IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

GRANT THORNTON UK LLP

FINAL DECISION NOTICE

Pursuant to Rule 18 of the Audit Enforcement Procedure

This Final Decision Notice is a document prepared by Executive Counsel following an investigation relating to, and admissions made by, the Respondent. It does not make findings against any persons or entities other than the Respondent and it would not be fair to treat any part of this document as constituting or evidencing findings against any other persons or entities since they were not parties to the investigation

1. INTRODUCTION

1.1. The Financial Reporting Council (the "**FRC**") is the competent authority for statutory audit in the UK and is responsible for the operation of the Audit Enforcement Procedure (the "**AEP**"), effective 17 June 2016. The AEP sets out the rules and procedure for the investigation, prosecution and sanctioning of breaches of "Relevant Requirements".

1.2. The AEP contains a number of defined terms and, for convenience, those defined terms are also used within this document. Where defined terms are used, they appear in italics.

1.3. This *Final Decision Notice* also uses the following definitions:

1.3.1 "**The Relevant Period**" means 1 April 2014 to 31 March 2017.

1.3.2 "**Grant Thornton**" means Grant Thornton UK LLP, the Respondent.

1.3.3 "**GTI**" and "**GTIL**" mean Grant Thornton International Limited.

1.3.4 "**Ethics Partner**" means Grant Thornton's Ethics Partner at the relevant time during the Relevant Period.

1.3.5 "**FY2014**" means the financial year ended 30 April 2014.

1.3.6 “**The Company**” means Conviviality Retail plc.

1.3.7 “**2014 Statements**” means the Company’s financial statements for FY2014.

1.3.8 “**2014 Audit**” means the statutory audit of the 2014 Statements.

1.4. Pursuant to Rule 16(b) of the AEP, Executive Counsel has decided that the Respondent is liable for Enforcement Action, having made Adverse Findings against it. This document is Executive Counsel’s *Final Decision Notice*, issued pursuant to Rule 18 of the AEP, in respect of Grant Thornton’s (a) failure to establish an adequate control environment that placed adherence to Ethical Standards above commercial considerations and (b) conduct in relation to the 2014 Audit.

1.5. On 25 March 2020 Executive Counsel issued *Executive Counsel’s Decision Notice pursuant to Rule 17 of the AEP.* On the same date Grant Thornton provided written agreement to the *Executive Counsel’s Decision Notice*.

1.6. Consequently, in accordance with Rule 18 of the AEP, this *Decision Notice*:

1.6.1 outlines the Adverse Findings with reasons;

1.6.2 outlines sanctions with reasons;

1.6.3 outlines an amount payable in respect of Executive Counsel’s costs of the matter; and

1.7. This *Final Decision Notice* is divided into the following sections:

1.7.1 Section 2: Executive Summary of the Adverse Findings;

1.7.2 Section 3: Relevant Requirements to which the Adverse Findings relate;

1.7.3 Section 4: Overview of Adverse Findings in relation to policies and procedures;

1.7.4 Section 5: Detail of the Adverse Findings in relation to policies and procedures;

1.7.5 Section 6: Background to the 2014 Audit and the Secondment;

1.7.6 Section 7: Detail of the Adverse Findings in relation to the 2014 Audit and the Secondment;

1.7.7 Section 8: Sanctions; and

1.7.8 Section 9: Costs.

2. EXECUTIVE SUMMARY

2.1. During the Relevant Period, Grant Thornton breached the Relevant Requirements in numerous ways in relation to its policies and procedures relating to Ethical Standards and the International Standard on Quality Control (UK and Ireland) and the consequent failure to establish a control environment that placed adherence to Ethical Standards above commercial considerations. Grant Thornton's conduct also breached a number of Relevant Requirements in relation to the 2014 Audit. An overview of the adverse findings in relation to (a) can be found in section 4, and the background to the adverse findings in relation to (b) can be found in section 6.

Breaches Relating to Policies and Procedures and the Control Environment with respect to Ethical Standards

2.2. **Adverse Finding 1**: Throughout the Relevant Period, Grant Thornton failed to provide the Ethics Partner with sufficient staff support and other resources commensurate with the size of the firm, in breach of paragraph 22 of Ethical Standard 1 (in the light of the guidance at paragraph 27) (until 17 June 2016), and paragraph 1.21 of Revised Ethical Standard 2016 (after 17 June 2016).

2.3. **Adverse Finding 2**: The FRC's Ethical Standards prohibited partners, employees and others associated with audit firms from holding financial interests in audited entities in certain circumstances ("the **Prohibited Investments**"). In its development and implementation of policies and procedures as to the holding of Prohibited Investments during the Relevant Period, Grant Thornton failed adequately:

2.3.1 To establish adequate policies and procedures, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016), paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016), paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016), paragraphs 20 and 21 of International Standard on Quality Control (UK and Ireland) 1 ("**ISQC1**").

2.3.2 To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

2.3.3 To communicate the relevant policies and procedures to its partners and staff, in breach of paragraph 21(a) of ISQC1, paragraph 16 of Ethical Standard 1 (until 17 June 2016) and paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

2.3.4 To establish and implement a monitoring process in breach of paragraph 48 ISQC1, paragraph 21 of Ethical Standard 1 (until 17 June 2016) and paragraphs 1.10 and 1.11 of Revised Ethical Standard 2016 (after 17 June 2016), and to adequately evaluate deficiencies noted as a result of the monitoring process, in breach of paragraph 49 of ISQC1.

2.4. **Adverse Finding 3**: In its development and implementation of policies and procedures for the monitoring of non-audit fees and consultation with the Ethics Partner with regard thereto, Grant Thornton failed adequately:

2.4.1 To establish policies and procedures, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016), paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016), paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016), paragraphs 20 and 21 of ISQC1 (UK and Ireland).

2.4.2 To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

2.5. **Adverse Finding 4**: In relation to the development and implementation of policies and procedures for informing those charged with the governance of audited entities ("**TCWG**") of all significant facts and matters that impacted upon their objectivity and independence Grant Thornton failed adequately:

2.5.1 To establish policies and procedures, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016), paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016), paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016), paragraphs 20 and 21 of ISQC1 (UK and Ireland).

2.5.2 To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

2.6. **Adverse Finding 5**: In relation to the development and implementation of policies and procedures for enforcing compliance with its policies and procedures relating to Ethical Standards generally, and independence and objectivity requirements in particular, Grant Thornton's conduct constituted breaches of the Ethical Standards and ISQC1 in the following ways, in that Grant Thornton failed adequately:

2.6.1 To establish policies and procedures, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016), paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016), paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016), paragraphs 20 and 21 of ISQC1 (UK and Ireland).

2.6.2 To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

2.7. **Adverse Finding 6**: In light of the failings set out above, throughout the Relevant Period Grant Thornton failed to take responsibility for establishing a control environment that placed adherence to ethical principles and compliance with Ethical Standards above commercial considerations, in breach of paragraph 19 of Ethical Standard 1 (until 17 June 2016) and paragraph 1.10 of the Revised Ethical Standard 2016.

Breaches Relating to the 2014 Audit and Secondment

2.8. **Adverse Finding 7**: Grant Thornton seconded a senior manager (**the "Secondee**" and the "**Secondment**")" to the Company to assist with the preparation of the 2014 Statements. In so doing, Grant Thornton agreed to provide accounting services to a listed audited entity in circumstances in which it was not an emergency situation and the Secondee had been involved in the 2014 Audit, with the result that the exemption in paragraph 164 of Ethical Standard 5 did not apply and Grant Thornton was consequently in breach of paragraph 160 of Ethical Standard 5 for having provided a prohibited service and thereby also in breach of paragraph 14 of International Standard On Auditing (UK and Ireland) ("ISA") 200.

2.9. **Adverse Finding 8**: Before authorising the proposed Secondment, Grant Thornton's Audit Engagement Partner and therefore Grant Thornton failed adequately: (i) to consider whether it was probable that a reasonable and informed third party would conclude that the auditor's objectivity was or was likely to be impaired in relation to the 2014 Audit; and (ii) to identify and assess the significance of any related threats to the auditor's objectivity, including any perceived loss of independence; and (iii) to identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level, in breach of paragraph 17(b) and (c) of Ethical Standard 5, and thereby paragraph 14 of ISA 200 and paragraph 11 of ISA 220.

2.10. **Adverse Finding 9**: By the conclusion of the 2014 Audit, Grant Thornton's audit engagement partner should have concluded: (i) that it was not independent, in that it

was probable that a reasonable and informed third party would conclude that its objectivity either was impaired or was likely to be impaired; and (ii) that the threats to their independence could not, and had not been, addressed. In failing so to conclude, and in continuing instead to give their audit opinion, they thereby breached paragraphs 6 and 54 of Ethical Standard 1, and thereby paragraph 14 of ISA 200; and paragraph 11 of ISA 220. For the avoidance of doubt, the FRC does not allege that Grant Thornton in fact lacked objectivity or that the accounts did not give a true and fair view of the Company's affairs and of its profit for FY2014.

2.11. **Adverse Finding 10**: Grant Thornton's audit engagement partner and therefore Grant Thornton failed to provide the Ethics Partner with details of the fees for non-audit services, or to discuss them with them, until those fees had already exceeded Grant Thornton's audit fees, in breach of paragraph 28 of Ethical Standard 5 and thereby paragraph 14 of ISA 200.

2.12. **Adverse Finding 11**: Grant Thornton's audit engagement partner and therefore Grant Thornton failed to ensure that TCWG at the Company were appropriately informed on a timely basis of all significant facts and matters bearing on Grant Thornton's objectivity and independence in relation to the provision of non-audit services, in breach of paragraph 63 of Ethical Standard 1 and paragraph 48 of Ethical Standard 5, and thereby paragraph 14 of ISA 200.

Sanctions

2.13. This *Final Decision Notice* also sets out the sanctions in respect of Grant Thornton:

2.13.1 A fine of £3,000,000 discounted for admissions and early disposal by 35% to £1,950,000.

2.13.2 A published statement in the form of a severe reprimand.

2.13.3 A declaration that, as a result of the Adverse Findings summarised at paragraphs 2.8 to 2.12 above, the 2014 Audit did not satisfy the Relevant Requirements.

2.13.4 A package of non-financial sanctions encompassing: (1) the establishment and oversight by an Ethics Board of the firm's compliance with ethical standards and requirements which will report annually in writing for three years to the FRC's Executive Counsel and Head of Supervision (2) a review by Grant Thornton of the Ethics Function to identify any skills/resource gaps (3)

increased training to staff on relevant ethical issues (4) further improvements by Grant Thornton in its policies and procedures to ensure compliance with ethical standards and requirements.

3. RELEVANT REQUIREMENTS

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

3.1.1 The Ethical Standards issued by the FRC ("**Ethical Standards**"). The Ethical Standards were revised in December 2010 and updated in December 2011 and in force until 17 June 2016.[1]

3.1.2 The Revised Ethical Standards issued by the Auditing Practice Board ("**Revised Ethical Standards 2016**"). The Revised Ethical Standards 2016 have been in force since 17 June 2016.[2]

3.1.3 The International Standards on Auditing (UK and Ireland) ("**ISAs**") issued by the FRC. The ISAs relevant to this *Final Decision Notice* are those effective for audits of financial statements for periods ending on or after 15 December 2010.

3.1.4 The International Standards on Quality Control (UK and Ireland) ("**ISQC**").

3.2. The Relevant Requirements referred to in this *Final Decision Notice* are the following:

3.2.1 Ethical Standard 1 (Integrity, Objectivity and Independence).

3.2.2 Ethical Standard 5 (Non-audit services provided to audited entities).

3.2.3 Revised Ethical Standards 2016.

3.2.4 The International Standards on Quality Control (UK and Ireland) 1 ("**ISQC 1**"). The versions of ISQC1 which are relevant to this *Final Decision Notice* are those effective for engagements relating to financial periods commencing on or after 15

[1] The Revised Ethical Standard permitted firms to "complete engagements relating to periods commencing before 17 June 2016 in accordance with existing ethical standards, putting in place any necessary changes in the subsequent engagement period".
[2] Ibid.

December 2010 and those effective for engagements relating to financial periods commencing on or after 17 June 2016.[3]

3.2.5 ISA 200 (Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing).

3.2.6 ISA 220 (Quality control for an audit of financial statements).

3.3. The extracts of the Ethical Standards, Revised Ethical Standards, ISQC1 and ISAs which are of particular relevance to the Adverse Findings are set out in Appendix 1 hereto.

4. OVERVIEW OF ADVERSE FINDINGS RELATING TO POLICIES, PROCEDURES AND THE CONTROL ENVIRONMENT FOR ADHERENCE TO ETHICAL STANDARDS

4.1. Throughout the Relevant Period, the FRC's Ethical Standards ("**the Ethical Standards**"):

4.1.1 Set out and prohibited the Prohibited Investments;

4.1.2 Required audit firms to monitor the fees received from their audit clients in relation to the provision of non-audit services and, for listed companies, where it was expected that such fees would exceed the fees received for audit services, required the audit engagement partner to provide details of the circumstances and discuss with the Ethics Partner (or, from June 2016, the Ethics Function) to determine whether the situation constituted a threat to the audit firm's independence and, if so, whether appropriate safeguards could be put in place by the audit engagement partner to reduce the threat to an acceptable level; and

4.1.3 Required audit engagement partners to ensure that TCWG were appropriately informed on a timely basis of all significant facts and matters that impacted upon the auditor's objectivity and independence.

4.2. In circumstances in which a fundamental objective of an audit engagement is that the intended users of the financial statements trust and have confidence that the audit opinion is professionally sound and objective, such requirements are of fundamental

[3] In this Final *Decision Notice,* "ISQC 1" refers both to International Standard on Quality Control (UK and Ireland) 1 of October 2009 and International Standard on Quality Control (UK and Ireland) 1 (Revised June 2016), which is effective for engagements relating to financial periods ending on or after 17 June 2016. The relevant paragraphs in the two versions of ISQC 1 are identical.

importance to ensuring that audit firms maintain their objectivity and independence from such entities.

4.3. Grant Thornton accepts that on numerous occasions they breached both the applicable Ethical Standards and their own policies and procedures designed to ensure compliance with those standards. The admitted breaches during the Relevant Period comprise as follows:

Ethical issue relating to independence and objectivity	**Time Period**	**Number of breaches of Relevant Requirements identified by Grant Thornton**
Relevant personnel holding Prohibited Investments	January 2015 to 31 March 2017	4
Failure to discuss with the Ethics Partner when it should have been known, or expected, that non-audit fees would exceed audit fees	1 April 2015 to 31 March 2017	24

In addition, many of the relevant breaches were not identified by Grant Thornton until a significant time after they had occurred. Partly as a consequence of this, in a significant number of cases during the Relevant Period, audit engagement partners failed to inform TCWG on a timely basis of significant facts and matters that bore upon the firm's objectivity and independence.

4.4. Whilst the significant number of breaches of Ethical Standards identified above are in part attributable to deficiencies in Grant Thornton's policies relating to the three areas, there was, in addition: (i) a lack of understanding in some areas as to how the policies, or the firm's systems related to the policies, worked, and/or why they were important; and (ii) failings in the procedures that underpinned those policies, which rendered such policies less effective.

4.5. In particular, in relation to monitoring and consulting appropriately as to the level of fees received from non-audit services: (i) until July 2016 there was confusion within the firm as to when a consultation with the Ethics Partner was actually required so as to avoid a breach of the Relevant Requirement; (ii) it was not until February 2017 that the audit engagement partner was overtly prompted to assess non-audit fees as against audit fees when a new non-audit engagement was being proposed for approval; and (iii)

throughout the Relevant Period, there was no centralised process or database for monitoring non-audit fees in real-time during the progress of the audit.

4.6. In relation to the holding of Prohibited Investments, between 2012 and 2017, Grant Thornton repeatedly identified low levels of understanding among relevant staff of the policies and procedures requiring them to provide details of their financial interests to the system intended to identify Prohibited Investments ("**GIS**"), and low levels of compliance with those policies and procedures. Grant Thornton failed to take adequate steps to rectify these problems. As a result of the repeatedly low levels of compliance, Grant Thornton is unable now to determine whether, or how many, further breaches of the Ethical Standards relating to Prohibited Investments may have been committed in respect of audits during the Relevant Period which have not to date been detected. In the circumstances, it is likely that there were such additional breaches.

4.7. In respect of the requirement to communicate any significant matters impacting upon Grant Thornton's objectivity and independence to TCWG of their audited entity clients: (i) in the circumstances described at paragraph 4.6 above, audited entity clients were not being informed of matters where the breach of an Ethical Standard had not been identified by the firm at the time; and (ii) where a breach of an Ethical Standard had been identified, Grant Thornton relied exclusively throughout the Relevant Period upon audit engagement partners making the relevant notification, with there being no procedure in place to confirm that those steps were actually taking place and so there was inadequate monitoring of compliance with the firm's policies and procedures.

4.8. Overall, Grant Thornton was required to establish a control environment that placed adherence to ethical principles and compliance with the Ethical Standards above commercial considerations, and, pursuant to ISQC1, to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel would comply with relevant ethical standards, including independence requirements. The firm's failure, however, to achieve these requirements throughout the Relevant Period is evidenced by the following:

4.8.1 The under-resourcing of the Ethics function (see Adverse Finding 1 below);

4.8.2 The deficiencies in the policies and procedures themselves (see Adverse Finding 2, paragraph 11; Adverse Finding 3, paragraph 6; and Adverse Finding 4, paragraph 8);

4.8.3 The lack of effective communication of the firm's policies and procedures to, and understanding by, its staff (Adverse Finding 2, paragraph 9; and Adverse Finding 3, paragraph 6(d));

4.8.4 The inadequate monitoring of compliance with the firm's policies and procedures, including by way of recording breaches and taking remedial action when breaches were identified (see Adverse Finding 2, paragraph 10; and Adverse Finding 4, paragraph 8(c)); and

4.8.5 The lack of an adequate enforcement mechanism operated by the firm in respect of breaches that were identified (see Adverse Finding 5).

4.9. There was, in short, a failure by Grant Thornton to give clear, consistent and frequent messages, backed up by appropriate action, emphasising the importance of compliance with Ethical Standards relating to independence and objectivity.

5. ADVERSE FINDINGS RELATING TO POLICIES, PROCEDURES AND THE CONTROL ENVIRONMENT FOR ADHERENCE TO ETHICAL STANDARDS

ADVERSE FINDING 1:

Inadequate Resourcing of the Ethics Partner

For the reasons set out below, throughout the Relevant Period Grant Thornton failed to provide the Ethics Partner with sufficient staff support and other resources commensurate with the size of the firm, in breach of paragraph 22 of Ethical Standard 1 (in the light of the guidance at paragraph 27) (until 17 June 2016), and paragraph 1.21 of Revised Ethical Standard 2016 (after 17 June 2016).

1. Audit firms throughout the Relevant Period were required to appoint an Ethics Partner and to provide him/her with sufficient staff support and other resources, commensurate with the size of the firm (paragraph 22 of Ethical Standard 1 in the light of the guidance at paragraph 27, and paragraph 1.21 of Revised Ethical Standard 2016).

2. During the Relevant Period, Grant Thornton had: (i) an annual revenue of £512 million in 2014, £521 million in 2015, £533 million in 2016 and £500 million in 2017; and (ii) between 179 and 185 partners and 4,277 and 4,450 employees.

3. Notwithstanding that position, Grant Thornton's Ethics Function during the Relevant Period comprised as follows:

   (a) Until 27 March 2015, the Ethics Partner maintained some audit and pensions work in addition to their role as Ethics Partner.

   (b) Until July 2016, there was only one other member of the Ethics Function ("**the Ethics Senior Manager**"), who devoted 80% of their time to the Ethics Function (with the remaining 20% being spent on audit work). During this period (i.e. 1 April 2014 to July 2016), the Ethics Partner and the Ethics Senior Manager were occasionally supported by one or two secondees who assisted with reviews of audit files.

   (c) By January 2017, the number of full-time staff in the Ethics Function had increased to six. By the end of May 2018, the Ethics Function had been increased to 13 full-time equivalents.

4. [redacted] The Ethics Senior Manager acknowledged at their interview with the FRC that their training was not sufficient and said that they considered that this was due to a lack of resourcing for the Ethics Function.

5. At interview, the Ethics Senior Manager also described the resourcing of the Ethics Function as "*very, very thin*" and said that, during the Relevant Period, they were "*screaming out*" for further resourcing. As a result of the under-resourcing:

   (a) The Ethics Partner and the Ethics Senior Manager worked excessively long hours to cover as much work as they could; and

   (b) [redacted]

[redacted]

6. Under-resourcing of the Ethics Function was repeatedly raised by the Ethics Senior Manager and the Ethics Partner in their performance reviews:

   (a) In the Ethics Senior Manager's 2014 performance review they said as follows in relation to the objective that "*current content of Professional Ethics Database transferred into One Place and enhanced/updated where necessary*" with a due date of 31 December 2013: "*The structure is in place and much of the content has now been transferred but not reviewed. However, despite diary time booked for [the Ethics Partner] and me to review the content, this hasn't happened and none of the OnePlace ethics material has yet been published. I find it difficult to see how, with continued insufficient resource, that it will be published by Christmas 14 (a year late) due to all the other commitments in the ethics and quality team*."

   (b) In the Ethics Partner's 2015 performance review:

      (i) The Ethics Partner's manager stated that the Ethics Partner had been "*too busy*".

      (ii) The Ethics Partner noted as a general comment that "*there is more to do in relation to ethics guidance and training and support to engagement teams during AQRT reviews*" which "*can only be addressed properly by a restructuring (and overall increase) in the resources committed to ethics and AQRT support respectively*".

      (iii) The Ethics Partner also stated that "*The feedback that I received from the PCAOB and AQRT during one of my briefings with them led me to believe that they both believe that we are significantly under-resourced, particularly in relation to ethics and risk management, where our peer-group firms are expanding their resources in response to the increasing challenges of compliance*."

   (c) In the Senior Ethics Manager's 2016 performance review they stated that "*I continue to keep up to date with my audit knowledge as it is key to being able to support the audit service line (and the legal team) in ethical matters. It is a challenge to do this with all the other demands on an under resourced team but key to retaining the confidence our offices*."

ADVERSE FINDING 2:

Failings in Respect of Policies and Procedures Relating to Prohibited Investments

For the reasons set out below, in its development and implementation of policies and procedures as to the holding of Prohibited Investments during the Relevant Period Grant Thornton failed adequately:

(a) To establish adequate policies, procedures and quality control monitoring systems, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016), paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016), paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016), paragraphs 20 and 21 of ISQC1 (UK and Ireland).

(b) To ensure that the relevant policies, procedures and quality control monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

(c) To communicate the relevant policies and procedures to its partners and staff, in breach of paragraph 21(a) of ISQC1, paragraph 16 of Ethical Standard 1 (until 17 June 2016) and paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

(d) To establish and implement a monitoring process in breach of paragraph 48 ISQC 1, paragraph 21 of Ethical Standard 1 (until 17 June 2016) and paragraphs 1.10 and 1.11 of Revised Ethical Standard 2016 (after 17 June 2016), and to adequately evaluate deficiencies noted as a result of the monitoring process, in breach of paragraph 49 of ISQC 1.

1. Throughout the Relevant Period, the Ethical Standards prohibited partners, employees and others associated with audit firms from holding financial investments in audit entities in certain circumstances (the Prohibited Investments). Prior to 17 June 2016, the relevant provisions were set out in Ethical Standard 2, and after that date they were set out in Revised Ethical Standard 2016, Section 2. During the Relevant Period, Grant Thornton had policies and procedures in place which were directed at ensuring that it did not breach those Ethical Standards, as set out below.

2. Ethics Memorandum 49 (dated 22 July 2008) ("**EM 49**") provided, *inter alia*, that:

(a) "*[N]o direct financial interest may be held by a partner or a person in a position to influence the audit*" except in limited circumstances.

(b) "*Over and above the prohibitions above, GTI prohibits partners or their immediate family from holding of [sic] any direct or material indirect financial interests in any Globally Restricted Entity (any listed company audit client of a GTI member firm). Managers and their immediate family who supply non-audit services to such clients are also prohibited from holding direct or material indirect financial interests in these clients*."

(c) "*Non-audit clients and non-audit services: Under the ICAEW Code of Ethics, there is a threat to objectivity if anyone providing a service to a client has a financial interest in that client. If the financial interest is material to the person, then safeguards should be put in place such as disposing of the interest or not acting for that client*."

3. As part of promoting and monitoring compliance with these policies, Grant Thornton operated GIS (the Global Independence System). That system identified matches between personal investments held by Grant Thornton partners, specific categories of staff or family members and entities to which Grant Thornton, or other members of the Grant Thornton network, provided services. The GIS was run by the GIS Team which was part of Grant Thornton's Financial Crime team and separate from its Ethics Function.

4. Grant Thornton's policy in relation to the use of the GIS was set out in Ethics Memorandum 11 (dated 08 August 2011) ("**EM11**"). It required, *inter alia*, that:

(a) All partners, client-serving directors and client-serving managers (or equivalent) maintain a record in GIS of their own relevant financial interests and those of their spouse (or equivalent) and dependants.

(b) Acquisitions of new financial interests and disposals of interests be reflected in an individual's GIS account within one month of the effective date of the purchase or sale; and

(c) Conflict messages received by users be addressed within 14 days of receiving the conflict notification from GIS:

(i) In the case of partners and assurance directors, this would normally involve the disposal of the conflicting interest.

(ii) In the case of managers and non-assurance directors, they could attempt to "self-clear" the conflict (by confirming that they played no part in providing professional services to the entity or its affiliates). But if they were unable to do so, they too would normally need to dispose of the conflicting interest within 14 days of receiving the conflict notification from GIS.

(iii) A waiver of a conflict (as an alternative to disposal of a conflicting interest) could be requested by emailing the Ethics Partner with details of why disposal was either unnecessary or not possible. (In fact, waivers could only be obtained by those categorised on the GIS system as partners.)

5. The following policies and processes were in place to monitor the effectiveness of the GIS:

(a) If a conflict was identified by the GIS, but at the end of the 14 day period the user had not disposed of the relevant interest, self-cleared it, or obtained a waiver, the conflict would be included on a compliance report which GTIL sent to Grant Thornton. If the issues identified in the compliance report were not resolved within 30 days, the issue would be subject to an escalation and remediation process by GTIL.

(b) The GIS team were additionally required to perform “Outstanding Exception Message Reports”, which identified GIS conflicts for partners and non-partners that were outstanding as at the time of the report.

(c) The GIS team had a number of processes to monitor whether the record of personal investments in the GIS was accurate, including:

(i) A monthly upload of Human Resources data relating to such issues as joiners, leavers and promotions (and periodic reconciliation of that data);

(ii) Rerunning reports to check compliance with GIS policies, including reviews of lists of: (i) individuals who should have undertaken action in respect of an identified conflict; (ii) individuals who should have made entries on the system, even if to record that they have no investments; and (iii) investments where there has been a change such as a delisting or merger.

(d) It was GTI policy that every member firm (including Grant Thornton), perform annual audits of partner and manager certifications on a sample basis.

6. Although the policies and processes referred to at paragraphs 2 to 5 above were in place during the Relevant Period Grant Thornton itself has identified four cases between January 2015 and 31 March 2017 in which partners or staff held Prohibited Investments in breach of Relevant Requirements:

   (a) An interest held by an individual when they joined Grant Thornton on 1 September 2015 and the investment was not entered into the GIS until 26 October 2015, at which time a breach was identified. The interest was disposed of eight days later on 4 November 2015.

   (b) An interest held by the same individual when they joined Grant Thornton on 1 September 2015 and the investment was not entered into the GIS until 26 October 2015, at which time a breach was identified. The interest was disposed of eight days later on 4 November 2015.

   (c) An interest acquired on 14 May 2015 in respect of an entity that at the time was not an audit client of Grant Thornton and was entered into the GIS on the same date. Grant Thornton were appointed auditor of the entity on 21 October 2015, but a breach was not identified until 8 March 2016. The interest was disposed of eight days later on 16 March 2016.

   (d) An interest acquired on 12 January 2015 was entered into the GIS on the same date, but a breach was not identified until 23 February 2015. The interest was disposed of eight days later on 3 March 2015.

7. While Grant Thornton has not identified any breaches within the Relevant Period prior to January 2015, it is likely that there would have been further breaches within the period.

8. Further, and with the same result, in circumstances in which Grant Thornton repeatedly identified low levels of compliance amongst relevant individuals in providing details of their financial interests to the GIS, Grant Thornton is unable to determine whether, or how many, further breaches of the Relevant Requirements relating to Prohibited Investments may have been committed during the Relevant Period but which were not detected. In particular:

   (a) As noted above, it was a GTI policy that Grant Thornton conduct annual audits to test, *inter alia*, the completeness, accuracy and timeliness of partners', directors' and client-serving managers' disclosures of their financial interests on the GIS.

(b) An internal audit conducted in 2012 revealed that compliance was very low. In response, Grant Thornton elected not to conduct further audits and to focus on "*identifying and rectifying the root causes of non-compliance*". Accordingly, no further audit was conducted until the audit in July 2015, which measured compliance as at 30 June 2015 ("**2015 GIS Audit**").

(c) The 2015 GIS Audit found that:

(i) Of the 120 individuals audited 93 accounts (85%) were incomplete, of which 24 belonged to partners (69% of all partners tested) and 69 belonged to managers (93% of managers in the sample). In addition, information in the accounts of 29 partners (83% of all partners tested) and 72 managers (97% of all managers tested) was found not to be "*complete, accurate and timely*".

(ii) Some of the individuals who had been found to have been non-compliant in the 2012 audit and who were retested in 2015, remained non-compliant.

(iii) Seven former partners who continued to provide services under consultancy agreements were not included in GIS. One of these had been identified in the 2012 audit and still did not have a GIS account. Some other former partners who returned as consultants were provided with an exemption to the requirement to maintain a GIS account on the grounds that they were providing services to Grant Thornton and were not client facing.

(iv) The audit recommended a regular (at least quarterly) reconciliation between the firm's personnel and audit registration records and the GIS database. However, quarterly reconciliations did not begin until 30 June 2016.

(d) Grant Thornton conducted a further audit in 2017, which covered the period 1 July 2016 to 30 June 2017 ("**2017 GIS Audit**").

(i) The audit found that of the 157 individuals audited 66 accounts (46%) were incomplete, of which 25 belonged to partners (29% of partners audited) and 41 belonged to managers (72% of managers audited). In addition, 60% of partners tested and 53% of managers tested did not have GIS accounts that were "*complete, accurate and timely*", excluding those who had failed to disclose defined contribution employment pension schemes.

(ii) The auditors found that some individuals covered by the GIS reporting personnel definition did not have an open GIS account.

9. During the Relevant Period, there was a widespread lack of understanding among reporting personnel of the GIS policies and procedures, caused at least in part by ineffective communication. In particular:

(a) The 2015 GIS Audit identified:

(i) A limited knowledge of the investment types requiring disclosure and, in particular, limited knowledge that membership of Grant Thornton's defined contribution pension scheme required disclosure. 20 managers who had submitted nil returns in fact had pensions requiring disclosure.

(ii) That the orientation processes for new joiners and promoted individuals was ineffective.

(iii) That the training material provided by GTIL was over-complicated and unnecessarily detailed.

(b) An internal review in 2016 demonstrated that this lack of understanding had not been remedied in circumstances in which reporting personnel had a lack of understanding as to:

(i) What the GIS was required for and its importance to the firm. For example, 40% of non-partners who responded to a survey stated that they had very little or limited awareness of Grant Thornton's Global Independence Policy.

(ii) The rules regarding when updates should be made (both for the firm and individual).

(iii) How to use the system. Specifically: (i) 62% of non-partner survey respondents were not sure where GIS was located or could not remember how to access it; (ii) 95% of respondents found the system difficult or not easy to use; and (iii) 60% of survey respondents said they felt that they had a "*fair or limited*" understanding of their investment / saving products, implying that staff were not able to easily provide details on their portfolios.

(iv) The scope of their responsibilities in terms of their submissions in relation to themselves and their dependents.

(c) The 2017 GIS Audit revealed that such problems persisted, including:

(i) Some reporting personnel were unaware they had a GIS account that they were required to maintain;

(ii) Reporting personnel continued to have a limited knowledge of investment types requiring disclosure, specifically in relation to Grant Thornton's and other employers' defined contribution pension scheme.

(d) In a presentation to the FRC in 2018, the Ethics Partner provided the following diagnosis of the failings identified above:

> *"[W]e've got good people, but those people don't understand why, or don't know how to do what they need to do well enough. […] [I]t seems clear that one of the factors is that our people haven't properly understood how or what to record."*
>
> *"[W]hile guidance has always been available to our people throughout the period, the internal reviews demonstrate that they clearly haven't understood the significance on the one hand, or why it's so important, or what they need to do, or combinations thereof."*

10. Throughout the Relevant Period, Grant Thornton also failed properly to monitor compliance with its policies and procedures relating to Prohibited Investments. In particular:

(a) As noted above, despite the fact that an audit of GIS in 2012 had demonstrated a low level of compliance with the applicable policies and procedures, the next audit was not conducted until 2015, and thereafter no further audit was conducted until 2017. Grant Thornton received repeated confirmation of a low level of compliance with the relevant policy and procedures, but failed to take appropriate, effective action.

(b) There is no evidence that the GIS team actively considered Outstanding Exception Report Messages from an ethical standards perspective. In addition, although it was possible to run a similar report, known as a "Partner Exception Report" which identified the outstanding Grant Thornton policy exceptions for partners, no such report was run until 14 June 2016, which covered the period 1 January 2015 to 31 May 2016. Thus, prior to June 2016, the GIS team were not escalating breaches of ethical standards to the Ethics Function with the result that such breaches of the independence requirements were not communicated to TCWG of the audit entities on a timely basis.

(c) By way of illustration of inadequate monitoring at Grant Thornton in 2015, in response to the question on the annual declaration "*Are you aware that you or an immediate family member or any close family member hold any indirect financial interests in any audit client or its affiliates?*" a partner had responded "*don't know*". The response had been escalated to a member of Grant Thornton's Quality and Professional Standards team who closed the issue after noting that the partner "*clearly cannot be bothered to give an appropriate response*" and had last updated their investments in 2012. The only reason given for not taking further action was that "*Any conflicts would be flagged by GIS. GIS is currently being audited which should flag accounts that have not been updated*".

(d) The GIS team was located within the Financial Crime section. This did not allow for proper monitoring in circumstances in which the GIS team did not report to Grant Thornton's Ethics Partner. In particular, the GIS team was not aware that it should report independence issues, including the holding of Prohibited Investments, to the Ethics Partner, and did not do so. The GIS team were not fully aware of the requirements of the Ethical Standards.

(e) In addition, in response to the findings of the 2016/2017 AQR, Grant Thornton accepted that its GIS team had been under-resourced.

11. In addition to Grant Thornton's failures properly to implement and monitor its policies and procedures, the policies and procedures were themselves deficient in a number of ways. In particular:

(a) While Grant Thornton required former partners who continued to act as consultants to declare personal financial interests and avoid and declare conflicts of interest with any client of the firm via provisions in its consultancy agreements, it did not require former partners who continued to act as consultants for Grant Thornton to remain on GIS.

(b) Grant Thornton's policies gave reporting personnel too long to dispose of Prohibited Investments:

(i) Paragraph 13 of Ethical Standard 2 required that where an audit firm discovers that investments prohibited by paragraph 7 are held, one of several steps should be taken, including that the Prohibited Investment be disposed of. Paragraph 14 required that where investments prohibited by paragraph 7 come to be held unintentionally, the interest must be disposed

of immediately or as soon as possible after the relevant person has actual knowledge of, and the right to dispose of, the interest. Paragraph 15 provided that "*Where the disposal of a financial interest does not take place immediately, the audit firm adopts safeguards to preserve its objectivity until the financial interest is disposed of*."

(ii) Similarly, since 17 June 2016, paragraph 2.10 of Revised Ethical Standard 2016 required firms, partners and "*covered persons*" who hold Prohibited Investments in breach of the requirements in paragraphs 2.3D, 2.4D(a) or 2.5 to dispose of the investments. Paragraph 2.13 required that where investments prohibited by paragraph 2.3D are acquired unintentionally "*the disposal of the financial interest is required immediately, or as soon as possible after the relevant person has actual knowledge of, and the right to dispose of, the interest*." Paragraph 2.14 provided that "[w]*here the disposal of a financial interest in accordance with paragraphs 2.4D(b), 2.10, 2.11, 2.12 or 2.13 does not take place immediately, the firm should adopt safeguards to preserve integrity, objectivity and independence until the financial interest is disposed of*."

(iii) However, as noted above, EM 11 did not require the immediate disposal of any Prohibited Investments but instead allowed partners and staff 14 days in which to dispose of them. EM 11 also did not impose any safeguards where Prohibited Investments were not disposed of immediately.

(c) The prohibitions on holding financial interests in the audited entity in paragraph 7 of Ethical Standard 2 included not just partners, but also those in a position to influence the conduct and outcome of the audit. Paragraph 17 of Ethical Standard 1 defined those in a position to influence the audit as including "*any person who is directly involved in the audit ('the engagement team'), including audit staff and other professional personnel*". The updated definitions in Revised Ethical Standard 2016 of "*covered person*" and "*engagement team*" also included all the Grant Thornton staff who perform work on the audit. However, Grant Thornton's policies and procedures for using GIS only required "*partners, client-serving directors and client-serving managers*" to specify their financial interests. The remaining staff when working on an audit were merely required within the electronic audit file to make a declaration that they were "*independent of this client and free of conflicts of interest*" before they started work on an audit and before an audit opinion could be issued, and to submit an Annual Declaration (referred to at paragraph 10(c)).

(d) Paragraph 18 of Ethical Standard 2 provided that: "*Where a person in a position to influence the conduct and outcome of the audit or a partner in the audit firm becomes aware that a close family member holds one of the financial interests specified in paragraph 7, that individual shall report the matter to the audit engagement partner to take appropriate action. If it is a close family member of the audit engagement partner, or if the audit engagement partner is in doubt as to the action to be taken, the audit engagement partner shall resolve the matter through consultation with the Ethics Partner*." See also paragraph 2.17 of Revised Ethical Standard 2016. This was not adequately monitored by Grant Thornton for the Relevant Period.

(e) Revised Ethical Standard 2016, which applied to audits of periods commencing on or after 17 June 2016, amended the definition of "*partner*" to include "*any individual with authority to bind the firm with respect to the performance of a professional services engagement*." However, until May 2018, GIS could only identify breaches where the individuals involved were either partners of the LLP or directors.

ADVERSE FINDING 3:

Failings in Respect of Policies and Procedures Relating to the Monitoring and Reporting of Non-Audit Fees

For the reasons set out below, in its development and implementation of policies and procedures for the monitoring of non-audit fees and consultation with the Ethics Partner during the Relevant Period Grant Thornton failed adequately:

(a) To establish policies and procedures designed to ensure that, in relation to each audit engagement, the audit firm and all those who are in a position to influence the conduct and outcome of the audit, acted with integrity, objectivity and independence, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016).

(b) To establish organisational and administrative arrangements that were effective to prevent, identify, eliminate or manage and disclose any threats to its independence, in breach of paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016).

(c) To establish appropriate policies, procedures and quality control and monitoring systems in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

(d) To establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel: (i) complied with ethical requirements concerning the threat to the firm's independence from fees received for non-audit services, in breach of ISQC1, paragraph 20; and (ii) maintained independence, by enabling the firm to identify and evaluate circumstances and relationships that created threats to its independence, in breach of ISQC1, paragraph 21.

(e) To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

1. Throughout the Relevant Period, the Ethical Standards required audit firms to monitor the fees received from their audit clients in relation to the provision of non-audit services and, for listed companies, where it was expected that such fees would exceed the fees received for audit services, required the audit engagement partner to provide details of the circumstances and discuss them with the Ethics Partner (or, from June 2016, the Ethics Function) to determine whether the situation constituted a threat to the audit firm's independence and if so whether safeguards could be put in place to reduce the threat to an acceptable level.

2. Thus Paragraph 28 of Ethical Standard 5 (applicable until 17 June 2016) provided that:

> *In the case of listed companies where the fees for non-audit services for a financial year are expected to be greater than the annual audit fees, the audit engagement partner shall provide details of the circumstances to the Ethics Partner and discuss them with him or her. Where the audit firm provides audit services to a group, the obligation to provide information to the Ethics Partner shall be on a group basis for all services provided by the audit firm and its network firms to all entities in the group.*

3. And paragraph 4.37 of Revised Ethical Standard 2016 (applicable after 17 June 2016), was to similar effect:

> *In the case of public interest entities and of other listed entities, where:*
> *(a) the fees charged by the firm and members of its network in aggregate: or*

(b) the fees charged by the firm or by any member of its network whose work is used in the conduct of the engagement;

for non-audit / additional services, and for services provided to connected parties that may bear on independence, for a financial year are expected to be greater than the aggregate (or the individual firm's) annual fees for the engagement, the engagement partner shall provide details of the circumstances to the Ethics Partner/Function and discuss them with him or her. The engagement partner shall determine whether the threats to independence of the firm or any such member of its network are at a level where independence is not compromised or, if necessary, put in place appropriate safeguards such that independence is not compromised, which may include the firm or member of its network not providing the non-audit / additional service.

4. During the Relevant Period, Grant Thornton had policies and procedures in place which were directed at ensuring that it did not breach these requirements. In particular:

   (a) Ethics Memorandum 62 ("**EM62**") required that where a non-audit service was to be provided to an audit client, a consultation form was to be completed by the non-audit team. This form informed the audit team of the prospective non-audit job, ethical threats and related safeguards and required approval by the audit engagement partner.

   (b) Until September 2014, during the planning stage of the audit, audit teams were required to obtain information on audit and non-audit fees by downloading it from Grant Thornton's billing system, known as "the Practice Management System" ("**PMS**"). Audit teams were then required to document the relevant information and their evaluations in a form.

   (c) From September 2014, audit teams were also able, but not required, to use software called "Audit Appian" during the audit planning. Audit Appian automatically provided audit teams with a report on audit and non-audit services fees. If non-audit fees exceeded audit fees, a document was to be populated by the audit team to document the consideration of the impact of the non-audit fees on Grant Thornton's independence and sent to the Ethics Function for consideration. After February 2017, forms relating to Public Interest Entities were automatically sent for review by the Ethics Function whether or not non-audit service fees exceeded audit service fees.

(d) Throughout the remainder of the audit, Grant Thornton relied on audit teams to keep track of fees and to identify potential breaches of the Ethical Standard.

(e) Ethics Memorandum 64 ("**EM 64**") reflected the requirement under paragraph 28 of Ethical Standard 5 and Revised Ethical Standard 2016 paragraph 4.37 that the audit engagement partner was to consult the Ethics Partner (or Ethics Function) when non-audit fees were expected to exceed audit fees. In addition, to support this requirement, for listed companies audit teams were expected to "*maintain a real time awareness of the levels of audit and non-audit fees*".

(f) "Hot" reviews were conducted on a selection of audit files prior to sign-off. From February 2015, these hot reviews included a review of audit and non-audit fees by the Ethics Function for all large listed entities on an annual basis and other listed entities on a triannual basis. Where the Ethics Function identified that non-audit fees exceeded audit fees it was required to check whether it had been consulted and, if no consultation had occurred, the engagement partner was to complete a consultation. Where a breach of Ethical Standards was identified, it was to be included on a breaches register.

(g) The Ethics Function performed monitoring of non-audit/audit fees and overdue fees through the review of data extracted from its Practice Management System (Grant Thornton's finance system). On four occasions during the Relevant Period (August 2015, April 2016, September 2016 and April 2017), the Ethics Function reviewed a report generated from the Audit Risk Categorisation Database ("**ARCD**") in which fees for non-audit services had been entered by the audit team. Where the Ethics Function identified that non-audit fees exceeded audit fees, this was compared to the Ethics Function's record of approved consultations.

5. Although the policies and processes referred to above at paragraph 4 were in place during the relevant period, Grant Thornton itself has identified 24 cases during the Relevant Period in which a consultation with the Ethics Partner did not take place at the time it was known, or should have been known, or expected, that non-audit fees would exceed audit fees.

6. These failures to consult with the Ethics Partner on a timely basis are attributable to several deficiencies in Grant Thornton's policies and procedures during the Relevant Period. In particular:

(a) Although EM62 required a form to be completed by the partner responsible for a new non-audit engagement (which was to be sent to and approved by the relevant audit engagement partner), it was not until February 2017 that the form included an overt means of assessing audit fees against non-audit fees in order to better ensure compliance with paragraph 28 of Ethical Standard 5 and paragraph 4.37 of Revised Ethical Standard 2016.

(b) Grant Thornton's procedures generally did not allow non-audit work to be billed to an audit client until the audit engagement partner provided clearance for the non-audit work. If, however, the type of non-audit work had previously been provided to the non-audit client, then the non-audit work could be billed immediately, prior to clearance from the audit engagement partner. Thus, non-audit work could be billed without Grant Thornton checking whether non-audit fees had exceeded, or were expected to exceed, audit fees.

(c) EM64 explained that audit teams were expected to "*maintain a real time awareness of the levels of audit and non-audit fees*". This relied on ongoing attention to the issue by the audit team. Thus, non-audit fees for the audit client could rise to the same level as audit fees without this fact being detected. Although the Ethics Function had some oversight of non-audit fees through Practice Management System reports, hot reviews after February 2015 and through the review of ARCD reports after August 2015, (a) the oversight was limited to determining whether non-audit fees had *already* exceeded audit fees and (b) the reviews were not sufficiently frequent.

(d) Until July 2016, there was confusion and misunderstanding within the firm as to when a consultation with the Ethics Partner was actually required so as to avoid a breach of paragraph 28 of Ethical Standard 5 and paragraph 4.37 of Revised Ethical Standard 2016: (i) it is to be inferred that the necessity for consultations in accordance with paragraph 28 of Ethical Standard 5 and paragraph 4.37 of Revised Ethical Standard 2016 was not properly understood within Grant Thornton; and (ii) as a result, Grant Thornton did not report to TCWG all breaches of those Ethical Requirements which were required to be reported pursuant to paragraph 63 of Ethical Standard 1 and paragraph 1.61 of Revised Ethical Standard 2016.

ADVERSE FINDING 4:

Failings in Respect of Policies and Procedures Relating to the Notifying TCWG of Independence and Objectivity Matters

For the reasons set out below, in its development and implementation of policies and procedures for informing TCWG of all significant facts and matters that impacted upon their objectivity and independence Grant Thornton failed adequately:

(a) To establish effective policies and procedures designed to ensure that, in relation to each audit engagement, the audit firm and all those who are in a position to influence the conduct and outcome of the audit, acted with integrity, objectivity and independence, in breach of paragraph 16 of Ethical Standard 1 (until 17 June 2016).

(b) To establish effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose any threats to its independence, in breach of paragraph 1.2D of Revised Ethical Standard 2016 (after 17 June 2016).

(c) To establish appropriate policies, procedures and quality control and monitoring systems in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

(d) To establish appropriate policies and procedures designed to provide it with reasonable assurance that the firm and its personnel: (i) complied with ethical requirements concerning the threat to the firm's independence from fees received for non-audit services, in breach of ISQC1 (UK and Ireland), paragraph 20; and (ii) maintained independence, by enabling the firm to identify and evaluate circumstances and relationships that created threats to its independence, in breach of ISQC1 (UK and Ireland), paragraph 21.

(e) To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

1. Throughout the Relevant Period, the Ethical Standards required audit engagement partners to ensure that TCWG of audited entities were appropriately informed on a timely

basis of all significant facts and matters that impact upon the auditor's objectivity and independence.

2. Thus, paragraph 63 of Ethical Standard 1 (applicable until 17 June 2016) provided that:

> *The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence*.

3. Pursuant to paragraph 1.61 of Revised Ethical Standard 2016 (applicable after 17 June 2016):

> *The engagement partner shall ensure that those charged with governance of each entity relevant to an engagement, and, in the case of an investment circular reporting engagement, any other persons or entities the firm is instructed to advise, are appropriately informed on a timely basis of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons.*

4. The purpose of communicating such matters to TCWG was to ensure full and fair disclosure by the auditor on matters in which they have an interest (paragraph 65 of Ethical Standard 1).

5. During the Relevant Period, Grant Thornton had a number of policies and procedures designed to identify independence and objectivity matters and to communicate those matters to TCWG. Some of the policies and procedures relating to Prohibited Investments and Non-Audit Fees are outlined above. Grant Thornton also had policies and processes designed to identify conflicts and other matters which may have impacted on independence and objectivity. In particular:

   (a) Between 1 April 2014 and 19 January 2015, an engagement team that wished to identify relationships relevant to a new potential engagement was required to perform a conflict check using The Conflict Noticeboard. This process required the user to manually input the names of the people or entities they wished to check. A request would then be sent to all those at Grant Thornton at manager level or above, who were required to respond to state whether they knew of any relevant relationship. An administrator would also perform a search over Grant Thornton's client database using the names of the individuals or entities provided.

(b) From November 2014 onwards, the administrators were also able to search a number of other databases at Grant Thornton for potentially relevant relationships using the Supersearch tool.

(c) From 20 January 2015 to 19 May 2016, Grant Thornton used the Relationship Check Request ("**RCR**") procedure. This procedure required users to submit to an administrative team a form containing information of the entities they wished to perform a conflict check on. The team would then use the Supersearch tool to search a number of Grant Thornton's databases for potentially relevant relationships and inform the user of the results. The user was then required to consult (a) the relevant client contact for any relationships discovered and (b) the relevant audit team.

(d) From 20 May 2016 Grant Thornton used similar automated procedures which essentially required a user to initiate a check within the Appian software platform. Once initiated, an administrative team would perform searches using Supersearch, check the relevant entities' corporate structure to identify shareholders and subsidiaries, and submit an international relationship check to GTI if applicable. The results were communicated to the user who then consulted with any relevant individuals at Grant Thornton and the audit team.

6. Grant Thornton had policies and procedures in place intended to ensure that the firm complied with its obligations pursuant to the Ethical Standards to communicate Independence and Objectivity matters to TCWG. In particular:

(a) For listed entities and "higher risk equivalents" it was Grant Thornton's policy to communicate such matters to TCWG using the Audit Plan and Audit Findings Report. For other entities, such matters could be communicated orally or in writing, using template documents.

(b) Where audit engagement partners were notified of Prohibited Investments which had not been disposed of, they were required to notify TCWG.

(c) In relation to non-audit fees:

(i) At the planning stage, this communication included that the audit team was to "*confirm the total amount of fees charged to the client and its affiliates by ourselves and our network firms, analysed into separate appropriate categories. For each category future services which have been contracted for or for which a separate proposal has been written must be separately*

disclosed." This was typically communicated using the template documents referred to in paragraph 6(a) above.

(ii) At the conclusion of the audit, matters concerning Grant Thornton's independence were to be communicated "*as in planning*". This was typically communicated using the template documents referred to in paragraph 6(a)

7. Although the policies and processes referred to above at paragraph 6 were in place during the Relevant Period, Grant Thornton has itself identified a significant number of cases during the Relevant Period where audit engagement partners failed to notify TCWG on a timely basis of matters relevant to the firm's independence and objectivity.

8. Grant Thornton's policies and the procedures underpinning them in respect of reporting to TCWG were deficient in the following ways:

(a) In relation to identifying all the relationships and other significant matters about which the firm was required to notify TCWG:

(i) As a result of the deficiencies in the policies and procedures relating to Prohibited Investments and Non-Audit Fees described above, Grant Thornton failed to identify all the relationships and other significant matters about which it was required to notify TCWG. In particular, where the holding of Prohibited Investments was not identified (because GIS could not be relied upon as accurately recording the relevant investments being held) and/or where a breach of Ethical Standards was not identified in respect of non-audit fees because of a misunderstanding as to when the Ethics Partner needed to be consulted, it necessarily followed that Grant Thornton did not report to TCWG all breaches of those Relevant Requirements which were required to be reported pursuant to paragraph 63 of Ethical Standard 1 and paragraph 1.61 of Revised Ethical Standard 2016.

(ii) In respect of the identification of conflicts: (1) prior to January 2015, Grant Thornton relied on The Conflict Noticeboard to identify relationships about which TCWG should have been notified – this system relied on partners and staff at Grant Thornton identifying and notifying the engagement team of relevant relationships of which they were aware, so that their failure to do so (e.g. by simply failing to read or respond to the Conflict Noticeboard messages) might result in conflicts not being identified; (2) throughout the Relevant Period Grant Thornton relied on users of their conflict check

systems to notify audit engagement partners of potential conflicts, in circumstances where there was no procedure to confirm this took place. By reason of these deficiencies, conflicts of interest which would have impacted on Grant Thornton's independence may not have been identified and such conflicts would therefore not have been reported to TCWG.

(b) Throughout the Relevant Period, where a breach of an Ethical Standard had been identified, Grant Thornton relied exclusively upon audit engagement partners informing TCWG. As there was no procedure to confirm that this step was taking place, it followed that there was no, or inadequate, monitoring of compliance with the relevant policies and procedures.

(c) Whilst a properly maintained breaches log would have allowed the Ethics Function to monitor breaches of Ethical Standards and therefore to monitor whether these breaches were being communicated to TCWG, Grant Thornton did not maintain a formal ethics breaches log until April 2016. From that date, a log was maintained, but it consisted of a folder containing emails in the Ethics Function outlook account. That folder was used to create a spreadsheet listing breaches which was sent to the FRC on a 6-monthly basis. The Ethics Senior Manager, a key member of the Ethics Function, has described the filing system in the Ethics email mailbox as "chaotic".

ADVERSE FINDING 5:

Failings in Respect of Enforcing Policies and Procedures Relating to Independence and Objectivity

In relation to the development and implementation of policies and procedures for enforcing compliance with its policies and procedures relating to Ethical Standards generally, and independence and objectivity requirements in particular, Grant Thornton failed adequately:

(a) To establish policies and procedures designed to ensure that, in relation to each audit engagement, the audit firm and all those who are in a position to influence the conduct and outcome of the audit, acted with integrity, objectivity and independence, in breach of paragraph 16 of Ethical Standard 1 (until the Revised Standard became effective for that engagement after 17 June 2016).

(b) To establish effective organisational and administrative arrangements designed to prevent, identify, eliminate or manage and disclose any threats to its independence, in breach of paragraph 1.2D of Revised Ethical Standard 2016 (once the Revised Ethical Standard became effective in relation to each audit engagement after 17 June 2016).

(c) To establish appropriate policies, procedures and quality and control and monitoring systems in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

(d) To establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel: (i) complied with ethical requirements concerning the threat to the firm's independence from fees received for non-audit services, in breach of ISQC1 (UK and Ireland), paragraph 20; and (ii) maintained independence, by enabling the firm to identify and evaluate circumstances and relationships that created threats to its independence, in breach of ISQC1 (UK and Ireland), paragraph 21.

(e) To ensure that the relevant policies, procedures and quality control and monitoring systems were implemented and operated effectively, in breach of paragraph 1.10 of Revised Ethical Standard 2016 (after 17 June 2016).

1. Throughout the Relevant Period, Grant Thornton had no adequate enforcement mechanism in place in relation to ensuring compliance with its policies and procedures relating to Ethical Standards generally, and independence and objectivity requirements.

2. Grant Thornton had itself repeatedly identified this inadequacy but had failed to remedy it. For example, the 2015 GIS Audit stated:

> "*No disciplinary procedures are in place as required by the GTIL independence policy. Our audit revealed that some auditees non-compliant in the 2012 audit and retested in 2015 in line with GTIL policy continue to be non-compliant.* ***Recommendation****: formal disciplinary procedures should be developed and implemented as required by GTIL for non-compliance with the policy where an individual knew, or should have known, that his or her actions violated the policy*."

The same recommendation was made in the 2017 internal audit report as no adequate disciplinary process had been implemented.

3. In early 2016, Grant Thornton introduced what it described as a "red-line" policy, with this policy being extended to cover ethical breaches in November 2016 (other than breaches of GIS matters, which were covered by the policy from inception). Under the policy, partners were given penalty points for breaches of firm policy, including breaches of Ethical Standards. When a partner reached 5 points, a financial penalty was imposed. Breaches were also taken into account in assessing the annual quality grading of Partners.

4. However, this policy only applied to partners and there was no equivalent system for other members of staff. Moreover, the red line policy allowed one breach of Ethical Standards without a financial penalty being imposed.

5. The failure to establish an adequate enforcement mechanism during the Relevant Period to promote compliance with the Ethical Standards compounded the deficiencies in the firm's policies and procedures relating to Ethical Standards as described above.

ADVERSE FINDING 6:

Failure to Establish a Control Environment

Throughout the Relevant Period Grant Thornton failed to take responsibility for establishing a control environment that placed adherence to ethical principles and compliance with Ethical Standards above commercial considerations, in breach of paragraph 19 of Ethical Standard 1 (until 16 June 2016) and paragraph 1.10 of the Revised Ethical Standard 2016 (after 17 June 2016).

1. The firm's failure to achieve a control environment that placed adherence to ethical principles and compliance with Ethical Standards above commercial considerations is evidenced by the following:

   (a) The under-resourcing of the Ethics function (Adverse Finding 1);

   (b) The deficiencies in the policies and procedures themselves (Adverse Finding 2, paragraph 11; Adverse Finding 3, paragraph 6; and Adverse Finding 4, paragraph 8);

   (c) The lack of effective communication of the firm's policies and procedures to, and understanding by, its staff (Adverse Finding 2, paragraph 9; and Adverse Finding 3, paragraph (d));

(d) The inadequate monitoring of compliance with the firm's policies and procedures, including by way of recording breaches and taking remedial action when breaches were identified (Adverse Finding 2, paragraph 10; and Adverse Finding 4, paragraph (c)); and

(e) The lack of adequate enforcement action taken by the firm in respect of breaches that were identified (Adverse Finding 5).

6. BACKGROUND TO THE 2014 AUDIT AND THE SECONDMENT

6.1. Grant Thornton were the auditors for the Company for the 2014 Audit. The 2014 Audit was performed by staff at Grant Thornton's office in Manchester.

6.2. In January 2014 the Secondee was allocated as the senior audit manager. An associate director ("**the Associate Director**"), was also allocated to the 2014 Audit. To the knowledge of the audit engagement partner ("**the Audit Engagement Partner**"), the Associate Director and the Secondee, the 2014 Audit was within AQRT scope.

6.3. An audit planning meeting took place on 10 February 2014, which the Secondee did not attend. At the meeting the Finance Director of the Company ("**the Finance Director**"), asked if Grant Thornton could assist in producing the 2014 Statements as (a) the finance team was relatively inexperienced, and (b) the 2014 Statements were the Company's first as a listed entity. The Audit Engagement Partner undertook to consult Grant Thornton's Ethics Function.

6.4. In Grant Thornton's schedule of audit allocations, circulated on 6 March 2014, the Secondee was listed as the "*new manager*" for the 2014 Audit. On the same date, the Audit Engagement Partner discussed the possibility of providing year end support to the Company with the Secondee.

6.5. On 11 March 2014, the Audit Engagement Partner emailed the Secondee and the Associate Director to ask them whether they could draft an audit plan for submission to the Finance Director in advance of the Company's next board meeting scheduled for 26 March 2014.

6.6. A few minutes later, the Audit Engagement Partner emailed a director in Assurance at Grant Thornton, who assisted in monitoring audit manager work portfolios, identifying the opportunity to send the Secondee on secondment to the Company and seeking an alternative manager for the 2014 Audit.

6.7. Subsequently, on 11 March 2014, the Associate Director confirmed to the Audit Engagement Partner that they would speak to the Secondee the following day about drafting the audit plan and that they were "*sure we can sort*".

6.8. The Audit Engagement Partner emailed the Finance Director on 13 March 2014 and offered the Secondee as the secondee to the Company, noting that although they would have been audit manager, as they had "*not had any involvement* [in the audit] *to date it would not compromise the audit*".

6.9. The following day, the Audit Engagement Partner sought confirmation from the Secondee and the Associate Director that they would have enough time to complete the audit plan by Thursday, 20 March 2014.

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

6.10.1 Developments relevant to the business and the 2014 Audit;

6.10.2 Grant Thornton's risk-based approach to the 2014 Audit;

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

6.10.4 Logistics and the Grant Thornton team for the 2014 Audit; and

6.10.5 Fees and Independence Issues.

On the front page, the Audit Plan named the Secondee as senior manager. They made a time entry for 18 March of 4.5 hours on the 2014 Audit time code with the narrative "*audit plan and briefing with*" the Associate Director. On 19 March 2014, the Secondee informed the Audit Engagement Partner that they had drafted the Audit Plan.

6.11. The Associate Director reviewed the Audit Plan on 19 March 2014 and did not challenge the Secondee's title as "Audit Manager". The Secondee then sent the draft Audit Plan to the Audit Engagement Partner for comments. By reply email, the Audit Engagement Partner undertook to review the Audit Plan in detail the following day. The Audit Engagement Partner also noted two issues that needed to be discussed with the Ethics Partner:

> *"We need to clear the fees through* [the Ethics Partner] *as non audit > audit … could you liaise with [them] on this next week please, shout if you need*

my input. I have not liaised with [them] on potential secondment but will pick this up if [the Finance Director] *wants to take it to the next stage*."

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

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

6.13. On 27 March 2014, the Audit Engagement Partner emailed the Secondee in the following terms:

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

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

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

6.14. The Secondee responded by email the same day in the following terms:

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

6.15. By email dated 30 March 2014, the Audit Engagement Partner sought approval for the secondment from the Ethics Senior Manager, in the following terms:

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

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

This is very similar to a secondment that the same senior manager [previously] *undertook …* [and] *which you approved a couple of months ago. The secondment will observe the same protocols you required for* [the previous secondment]*, ie anything prepared by the secondee will be reviewed by me and they will at all times act under the direction of the FD who has Plc experience.*

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

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

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

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

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

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

6.18. These provisions were reflected in Grant Thornton's Ethics Memorandum 50, which provided that:

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

6.19. On 31 March 2014, the Ethics Senior Manager asked the Audit Engagement Partner if they could discuss their proposal as "*I am not clear from your email what the emergency situation is*".

6.20. The Audit Engagement Partner subsequently submitted an Ethics Query Form to the Ethics Senior Manager, setting out the details of the proposed secondment and the justification for it, on 31 March 2014. In the form they elaborated on their justification for the secondment:

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

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

In addition to this their existing financial controller (who was with the business pre IPO) has recently resigned. Although [their] notice period will take [them] through to the end of the audit fieldwork, [they] do not have the necessary experience to support the finance director in closing the year end, in particular [they are] not experienced in drafting plc accounts and IFRS. There

is also a key risk that [they] will have left the business before they announce their full year results.

We have been asked to provide an experienced manager on a short term secondment to support the year end close, specifically draft the first full set of plc accounts and provide supporting schedules to the auditors and other ad hoc activities. I consider that the lack of experienced individuals combined with the recent resignation of their only financial controller means if we did not accept the assignment it would create a severe burden for the audited entity in so far as it might jeopardise the ability of the entity to prepare their year-end accounts in a timely manner which could create going concern and trading problems. The manager seconded will have no involvement in the audit of the business for the current and future years. They will also act at all times under the direction of the experienced finance director and will not be taking decisions or exercising judgments that are the responsibility of management."

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

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

"*I do view this as an emergency situation given the facts supplied. You are able to complete this assignment as long as appropriate safeguards are carried out:*
- supervised/reviewed by informed management
- mechanical entry only, no management type decisions (including mapping of tb to accounts)
- not involved in the audit for one (possibly 2) years after the secondment
- if the secondee is a manager, then any audit work on this should be at a more senior level to safeguard against familiarity/intimidation"

6.23. There is no evidence that the Ethics Senior Manager discussed the secondment with the Ethics Partner. Moreover, the fact that non-audit fees exceeded audit fees for the

Company was not mentioned in the Ethics Query Form and it is inferred that the issue was not raised by the Audit Engagement Partner or considered by the Ethics Senior Manager before they granted approval.

6.24. On 2 April 2014, the Audit Engagement Partner emailed the Secondee as follows: "*I know you have already raised this with me, but please could you make sure you have not charged any time to the 2014 audit code*". On 4 April 2014, the Audit Engagement Partner emailed the Finance Director summarising a meeting they, and the Secondee, had attended on 1 April 2014 to discuss the Secondment and the relevant independence issues. The Audit Engagement Partner set out the reasons for the Secondment as well as the broad restrictions on the work that the Secondee would be able to do, stating thatthey *"…[are] a senior manager … who has extensive plc experience and has not been involved in the audit of the Company in the recent past*". The Audit Engagement Partner sought the Finance Director's approval for the Secondment on those terms and recommended that it be formally approved by the audit committee chair (the "**Audit Committee Chair**"). The restrictions proposed by the Audit Engagement Partner were:

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

6.25. The Audit Engagement Partner did not contact Grant Thornton's Ethics Function about the non-audit fee issue until 11 April 2014. On that day they emailed the Ethics Partner, copying the Ethics Senior Manager, in the following terms:

> "*I am RI for* [the Company]*, a business who listed on AIM last summer, market cap approx. £120m. I have been reviewing fees and identified that our non audit fees in the year significantly exceed audit fees, mainly in relation to fees pre IPO for our role as reporting accountant on IPO and a pre IPO acquisition DD assignment. I have discussed non audit fee with the management team and audit chair and they are comfortable with non audit fees in the year on the basis they are non recurring and unlikely to remain at this level going forward. The audit chair will be setting a policy of non audit fees being restricted to 250% of the audit fee in future years. I have analysed below the non audit fees.*
> *I have consulted with* [the Ethics Senior Manager] *on the ongoing staff secondment and communicated the safeguards and restrictions to the FD and audit chair. Audit fee is 40k, and year end 30 April. Please let me know if you consider we need to document more or communicate any further with the client in relation to non audit fees.*"

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

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

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

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

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

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

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

6.31. On 25 June 2014:

6.31.1 The Audit Engagement Partner emailed the Associate Director in relation to the Company and said: "*Please can you check to see who is down as the billing manager for this and check that there is no time on the audit code for* [the Secondee]"; and

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

6.32. During interviews with the FRC:

6.32.1 The Audit Engagement Partner denied that they had asked the Secondee to delete the time from PMS but accepted that they had asked them to transfer it. Part of their reason for asking the Secondee to transfer their time off the 2014 Audit code was that they believed an independent observer may raise questions about Grant Thornton's independence if they saw that the Secondee had recorded time on the 2014 Audit and then had also been seconded to the Company.

6.32.2 The Secondee also said that: "*I think the reason I'm asked to take it out* [i.e. transfer their time off the 2014 Audit code] *is so that my name isn't on the audit code. So when people print a list of everybody who has charged time to the audit my name is not on it because then I went on to do a secondment*".

6.32.3 On 26 June 2014 Grant Thornton presented its Audit Findings report to the Company. The presentation includes a slide entitled "*Non-audit fees and independence*". In relation to the Secondment, the slide records that the safeguard of using separate engagement teams had been imposed and that Grant Thornton had "*reviewed activities, discussed the specific work undertaken with the individual seconded and consulted with the board and finance director*." Grant Thornton concluded that: "*Based on these enquiries we consider the independence safeguards have been satisfactory and the independence requirements communicated to the audit committee on 11 April have been observed. For completeness we attach these as an appendix to the report*." No appendix was attached to the slides in the version which Grant Thornton provided, although the safeguards were referred to in the Company's representations letter dated 11 July 2014 (see paragraph 6.33 below). Although the Audit Engagement Partner had emailed the final Audit Plan to the Finance Director on 11 April 2014, the independence requirements were also not contained in that document. The reference to the "*independence requirements communicated to the audit committee on 11 April*" is therefore presumably meant to be a reference to the email the Audit Engagement Partner sent to the Finance Director on 4 April 2014 in which the Audit Engagement Partner recommended that they be approved by the Audit Committee Chair. There is no direct record of such approval having been given at that time, though the Finance Director did confirm that they had passed the email to the Audit Committee Chair and was "*happy we can proceed on this basis*".

6.32.4 On 9 July 2014, the Associate Director emailed the Secondee seeking their confirmation that their role at the Company had "*not been outside any of the points*

raised by the ethics team […] and thus independence had been maintained". On 10 July 2014, the Secondee emailed the Associate Director to confirm that they carried out their role at the Company without breaching the restrictions set out in the Audit Engagement Partner's original email to the Finance Director on 4 April 2014 and asserted that "*I have remained independent of the audit throughout the time of my secondment*."

6.33. Grant Thornton's Audit Finding Document dated 26 June 2014, stated that the firm had implemented independence safeguards to meet the requirements of the FRC's Ethical Standards. In a letter to Grant Thornton dated 11 July 2014 the Company said: "*We can confirm that independence safeguards introduced for the staff secondment have been observed as outlined in the Audit Findings Document, and all decisions on the financial statements have been made by management and the Board*." The same day the Company approved and signed the 2014 Statements and the Audit Engagement Partner signed the auditor's report to them.

6.34. The Company announced its full year end results on 14 July 2014.

7. ADVERSE FINDINGS IN RELATION TO THE 2014 AUDIT AND THE SECONDMENT

ADVERSE FINDING 7:

The Secondment was prohibited by the Ethical Standards

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

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

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

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

3. The Company listed on the AIM market in August 2013 and was therefore a listed company for part of the 2014 financial year.

4. "*Accounting services*" was defined in paragraph 156 of Ethical Standard 5 "*as the provision of services that involve the maintenance of accounting records or the preparation of financial statements that are then subject to audit*…." Paragraph 157 expressly includes as an example, where the audited entity is requesting assistance "*with the preparation of … the financial statements*". As the Secondee was primarily seconded to the Company to assist with the preparation of its 2014 Statements, they were providing accounting services within the meaning of Ethical Standard 5.

5. The Company was, however, not facing an "emergency situation" within the meaning of paragraph 164 of Ethical Standard 5 at the time that the Secondment was approved by Grant Thornton, nor at the time that the Secondment began. The reason cited by the Audit Engagement Partner, and approved by the Ethics Senior Manager, for concluding that the Company was facing an emergency situation was that the company did not have sufficiently experienced personnel to prepare its 2014 Statements in a timely fashion. However:

   (a) The fact that this was not an "emergency situation" is evidenced by the significant amount of time taken by the Audit Engagement Partner between first becoming aware that the Company wanted assistance with the 2014 Statements (on 10 February 2014) and their seeking approval for that secondment (on 30 March 2014).

   (b) The Secondee did not have any specific knowledge concerning the Company that was essential to the preparation of the 2014 Statements. Prior to March 2014, the Secondee had not been involved in the audit of the Company, and nor had they had any other professional dealing with the company. Further, the accounting services that the Company required were generic services which did not require specific knowledge of the business. Accordingly, the Company did not require the

Secondee, or any other person from Grant Thornton, to provide the accounting services, which could be equally well done by another competent accountant.

(c) The work required by the Company amounted to approximately 18 days' work, which the Secondee delivered between 29 April and 10 July 2014.

(d) As noted above, the filing deadline for the Company to publish its 2014 Statements was 31 October 2014, more than eight months after the Company first notified Grant Thornton of its need for assistance, and seven months after the Audit Engagement Partner requested approval from Grant Thornton's Ethics Function. This left sufficient time for the Company to locate an accountant at another audit firm who could assist with the preparation of its 2014 Statements.

(e) The Company did not publicly announce its intention to publish its 2014 Statements on 17 July 2014 (or at any other time prior to 31 October 2014) until 7 May 2014, which was more than one month after the Ethics Senior Manager had formally approved the Secondment. Thus, prior to 7 May 2014, there was no pressure on the Company to announce its year end results before 31 October 2014. Grant Thornton's refusal to provide the accounting services would not therefore have resulted "*in a severe burden for the audited entity (for example, withdrawal of credit lines), or … threaten its going concern status*" (paragraph 164 of Ethical Standard 5). The Company could have announced that it intended to announce its final results at some later date up to and including 31 October 2014.

(f) In any event, even if the Company had made its intention to announce its results on 17 July 2014 public at the end of March 2014, when the Audit Engagement Partner sought approval from Grant Thornton's Ethics Function and the Ethics Senior Manager orally approved it, there was still three and a half months left before the self-imposed deadline. That was equally sufficient for the Company to locate an accountant at another audit firm who could assist with the preparation of its 2014 Statements. Alternatively, in April or May, the Company could have announced to the market that it intended to announce its year end results at a date later than originally proposed, up to and including 31 October 2014, due to the departure of key financial personnel (namely its Financial Controller and, separately, Finance Director). This would not have resulted in a severe burden for the Company or threatened its going concern status.

6. Further the Secondee had been involved in the 2014 Audit prior to commencement of the Secondment:

(a) In drafting the Audit Plan, the Secondee had performed work towards the 2014 Audit, including:

(i) Identifying significant risks in relation to the 2014 Audit, including risks related to goodwill and intangible assets as a result of the Company group acquiring the share capital of another company during the year.

(ii) Identifying other "reasonably possible risks" including inventory, revenue and operating expenses.

(iii) Categorising risks in terms of the level of risk (high, medium, low or remote); whether the risk was material or potentially material; planned control reliance; and the planned extent of substantive testing (enhanced, standard or limited).

(iv) Setting out the non-audit services that Grant Thornton's teams had provided to the Company and the fees charged (although the first draft identified only £61,500 of the non-audit services that had been provided; the remaining non-audit services were identified in subsequent drafts).

(b) After drafting the Audit Plan, the Secondee was involved in further discussions concerning the plan:

(i) The Audit Engagement Partner emailed the Secondee and the Associate Director on 19 March 2014, after receiving the draft plan, noting their initial thoughts and raising questions, including about non-audit fees.

(ii) The Secondee responded to the Audit Engagement Partner's email the following morning, commenting on the non-audit fees and undertaking to make further updates to the plan.

(iii) The Secondee subsequently sent a further email to the Associate Director concerning non-audit fees and was copied into a series of emails between the Audit Engagement Partner and the Associate Director finalising the draft to be sent to the Finance Director.

7. In the light of the matters set out above, in seconding the Secondee to the Company to assist with the preparation of the 2014 Statements, Grant Thornton agreed to provide accounting services to a listed audited entity in circumstances in which it was not an emergency situation and the Secondee had been involved in the 2014 Audit, with the

result that the exemption in paragraph 164 of Ethical Standard 5 did not apply and Grant Thornton was consequently in breach of paragraph 160 of Ethical Standard 5 for having provided a prohibited service and thereby paragraph 14 of ISA 200.

ADVERSE FINDING 8:

Failure to adequately assess the threat to Grant Thornton's independence

For the reasons set out below, before the Secondment was authorised, Grant Thornton's audit engagement partner and therefore Grant Thornton failed adequately:

(a) to consider whether it was probable that a reasonable and informed third party would conclude that the auditor's objectivity was or was likely to be impaired in relation to the 2014 Audit;

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

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

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

1. The Audit Engagement Partner should have, but did not, specifically consider whether it was probable that a reasonable and informed third party would conclude that the auditor's objectivity was or was likely to be impaired in relation to the 2014 Audit because it could be perceived as evaluating its own work thereby threatening the perception of independence. The Audit Engagement Partner also failed to identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.

2. Although the Audit Engagement Partner and the Ethics Senior Manager correctly identified the relevance of paragraphs 160 and 164 of Ethical Standard 5, and therefore that the Secondment was prohibited unless there was an "emergency situation" and safeguards were applied, for the reasons given above, they incorrectly concluded that the circumstances of the Secondment fell within the scope of the exemption in paragraph 164. In the circumstances, that conclusion was plainly incorrect.

3. Whilst Grant Thornton sought to identify appropriate safeguards for the Secondment, they should have, but did not, adequately identify and assess the significance of the

threat posed by the proposed secondment to their perceived independence. Consequently, they failed to conclude that the threat posed from the Secondment could not be eliminated or reduced to an acceptable level, and consequently should not have been taken on. In particular:

(a) There is no evidence that the Secondment was at any stage considered by the Ethics Partner: (i) before it was approved; (ii) when the issue was raised with the Ethics Function that the non-audit fees for the Company had exceeded audit fees; or (iii) at any time prior to the 2014 Statements being signed. The Executive Counsel infers that the Ethics Partner was not consulted and consequently was not asked to assess the independence threat created by the Secondment at all.

(b) The fact that the Secondee had been involved in drafting the Audit Plan was not considered, whether adequately or at all:

    (i) the Ethics Senior Manager did not consider the Secondee's involvement when approving the Secondment, because the Audit Engagement Partner failed to inform them of it.

    (ii) As noted above at paragraph 6.32, the Audit Engagement Partner was aware that the Secondee's work on the Audit Plan impacted upon Grant Thornton's perceived independence. Despite that awareness, the Audit Engagement Partner did not consider whether the threat meant that the Secondee should not have been seconded, or what safeguards might have been appropriate given their involvement in the Audit Plan.

ADVERSE FINDING 9:

Lack of independence During the 2014 Audit

For the reasons set out below, by the conclusion of the 2014 Audit, the Audit Engagement Partner should have concluded: (i) that Grant Thornton was not independent, in that it was probable that a reasonable and informed third party would conclude that its objectivity either was impaired or was likely to be impaired; and (ii) that the threats to its independence could not, and had not been, addressed. In failing so to conclude, and in continuing instead to give their audit opinion, Grant Thornton

thereby breached paragraphs 6 and 54 of Ethical Standard 1, and thereby paragraph 14 of ISA 200; and paragraph 11 of ISA 220.

1. As noted above, (i) in its Audit Findings document dated 26 June 2014 Grant Thornton stated that it had implemented independence safeguards to meet the requirements of the FRC's Ethical Standards; and (ii) in the auditor's report to the 2014 Statements Grant Thornton stated that, in performing the 2014 Audit, Grant Thornton had complied with the Ethical Standards. In a letter to Grant Thornton dated 11 July 2014 the Company said: "*We can confirm that independence safeguards introduced for the staff secondment have been observed as outlined in the Audit Findings Document, and all decisions on the financial statements have been made by management and the Board*."

2. However, contrary to those statements, for the reasons given above:

   (a) The Secondment had constituted a prohibited service pursuant to the Ethical Standards in circumstances where it was not an emergency situation and did not comply with the further requirements set out at Ethical Standard 5 paragraph 164(a).

   (b) In all the circumstances, the Secondment posed a threat to its independence which could not be adequately addressed, and consequently should not have been taken on by Grant Thornton.

3. In the circumstances, Grant Thornton were not in a position to make the independence statements referred to at paragraph 1 above and should instead have concluded that Grant Thornton was not independent, and that any threats to its independence could not be addressed, and nor was Grant Thornton in a position to state that they had complied with the Ethical Standards.

ADVERSE FINDING 10:

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

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

1. As described above, the first time that the Ethics Partner was consulted in relation to the independence threat posed by the fact that the fees for non-audit services provided to the Company exceeded the fees for audit services, was the Audit Engagement Partner's email to the Ethics Partner on 11 April 2014.

2. By that point, the fees for non-audit services had already significantly exceeded the fees for audit services.

3. [redacted] Instead, the Ethics Senior Manager dealt with the Audit Engagement Partner's inquiry.

ADVERSE FINDING 11: Failure to notify TCWG

For the reasons set out below, Grant Thornton's audit engagement partner and therefore Grant Thornton failed to ensure that TCWG at the Company were appropriately informed on a timely basis of all significant facts and matters bearing on Grant Thornton's objectivity and independence in relation to the provision of non-audit services, in breach of paragraph 63 of Ethical Standard 1 and paragraph 48 of Ethical Standard 5, and thereby paragraph 14 of ISA 200.

1. As noted above, in relation to the independence issues created by the Secondment, Grant Thornton notified TCWG at the Company as follows:

   (a) By email to the Finance Director dated 4 April 2014, the Audit Engagement Partner set out the reasons for the Secondment as well as the restrictions on the work that the Secondee would be able to do. The Audit Engagement Partner incorrectly stated that the Secondee "*has not been involved in the audit of* [the Company] *in the recent past*". The Audit Engagement Partner sought the Finance Director's approval for the Secondment on those terms and recommended that it be formally approved by the Audit Committee Chair. By reply email the same day, the Finance Director said that "*I have passed onto* [the Audit Committee Chair] *for approval and am happy we can proceed on this basis*". There is no evidence that The Audit Committee Chair's, or the Audit Committee's, approval was in fact obtained.

   (b) The Audit Engagement Partner forwarded the final Audit Plan to the Finance Director on 11 April 2014. In their covering email the Audit Engagement Partner noted that Grant Thornton would *"get the engagement letter* [for the Secondment]

drafted next week and [the Secondee] *will liaise with you on specific dates*". The Audit Plan relevantly noted that "*we are currently in discussions with the management team to engage for the … secondment of a senior manager from our audit team to support the year end close process. Appropriate consideration will be given to our independence before accepting the assignments*." The Audit Plan did not otherwise refer to the Secondment and, in particular, did not contain any indication that the Secondee had performed work on the Audit Plan. It stated that apart from the matters referred to "*there are no other significant facts or matters which impact on our independence that we are required or wish to draw your attention*."

(c) In their email to the Finance Director on 11 April 2014, the Audit Engagement Partner also noted that: "[they] *had a really good meeting with* [the Audit Committee Chair] *yesterday, went through non audit fees and the audit plan. [The Audit Committee Chair] also outlined [their] thinking for a policy on the provision of non audit fees going forward which [they] will no doubt share with you, but seems entirely sensible*." There is, however, no evidence that the threat caused to Grant Thornton's independence by the fact that non-audit fees exceeded audit fees (whether independently or cumulatively with the other relevant matters described above) was ever communicated to the Audit Committee Chair or the Audit Committee, before the Audit Findings report.

(d) On 26 June 2014 the Audit Engagement Partner presented the Audit Findings report to the Company. The presentation includes a slide entitled "*Non-audit fees and independence*". In relation to the Secondment, the slide states that the safeguard of using separate engagement teams had been imposed (although this was incorrect, given that the Audit Engagement Partner was assigned to review the Secondee's work) and that Grant Thornton had "*reviewed activities, discussed the specific work undertaken with the individual seconded and consulted with the board and finance director*." Grant Thornton concluded that: "*… we consider the independence safeguards have been satisfactory and the independence requirements communicated to the audit committee on 11 April have been observed. For completeness we attach these as an appendix to the report*." No appendix containing the safeguards was attached in the version which Grant Thornton provided, although the safeguards were referred to in the Company representations letter dated 11 July 2014 (see below). There is also no evidence that the independence requirements were communicated to the Audit Committee

on 11 April 2014: in particular, they were not attached to the Audit Plan. The Audit Findings document also confirmed that Grant Thornton had implemented independence safeguards to meet the requirements of the FRC's Ethical Standards. In a letter to Grant Thornton dated 11 July 2014 the Company said: "*We can confirm that independence safeguards introduced for the staff secondment have been observed as outlined in the Audit Findings Document, and all decisions on the financial statements have been made by management and the Board*."

2. In these circumstances, Grant Thornton failed to notify TCWG:

(a) That the Secondment was prohibited by paragraph 160 of Ethical Standard 5;

(b) That there were no safeguards that could have been put in place to reduce to an acceptable level the threat to Grant Thornton's independence created by the Secondment; and

(c) That the Secondee had worked on the Audit Plan. Although the Finance Director was aware that the Secondee was listed as senior manager on the first draft of the Audit Plan, they were not informed that the Secondee had been involved in its drafting and, in any event, there is no evidence that the Secondee's involvement was communicated to the Audit Committee Chair or any other member of the Audit Committee.

8. SANCTIONS

8.1. Paragraph 12 of the *Sanctions Policy (Audit Enforcement Procedure) (effective from 1 June 2018)* (the "Policy") provides that the primary purpose of imposing *sanctions* for breaches of *Relevant Requirements* is not to punish, but to protect the public and the wider public interest.

8.2. Executive Counsel proposes the following *sanctions* against Grant Thornton:

8.2.1 A fine of £3,000,000 discounted for admissions and early disposal by 35% to £1,950,000;

8.2.2 A published statement in the form of a severe reprimand.

8.2.3 A declaration that, as a result of the Adverse Findings summarised at paragraphs 2.8 to 2.12 above, the 2014 Audit did not satisfy the Relevant Requirements.

8.2.4 A package of non-financial sanctions encompassing: (1) the establishment and oversight by an Ethics Board of the firm's compliance with ethical standards and requirements which will report annually in writing for three years to the FRC's Executive Counsel and Head of Supervision (2) a review by Grant Thornton of the Ethics Function to identify any skills/resource gaps (3) increased training to staff on relevant ethical issues (4) further improvements by Grant Thornton in its policies and procedures to ensure compliance with ethical standards and requirements.

8.3. In reaching this decision, Executive Counsel has, in summary, considered the following:

Nature, extent and importance of the Relevant Requirements and the gravity and duration of the breaches.

8.4. In relation to Adverse Findings 1 to 6 Grant Thornton breached very important standards designed to preserve the integrity, objectivity and independence of audit. In a number of areas their firm wide policies and procedures designed to ensure compliance with the Ethical Standards and monitoring and communication of the same were defective and therefore constituted breaches of the International Standard on Quality and Control. Overall, Grant Thornton failed to take responsibility for ensuring an appropriate control environment that placed adherence to ethical principles and compliance with Ethical Standards above commercial considerations including, in (addition to defective policies and procedures) failing adequately to resource its Ethics Function and enforce individual breaches of Ethical Standards by its partners and staff. Grant Thornton's breaches were repeated and ongoing, took place over a relatively long period (up to 3 years) and resulted in numerous breaches of Ethical Standards by its partners and staff. Given the admitted weaknesses in the control environment, relevant policies and procedures and monitoring of the same, there is also the real risk of breaches in relation to individual audits which have not been, and will never be, reported or identified.

8.5. In relation to Adverse Findings 7 to 11, Grant Thornton undertook the audit and provided an unqualified audit opinion to the Company in circumstances where the threats to independence were such that Grant Thornton should not have continued with the audit engagement.

8.6. The breaches related to the effectiveness of its relevant procedures, systems and internal control and its implementation of ISQC1.

8.7. The breaches are very likely to undermine confidence in the standards of conduct in general of Statutory Audit Firms.

8.8. The breaches were not dishonest, deliberate or reckless.

Identification of Sanction

8.9. Having assessed the seriousness of the breaches Executive Counsel has identified the following combination of sanctions as appropriate: a fine of £3,000,000; a severe reprimand; a declaration that the Audit breached Relevant Requirements; and a package of non-financial sanctions as summarised at paragraph 8.2.4 above.

8.10. Executive Counsel has then considered any aggravating and mitigating factors that exist (to the extent that they have not already been taken into account in relation to seriousness).

Aggravating factors

8.11. Grant Thornton's disciplinary history:

8.11.1 In 2019, Grant Thornton was fined £650,000 (discounted for admissions and early disposal to £422,500) in relation to its statutory audit of a publicly listed company and subject to a declaration that the firm's 2016 audit report did not satisfy certain Relevant Requirements.

8.11.2 In 2018, Grant Thornton was fined £4,000,000 (reduced to £3,000,000 for early settlement) and issued with a severe reprimand for Misconduct in relation to the loss of independence of its statutory audits of Nichols Plc and the University of Salford for the years ended 2010-2013 inclusive and for related serious and widespread inadequacies in its Manchester Office's control environment and deficiencies in certain of its firmwide policies relating to retiring partners.

8.11.3 In 2017, Grant Thornton was fined £3,500,0000 (reduced to £2,275,000 for early settlement) and issued with a severe reprimand for Misconduct in relation to its statutory audit of AssetCo plc for the years ended 31 March 2009 and 31 March 2010.

8.11.4 In 2015, Grant Thornton was fined £1,600,000 (reduced to £975,000 for early settlement) and issued with a severe reprimand for Misconduct in relation to its statutory audit of Manchester Building Society for the financial year ended 31 December 2012.

Mitigating factors

8.12. Grant Thornton has demonstrated contrition and apologised for the Misconduct.

8.13. The Executive Counsel has taken into account certain remedial steps that Grant Thornton has taken both independently and in response to Audit Quality Review findings to address the shortcomings identified in the Adverse Findings.

Other considerations

8.14. Executive Counsel has taken into account the full admissions by Grant Thornton and the stage at which those admissions were made (in Stage 1 of the case in accordance with paragraph 84 of the Policy), Executive Counsel determined that a reduction of 35% as to the fine is appropriate, such that a fine of £1,950,000 is payable.

8.15. In accordance with paragraph 47(c) of the Policy, Executive Counsel has taken into account the size/financial resources and financial strength of Grant Thornton and the effect of a financial penalty on its business.

9. COSTS

9.1. The Respondents will pay the FRC's costs in full in this matter, being £207,000.

Signed:

CLAUDIA MORTIMORE

DEPUTY EXECUTIVE COUNSEL

Date: 26 March 2020

Appendix A

Extracts of the Relevant Requirements relevant to the Adverse Findings

Ethical Standard 1

1. Paragraph 6 requires auditors to "*conduct the audit of the financial statements of an entity with integrity, objectivity and independence."*

2. Paragraph 16 requires the audit firm to "*establish policies and procedures, appropriately documented and communicated, designed to ensure that, in relation to each audit engagement, the audit firm, and all those who are in a position to influence the conduct and outcome of the audit, act with integrity, objectivity and independence*."

3. Paragraph 19 states that "*the leadership of the audit firm shall take responsibility for establishing a control environment within the firm that place adherence to ethical principles and compliance with APB Ethical Standards above commercial considerations*."

4. Paragraph 22 provides as follows:

> *Save where the circumstances contemplated in paragraph 26 apply, the audit firm shall designate a partner in the firm ('the Ethics Partner') as having responsibility for:*
>
> *(a) the adequacy of the firm's policies and procedures relating to integrity, objectivity and independence, its compliance with APB Ethical Standards, and the effectiveness of its communication to partners and staff on these matters within the firm; and*
>
> *(b) providing related guidance to individual partners with a view to achieving a consistent approach to the application of the APB Ethical Standards.*

5. Paragraph 54 provides as follows:

> *At the end of the audit process, when forming an opinion but before issuing the report on the financial statements, the audit engagement partner shall reach an overall conclusion that any threats to objectivity and independence on an individual and cumulative basis have been properly addressed in accordance with APB Ethical Standards. If the audit engagement partner*

cannot make such a conclusion, he or she shall not report and the audit firm shall resign as auditor.

6. Paragraph 63 requires audit engagement partners to "*ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence*."

Ethical Standard 5

7. Paragraph 17 provides as follows:

> *Before the audit firm accepts a proposed engagement to provide a non-audit service, the audit engagement partner shall:*
>
> *(a) consider whether it is probable that a reasonable and informed third party would regard the objectives of the proposed engagement as being inconsistent with the objectives of the audit of the financial statements; and*
>
> *(b) identify and assess the significance of any related threats to the auditor's objectivity, including any perceived loss of independence; and*
>
> *(c) identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.*

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

9. Paragraph 48 provides as follows:

> *The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of:*
>
> *(a) all significant facts and matters that bear upon the auditor's objectivity and independence, related to the provision of non-audit services, including the safeguards put in place; and*
>
> *(b) for listed companies, any inconsistencies between APB Ethical Standards and the company's policy for the supply of non-audit services by the audit firm and any apparent breach of that policy.*

10. Paragraph 160 prohibits audit firms from undertaking "*an engagement to provide accounting services to: (a) an audited entity that is a listed company or a significant affiliate of such an entity, save where the circumstances contemplated in paragraph 164 apply*"

11. Paragraph 164 provides as follows:

> *In emergency situations, the audit firm may provide a listed audited entity, or a significant affiliate of such a company, with accounting services to assist the company in the timely preparation of its financial statements. This might arise when, due to external and unforeseeable events, the audit firm personnel are the only people with the necessary knowledge of the audited entity's systems and procedures. A situation could be considered an emergency where the audit firm's refusal to provide these services would result in a severe burden for the audited entity (for example, withdrawal of credit lines), or would even threaten its going concern status. In such circumstances, the audit firm ensures that:*
>
> *(a) any staff involved in the accounting services have no involvement in the audit of the financial statements; and*
>
> *(b) the engagement would not lead to any audit firm staff or partners taking decisions or making judgments which are properly the responsibility of management*

Revised Ethical Standard 2016

12. Part B, paragraph 1.2D requires the firm to "*establish appropriate and effective organisational and administrative arrangements: (a) that are designed to prevent, identify, eliminate or manage and disclose any threats to its independence* …"

13. Part B, paragraph 1.10 provides as follows:

> *The senior management of the firm, and those with direct responsibility for the management of the firm's audit and other public interest assurance business, shall establish appropriate policies, procedures and quality control and monitoring systems; dedicate appropriate resources and leadership to compliance with supporting ethical provision 1.1; and make appropriate arrangements with network firms to ensure compliance as necessary across the network. The firm shall ensure that such appropriate policies, procedures*

and quality control and monitoring systems are implemented and operated effectively.

14. Part B, paragraph 1.21 provides as follows:

> *To be able to discharge his or her responsibilities, the Ethics Partner shall be provided with sufficient staff support and other resources (the Ethics Function), commensurate with the size of the firm. Alternative arrangements shall be established to allow for:*
> - *the provision of guidance on those audits or other public interest assurance engagements where the Ethics Partner is the engagement partner; and*
> - *situations where the Ethics Partner is unavailable, for example due to illness or holidays.*

ISQC 1

15. Paragraph 20 requires the audit firm to "*establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements*."

16. Paragraph 21 provides as follows:

> *The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to:*
> *(a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and*
> *(b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is permitted by law or regulation.*

17. Paragraph 48 provides:

> *The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system*

of quality control are relevant, adequate, and operating effectively. This process shall:

(a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;

(b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and

(c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.

18. Paragraph 49 provides:

The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:

(a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or

(b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

ISA 200

19. Paragraph 14 requires auditors to "*comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.*"

ISA 220

20. Paragraph 11 provides as follows:

The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:

(a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;

(b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and

(c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.