.
5. In the circumstances, upon Mr Healey's appointment to the Audit Committee at the University, and thereafter upon Mr Healey's appointment as a member of the Council of the University, Grant Thornton should have taken action as quickly as possible, and in any event before it did any further work in connection with the audits of the University, to terminate the Consultancy Agreements by reason of ES2, paragraph 42.
6. On the contrary:

- (a) when the appropriateness of the appointment was raised with M3 by Mr Barnes in March 2010, Grant Thornton ultimately and wrongly concluded that the threat to independence and objectivity could be adequately addressed by an amendment to Mr Healey's consultancy agreement, limiting it to mentoring only, when it should have concluded (i) that it needed to investigate the question of whether Mr Healey had held a position in the chain of command prior to his retirement; and (ii) that in any event the consultancy should be terminated;
  - (b) Grant Thornton retained Mr Healey under the 2010 Consultancy and the 2011 Consultancy, instructed him to undertake work on CSRs until November 2010, and instructed him to undertake the PI Work, thereby failing to restrict Mr Healey's services to mentoring alone as mandated by the Ethics Team, and failing to restrict Mr Healey's work to non-client-facing activities as required by the University;
  - (c) when the appropriateness of Mr Healey's appointment at Nichols was raised by M3 in March 2011, M3 failed to investigate the nature of the services provided by Mr Healey to Grant Thornton and whether these amounted to continuing significant connections the firm;
  - (d) when Grant Thornton reconsidered the threats to independence and objectivity posed by Mr Healey's appointments at the University and Nichols in September 2011, it concluded, incorrectly, that there was no threat to these fundamental principles; and
  - (e) the KIM and AAM for the years ended 31 July 2010, 31 July 2011 and 31 July 2012 recorded that there were no threats to independence.
7. Grant Thornton continued to carry out work on the audits for the University for the years ending 31 July 2010, 31 July 2011 and 31 July 2012, and the unqualified audit reports were signed off on 25 November 2010, 25 November 2011 and 22 November 2012 respectively;
8. Grant Thornton did not formally sever its connection with Mr Healey until 29 June 2012 when it terminated the 2011 Consultancy.

**ACT 7:**

**At the time of the appointment of Mr Healey to the University, Grant Thornton failed adequately to consider or investigate whether or not Mr Healey had been in the chain of command prior to his retirement and therefore whether his appointment would be in breach of ES2.48. Grant Thornton failed to investigate the full scope and extent of Mr Healey's roles as Head of Audit of its Manchester practice and his roles on various of the firm's committees and it failed to consider whether or not each role was within the chain of command as defined in the APB definition and in Grant Thornton's own policies and procedures. This was notwithstanding the fact that Grant Thornton had specifically identified in 2009 that it would be important to understand the firm's position regarding the application of ES2.48 in the event of any proposed appointments of Mr Healey to third parties. Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.**

**Particulars of Act 7**

1. Grant Thornton discovered that Mr Healey was to be, or may be, appointed to the Audit Committee of the University in or about March 2010 and Grant Thornton approved the appointment subject to ensuring that Mr Healey's activities would be confined to mentoring only. There is no evidence of Grant Thornton raising any other issues in relation to the appointment and Grant Thornton gave inadequate consideration to the scope and extent of the roles that had been undertaken by Mr Healey prior to his retirement from the firm. Grant Thornton failed to investigate the full scope and extent of Mr Healey's roles as Head of Audit of its Manchester practice and roles on various of the firm's committees, and therefore failed to consider whether or not each role was within the chain of command as defined in the APB definition and in Grant Thornton's own policies and procedures.

**ACT 8:**

**Between May 2010 and May 2014 Grant Thornton failed to inform the University, an audit client, on a timely basis of all significant facts and matters that bore upon Grant Thornton's objectivity and independence contrary to the requirements of ES1.56 and thereby the conduct of Grant Thornton fell significantly short of the standards**

**reasonably to be expected of a Member Firm, in that Grant Thornton failed to inform the University that Mr Healey's appointment as a member of the Audit Committee and thereafter to the Council of the University was a significant fact or matter which bore upon Grant Thornton's objectivity and independence.**

**In all the circumstances Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the audits of the University's 2010, 2011 and 2012 financial statements.**

Particulars of Act 8:

1. Grant Thornton did not provide the University with sufficient documented information about the impact or significance of Mr Healey's appointment to the Audit Committee of the University, and thereafter his appointment to the Council of the University. None of the audit documents made available by Grant Thornton referred to or commented upon, the existence of the 2009 Consultancy, the 2010 Consultancy or the 2011 Consultancy or the question of whether his appointment to the Audit Committee and Council of the University might bear on Grant Thornton's independence as auditor, notwithstanding that members of Grant Thornton's Manchester office senior management knew the facts and matters set out in the Particulars to Act 6. The AAM and KIM documents for the audits in respect of the 2010, 2011 and 2012 financial statements made no reference to the Consultancy Agreements or the potential threats to Grant Thornton's independence and objectivity these posed.

**ACT 9:**

**At the end of the audit process in or about November 2010, November 2011 November 2012 and November 2013 respectively when forming an opinion, Grant Thornton arrived at the overall conclusion that any threats to objectivity and independence in the University audit had been properly addressed in accordance with the APB Ethical Standards, pursuant to ES1.48, when instead it should have concluded that there was a threat to objectivity and independence which had not**

been properly addressed, it should have refused to report and it should have resigned as auditor in accordance with ES1.48. Grant Thornton's conduct in failing to take these steps fell significantly short of the standards reasonably to be expected of a Member Firm, in that:

- (i) Grant Thornton failed to identify that there was a threat to the objectivity and independence of the audit by reason of Mr Healey's appointment to the Audit Committee and subsequently to the Council of the University;
- (ii) Grant Thornton signed unqualified audit reports on 25 November 2010, 25 November 2011, 22 November 2012 and 22 November 2013 despite the threat to the objectivity and independence of the audits caused by Mr Healey's appointment to the Audit Committee and thereafter to the Council of the University;
- (iii) Until May 2014, Grant Thornton failed to resign as auditor, as required by ES1.48.

Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Grant Thornton's objectivity was, or was likely to be, impaired in relation to the audits of the University's 2010, 2011, 2012 and 2013 financial statements.

Particulars of Act 9:

1. Grant Thornton formed an opinion and issued a report when it should instead have concluded that Mr Healey's appointment to the Audit Committee of the University and later to the Council of the University created a threat to the independence and objectivity of the audit such that no report could be given and such that Grant Thornton's resignation was appropriate and necessary. The AAM and KIM documents for the audits in respect of the University's 2010, 2011 and 2012 financial statements made no reference to the Consultancy Agreements or the threats to Grant Thornton's independence and objectivity that these posed.

2. Grant Thornton's senior management should have recognised the need to resign as auditor in circumstances where it knew the facts and matters set out, as known by members of the Manchester office senior management, in the particulars to Act 6.
3. The Particulars in relation to Acts 6 and 8 are repeated.

**Grant Thornton's failure to establish a control environment**

**ACT 10:**

**Between January 2009 and about May 2014, Grant Thornton failed to take responsibility for establishing a control environment within its Manchester Office as required by ES1.18, that placed adherence to ethical principles and compliance with APB Ethical Standards above commercial considerations and further failed to establish policies and procedures across the firm designed to provide it with reasonable assurance that the firm and its personnel would comply with relevant ethical requirements, including independence requirements contrary to ISQC 1, paragraphs 20 and 21 and thereby the conduct of Grant Thornton fell significantly short of the standards reasonably to be expected of a Member Firm, in that:**

- (i) Grant Thornton failed to give clear, consistent and frequent messages, backed up by appropriate actions, which emphasised the importance of compliance with APB Ethical Standards within the Manchester office;**
- (ii) Grant Thornton failed to ensure that all ethical considerations relating to Mr Healey's appointment to Nichols and the University were passed to its Ethics Team for consideration and advice;**
- (iii) Grant Thornton failed properly to consider the implications of Mr Healey's appointment to the board of Nichols and as Chair of its Audit Committee on 6 January 2011 and of his appointment to the Audit Committee of the University on 27 May 2010 and thereafter his appointment to the Council of the University in March 2011 and failed to take all appropriate steps to ensure that any non-compliance with APB Ethical Standards in respect of these appointments were identified and addressed;**

- (iv) **The approach of the leadership of the Manchester Office of Grant Thornton was very seriously inadequate in relation to compliance with APB Ethical Standards and was more focussed upon fostering Grant Thornton’s commercial interests in relation to these matters than in meeting those Ethical Standards; this led to widespread failures to demonstrate expected standards in the Manchester Office during the material period.**
  
- (v) **In relation to the independence issues identified in Acts 1-9 above, Grant Thornton’s own existing policies were defective and, inadequate to ensure compliance with the requirements of the APB Ethical Standards.**

**Grant Thornton thereby acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.**

Particulars of Act 10:

1. Grant Thornton correctly identified that potential ethical problems, including threats to independence and objectivity, would be posed in the event that Mr Healey accepted an appointment at an audit client following his retirement.
2. However, Grant Thornton failed to establish an appropriate control environment within the firm as required by ES1.18, in that:
  - a) upon discovering, no later than March 2010, that there was a prospect that Mr Healey was to take up a position with the University, senior management at Grant Thornton’s Manchester office:
    - i. failed to refer the proposed appointment to the Ethics team;
    - ii. failed to give adequate consideration to the APB Ethical Standards;
    - iii. failed to give adequate consideration to the meaning of a “*significant connection*” in ES2.42, as defined in ES2.43;
  - b) although on 19 March 2010 Mr Barnes and M3 initially formed the correct view that Mr Healey had a continuing significant connection with the firm precluding his appointment to at the University, on 28 March 2010 M7:

- i. concluded, contrary to the wording of ES2.42 and ES2.43 and without carrying out appropriate investigations, that Mr Healey would not have a continuing significant connection with the firm if his consultancy agreement was limited to mentoring only;
  - ii. failed to define what he considered to be permissible mentoring activity for the purpose of complying with the APB ethical standards;
- c) M3 failed to consider whether Mr Healey had been in the chain of command within two years of his appointment to the University (despite this being a matter raised explicitly in the Note to Retiring Partners and the professional ethics guidance dated 28 April 2009);
- d) upon discovering no later than March 2011 that Mr Healey had accepted an appointment at Nichols, M3:
  - i. failed to give adequate consideration to the APB Ethical Standards;
  - ii. failed to give adequate consideration to whether Mr Healey had a continuing significant connection with Grant Thornton;
  - iii. failed to give adequate consideration to whether Mr Healey had been in the chain of command within two years of the proposed appointment to the University, despite the Note to Retiring Partners and the 28 April 2009 professional ethics guidance referring specifically to that issue;
  - iv. failed to obtain confirmation that either Mr Healey had not had a role in the chain of command or that two years had elapsed since Mr Healey had any such role in audit;
  - iv. failed to give adequate consideration to Mr Healey's continuing connections with Grant Thornton;
- e) Significant individuals within the leadership of Grant Thornton's Manchester Office allowed commercial considerations to take precedence over ethical standards in relation to these matters, adopting the attitude that it could be

useful to maintain a connection with Mr Healey because of the potential for future work-referral (as was evidenced in two emails from M5 dated 24 March 2010 referred to at paragraphs 49 and 112 above).

- f) The Ethics Team failed to emphasise the importance of ethical standards in the face of senior management in the Manchester office's clear preference for commercial considerations;
  - g) Upon discovering that Mr Healey had sat on the selection panel for the internal audit for the University and had been "very supportive":
    - i. Grant Thornton failed to escalate the issue, including by referring the matter to the Ethics Team;
    - ii. M12 expressed a desire to exploit Grant Thornton's connection with Mr Healey to obtain feedback about their tender for the internal audit; and
    - iii. Grant Thornton failed to consider, or react with concern about, the confidentiality issues arising upon its review of confidential tender documentation submitted by other firms<sup>14</sup>, or its review of confidential audit papers prepared by Grant Thornton's external audit team, to assist in the preparation of the tender by the internal audit team. Mr Barnes, the audit engagement partner, described the tender documents of other firms as "*interesting market intelligence – and valuable to know what docs look like from other firms*".
3. There were very serious failures by the senior management within the Manchester Office of Grant Thornton to set the necessary tone and control environment concerning compliance with ethical standards, as demonstrated by:
- (a) the matters set out in paragraph 2 above;
  - (b) the failure by Mr Engel to recognise the familiarity threats posed by his close working and social relationship with Mr Healey;

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<sup>14</sup> These documents are related to a tender at another entity.

- (c) the lack of accuracy in individuals' ASRD forms. In particular:
- i. the ARSD forms completed by M5 on 16 August 2011, Mr Engel on 17 August 2011 and Mr Healey on 1 September 2011, each of which stated, wrongly, that M7 had given specific approval for Mr Healey's appointment to Nichols in 2010;
  - ii. the ARSD forms completed by Mr Barnes on 6 September 2010 and 12 September 2011, wrongly omitted any mention of Mr Healey;
- (d) the apparently casual approach to independence exhibited in the instances below by the Respondents and senior management within Grant Thornton's Manchester office:
- i. Ms Kearns' email to Mr Healey dated 4 January 2011 in advance of his appointment to the Audit Committee on 6 January 2011, in which she sent to Mr Healey a confidential and embargoed draft copy of Nichols' announcement to the Stock Exchange to be released two days later;
  - ii. Ms Kearns' email dated 8 March 2011, in which she said: "... *The world of independence has gone mad!*";<sup>15</sup>
  - iii. The email from M5 dated 3 December 2011, in which he responded to a question about why Mr Healey no longer performs CSRs by saying:  
  
*"He is NED at 2 of our clients. Audit independence rules means he can't be involved in management decisions in his consultancy work for us, and national decreed that doing csr's would breach these rules. Don't get it myself but M7 was insistent";*
  - iv. Mr Engel's wide-ranging discussions with Mr Healey on firm matters as late as 7 June 2011 (following his appointment as audit engagement partner for Nichols) and his conclusion in March 2010 that Mr Healey's appointment to the University would not pose any independence threats;

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<sup>15</sup> Ms Kearns made this comment in relation to the paperwork required to document consideration of independence issues.

- v. The inappropriate manner in which Mr Healey was able to exert his influence to attempt to obtain favourable treatment for a close relative in relation to a Grant Thornton internship application; and
  - vi. the failure by the relevant audit engagement partners to adequately document important conversations relating to independence and objectivity, whether on the audit file or elsewhere.
4. Grant Thornton had deficient policies and procedures in relation to retiring partners. Grant Thornton states that the only relevant policy at the time of Mr Healey's retirement was the Note to Retiring Partners. However, given the changing structure of the firm and the ambiguous definition of chain of command identified therein, this was inadequate to provide reasonable assurance that the firm and its personnel would comply with reasonable ethical requirements, as demonstrated by the failings particularised herein. In particular, the Note to Retiring Partners is vague as to the precise roles that would fall within the chain of command, appears to leave responsibility for identifying whether there was a chain of command issue to the retiring partner and provides no mechanism for an independent review of chain of command issues. It is recognised that Grant Thornton has made substantial changes to its policies to address the issues which arise in relation to retiring partners, including updated Guidance to retiring partners, Guidance on the drafting of Consultancy Agreements involving the provision of services by former partners and an amendment to the Membership Agreement. These changes, though welcome, reflect the fact that there were deficiencies in their policies in relation to such matters at the time.

## **ACTS IN RELATION TO KEVIN ENGEL**

### **ACT 1:**

**For the years ending 31 December 2011 and 31 December 2012 when he was audit engagement partner in respect of the audits of Nichols' financial statements, Mr Engel failed to inform Nichols on a timely basis of all significant facts and matters that bore upon Grant Thornton's objectivity and independence contrary to the requirements of ES1.56 and thereby his conduct fell significantly short of the standards reasonably to be expected of a Member, in that Mr Engel failed to inform Nichols that Mr Healey's appointment as non-executive director and Chair of the Audit Committee was a significant fact or matter which bore upon Grant Thornton's objectivity and independence. In so doing, Mr Engel acted in breach of the fundamental principle of Objectivity contrary to paragraphs 100.5(b) and 120 of the Code and in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code. Mr Engel's compromised state of mind arose from him being in breach of the fundamental principle of Objectivity, which led to him signing off Mr Bailey's memo of 6 February 2012, which was a reckless act.**

### **Particulars of Act 1:**

1. Mr Engel was the Senior Statutory Auditor for Nichols for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013.
2. Mr Engel failed adequately to inform Nichols that Mr Healey's appointment as non-executive director and Chair of the Audit Committee was a significant fact or matter which bore upon Grant Thornton's objectivity and independence, including:
  - (i) when preparing or approving the, the KIM and the AAM documents for the years ended 31 December 2011, 31 December 2012 and 31 December 2013;
  - (ii) when signing off the independent auditor's report for the years ended 31 December 2011, 31 December 2012 and 31 December 2013.
3. This is despite the following:

- (i) Mr Engel knew that Mr Healey had enjoyed a very senior position within Grant Thornton prior to his retirement, including as Head of Audit for the Manchester office;
- (ii) Mr Engel should have investigated and known that Mr Healey continued to provide a wide range of services to the firm as a paid consultant;
- (iii) Mr Engel should have concluded that potential ethical issues, including threats to independence and objectivity, arose by reason of Mr Healey's appointment at Nichols;
- (iv) Mr Engel enjoyed a close relationship with Mr Healey, and Mr Healey had mentored him under the Consultancy Agreement;
- (v) Despite the above, and having (a) been alerted specifically to potential ethical issues, and (b) been sufficiently concerned about the threat to independence and objectivity to discuss issues with Ms Kearns and M5, Mr Engel failed to carry out his own adequate and independent evaluation of the issues, including by:
  - (a) obtaining copies of Mr Healey's 2010 and 2011 Consultancy Agreements;
  - (b) properly considering the threats to independence and objectivity posed by Mr Healey's appointment at Nichols;
  - (c) properly considering whether Mr Healey had been within the chain of command at Grant Thornton within two years of his appointment at Nichols;
  - (d) adequately considering the threats to independence and objectivity afresh in light of his involvement in the Nichols audit;
  - (e) adequately keeping the situation under review;

- (f) adequately considering whether the new structure for Mr Healey's consultancy proposed by M5 in his email dated 10 October 2011 posed any additional threats to Grant Thornton's independence and objectivity;
  - (g) adequately questioning further Mr Healey's involvement in partner meetings, including the 18 October 2011 meetings of the Advisory Board and Strategic Opportunities Group, considering independently the threats to independence and objectivity posed by that involvement, and considering whether the new structure for partner meetings proposed by the M5 presented any additional threats to independence and objectivity;
  - (h) following up and responding to the question raised in a hot audit review for Nichols on or around 8 February 2012 relating to ethical issues posed by Mr Healey's appointment at Nichols;
  - (i) recording in the AAM and KIM documents for the audits for the years ended 31 December 2011, 31 December 2012 and 31 December 2013:
    - i. the 2010 Consultancy and the 2011 Consultancy;
    - ii. the services being provided by Mr Healey to Grant Thornton;
    - iii. his relationship with Mr Healey, and in particular the former mentoring relationship between them;
    - iv. the threats to independence and objectivity which the matters set out in paragraphs (i)-(iii) above posed;
  - (j) adequately informing Nichols of the threats to independence and objectivity posed by Mr Healey's appointment at Nichols.
- (vi) On the contrary:
- (a) in his email to Mr Healey dated 15 March 2010, Mr Engel incorrectly formed the view that independence would not be an issue in the context of Mr Healey's appointment to the University;

- (b) Mr Engel accepted from Ms Kearns that Mr Healey's role at Nichols had been cleared internally, despite the fact that he should have appreciated that any such clearance could not have concerned Mr Engel's own involvement in the audit and the potential threats to independence and objectivity posed by reason of the fact that he had been mentored by Mr Healey; and
  - (c) in response to an email dated 25 August 2011 in which M5 proposed that Mr Healey attend all-partner meals and meetings of the Advisory Board and Strategic Opportunities Group, Mr Healey responded "*as discussed all good with me*". Mr Engel says that M5 assured him during this discussion that Mr Healey would only be a figurehead and facilitator, but as Senior Statutory Auditor, Mr Engel should not merely have accepted this without questioning it further and without considering for himself the potential threat to independence and objectivity posed.
- (vii) Mr Engel signed off an email memorandum sent by an audit manager at Grant Thornton, which documented the independence threat on the Nichols audit in relation to Mr Healey. The email stated:

*"Eric Healey was appointed as Non-Executive Director on 7 January 2011 of Nichols plc, Eric Healey is a previous partner of Grant Thornton in Manchester, we have therefore considered our independence with regards to the relationship: Eric Healey has no continuing significant connections with the firm eg through a consultancy agreement, from time to time he is involved in mentoring GT staff but these staff are not directly involved in the audit of Nichols Plc. Eric Healey is chair of the audit committee and our contact with him is in this capacity. In addition the Audit Team have never worked directly while he was at GT and therefore did not establish a relationship which could be considered to affect independence."*

- (a) It was reckless to sign off on this email given the state of his knowledge as to the services provided by Mr Healey to Grant Thornton, and in circumstances where:

- i. he received an email dated 10 October 2011 notifying him of Mr Healey's 2011 Consultancy;
  - ii. Mr Engel sent an email on 16 February 2012 recording his understanding that Mr Healey would be chairing the forthcoming partner meeting;
  - iii. Mr Engel received an email dated 17 February 2012 which confirmed that Mr Healey would be attending and chairing the forthcoming partner meeting. This email said that *"there will be discussions on growth opportunities for audit, tax and advisory, plus barriers to growth. The aim is for an informal discussion and input from everybody, with general agreement on way forward. Eric Healey will be attending, and has agreed to chair the day"*; and
  - iv. Mr Engel accepts that at the time that he reviewed the email memorandum, he knew that Mr Healey had had a consultancy arrangement with Grant Thornton which would have been in place since 2009.
- (b) Further, the statement *"from time to time he is involved in mentoring GT staff but these staff are not directly involved in the audit of Nichols Plc"* was incomplete and thus inaccurate in that it did not refer to Mr Healey's wider role in facilitating and chairing partner meetings and participating in strategic discussions;
- (c) The statement *"Mr Healey is chair of the audit committee and our contact with him is in this capacity. In addition the Audit Team have never worked for Eric directly while he was at GT and therefore did not establish a relationship which could be considered to affect independence"* was incorrect in circumstances where:
- i. Mr Engel was personally in contact with Mr Healey outside his position as Chair of the Audit Committee;

- ii. Mr Engel was mentored by Mr Healey between 2009 and 2011 and continued to meet up from him from time to time to “*catch up*”; and
- iii. Mr Engel had thus personally established a relationship with Mr Healey which could affect independence.

**ACT 2:**

**For the years ending 31 December 2011, 31 December 2012 and 31 December 2013 when he was audit engagement partner in respect of the audits of Nichols’ financial statements, Mr Engel failed to provide the Audit Committee of Nichols, a listed company, with full written disclosure of relationships that bore on the auditor’s objectivity and independence together with any safeguards that had been put in place contrary to the requirements of ES1.59 and thereby his conduct fell significantly short of the standards reasonably to be expected of a Member, in that:**

- (i) Mr Engel failed to inform Nichols’ Audit Committee in writing that Mr Healey’s appointment as non-executive director and Chair of the Audit Committee created a relationship that bore upon Grant Thornton’s objectivity and independence; and**
- (ii) Mr Engel failed to inform Nichols’ Audit Committee in writing that there were no safeguards that could be put in place to address a breach of ES2.48.**

**In so doing, Mr Engel acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Mr Engel's objectivity was, or was likely to be, impaired in relation to the audits of the 2011, 2012 and 2013 Nichols financial statements.**

**Particulars of Act 2:**

- 1. Mr Engel was the Senior Statutory Auditor for Nichols for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013.

2. Mr Engel failed:
- (i) to provide Nichols' Audit Committee with any written information about the impact or significance of Mr Healey's appointment as a non-executive director and Chair of the Audit Committee or about the relationship that such appointment created;
  - (ii) to refer in writing to Mr Healey's position or the question of whether his appointment as a non-executive director and Chair of the Audit Committee at Nichols might bear on Grant Thornton's independence and objectivity as auditor;
  - (iii) to provide written confirmation to Nichols of:
    - (a) the 2010 Consultancy Agreement or the 2011 Consultancy Agreement;
    - (b) the services being provided by Mr Healey to Grant Thornton and his continuing significant connection with the firm;
    - (c) the fact that he had been mentored by Mr Healey until at least June 2011;
    - (d) his working and social relationship with Mr Healey;
    - (e) the threats to independence and objectivity which the matters set out in paragraphs (a)-(d) above posed;
  - (iv) to refer in the AAM or KIM for the years ended 31 December 2011, 31 December 2012 or 31 December 2013 to the matters set out in paragraphs (iii)(a)-(e) above.

**ACT 3:**

**At the end of the audit process in or about March 2012, March 2013 and March 2014 when forming an opinion as audit engagement partner, Mr Engel arrived at the**

overall conclusion that any threats to objectivity and independence had been properly addressed in accordance with the APB Ethical Standards, pursuant to ES1.48, when instead he should have concluded that there was a threat to objectivity and independence which had not been properly addressed, he should have refused to report and he should have advised Grant Thornton to resign as auditor in accordance with ES1.48. Mr Engel's conduct in failing to take these steps fell significantly short of the standards reasonably to be expected of a Member, in that:

- (i) Mr Engel failed to identify that there was a threat to the objectivity and independence of the audit by reason of Mr Healey's appointment as non-executive director and Chair of the Audit Committee of Nichols;
- (ii) Mr Engel signed reports on 7 March 2012, 6 March 2013 and 12 March 2014 despite the threat to the objectivity and independence of the audit caused by Mr Healey's appointment as non-executive director and Chair of the Audit Committee of Nichols; and
- (iii) Mr Engel failed to advise Grant Thornton to resign as auditor, as required by ES1.48.

In so doing, Mr Engel acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code which led to a loss of independence in that it is probable that a reasonable and informed third party would conclude that Mr Engel's objectivity was impaired in relation to the audits of the 2011, 2012 and 2013 Nichols financial statements.

Particulars of Act 3:

1. Mr Engel was the Senior Statutory Auditor for Nichols for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013.
2. Despite the threat to independence and objectivity posed by Mr Healey's appointment as a non-executive director and Chair of the Audit Committee at Nichols, Mr Engel:

- (i) failed to identify the threat to the independence and objectivity of the audit posed by Mr Healey's appointment as a non-executive director and Chair of the Audit Committee at Nichols;
- (ii) failed to provide any written confirmation to Nichols of:
  - (a) the 2010 Consultancy Agreement and the 2011 Consultancy Agreement;
  - (b) the services being provided by Mr Healey to Grant Thornton and his continuing significant connection with the firm;
  - (c) his relationship with Mr Healey; and
  - (d) the threats to independence and objectivity which the matters set out in paragraphs (a)-(c) above posed.
- (iii) failed to refer in the AAM or KIM, for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 to the matters set out in paragraphs (ii)(a)-(d) above;
- (iv) failed to conclude that no audit report could or should be given for the years ended 31 December 2011, 31 December 2012 and 31 December 2013;
- (v) failed to advise Grant Thornton to resign as auditor; and
- (vi) signed an audit report in respect of the 2011, 2012 and 2013 Nichols financial statements.

**ACTS IN RELATION TO JOANNE KEARNS**

**ACT 1:**

**Between 6 January 2011 and at the earliest 9 March 2011, when she was audit engagement partner in relation to the audit of Nichols' financial statements, Ms Kearns failed to inform Nichols on a timely basis of all significant facts and matters that bore upon Grant Thornton's objectivity and independence contrary to the requirements of ES1.56 and thereby her conduct fell significantly short of the standards reasonably to be expected of a Member, in that Ms Kearns failed to inform Nichols that Mr Healey's appointment as non-executive director and Chair of the Audit Committee was a significant fact or matter which bore upon Grant Thornton's objectivity and independence.**

**In so doing, Ms Kearns acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.**

**Particulars of Act 1:**

1. Ms Kearns was the Senior Statutory Auditor for Nichols for the financial year ended 31 December 2010.
2. Ms Kearns failed at any time to inform Nichols that Mr Healey's appointment as non-executive director and Chair of the Audit Committee was a significant fact or matter which bore upon Grant Thornton's objectivity and independence, including:
  - (i) when participating in the audit closeout meeting on 24 February 2011; and
  - (ii) when preparing or approving the KIM for the year ended 31 December 2010.
3. Ms Kearns failed:
  - (i) to record in the KIM document for the audit in respect of the 2010 financial statements:
    - a) the 2010 Consultancy Agreement;

- b) the services being provided by Mr Healey to Grant Thornton;
  - c) her own connections with Mr Healey;
  - d) the threats to independence and objectivity which the matters set out in paragraphs (a) to (c) above posed;
- (ii) to adequately inform Nichols of the threats to independence and objectivity posed by Mr Healey's appointment at Nichols.
4. On the contrary:
- (i) in response to an email from the Ethics Team of 7 March 2011 raising potential ethical issues about Mr Healey's role at Nichols, Ms Kearns commented that:
    - (a) she understood that M3 had approved Mr Healey's appointment as a non-executive director to Grant Thornton clients in 2010, including specifically in relation to Nichols; an assumption which was incorrect and mistaken;
    - (b) Mr Healey's consultancy agreement had been amended to remove carrying out CSRs; and
    - (c) Mr Healey's ongoing consultancy agreement covered "*mentoring primarily*" which was not considered to impact on his independence; without in fact checking whether any of these assertions (which it seems she had been told by Mr Healey) were accurate.
  - (ii) the KIM and AAM for the year ended 31 December 2010 recorded that there were no threats to independence.

**ACT 2:**

**Between 6 January 2011 and at the earliest 9 March 2011 when she was audit engagement partner in relation to the audit of Nichols' financial statements, Ms Kearns failed to provide the Audit Committee of Nichols, a listed company, with full written disclosure of relationships that bore on the auditor's objectivity and independence together with any safeguards that had been put in place, contrary to the requirements of ES1.59 and thereby her conduct fell significantly short of the standards reasonably to be expected of a Member, in that Ms Kearns failed to inform Nichols' Audit Committee in writing that Mr Healey's appointment as non-executive director and Chair of the Audit Committee created a relationship that bore upon Grant Thornton's objectivity and independence.**

**In so doing, Ms Kearns acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.**

**Particulars of Act 2:**

1. Ms Kearns was the Senior Statutory Auditor for Nichols for the financial year ended 31 December 2010.
2. Ms Kearns failed:
  - (i) to provide Nichols' Audit Committee with any written information about the impact or significance of Mr Healey's appointment as a non-executive director and Chair of the Audit Committee or about the relationship that such appointment created;
  - (ii) to refer in writing to Mr Healey's position or the question of whether his appointment as a non-executive director and Chair of the Audit Committee at Nichols might bear on Grant Thornton's independence and objectivity as auditor;
  - (iii) to provide written confirmation to Nichols of:
    - (a) the 2010 Consultancy Agreement;

- (b) the services being provided by Mr Healey to Grant Thornton and his continuing significant connection with the firm;
  - (c) her working and social relationship with Mr Healey;
  - (d) the threats to independence and objectivity which the matters set out in paragraphs (a)-(c) above posed;
- (iv) to refer in the KIM, to the matters set out in paragraphs (iii)(a)-(d) above.

**ACTS IN RELATION TO DAVID BARNES**

**Act 1:**

**Between 27 May 2010 and June 2012, Mr Barnes failed to adequately inform the University, an audit client, on a timely basis of all significant facts and matters that bore upon Grant Thornton's objectivity and independence contrary to the requirements of ES1.56 and thereby his conduct fell significantly short of the standards reasonably to be expected of a Member, in that Mr Barnes failed to inform the University that Mr Healey's appointment to the Audit Committee and thereafter to the Council of the University was a significant fact or matter which bore upon Grant Thornton's objectivity and independence.**

**In so doing, Mr Barnes acted in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.**

**Particulars of Act 1:**

1. Mr Barnes was the audit engagement partner for the audit of the University's financial statements for the years ended 31 July 2010, 31 July 2011 and 31 July 2012.
2. Mr Barnes failed at any time between 27 May 2010 and June 2012 (when the 2011 Consultancy came to an end) to adequately inform the University in writing that Mr Healey's appointment to the Audit Committee, and thereafter to the Council, of the University, was a significant fact or matter which bore upon Grant Thornton's objectivity and independence, including:
  - (i) when preparing or approving the KIM and the AAM for the financial years ended 31 July 2010, 31 July 2011 and 31 July 2012; and
  - (ii) when signing off the independent auditor's report for the financial years ended 31 July 2010, 31 July 2011 and 31 July 2012.
3. Mr Barnes failed:

- (i) to inform the University of the potential threats to independence and objectivity posed by Mr Healey's appointment while he continued to act as a mentor at Grant Thornton; and
  - (ii) to record in the AAM and KIM documents for the audit in respect of the financial years ended 31 July 2010, 31 July 2011 and 31 July 2012:
    - (a) the 2010 Consultancy Agreement (and, for the year ended 31 July 2012, the 2011 Consultancy Agreement);
    - (b) the services being provided by Mr Healey to Grant Thornton;
    - (c) the threats to independence and objectivity which the matters set out in paragraphs (i) and (ii) above posed;
4. On the contrary the KIM and AAM for the years ended 31 July 2010, 31 July 2011 and 31 July 2012 recorded that there were no threats to independence.

## **ACTS IN RELATION TO ERIC HEALEY**

### **Mr Healey's Appointment to the Audit Committee and Council of the University**

#### **ACT 1**

In or about May 2010, when Mr Healey was appointed to the Audit Committee of the University, in March 2011 when Mr Healey was appointed as a member of the Council to the University, and in 2011 when Mr Healey was appointed to chair the University's internal audit tender panel, and at all material times between those dates and June 2012, Mr Healey recklessly failed to evaluate any threats to compliance with the fundamental principle of objectivity, when he knew of circumstances or relationships that may compromise compliance with that fundamental principle of Objectivity, contrary to the requirements of the ICAEW Code of Ethics, paragraph 100.8. Mr Healey's conduct in failing to take this step fell significantly short of the standards reasonably to be expected of a Member, in that:

- (i) At the time of his appointment to the Audit Committee of the University in May 2010, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of the University, by virtue of the terms of the 2009 Consultancy.
- (ii) At the time of his appointment to the Council of the University in March 2011, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of the University, by virtue of the 2010 Consultancy and the PI Work.
- (iii) At the time that he chaired the University's internal audit tender panel in or around May 2011, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of the University, by virtue of the 2010 Consultancy and the PI Work.
- (iv) In all the circumstances, Mr Healey knew that his ongoing relationship with Grant Thornton may have compromised compliance with the fundamental principle of objectivity, or at least that it may be perceived as compromising compliance with the fundamental principle of Objectivity.

**In so doing, Mr Healey acted in breach of the fundamental principle of Objectivity contrary to paragraph 100.5(b) and 120.1 of the Code and in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.**

Particulars of Act 1

1. Mr Healey had a significant connection with Grant Thornton at the time of his appointment to the Audit Committee of the University, at the time of his appointment to the Council of the University, and at the time of chairing the internal audit tender panel of the University, by reason of his participation in Grant Thornton's business and professional activities. This connection continued until it was terminated when the 2011 Consultancy Agreement came to an end in June 2012.
2. Mr Healey, as a professional accountant, was obliged to consider the circumstances of his appointments to positions at the University and he was obliged to evaluate any threats to compliance with the fundamental principle of objectivity.
3. Mr Healey failed to do so and his conduct in this respect was reckless in that:
  - a) Mr Healey knew the terms of the relevant ethical standards:
    - i. he received the Note to Retiring Partners on 14 January 2009, 30 March 2009 and again on 15 March 2010;
    - ii. in the period prior to his appointment to the University's Audit Committee, Mr Healey concluded that he had been within Grant Thornton's chain of command in the prior two years and that accordingly ES2.48 would prohibit him from accepting the appointment;
    - iii. in his email to the Deputy Vice-Chancellor dated 15 March 2010 Mr Healey enclosed ES2 paragraphs 42 to 49, and attached a link to the APB website;
    - iv. he received a copy of an email from M7 to M5 dated 29 March 2010, referring to ES2 and the IFAC code of ethics;

- b) Mr Healey knew that his appointment to the Audit Committee and, thereafter, the Council of the University would or might compromise the fundamental principle of Objectivity in circumstances where:
  - i. he knew the terms of the Consultancy Agreements;
  - ii. he knew the nature and extent of the services that he had been asked to provide, and did provide, to Grant Thornton;
  - iii. on 29 March 2010 M5 sent him an email from Practice Protection stating that his activities must be restricted to mentoring and should not extend to work on CSRs;
- c) Mr Healey did not independently seek the advice of Grant Thornton's Ethics Team in relation to his appointment to the University (as envisaged by paragraph 1.19 of the ICAEW Code of Ethics). The Ethics Team only became involved after Mr Barnes raised the issues of significant connection and ES2.42 them;
- d) In his email dated 24 March 2010 Mr Healey expressed the view, which was obviously incorrect (and which he ought to have known was incorrect given the matters set out in paragraphs 3(a)-(c) above) that as he had not been involved in the audit of the University, his ongoing consultancy agreement would not be in breach of ES2.42;
- e) Mr Healey further failed adequately to consider the application of ES2 paragraphs, 44, 48 and 49, which standards did not depend upon whether he had previously been involved in the audit of the University;
- f) Despite his obligation to evaluate threats to compliance with the fundamental principle of objectivity, Mr Healey's position on this point (having been alerted to the Ethics Team's consideration of the matter by M5) was that he would "*sit on* [his] *hands*" and await advice from Grant Thornton;
- g) The conclusion reached by M7 was that Mr Healey could accept an appointment with the University only if his consultancy agreement was amended to cover mentoring alone. Mr Healey was notified of this conclusion by M5 in an email

dated 29 March 2010. Notwithstanding this conclusion and Mr Healey's knowledge thereof:

- i. Mr Healey was appointed to the Audit Committee on 27 May 2010, several months before his consultancy agreement was amended although he attended his first Audit Committee meeting in September 2010, which is when Mr Healey understood his appointment became effective;
  - ii. following his appointment to the Audit Committee Mr Healey continued to perform CSRs, including one CSR after his first Audit Committee meeting, and undertake other non-mentoring activities including (*inter alia*) the provision of independent strategic advice at a senior level within Grant Thornton's Manchester Office. Mr Healey knew that neither Grant Thornton's Ethics Team nor the University had been informed of this activity and that the CSR activity had been specifically prohibited;
- i) According to the University meeting minutes, Mr Healey informed the University that he was not involved in audit while at Grant Thornton and that he would not now be carrying out any work for Grant Thornton. This was inaccurate. Mr Healey's appointment was recommended by the Nominations & Governance Committee and approved by the Council explicitly on the basis of this (incorrect) statement;
  - j) Mr Healey took no steps to correct the University's misunderstanding whether prior to, or after, his appointment to the Audit Committee and thereafter to the Council of the University. On the contrary, while Mr Healey registered his consultancy on the University's Register of Interests in May 2011 and June 2012 he provided no details as to the nature of the services provided, or even if such services were remunerated. The details provided by Mr Healey were inadequate disclosures to alert the University to the serious threats to objectivity of the audits created by Mr Healey's relationship with Grant Thornton;
  - k) Mr Healey failed to notify Grant Thornton's Ethics Team of the threats to objectivity which existed by reason of his continuing relationship with Grant Thornton and his appointment to the University. In particular:

- (a) when in September 2011 Mr Healey sought assistance for completing his ASRD return for 2011 from the Ethics Team, he failed to disclose the full extent of the services he was performing under the current consultancy or proposed consultancy;
  - (b) Mr Healey's ASRD return for 2011 wrongly stated that:
    - i. his independence had been considered by the Ethics Team in 2010 and that Grant Thornton had concluded that there was no threat. In fact, the Ethics Team had concluded that there was a threat such that his future activities with the firm should be limited to mentoring activities alone;
    - ii. The Ethics Team had specifically approved the Nichols appointment in 2010;
  - (c) in February 2012 when Mr Barnes raised the issue of work being undertaken by Mr Healey, in an email dated 6 March 2012, copying in Mr Healey, the M5 confirmed that he had spoken to Mr Healey and there had been "no changes" since the mentoring approved in 2010. This was wrong, and obviously so, given the number of further activities Mr Healey had since performed under the Consultancy Agreements and PI Work but Mr Healey failed to correct the M5's representation.
- l) Mr Healey's position on the internal audit tender panel in 2011 created obvious threats to objectivity and independence as Mr Healey should have recognised.
4. In all the circumstances:
- (i) given that Mr Healey's appointment to the Audit Committee, and subsequently the Council, of the University, and his subsequent role as chair of the internal audit tender panel, represented a threat to compliance with the fundamental principle of objectivity owing to his continuing significant connection with Grant Thornton, Mr Healey should have appropriately evaluated that threat at the time of each appointment;

- (ii) Mr Healey should have taken appropriate steps to address the threat to objectivity, which would have required him to refuse the appointments (or to resign from those appointments) pursuant to the provisions of paragraph 100.9 of the ICAEW Code of Ethics;
  - (iii) to the extent that Mr Healey considered the position in relation to his objectivity, his considerations were inadequate.
5. Instead of refusing the appointments to the University, as he should have done, Mr Healey wrongly accepted those appointments.

## **Act 2**

**Between May 2010, when Mr Healey was appointed to the University's Audit Committee and around June 2012 when his consultancy arrangement with Grant Thornton was terminated, Mr Healey was knowingly engaging in a business, occupation or activity that impaired or might impair objectivity or the good reputation of the profession and as a result was incompatible with the fundamental principle of objectivity, contrary to the requirements of the ICAEW Code of Ethics, paragraph 300.6. In taking the appointment, Mr Healey's conduct fell significantly short of the standards reasonably to be expected of a Member, in that:**

- (i) The Audit Committee was required to assess the independence and objectivity of Grant Thornton annually, which assessment required a consideration of all relationships between the University and Grant Thornton;**
- (ii) At the time of his appointment to the Audit Committee of the University in May 2010 and at all material times thereafter until in or around June 2012, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of the University, by virtue of the 2009 Consultancy and thereafter the 2010 and 2011 Consultancies.**
- (iii) At the time of his appointment to the Council of the University in March 2011 and at all material times thereafter until in or around June 2012, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of the University, by virtue of the 2010 Consultancy and the PI Work, and thereafter the 2011 Consultancy.**

- (iv) **At the time that he chaired the University's internal audit tender panel in or around May 2011 and at all material times thereafter until in or around June 2012, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of the University, by virtue of the 2010 Consultancy and the PI Work, and thereafter the 2011 Consultancy.**
- (v) **In all the circumstances, Mr Healey was knowingly engaged in a business, occupation or activity that impaired, or might impair, objectivity.**

**In so doing, Mr Healey acted in breach of the fundamental principle of Objectivity contrary to paragraph 100.5(b) and 120.1 of the Code.**

Particulars of Allegation 2

1. Mr Healey as a professional accountant is not permitted knowingly to engage in any business, occupation or activity that impairs or might impair objectivity (ICAEW Code of Ethics, paragraph 300.6).
2. Although section 290 of the ICAEW Code of Ethics does not apply to Mr Healey owing to the fact that it expressly applies only to the conduct of audit engagements, it includes at 290.135 the following guidance, of which Mr Healey was, or should have been aware:

*“If a former member of the audit team or partner of the firm has joined the audit client in such a position [as a director or officer] and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level”.*
3. The particulars set out in paragraphs 1 to 3 of Act of Misconduct 1 above are repeated.
4. Further, Mr Healey's position on the University's tender panel for internal audit for 2011 was an obvious threat to independence as he should have recognised.
5. In all the circumstances, Mr Healey knowingly engaged in a business, occupation or activity that impaired or might impair objectivity or the good reputation of the profession. In continuing as a member of the Audit Committee to the University from May 2010 and

in continuing as a member of the Council of the University from March 2011, Mr Healey acted in breach of paragraph 300.6 of the ICAEW Code of Ethics.

**Mr Healey's appointment as non-executive director and Chair of the Nichols audit committee**

**Act 3**

From in or about January 2011, when Mr Healey was appointed a non-executive director and Chair of the Audit Committee of Nichols, until June 2012, he failed to evaluate any threats to compliance with the fundamental principle of objectivity, when he knew of circumstances or relationships that may compromise compliance with the fundamental principle of objectivity, contrary to the requirements of the ICAEW Code of Ethics, paragraph 100.8 Mr Healey's conduct in failing to take this step fell significantly short of the standards reasonably to be expected of a Member, in that:

- (i) At the time of his appointment as non-executive director and Chair of the Audit Committee of Nichols, Mr Healey retained a significant business connection with Grant Thornton, statutory auditors of Nichols, by virtue of the terms of the 2010 Consultancy and the PI Work.
- (ii) In all the circumstances, Mr Healey knew, or could reasonably be expected to know, that his ongoing relationship with Grant Thornton may compromise compliance with the fundamental principle of objectivity, or at least that it may be perceived as compromising compliance with the fundamental principle of objectivity.

In so doing, Mr Healey acted in breach of the fundamental principle of Objectivity contrary to paragraph 100.5(b) and 120.1 of the Code and in breach of the fundamental principle of Professional Competence and Due Care contrary to paragraphs 100.5(c) and 130 of the Code.

**Particulars of Act 3**

1. Mr Healey had a significant connection with Grant Thornton at the time of his appointment as a non-executive director and Chair of the Audit Committee of Nichols,

by reason of his participation in Grant Thornton's business and its professional activities. This connection continued until it was terminated when the 2011 Consultancy Agreement came to an end in June 2012.

2. Mr Healey, as a professional accountant, was obliged to consider the circumstances of his appointment to positions at Nichols and he was obliged to evaluate any threats to compliance with the fundamental principle of Objectivity. Mr Healey failed to do so and his conduct in this respect was reckless in that:
  - a) Mr Healey knew the terms of the relevant ethical standards. Paragraph 3(a)(i) of Act of Misconduct 1 above is repeated.
  - b) Mr Healey knew that his appointment as a non-executive director and Chair of the Audit Committee of Nichols would or might compromise the fundamental principle of Objectivity. The facts and matters set out in paragraph 3b(ii) of Act of Misconduct 1 above are repeated. In addition, Mr Healey knew of the personal relationship which he enjoyed with Ms Kearns and Mr Engel.
  - c) Paragraph 3(iii) of Act of Misconduct 1 above is repeated.
  - d) Despite his obligation to consider the circumstances of his appointment and his obligation to evaluate threats to compliance with the fundamental principle of objectivity, Mr Healey left consideration of his personal position and of the possible threats to objectivity caused by his acceptance of his appointment at Nichols to be addressed by Grant Thornton.
3. To the extent that Mr Healey considered the issue himself he appears to have considered that the defective and incomplete approval process in relation to his appointment to the University was sufficient:
  - (a) Mr Healey spoke with Ms Kearns about issues of independence in November 2010 and March 2011. Ms Kearns has confirmed that following her conversation with Mr Healey she held the mistaken assumption that Practice Protection had specifically approved Mr Healey's appointment at Nichols;

- (b) by an email dated 8 March 2011 Mr Healey forwarded to Ms Kearns a series of emails on his appointment to the University, including with the Ethics Team; and
  - (c) Mr Healey completed his independence return referring (wrongly) to “approval” from Grant Thornton.
4. However, as Mr Healey knew:
- (a) the Ethics Team had only considered his appointment at the University, and had not indicated that their decision could be used as a precedent for future appointments;
  - (b) the Ethics Team reached the conclusion that Mr Healey’s appointment with the University could be accepted only on the basis that his consultancy agreement would be amended to include mentoring alone;
  - (c) neither Grant Thornton’s Ethics Team nor Nichols had been informed of the non-mentoring activities Mr Healey was undertaking; and
  - (d) neither Grant Thornton’s Ethics Team nor Nichols had been informed of Mr Healey’s personal relationship with Ms Kearns and Mr Engel.
5. Paragraph 3(k) of Act of Misconduct 1 above is repeated, save that references to the University should be treated as references to Nichols.
6. In all the circumstances:
- a) given that Mr Healey’s appointment as a non-executive director and Chair of the Audit Committee at Nichols represented a threat to compliance with the fundamental principle of objectivity owing to his continuing significant connection with Grant Thornton and his ongoing relationship with Ms Kearns and Mr Engel, Mr Healey should have appropriately evaluated that threat at the time Nichols expressed an interest in appointing him;

- b) Mr Healey should have taken appropriate steps to address the threat to objectivity, which would have required him to refuse the appointment to Nichols pursuant to the provisions of paragraph 100.9 of the ICAEW Code of Ethics;
  - c) to the extent that Mr Healey considered the position in relation to his objectivity, his considerations were inadequate.
7. Instead of refusing the appointments at Nichols as he should have done, Mr Healey wrongly accepted those appointments.

#### **Act 4**

**Between in or about January 2011, when Mr Healey was appointed a non-executive director and Chair of the Audit Committee of Nichols, and around June 2012 when his consultancy arrangement with Grant Thornton was terminated Mr Healey was knowingly engaging in a business, occupation or activity that impaired or might impair objectivity or the good reputation of the profession and as a result was incompatible with the fundamental principle of Objectivity, contrary to the requirements of the ICAEW Code of Ethics, paragraph 300.6. In taking the appointment, Mr Healey's conduct fell significantly short of the standards reasonably to be expected of a Member, in that:**

- (i) The Audit Committee was required to assess the independence and objectivity of Grant Thornton annually, which assessment required a consideration of all relationships between Nichols and Grant Thornton.**
- (ii) At the time of his appointment as a non-executive director and Chair of the Audit Committee at Nichols, and at all material times until the termination of the 2011 Consultancy in or around June 2012, Mr Healey retained a significant connection with Grant Thornton, statutory auditors of Nichols, by virtue of the 2010 and 2011 Consultancy and the PI Work.**
- (iii) At the time of the appointment referred to above, and at all material times until April 2011, Mr Healey had a close working relationship with Ms Kearns and a friendship outside work.**

- (iv) **At the time of the appointment referred to above, and at all material times until the termination of the 2011 Consultancy in or around June 2012, Mr Healey had a close working relationship with Mr Engel.**
- (v) **In all the circumstances, Mr Healey was knowingly engaged in a business occupation or activity that impaired, or might impair, objectivity.**

**In so doing, Mr Healey acted in breach of the fundamental principle of Objectivity contrary to paragraph 100.5(b) and 120.1 of the Code.**

Particulars of Allegation 4

1. Mr Healey as a professional accountant is not permitted knowingly to engage in any business, occupation or activity that impairs or might impair objectivity (ICAEW Code of Ethics, paragraph 300.6).
2. Although section 290 of the ICAEW Code of Ethics does not apply to Mr Healey owing to the fact that it expressly applies only to the conduct of audit engagements, it includes at 290.135 the following guidance, which Mr Healey was, or should have been aware of:

*“If a former member of the audit team or partner of the firm has joined the audit client in such a position [as a director or officer] and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level”.*

3. The particulars set out in paragraphs 1 to 4 of Act of Misconduct 3 above are repeated.
4. In all the circumstances, Mr Healey knowingly engaged in a business, occupation or activity that impaired or might impair objectivity or the good reputation of the profession. In continuing as a member of the board of Nichols from January 2011, Mr Healey acted in breach of paragraph 300.6 of the ICAEW Code of Ethics.