Edited for publication

IN THE MATTER OF

THE EXECUTIVE COUNSEL OF THE FINANCIAL REPORTING COUNCIL

-and-

(1) CROWE U.K. LLP

(2) NIGEL BOSTOCK

FINAL SETTLEMENT DECISION NOTICE

Pursuant to Rule 108 of the Audit Enforcement Procedure

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

1. INTRODUCTION

1.1. The Financial Reporting Council (the "**FRC**") is the competent authority for statutory audit in the UK and operates the Audit Enforcement Procedure (the "**AEP**"), revised in June 2023. 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 Settlement Decision Notice* concerns breaches of *Relevant Requirements* arising from audits of the financial statements of Akazoo Limited ("**Akazoo**") performed by Crowe U.K. LLP, and uses the following definitions:

1.3.1. "**FY16**" means the financial year ended 31 December 2016, **"FY17"** means the financial year ended 31 December 2017 and **"FY18"** means the financial year ended 31 December 2018. "**2016 Audit**", "**2017 Audit**" and "**2018 Audit**" mean the statutory audits of the financial statements for each of the respective financial years, together "**the Audits**".

1.3.2. **"Respondents"** means:

1.3.2.1. Crowe U.K. LLP ("**Crowe**") which was the *Statutory Audit Firm* for the Audits.

1.3.2.2. Nigel Bostock, who was the *Statutory Auditor* responsible for the Audits. Mr Bostock is a member of the Institute of Chartered Accountants in England and Wales (the "**ICAEW**") and a partner of Crowe.

1.4. Quotes from documents in this Final Settlement Decision Notice are verbatim and 'sic' is not used.

1.5. In accordance with Rule 102 of the AEP, Executive Counsel entered into settlement discussions with the Respondents.

1.6. A *Proposed Settlement Decision Notice* concerning the conduct of the Respondents in respect of the Audits was issued by Executive Counsel pursuant to Rule 103 of the AEP on 12 July 2024. Pursuant to Rule 105 of the AEP the Respondents provided written agreement to the *Proposed Settlement Decision Notice* on 19 July 2024. The *Convener* subsequently appointed an *Independent Reviewer*, pursuant to Rule 106 of the AEP, to consider the *Proposed Settlement Decision Notice.*

1.7. On 9 August 2024, the *Independent Reviewer* approved the issuance of this *Final Settlement Decision Notice* pursuant to Rule 107(a) of the AEP.

1.8. In accordance with Rule 108 of the AEP this *Final Settlement Decision Notice* sets out:

1.8.1. the breaches of *Relevant Requirement(s)*, with reasons;

1.8.2. the *Sanctions* imposed on the Respondents with reasons;

1.8.3. the amount payable by the Respondents in respect of Executive Counsel's Costs.

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

1.9.1. Section 2: Executive Summary

1.9.2. Section 3: Background;

1.9.3. Section 4: *Relevant Requirements*;

1.9.4. Section 5: Breaches of *Relevant Requirements*;

1.9.5. Sections 6 and 7: *Sanctions*;

1.9.6. Section 8: *Costs*.

2. EXECUTIVE SUMMARY

2.1. This *Final Settlement Decision Notice* sets out breaches of *Relevant Requirements* in the following seven areas:

2.1.1. **Breach Area 1: Failure to obtain a sufficient understanding of the business and the control environment, and to address the risk of misstatement due to fraud.**

In each of the Audits there was no proper consideration of Akazoo's business model and the Respondents did not obtain a sufficient understanding of the key risks and any controls in place to mitigate those risks. There was also insufficient consideration of the risks of misstatement due to fraud and no substantive discussion relating to fraud, tailored to the specific risks posed by Akazoo's business model.

2.1.2. **Breach Area 2: Failure to obtain sufficient audit evidence relating to revenue and, in the 2018 Audit, a failure properly to audit the implementation of IFRS 15.**

In each of the Audits, there is no evidence that, as planned, the Audit Team agreed revenue items to any independent source of evidence to establish that the sales had occurred. In the 2018 Audit, the Respondents did not perform a sufficiently thorough review and assessment of management's implementation of IFRS 15 and failed to consider whether management had adopted the mandated 'five-step' model.

2.1.3. **Breach Area 3: Failure to obtain sufficient audit evidence of settlement of debtor balances.**

In each of the Audits, the Respondents planned to obtain evidence over the recoverability of debtor balances by reviewing payments received post year end. However, no payments were checked by reference to cash receipts recorded in bank statements, or any other third party evidence. During the 2017 Audit, reliance was placed on a representation that the Aggregators' certain debtor balances had been settled in cash but by the 2018 Audit, it was apparent to the Respondents that no cash at all had been received from the relevant debtors during FY18, and it should have been apparent that the representation during the 2017 Audit was incorrect. Further, in the 2018 Audit, the Respondents understood that a significant proportion of the year end debtor balance had been discharged by "non-cash transactions" but the audit work on those transactions was inadequate.

2.1.4. **Breach Area 4: Failures in the process of obtaining external confirmations of debtor balances.**

In each of the Audits, there were numerous and repeated failures to follow the requirements of the applicable standard and to have regard to the accompanying guidance, both in relation to the process for requesting confirmations and in evaluating the responses received. On the 2017 and 2018

Audits the Respondents failed to maintain control over the external confirmation requests, and in each year failed to identify numerous factors that potentially called into question the robustness of the process adopted for requesting confirmations or the reliability of the responses received and did not properly evaluate whether the results of the external confirmation procedures provided relevant and reliable audit evidence.

2.1.5. **Breach Area 5: Failure to maintain professional scepticism.**

In each of the Breach areas described above there were specific matters where the effective planning and performance of the audit required the Respondents to act with appropriate professional scepticism. This included, for example, gaining a sufficient understanding of Akazoo's business and its systems and processes and any relevant controls, particularly in relation to the risk of misstatement due to fraud, and, in carrying out audit procedures relating to revenue and debtors, to seek to obtain evidence from sources independent of Akazoo. There were also a number of matters that arose in the 2018 Audit that merited specific investigation and should, collectively, have caused the Respondents to approach the audit and in particular the risk of fraud with a heightened level of scepticism. For example, the "non-cash transactions" referred to in paragraph 2.1.3 above were highly unusual arrangements that enabled Akazoo to settle its own debts without paying any cash but no consideration was given to the overall commercial rationale for both Akazoo and the counterparties.

2.1.6. **Breach Area 6: Failures in audit documentation.**

In each of the Audits, the audit documentation is inadequate in recording the audit procedures performed, evidence obtained, and conclusions reached, and as a consequence the audit files do not contain a sufficient and appropriate record of the basis for the Respondents' report.

2.1.7. **Breach Area 7: Failure to properly direct and supervise the Audits.**

In each of the Audits, in light of the deficiencies set out above, Mr Bostock failed to properly take responsibility for the direction, supervision, and performance of the Audits in that he failed to identify key audit risks and failed to ensure that appropriate procedures were performed and evidence obtained to provide assurance over those risks.

2.2. This *Final Settlement Decision Notice* also sets out the following Sanctions for these breaches of Relevant Requirements:

Crowe

2.2.1. A financial penalty of £650,000, reduced from £1 million in light of a separate US Securities and Exchange Commission ("**SEC**") penalty and discounted for admissions and early disposal by 30% so that the amount payable is £455,000;

2.2.2. a published statement in the form of a severe reprimand;

2.2.3. a declaration that the FY16, FY17 and FY18 audit reports signed on behalf of Crowe did not satisfy the *Relevant Requirements*, as set out in this *Decision Notice*;

2.2.4. a non-financial sanction in the following terms:

2.2.4.1. To conduct a Root Cause Analysis to explain the causes of the breaches, and to identify any measures taken since to prevent reoccurrence.

2.2.4.2. To assess the effectiveness of those measures, including by reference to an agreed sample of audit engagements.

Mr Bostock

2.2.5. a financial penalty of £75,000, reduced from £100,000 in light of a separate SEC penalty and discounted by 30% for admissions and early settlement so that the financial penalty payable is £52,500;

2.2.6. a published statement in the form of a severe reprimand; and

2.2.7. a declaration that the FY16, FY17 and FY18 audit reports signed by Mr Bostock did not satisfy the *Relevant Requirements*, as set out in this *Final Settlement Decision Notice*.

3. BACKGROUND

3.1. In 2016, 2017 and 2018, Crowe was ranked as the 9th largest audit firm in the UK. In 2018, Crowe had 86 Principals (partners or members of an LLP) and total fee income of £79 million[1].

3.2. As noted above, Crowe was the *Statutory Audit Firm* for Akazoo in 2016, 2017 and 2018. It was assisted in the Audits by members of the staff of Crowe Greece. The staff in Greece were not treated as component auditors, but rather as part of a single audit team together with the UK-based audit team ("**the Audit Team**"), with Mr Bostock as the engagement partner.

3.3. Mr Bostock is a partner of Crowe. He signed the FY16, FY17 and FY18 audit reports on behalf of Crowe, in respect of the FY16, FY17 and FY18 financial statements.

3.4. Akazoo is a private limited company, and therefore not a Public Interest Entity. Akazoo was incorporated on 24 June 2008 under the name of R & R Music Limited. Unaudited small company abbreviated accounts were filed for Akazoo until year ended 31 December 2015, when Crowe was first appointed as auditor.

3.5. As set out in its financial statements,[2] Akazoo operated an online music streaming service. That service had a particular focus on emerging markets.

3.6. During the period, between FY16 and FY18, the business was conducted through Akazoo's two main subsidiaries, **"Akazoo Subsidiary A"**, a company incorporated in Europe, and **"Akazoo Subsidiary B"**, a company incorporated in the United Arab Emirates.

3.7. According to Akazoo's accounts and reports, and other information supplied to the Respondents in the course of the Audits:

3.7.1. Revenue was for the most part derived from sales to end users through four intermediaries, known as 'Aggregators'. These Aggregators mediated between Akazoo and various mobile telecommunications companies ("**the**

[1] https://media.frc.org.uk/documents/Key_Facts_and_Trends_in_the_Accountancy_Profession_2019.pdf

[2] Signed financial statements filed in the respective audit files for FY16: FY16 accounts, p 4; FY17: FY17 accounts, p 4; and FY18: FY18 accounts, p 4.

Telecoms Companies") to enable Akazoo to sell its services to the customers of the Telecoms Companies. The Aggregators collected fees derived from those sales on behalf of Akazoo and remitted them to Akazoo, net of a commission.

3.7.2. The Aggregators also managed the content accessible to the end users by liaising with the owners of the rights in the music that was streamed. The costs incurred by the Aggregators on behalf of Akazoo were recharged to Akazoo.

3.8. The dual role of the Aggregators meant that they were effectively both customers and suppliers of Akazoo and played a central role in the operation of the business, facilitating most of the transactions that determined the financial performance of the business.

3.9. The table below sets out the names of the Aggregators, their places of incorporation, and the territories in which they were said to provide services to Akazoo:

Aggregator Name	Country of Incorporation	Service Territory
Aggregator A	Belize	South America
Aggregator B	Singapore	South East Asia
Aggregator C	UK	South East Asia
Aggregator D	Cyprus	Central and Eastern Europe

3.10. The table below shows for each Aggregator: its contractual counterparty within Akazoo; the date on which it entered into a revenue sharing agreement with that counterparty; and the identity of that signatory (anonymised):

Aggregator Name	Akazoo Counterparty	Contract date
Aggregator A	Akazoo Subsidiary A	1 July 2015[3]

[3] Signed with "[redacted]", the previous name of Aggregator A, frca001:00001368 / CC_0001340- CC_0001340

Aggregator B	Akazoo Subsidiary B	1 July 2015[4]
Aggregator C	Akazoo Subsidiary B	1 July 2015[5]
Aggregator D	Akazoo Subsidiary B	2 November 2015[6]

3.11. The table below shows the revenue generated by each of the Aggregators in the years under consideration as per Akazoo's financial statements[7]:

	FY16 €	FY17 €	FY18 €
Aggregator A	11,692,432	16,184,532	18,110,454
Aggregator B	19,288,741	25,186,951	33,434,076
Aggregator C	2,704,942	3,741,812	966,113
Aggregator D	20,829,328	26,510,508	30,112,243
Net revenue from Aggregators	54,515,443	71,623,803	82,622,886
Revenue retained by Aggregators[8]	11,569,712	15,138,475	17,397,860
Gross revenue from Aggregators	**66,085,155**	**86,762,278**	**100,020,746**
Other revenue	2,362,701	3,253,648	4,816,510
Total revenue	**68,447,856**	**90,015,926**	**104,837,256**
Aggregators' share of total revenue	**97%**	**96%**	**95%**

3.12. On 24 January 2019, Akazoo entered into a business combination transaction agreement with a US entity ("**US Entity A**"), a Special Purpose Acquisition Vehicle. On

[4] frca001:00001416 / CC_0001387- CC_0001387

[5] frca001:00001417 / CC_0001386- CC_0001386

[6] frca001:00001413 / CC_0001385- CC_0001385

[7] Signed financial statements filed in the respective audit files for FY16: FY16 accounts, p 8; FY17: FY17 accounts, p 10; and FY18: FY18 accounts, p 10.

[8] This is the share of revenue retained by the Aggregators in exchange for the provision of marketing services for Akazoo.

14 August 2019, US Entity A registered its securities with the SEC. It filed a document (referred to as Form F-4) which recorded (by reference to the audited FY16, FY17 and FY18 financial statements) that the consolidated revenue for Akazoo was €68.4 million in FY16; €90 million in FY17; and €104.8 million in FY18.[9]

3.13. On 11 September 2019, Akazoo and US Entity A combined to form Akazoo SA, with shares of the new company being listed on the NASDAQ. Akazoo SA was registered in Luxembourg.[10]

3.14. In April 2020, in the wake of allegations made by an activist hedge fund that Akazoo SA was in fact generating negligible actual revenue,[11] Akazoo SA engaged a special committee of independent directors to undertake an internal investigation.

3.15. On 1 May 2020, the NASDAQ halted trading in Akazoo SA's stock. On 21 May 2020, Akazoo SA filed a Form 6-K with the SEC reporting the results of the internal investigation. This included findings that:

> *"… former members of Akazoo's management team and associates defrauded Akazoo's investors … by materially misrepresenting Akazoo's business, operation, and financial results as part of a multi-year fraud…*
>
> *Akazoo's historical financial statements were materially false and misleading, that Akazoo has had only negligible actual revenue and subscribers for years and that former members of Akazoo management and associates participated in a sophisticated scheme to falsify Akazoo's books and records."*[12]

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[9] Page 238, frca001:00000028. US Entity A. SA Amendment No.5 to Form F-4 filed with the SEC on 14 August 2019 (information accessed on 14 October 2021).

[10] frca001:00000008. Akazoo SA Form 6-K filed with the SEC, dated 11 September 2019 (information accessed on 12 October 2021).

[11] [Redacted] Equity Report by Investment Firm A (information accessed on 14 October 2021).

[12] Page 2, frca001:00000013. Akazoo SA Form 6-K filed with the SEC, dated 21 May 2020 (information accessed on 14 October 2021).

3.16. Akazoo SA was delisted from the NASDAQ on 2 June 2020.[13] On 27 October 2021 the SEC announced that it had reached a settlement with Akazoo SA.[14] The SEC's complaint[15] alleged that:

"Over a multi-year period spanning its existence as a private and then public entity, Akazoo defrauded multiple groups of investors out of millions of dollars. It claimed to be a rapidly growing music streaming company focused on emerging markets with millions of paying monthly subscribers and over €105 million (or $124 million) in annual revenue. In reality, as it recently admitted in a public filing with the SEC, the Nasdaq-listed company had no paying users and negligible, if any, revenue."[16]

3.17. In light of the findings of the 2020 Akazoo SA's internal investigation and the subsequent SEC announcement, the information concerning the company and its operations contained in its financial statements for each of FY16, FY17 and FY18 cannot be treated as being reliable. However, in order to assess the Respondents' audit work, and to identify any deficiencies in that work, it is necessary to consider the operations and reported results of Akazoo as they were set out in those financial statements.

4. *RELEVANT REQUIREMENTS*

4.1. Rule 1 of the AEP states that *Relevant Requirements* has the meaning set out in regulation 5(11) of the Statutory Auditors and Third Country Auditors Regulations 2016 ("**SATCAR**"). The *Relevant Requirements* include, but are not limited to, the International Standards on Auditing (UK) ("**ISAs**") issued by the FRC.

4.2. In this *Final Settlement Decision Notice*, all references to ISAs are to the versions revised in June 2016. The ISAs applicable to the 2016 Audit pre-dated the ISAs revised

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[13] frca001:00000005. Akazoo SA Form 25 certified by the NASDAQ, dated 2 June 2020 (information accessed on 14 October 2021).

[14] https://www.sec.gov/news/press-release/2021-216

[15] https://www.sec.gov/files/litigation/complaints/2021/comp-pr2021-216.pdf

[16] Page 1, https://www.sec.gov/files/litigation/complaints/2021/comp-pr2021-216.pdf

in June 2016, but unless stated otherwise, the relevant provisions are identical in both versions.

4.3. The following *Relevant Requirements* are referred to in this *Final Settlement Decision Notice*:

4.3.1. ISA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK)[17];

4.3.2. ISA 220: Quality control for an audit of financial statements;

4.3.3. ISA 230: Audit documentation;

4.3.4. ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements;

4.3.5. ISA 315: Identifying and assessing the risks of material misstatement through understanding of the entity and its environment;

4.3.6. ISA 500: Audit evidence;

4.3.7. ISA 505: External confirmations;

4.3.8. ISA 550: Related Parties; and

4.3.9. ISA 580: Written representations.

4.4. Under the AEP, as the *Statutory Audit Firm* responsible for the Audit, Crowe is responsible for any established breaches of Relevant Requirements on the part of its partners or employees. Consequently, the conduct of Crowe's employees and partners described in this *Final Settlement Decision Notice* is to be treated as the conduct of Crowe for the purpose of establishing any breaches of *Relevant Requirements*.

4.5. As the *Statutory Auditor* responsible for the Audits, Mr Bostock was responsible for the overall quality of the Audits and the direction, supervision, and performance of the Audits in compliance with the professional standards and applicable legal and

[17] The version applicable to 2016 Audit is ISA (UK and Ireland) 200 Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK and Ireland).

regulatory requirements. Accordingly, Mr Bostock is responsible for any established breaches of *Relevant Requirements* found in relation to the Audits.

5. BREACHES OF *RELEVANT REQUIREMENTS*

Breach Area 1: Failure to obtain a sufficient understanding of the business and the control environment, and to address the risk of misstatement due to fraud.

<u>*Relevant Requirements*</u>

5.1. Paragraph 11 of ISA 315[18] provides that:

"The auditor shall obtain an understanding of the following:

…

(b) The nature of the entity, including:

(i) its operations…

to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements…

(c) The entity's selection and application of accounting policies, including the reasons for changes thereto…"

5.2. Paragraph 12 of ISA 315[19] provides that: *"[t]he auditor shall obtain an understanding of internal control relevant to the audit."*

5.3. Paragraph 13 of ISA 315[20] provides that: *"[w]hen obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those*

[18] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

[19] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

[20] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel."

5.4. Paragraph 18 of ISA 315[21] provides that:

"The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

(a) The classes of transactions in the entity's operations that are significant to the financial statements;

(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements…"

5.5. Paragraph 20 of ISA 315[22] provides that: *"The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them."*

5.6. Paragraph 25 of ISA 315[23] provides that: *"[t]he auditor shall identify and assess the risks of material misstatement at: (a) the financial statement level; and (b) the assertion level for classes of transactions, account balances and disclosures."*

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[21] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

[22] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

[23] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

5.7. Paragraph 29 of ISA 315[24] provides that: *"[i]f the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk."*

5.8. Paragraph 15 of ISA 240[25] provides that: "*ISA (UK) 315 (Revised June 2016)*[26] *requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur."*

5.9. Paragraph A11 of the Application and Other Explanatory Material to ISA 240[27] (which addresses paragraph 15) sets out a list of matters that may be addressed by the engagement team in the course of the mandated discussion about the risk of fraud. These include, but are not limited to:

> *"A consideration of the audit procedures that might be selected to respond to the susceptibility of the entity's financial statement to material misstatement due to fraud and whether certain types of audit procedures are more effective than others."*

<u>*Audit Work*</u>

5.10. A work paper entitled "*Business Understanding*" was completed for each of the Audits,[28] but the content did not materially change from the 2016 Audit to the 2018 Audit. The document set out a number of questions to be answered by the Audit Team regarding Akazoo under various headings, including "*Business Environment and Industry*" and "*Financial Reporting*", with the overall objective recorded as:

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[24] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 315 revised June 2013.

[25] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 240 updated June 2013.

[26] Reference is made to ISA (UK and Ireland) 315 for the updated June 2013 version of ISA 240 applicable to 2016 Audit.

[27] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 240 updated June 2013.

[28] Documents completed for 2016 Audit: frca001:00002253/ CC_0002112- CC_0002112, 2017 Audit: frca001:00002839/ CC_0002696- CC_0002696 and 2018 Audit: frca001:00000944/ CC_0000916- CC_0000916.

"To obtain an appropriate business understanding to make an assessment of entity level risk."

5.11. Some of the questions recorded in these documents were expressly referenced to provisions of ISA 315 and other ISAs. For example, the question:

"*Internal control - What high level internal control mechanisms do management use to run the business?"*

referred to ISA 315 paragraph 12. The response was recorded as:

"The board discusses business risks at the quarterly board meetings which includes discussing the company's financial performance, through the review of their management accounts."

5.12. Some questions did not explicitly refer to an ISA provision but reproduced the relevant wording. For example, there was a question in all three documents:

"Risk of material misstatement - Are there risks of material misstatement: At the financial statement level At the assertion level - for particular account balances, classes of transactions or disclosures"

Which reflects paragraph 25 of ISA 315. The response recorded was:

"No evidence from discussion with the client."

5.13. Two questions directly addressed fraud risks and responded in identical way in all three documents. The first asked:

"Fraud - Are there any significant risks that arise due to the potential for fraud? Do management have knowledge of actual, alleged or suspected fraud?"

The response recorded was:

"Management have no knowledge of actual, alleged or suspected fraud during the year."

The second asked:

"Is the industry or sector known to be susceptible to fraud?"

The response recorded was:

"The industry and sector the client operates is not widely susceptible to fraud."

5.14. In each of the Audits, the team also prepared a work paper entitled "*PLANNING DISCUSSIONS WITH ENGAGEMENT TEAM*", which also explicitly referenced ISAs 315 and 240. As with the "*Business Understanding*" work paper, the contents were largely unchanged from 2016 Audit to 2018 Audit. In relation to fraud risk, one of the "*matters discussed*" was recorded as:

> *"Consider internal/external factors that might create an incentive or pressure to commit fraud (by management or others) or provide the opportunity for fraud."*

In the 2016[29] and 2017[30] Audits, the "*comment*" recorded was:

> *"Reporting to overall group could potentially be an incentive to commit fraud, although this is not a high risk."*

In the 2018 Audit,[31] the "*comment*" recorded was:

"None specifically have been noted."

There was no record, in those work papers or elsewhere, of any discussion specific to Akazoo's business model of the risk of material misstatement due to fraud or of audit procedures that would respond to that risk.

5.15. The four Aggregators were not referred to anywhere in the versions of either the "*Business Understanding*" or "*PLANNING DISCUSSIONS WITH ENGAGEMENT TEAM*" work papers completed during the Audits, despite the "*Business Understanding*" work paper including questions asking for "*key customers*" and "*key suppliers*" to be identified. Work papers relating to debtors demonstrate that the Audit Team were aware of the existence of the Aggregators and their role in Akazoo's

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[29] frca001:00002256 / CC_0002113- CC_0002113

[30] frca001:00002836 / CC_0002697- CC_0002697

[31] Page 3, frca001:00000907 / CC_0000878- CC_0000878

operations, but that work did not include any consideration of the particular audit risks arising from Akazoo's business model.

5.16. In interview, Mr Bostock recalled that some work on understanding who the Aggregators were had been performed by the Audit Team from Crowe Greece in 2015 and that that Greek team had had discussions with Akazoo about its relationship with the Aggregators.[32] However, there is no record of any of the "diligence" work or discussions described, either on the audit files for the Audits or on the audit file for year ended 31 December 2015. There is no evidence on the files for the Audits of any proper consideration of the nature of the commercial relationship between Akazoo and the Aggregators, and the audit risks arising from those arrangements, notwithstanding the importance of the latter to the company's operations.

5.17. There was some limited commentary, apparently referring to the role of the Aggregators, in the 2016 Audit Planning Report[33] on the significant risk associated with *"Debtors Recoverability."* This recorded that *"Discussions with management indicated that due to the size of the customers being dealt with, there were often issues with slow payments terms. There are also sometimes complicated arrangements where the customer will also act as a supplier simultaneously."*[34] However, there was no record of how these matters were reflected in the identification of audit risks.

5.18. To gain an understanding of the business processes and systems, in the 2016 Audit, the Audit Team obtained a number of documents from Akazoo management[35], including:

5.18.1. "*AKAZOO Process Mapping – 2015.pdf*";[36] and

[32] See Transcript of Interview of Nigel Bostock, 3 August 2022, pp.41-43 [frca001:00043859].

[33] frca001:00002487/ CC_0002350- CC_0002350

[34] frca001:00002487/ CC_0002350- CC_0002350

[35] frca001:00025369/ CC_0024211- CC_0024212

[36] frca001:00025357 / CC_0024211-CC_0024215

5.18.2. "*AKAZOO Digital Products process – 2015.docx*"[37]

5.19. The Audit Team also created a document entitled "*WALKTHROUGH*"[38], setting out Akazoo's processes for the generation and recognition of sales and the recognition of costs. However, this document was not included on the 2016 audit file.

5.20. The "*sales process*" recorded in the "*WALKTHROUGH*" document includes 13 steps, which reproduced the steps set out in "*AKAZOO Digital Products process – 2015.docx*", referred to above, and described these as *"Typical procedures given by company's [relevant] manager."* With one exception, discussed below, the "*WALKTHROUGH*" document does not record the Audit Team performing any tests or audit procedures on any of the steps.

5.21. The document recorded *"To check the system, we ask for an example, so export billing reports of a basic company's provider (Aggregator A)."* That billing report is included in the document as a screenshot. It shows billings generated by Aggregator A for the month of December 2015. There is no record of how the billing report was produced or of other audit work having been done on this billing report.

5.22. The "*cost process*" recorded in the "*WALKTHROUGH*" document included nine steps which similarly reproduced the steps set out in "*AKAZOO Digital Products process – 2015.docx*" and does not record the Audit Team performing any tests or audit procedures on any of the steps.

5.23. Another document filed on the 2016 audit file, "*[Akazoo Subsidiary B]: System notes and walkthroughs*"[39] recorded *"We documented each major transaction cycle, performed a walkthrough of the system to ensure all the internal controls in place around the systems are working efficiently."* There is no description of how the walkthrough was performed, what elements of Akazoo's systems and processes were subject to this walkthrough, or how the Audit Team satisfied itself that the systems, processes, and controls operated in the manner described in the documents that had been provided by Akazoo.

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[37] frca001:00025363 / CC_0024211-CC_0024214

[38] frca001:00025366 / CC_0024211-CC_0024213

[39] frca001:00002714 / CC_0002579- CC_0002579

5.24. There are no documents on the 2017 audit file recording any performance of 'walkthrough' procedures, although these audit procedures were planned to be performed.[40]

5.25. The work papers on the 2018 audit file for both Akazoo Subsidiary A[41] and Akazoo Subsidiary B[42] refer to walkthroughs but again with no description of how the walkthroughs were performed, what elements of Akazoo's systems and processes were subject to a walkthrough, or how the Audit Team satisfied itself that the systems, processes, and controls operated in the manner described in the documents provided by Akazoo.

5.26. There is no evidence that in any of the Audits the Audit Team actually performed a walkthrough of the typical transaction cycle, starting with an end user accessing Akazoo's services through the mobile application, through to identifying how use of the service and the related revenue and costs were recognised in the figures in Akazoo's ledgers.

5.27. There are references in correspondence[43] and audit work papers[44] to Akazoo's 'platform' but there is no clear account of how that platform operated, and in particular how it recorded all the different elements of the transactions with the end users, the Telecoms Companies, the Aggregators and the rights owners, by which Akazoo's revenue was generated. The Audit Team relied on a representation by Akazoo's management that the statistics captured in the platform reflected the actual traffic of

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[40] Akazoo Subsidiary A: frca001:00003280/ CC_0003139- CC_0003139 and Akazoo Subsidiary B: frca001:00003258/ CC_0003113- CC_0003113

[41] Page 3, frca001:00001640/ CC_0001611- CC_0001611

[42] Page 3, frca001:00001683/ CC_0001653- CC_0001653, which refers to the "*relevant testing in [Akazoo Subsidiary A].*"

[43] frca001:00030161/ CC_0029000- CC_0029000.

[44] Such as in the Audit Finding Reports for the Audits (2016 Audit: frca001:00002623/ CC_0002485- CC_0002485, 2017 Audit: frca001:00003176/ CC_0003022- CC_0003022, and 2018 Audit: frca001:00001487/ CC_0001460- CC_0001460), the system note produced by Akazoo: frca001:00025363 / CC_0024211-CC_0024214 and also the IT Audit Report produced during 2018 Audit: frca001:00001571/ CC_0001515- CC_0001542.

music streaming generated by the subscribers[45], without verifying this understanding in any way.

5.28. During the 2018 Audit, the Audit Team produced an 'IT Audit Report' setting out the result of the IT and General Control Audit. That report included the following:

> *"The company has the [Software A] ERP which is not connected with any automated bridges with the streaming platform."*
>
> …
>
> *"Akazoo is not paid from the customer directly but via the Internet service provider which they have contract. Every month they reconcile the ISP invoices with their invoices from the platform."* [46]
>
> …
>
> *"Akazoo's partners are connected with its streaming platform through VPN connections which are terminated to VPN concentrator."* [47]

The report does not include any other information about the operation of the streaming platform, or any information about how data from that platform resulted in transactions being recorded in Akazoo's financial systems or identify any controls that operated over that process.

5.29. In each year, the Audit Findings Report[48] ("**AFR**") stated that *"Controls around the producing and reconciling of [reports generated by the Aggregators] have been tested*

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[45] This is the email correspondence during the 2016 Audit which captures this understanding: "*After the discussion we had we the operations department gathered that the platform and the software of Akazoo reports for every purchase of the end customer (subscriber). Then it invoices the aggregators based on these sales. So Akazoo knows how many subscribers and content usage it has*", page 1, frca001:00030161/ CC_0029000- CC_0029000.

[46] Page 5, frca001:00001571/ CC_0001515- CC_0001542.

[47] Page 26, frca001:00001571/ CC_0001515- CC_0001542.

[48] The report prepared by Crowe for the Board of Akazoo to set out the findings from each of the Audits.

during the course of the audit, with no issues noted."[49] However, there is no record in any of the audit files of the Audits setting out the Audit Team's identification of relevant controls, evaluating their design or testing their implementation. There was no explanation for how the Audit Team had tested controls over the production of reports by the Aggregators, who were understood by the Audit Team to be third parties independent of Akazoo.

Breaches of Relevant Requirements

5.30. In each of the Audits, the audit work performed to obtain a sufficient understanding of the business and the control environment, and to address the risk of misstatement due to fraud, was seriously deficient. In particular:

5.30.1. There was no proper consideration of Akazoo's business model, the key commercial relationship between Akazoo and the Aggregators, or how this should be reflected in the assessment of audit risks and procedures responsive to those risks. The "*Business Understanding*" and "*PLANNING DISCUSSIONS WITH ENGAGEMENT TEAM*" work papers were brought forward from the 2016 audit file to 2017 and 2018 audit files with little or no material updates to the contents.

5.30.2. The Respondents did not obtain a sufficient understanding of the key risks and any controls in place to mitigate those risks, in particular surrounding the recognition of revenue, which had been classified as a significant risk.

5.30.3. There is no evidence on any of the audit files of the Respondents performing walkthroughs of the systems for generating and recording revenue and costs, or any other alternative procedures, which enabled them to gain a sufficient understanding of those systems.

5.30.4. On each of the Audits, there was insufficient consideration of the risks of misstatement due to fraud. There was no substantive discussion relating to fraud, tailored to the specific risks posed by Akazoo, its business model and the significance of the Aggregators to its operations. There was consequently

[49] Audit Findings Report for 2016 Audit: Page 14, frca001:00002623/ CC_0002485- CC_0002485, 2017 Audit: page 14, frca001:00003176/ CC_0003022- CC_0003022 and 2018 Audit: page 21, frca001:00001487/ CC_0001460- CC_0001460.

no discussion, or proper consideration, of audit procedures that would address those risks.

5.31. In each of the Audits, there were thus breaches of paragraphs 11, 12, 18, 20, 25 and 29 of ISA 315 and paragraphs 15 of ISA 240.

Breach Area 2: Failure to obtain sufficient audit evidence relating to revenue and, in the 2018 Audit, a failure properly to audit the implementation of IFRS 15.

Relevant Requirements

5.32. Paragraph 6 of ISA 500[50] provides that: *"The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence."*

5.33. Paragraph 7 of ISA 500[51] provides that: *"When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence."*

5.34. Paragraph 9 of ISA 500[52] provides that: *"When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances: (a) Obtaining audit evidence about the accuracy and completeness of the information, (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes."*

Audit Work

5.35. In the 2016 Audit, a work paper entitled "*Planned Risk Response Summary*"[53] set out a number of audit procedures intended to address specific assertions relating to revenue, a significant risk. The key procedure, intended to provide assurance over completeness, accuracy, and existence of revenue, was described as:

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[50] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 500 updated June 2013.

[51] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 500 updated June 2013.

[52] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 500 updated June 2013.

[53] frca001:00002257/ CC_0002116- CC_0002116

"Obtain a breakdown of total income for the year. Select a sales from an independent source, such as sales orders, agree the sales invoices and from there to the sales ledger. Agree: value, calculation and posting of VAT, invoice relates to a pre year end service/delivery of goods."[54]

5.36. This was recorded as responding to the risk that *"sales are understated because they do not accurately record all sales that have taken place in the year."*[55] The planned test would provide assurance over the completeness and accuracy audit assertions and the risk of understatement. However, it did not check that amounts included in revenue were derived from actual sales and consequently did not provide assurance over the existence assertion, and hence address the risk that revenue was overstated. There is no record on the 2016 audit of any procedure to address the risk that sales were overstated, despite the fact that reported revenue had increased from €17.9 million in FY15 to €68.4 million in FY16, an increase of 282%.

5.37. The planned procedure was performed during the 2016 Audit by obtaining a list of transactions from Akazoo's revenue ledger and then agreeing the entries in that list to invoices generated by Akazoo. The work was recorded in separate work papers for Akazoo Subsidiary A[56] and Akazoo Subsidiary B[57], identifying the entries that were selected and tested. The sales entries were not selected from an "*independent source*" and there is no evidence that any were verified by reference to documents or information generated by any external third parties, including the Aggregators, Telecoms Companies, or end users.

5.38. In the 2016 AFR, the Respondents reported that *"Sales are agreed directly to reports generated by the Aggregator on a monthly basis"* and that *"Controls around the producing and reconciling of these reports have been tested during the course of the audit with no issues noted."*[58] However, there is no record on the 2016 audit file of the

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[54] Page 4, frca001:00002257/ CC_0002116- CC_0002116

[55] Pages 4, 13 and 37, frca001:00002257/ CC_0002116- CC_0002116

[56] frca001:00002752/ CC_0002618- CC_0002618; and frca001:00002622/ CC_0002472- CC_0002472

[57] frca001:00002617/ CC_0002471- CC_0002471

[58] Page 14, frca001:00002623/ CC_0002485- CC_0002485

process of sales being agreed to reports produced by the Aggregators or of any controls testing over that process.

5.39. In the 2017 Audit,

5.39.1. The work programme for Akazoo Subsidiary B described a planned procedure[59] in identical terms to that at paragraph 5.35 above and a statement, simply repeating the wording of the procedure, confirming that the work had been done:

> *"We obtained a breakdown of total income for the year. We selected a sample of sales from an independent source, such as sales orders, we agreed the sales to invoices and from there to the sales ledger. We also agreed: VAT, and invoice related to a pre year end service"*[60]

Similar to the audit work performed during the 2016 Audit, the substantive work performed in fact comprised obtaining a list of transactions from Akazoo Subsidiary B's revenue ledger and then agreeing the entries in that list to invoices generated by Akazoo Subsidiary B[61], and no evidence of an "*independent source*" from which the sample was said to have been selected.

The work programme further records that:

> *"A sample of invoices have been selected from the nominal ledger for the business to business revenue, and agreed back to the amount of revenue received for each country. This has been agreed to the amount received in the bank."* [62]

However, there is no evidence of amounts being agreed to cash receipts recorded in bank statements or other third party evidence. Again, there is no

[59] Page 3, frca001:00002840/ CC_0002700- CC_0002700

[60] Page 2, frca001:00003265/ CC_0003121- CC_0003121

[61] frca001:00003122/ CC_0002972- CC_0002972

[62] Page 2, frca001:00003265/ CC_0003121- CC_0003121

evidence that any entries in Akazoo's ledgers were verified by reference to documents or information generated by any external party.

5.39.2. For Akazoo Subsidiary A, the response to the planned procedure was recorded as:

> *"Agreed to movement through debtors balances for the year. This was used to select a sample of invoices and test back to the underlying documents. No issues were noted with the amounts erecorded during the year"*[63]

Similar substantive work (which was not attached to the relevant audit programme) was performed, involving the Audit team obtaining a list of transactions from Akazoo Subsidiary A's revenue ledger and then agreeing the entries in that list to invoices generated by Akazoo Subsidiary A.[64]

5.40. A work programme for Akazoo Subsidiary A on the 2017 audit file refers to additional tests for revenue to be performed, including some analytical procedures, such as analysing revenue composition, investigating industry trends, and comparing trends to Akazoo's performance, also consideration of revenue transactions with related parties.[65] However, there is no evidence that this work was done.

5.41. In the 2017 AFR, the Respondents reported that *"Sales are agreed directly to reports generated by the Aggregator on a monthly basis across Poland, Russia, Malaysia and Thailand"*, and that *"Controls around the producing and reconciling of these reports have been tested during the course of the audit, with no issues noted."*[66] However, as with the 2016 Audit, there is no record on the audit file of the process of sales being agreed to reports produced by the Aggregators or of any controls testing over that process.

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[63] Page 2, frca001:00003288/ CC_0003150- CC_0003150

[64] frca001:00003123/ CC_0002966- CC_0002966

[65] frca001:00003289/ CC_0003148- CC_0003148

[66] Slide 14, frca001:00003176/ CC_0003022- CC_0003022

5.42. Accurate reporting of revenue was particularly significant in FY18 because the reported revenue for FY16, FY17 and FY18 was included in documents filed with the SEC in August 2019 in the context of the listing of Akazoo SA on NASDAQ.

5.43. As in previous years, the principal audit work during 2018 Audit on revenue[67] consisted of agreeing transactions recorded in the revenue ledgers to invoices issued by Akazoo (although the work for Akazoo Subsidiary A was not attached to the audit programmes for revenue or debtors). In addition to this, Mr Bostock performed additional verification on the Aggregators' revenue shares[68] to payout share stated in the original agreement signed with the Aggregators.[69]

5.44. As in the 2017 Audit, a work programme for Akazoo Subsidiary A on the 2018 audit file refers to additional tests for revenue to be performed, including analytical procedures, such as analysing revenue composition, investigating industry trends, and comparing trends to Akazoo's performance, and also consideration of revenue transactions with related parties.[70] The work programme refers to an "Akazoo presentation" and other supporting documents[71] but none of these documents include any evidence of the planned procedures having been performed.

5.45. A work paper entitled "*AKAZOO audit work 23.5.19 revenues per segment final.xlsx*" records an attempt by the Audit Team to reconcile the revenues reported in the statutory accounts to those apparently extracted from the streaming platform. Out of a total of €4.7 million[72] of reconciling items, some €2.3 million was not documented on the audit file as having been verified or explained. In any event, both sets of revenue

[67] Akazoo Subsidiary B: frca001:00001381/ CC_0001354- CC_0001354, Akazoo Subsidiary A: frca001:00001482/ CC_0001448- CC_0001448

[68] Akazoo Subsidiary A: frca001:00001491/CC_0001463- CC_0001463 and Akazoo Subsidiary B: frca001:00001511/ CC_0001482- CC_0001482

[69] As confirmed by Mr Bostock during the interview, Transcript of Interview of Nigel Bostock, 3 August 2022, pp.179 [frca001:00043859]

[70] frca001:00001639 / CC_0001610- CC_0001610

[71] frca001:00001397/ CC_0001364- CC_0001364, frca001:00001421/ CC_0001393- CC_0001393, and frca001:00001465/ CC_0001436- CC_0001436.

[72] Total of figures in Cells C46 to C60 in Tab "AUDIT WORK (23.5.19)," frca001:00001392/ CC_0001304- CC_0001304

figures were provided to the Audit Team by Akazoo[73] and the amounts apparently derived from the 'platform' were not verified or corroborated.

5.46. In the 2018 AFR, the Respondents again reported that *"Sales are agreed directly to reports generated by the Aggregator on a monthly basis across Poland, Russia, Malaysia and Thailand"*, and *"Controls around the producing and reconciling of these reports have been tested during the course of the audit, with no issues noted."*[74] However, as in the two prior years, there is no record on the 2018 audit file of the process of sales being agreed to reports produced by the Aggregators or of any controls testing over the revenue recognition process.

5.47. FY18 was the first year that Akazoo was required to apply IFRS 15, a new accounting standard for revenue. A work paper recorded that the Audit Team would:

"Obtain and evaluate their assessment of the impact of this on their revenue streams and adjustments made accordingly, and whether or not this has had a material impact.

Management will need to prepare a paper to document their assessment."[75]

5.48. In fact, Akazoo set out its approach to the "Consideration of IFRS 15" in four bullet points contained in an email to the Audit Team dated 24 May 2019.[76] The contents were then reflected in the work paper, which recorded:

"The company has stated that the overall impact on the group audit is likely to be immaterial.

This is due to the fact that: their business activities are disctince and the transaction price is set. The majority of revenue is monthly blling to customers. They do not enter into long-term contract which would be settled after more than 12 months." [77]

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[73] See email from Person A to Akazoo on 22 May 2019, "*We have compared the total revenues as it is depicted in segment analysis compared to the stats that Maria sent us.*" (page 3, frca001:00033046/ CC_0031877-CC_0031877).

[74] Page 21, frca001:00001487/ CC_0001460- CC_0001460

[75] frca001:00001705/ CC_0001675- CC_0001675

[76] frca001:00040474/ CC_0039305- CC_0039305

[77] Page 2, frca001:00001705/ CC_0001675- CC_0001675

5.49. There is no evidence that the Audit Team challenged or corroborated any of the assertions made by Akazoo or reviewed the approach taken by reference to the requirements of IFRS 15, in particular the five-step model mandated by the standard.[78]

Breaches of Relevant Requirements

5.50. On each of the Audits, the substantive testing on revenue consisted largely of agreeing revenue transactions recorded on the general ledger to invoices, both documents originating from Akazoo. There is no evidence that the Audit Team in fact agreed revenue items to any independent source of evidence to establish that the sales had occurred, as planned, and no evidence that the amount of revenue recorded as generated through any particular Aggregator was reconciled to outputs from that Aggregator.

5.51. The Respondents also failed to perform analytical procedures planned for both the 2017 and 2018 Audits of Akazoo Subsidiary A. Further, the AFR for each of the Audits suggested that testing of controls had been performed. However, there is no evidence that it was in fact performed.

5.52. In each of the Audits the Respondents failed to perform audit procedures that were appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence for audit of revenue and failed to consider the relevance or reliability of the evidence that they had obtained. There were thus breaches of paragraphs 6 and 7 of ISA 500.

5.53. Additionally, the work done on the implementation of IFRS 15 on the 2018 Audit was inadequate. The Respondents did not perform a sufficiently thorough review and assessment of management's implementation of the new standard and failed to consider whether management had adopted the mandated five-step model. The Respondents failed to evaluate whether the information received from Akazoo was sufficiently reliable for their purposes and there was thus a breach of paragraph 9 of ISA 500.

[78] frca001:00043822. IFRS - IFRS 15 Revenue from Contracts with Customers.pdf (information accessed on 18 July 2022).

Breach Area 3: Failure to obtain sufficient audit evidence of settlement of debtor balances

Relevant Requirements

5.54. Paragraph 6 of ISA 500[79] provides that:

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

5.55. Paragraph 9 of ISA 500 provides that:

"When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:

Obtaining audit evidence about the accuracy and completeness of the information; and

Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes."

5.56. Paragraph 4 of ISA 580[80] provides that:

"Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions."

5.57. Paragraph 17 of ISA 580[81] provides that:

"… if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains

[79] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 500 updated June 2013.

[80] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 580 revised October 2009.

[81] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 580 revised October 2009.

unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general."

<u>*Audit Work*</u>

5.58. In the 2016 Audit, the "*Planned Risk Response Summary*" recorded that, in relation to valuation of debtors, the Audit Team would:

> *"Select a sample*
>
> *Examine evidence of subsequent receipts clearly relating to the balances and transactions in question."* [82]

5.59. The work programmes for both Akazoo Subsidiary A[83] and Akazoo Subsidiary B[84] recorded that the Audit Team would:

> *"Perform a review of significant year end debtor balances, and review payments received post year end. Obtain explanations from management for any slow payments made."*

In each case, the Audit Team confirmed that the review had been carried out, with "*No findings*" recorded as the result.

5.60. The work done consisted of obtaining the ledgers showing transactions with the Aggregators[85] subsequent to FY16 to the end of April 2017. There is no evidence on

[82] Page 3, frca001:00002257/ CC_0002116- CC_0002116

[83] Page 2, frca001:00002767/ CC_0002629- CC_0002629

[84] Page 2, frca001:00002736/ CC_0002600- CC_0002600

[85] Aggregator B: frca001:00002603/ CC_0002459-CC_0002459, frca001:00002598/ CC_0002458- CC_0002458, Aggregator C: frca001:00002601/ CC_0002457- CC_0002457, Aggregator D: frca001:00002590/ CC_0002456-CC_0002456 and Aggregator A: frca001:00002592/ CC_0002452-CC_0002452.

the 2016 audit file that cash receipts post year end[86] were agreed to bank statements or to any other third party evidence.

5.61. In addition, the audit opinion on the FY16 accounts was not signed until 22 September 2017, but there is no record of any work done to extend the consideration on the recoverability of the balances due from the Aggregators from 30 April 2017 to the signing account date.

5.62. The 2016 AFR stated that *"Cash continues to be received post year end"*, with the Audit Team recording that they had reviewed payments post year end within both Akazoo Subsidiary A and Akazoo Subsidiary B.[87]

5.63. In the 2017 Audit, recoverability of debtors was identified as one of the *"key audit considerations"* during the planning stage.[88] The 2017 Audit Planning Report records that *"There have been issues with slow payment of receivables in the past, so we will review recovery rates and payment history during the course of the audit."* [89]

5.64. As in the 2016 Audit, the *"Planned Risk Response Summary"* for the 2017 Audit recorded that, in relation to valuation of debtors, the Audit Team would:

> *"Select a sample*
>
> *Examine evidence of subsequent receipts clearly relating to the balances and transactions in question."* [90]

5.65. There is no evidence that the Respondents tested whether sums owed to Akazoo Subsidiary A as of 31 December 2017 were settled after the year end. The work programme entitled *"[AKAZOO SUBSIDIARY A] TESTING: DEBTORS-AB"* records that *"We have reviewed the year end debtor balances for post year end recoverability.*

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[86] Such as identified in frca001:00002603/ CC_0002459-CC_0002459 or frca001:00002592/ CC_0002452-CC_0002452.

[87] Page 21, frca001:00002623/ CC_0002485- CC_0002485

[88] frca001:00002966/ CC_0002829- CC_0002829

[89] Slide 11, frca001:00002987/ CC_0002840- CC_0002840

[90] Page 2, frca001:00002840/ CC_0002700- CC_0002700

These are all intercompany balances, and the majority have started to be paid down post year end."[91] There is no record on the audit file documenting the review performed, and the statement that all debtors were intercompany was incorrect. A work paper entitled *"[Akazoo Subsidiary A] CUSTOMERS.xlsx"*[92] showed that a balance owed by Aggregator A represented 61%[93] of the Akazoo Subsidiary A entire debtors' balance as of 31 December 2017. Aggregator A was one of the Aggregators, understood by the Audit Team to be an unrelated entity, outside Akazoo, and hence sums owed by Aggregator A did not represent an *'intercompany'* debt.

5.66. In relation to Akazoo Subsidiary B, the Audit Team obtained the post year end debtors' ledger extract as of 31 May 2018,[94] and recorded on its face *"Payments made in 2018"* of "*€4,338,556*".[95] This figure reflects two *"REVERSE ENTRIES"* on the account with Aggregator D.[96] The description of the journals as *"REVERSE ENTRIES"* suggests that these were not cash receipts. There is no record of these two entries or any other amounts were agreed to bank statements or to any other third party evidence. There is no evidence identified on the 2017 audit file that the post year end debtors' ledger was obtained for Akazoo Subsidiary A.

5.67. In any event, there was still a substantial amount of the year end debtor balance outstanding as of 31 May 2018. However, there is no evidence that the Respondents considered obtaining further extracts from the ledgers, or any other evidence, relating

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[91] Page 2, frca001:00003305/ CC_0003171- CC_0003171

[92] frca001:00003125/ CC_0002993- CC_0002993

[93] Calculated as €10,679,806.22 (Cell J21) / €17,497,156.12 (Cell J28) of total debtor balances of Akazoo Subsidiary A as per frca001:00003125/ CC_0002993- CC_0002993

[94] Cell E14, frca001:00003104/ CC_0002965- CC_0002965

[95] Cell X168, frca001:00003104 CC_0002965-/ CC_0002965. This figure is the sum of a formula manually typed into the cell: "=2142884+2195672".

[96] The first figure of -€2,142,884 reflects *"REVERSE ENTRY 1793"* (Cell Q33, frca001:00003104/ CC_0002965- CC_0002965). The second figure of €2,195,672 typed in manually in Cell X168 is a mis-transcription of *"REVERSE ENTRY 1794"* which is in fact -€2,1<u>59</u>,672.36 (Cell Q34, frca001:00003104/ CC_0002965- CC_0002965). This error results in an overstatement of the sum *"paid"* of £36,000.

to the period from the end of May to 28 November 2018, when the audit opinion for FY17 accounts was signed.

5.68. On 18 October 2018, the CEO of Akazoo sent an email to the Audit team stating that the *"updated position on the post y. balance"* of the debtors as of 31 December 2017 was that:

5.68.1. the balance owed by Aggregator A had decreased from €10.7 million to €0.9 million;

5.68.2. the balance owed by Aggregator D had decreased from €11.5 million to €0.5 million;

5.68.3. and the balance owed by Aggregator B had been settled in full.[97]

5.69. A copy of this email was placed on the 2017 audit file and evidently treated as audit evidence. In an email on 12 November 2018, commenting on amendments that Akazoo had suggested should be made to the 2017 AFR, Mr Bostock wrote:

> *"Please could you clarify one point – on trade receivables you refer to 'settled and received' in your revised wording – please can you clarify what is meant by this – I had assumed the figures we had been given were the cash paid on the receivables and I wanted to clarify that by 'settled' it does not infer any material credit notes being issued/discounts being given."*

5.70. The CEO responded the following day, stating:

> *"Confirming that by 'Settled' is the cash paid and does not infer any material credit notes being issued/discounts being given (none whatsoever)."* [98]

The letter of representation for 2017 Audit was signed by Akazoo on 28 November 2018, with paragraph 24 stating *"We confirm that we have considered the carrying*

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[97] frca001:00003151/ CC_0003016- CC_0003016

[98] frca001:00003174/ CC_0003025- CC_0003025

value of trade receivables with the group and are satisfied there is no indication of impairment and that the net carrying values at the year end are appropriate." [99]

5.71. There is no evidence on the 2017 audit file that the Audit Team agreed the claimed settlements of indebtedness to bank statements or to any other third party evidence. In fact, it is apparent from Akazoo's own ledgers that no cash at all was received from any of the Aggregators throughout FY18.

5.72. As in the 2016 and 2017 Audits, the *"Planned Risk Response Summary"* on the 2018 audit file recorded that, in relation to valuation of debtors, the Audit Team would:

> *"Select a sample*
>
> *Examine evidence of subsequent receipts clearly relating to the balances and transactions in question."* [100]

5.73. A work programme addressing the recoverability and valuation of debtors entitled "[*AKAZOO SUBSIDIARY A] TESTING: REVENUE*" records that *"Some of receivables have been settled by wat of a tripart settlement agreement with other service/supplier providers. See AFR for summary."*[101]

5.74. The 2018 AFR reported that the settlement of the indebtedness of the Aggregators [102] as of 31 December 2018 was achieved through *"non-cash transactions"* by the following methods:[103]

5.74.1. An agreement with the applicable Aggregator that the sums owed by Akazoo to the Aggregator for the provision of content were to be set off against the sums owed by the Aggregator to Akazoo ("**the Offset Agreements**").

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[99] Page 3, frca001:00004894/ CC_0004758- CC_0004758

[100] Page 2, frca001:00000938/ CC_0000908- CC_0000908

[101] Page 2, frca001:00001732/ CC_0001704- CC_0001704

[102] Except Aggregator C, as no tri-partite agreement was signed with Aggregator C.

[103] Page 25, frca001:00001487, CC_0001460- CC_0001460

5.74.2. Three separate Tri-partite Agreements[104] between Akazoo, three of the Aggregators, and three third party service providers. Under each of the Tri-Partite Agreements, the service providers agreed to accept, as payment by Akazoo for their services, an assignment of Akazoo's right to receive payment of the debts owed by the Aggregators. The combined value of the indebtedness settled by the Tri-Partite Agreements was €21.1 million, reducing the outstanding receivables balance reported for FY18 by over 40%.

5.75. Three different third party service providers entered into the Tri-Partite Agreements. The information obtained by the Audit Team about these entities contained significant inconsistencies. In each case both the name of the legal entity and the address that appeared on copy of the invoices[105] was different from the name and address that appeared on websites for the companies.[106] For two of the entities, the screenshots of their respective websites are included on the 2018 audit file.[107]

5.76. There is no evidence that the Respondents considered the commercial rationale for either the Aggregators or the service providers entering into the Tri-Partite Agreements, or the risks arising from what were evidently unusual transactions.

5.77. The Respondents received the following representations from the management of Akazoo (in the form of a Letter of Representation dated 6 June 2019) about the debts at year end:

"We confirm we have evaluated the recoverability of the material year end receivables. We have noted that the settlement agreements with the main aggregators per entity remain in line with 2018 and in terms of revenues the business is on track in relation to the forecasts already provided. We also confirm that the

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[104] The Tri-partite Agreements included on the 2018 audit file are: frca001:00001346/ CC_0001319- CC_0001319, frca001:00001326/ CC_0001297- CC_0001297, and frca001:00001329/ CC_0001298- CC_0001298.

[105] Invoices: frca001:00001188/ CC_0001163- CC_0001163, frca001:00001295/CC_0001265- CC_0001265, and frca001:00001268/ CC_0001240- CC_0001240.

[106] No snapshot of website included in 2018 audit file; this is the snapshot from the site identified in the public domain: frca001:00043853 (information accessed on 5 August 2022).

[107] Website snapshots filed in 2018 audit file: frca001:00001403/ CC_0001375- CC_0001375 and frca001:00001394/ CC_0001368- CC_0001368.

aggregator mix & margins are in line with 2018 and our contractual terms remain consistent both in terms of costs as well as payouts.

Based upon FY19 trading for the business being consistent with FY18; the b'fwd receivables (with a small exception regarding Aggregator D) will have been offset against costs incurred in early 2019 and the estimated receivable after 5 months of FY19 will all be in respect of FY19 revenues. This would therefore not indicate any material concern regarding recoverability of the year end position or risk of impairment." [108]

5.78. Mr Bostock performed a high-level 'reasonableness test' based on the assertions that the offsetting arrangements would continue, and that the level of costs being incurred would remain consistent, with the result that the year end debtor balances would effectively be settled in the first five month of 2019.[109] But there was no evidence to corroborate his analysis[110], and in particular there is no evidence on the 2018 audit file to corroborate the actual costs incurred with the Aggregators in the first five months in 2019. There is no evidence that any attempt was made to corroborate the representation made by management.

5.79. The Audit Team in fact had evidence, in the FY18 ledgers of Akazoo Subsidiary A[111] and Akazoo Subsidiary B[112], which revealed that no cash was received from any of the Aggregators throughout FY18. This was inconsistent with the representations made by the CEO of Akazoo in October and November 2018 in the context of the 2017 Audit set out at paragraphs 5.68 and 5.69 above. The Audit Team did not identify this inconsistency and did not properly consider the obvious question as to whether the

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[108] Paragraph 27, page 3, frca001:00001484/ CC_0001457- CC_0001457

[109] frca001:00021365/ CC_0020203- CC_0020203

[110] The content of the email from Nigel Bostock to Person B on 6 June 2019 mirrors the analysis presented in the 2018 Audit Findings Report under the heading "Recoverability" in the right hand column on page 30, frca001:00001487/ CC_0001460- CC_0001460.

[111] frca001:00001482/ CC_0001448- CC_0001448

[112] frca001:00001381/ CC_0001354- CC_0001354

lack of any cash being paid raised a question as to whether the debtor balances would be recovered.

Breaches of Relevant Requirements

5.80. In each of the Audits, the Respondents planned to obtain evidence over the recoverability of debtor balances by reviewing payments received post year end. However, no payments were checked by reference to actual cash receipts recorded in bank statements, or any other third party evidence, and consequently the value of any evidence obtained was minimal. The testing that was performed for each of the Audits did not consider all payments up to the respective dates of sign off of the statutory accounts.

5.81. During the 2017 Audit, reliance was placed on a representation from the CEO of Akazoo that the Aggregators' indebtedness had been settled in cash, notwithstanding that the Audit Team had evidence suggesting that this was incorrect during the 2018 Audit.

5.82. By the time of the 2018 Audit, it was apparent to the Respondents that no cash at all had been received from the Aggregators during FY18, and it should have been apparent that the CEO's representation during the 2017 Audit was incorrect. There is no evidence that the Respondents gave proper consideration to the impact of this evidence on the risk relating to the recoverability of debtors.

5.83. Further, in the 2018 Audit, the Respondents understood that a significant proportion of the year end debtor balance had been discharged by *"non-cash transactions"* (see paragraph 5.79) but the audit work on those transactions was inadequate. No consideration was given to the overall commercial rationale of the Tripartite Agreements, and in particular why the service providers had apparently accepted an assignment of the Aggregators' indebtedness to Akazoo, as payment of Akazoo's indebtedness to them. In addition, no substantive audit work was performed on the recoverability of the residual balances due from the Aggregators after accounting for the Tri-Partite Agreements, relying solely on the confirmations obtained from the Aggregators, addressed below.

5.84. As a result of these failings, in each of the Audits, the Respondents failed to design and perform audit procedures that were appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence on the recoverability of debtor balances, and there were thus breaches of paragraph 6 of ISA 500.

5.85. In the 2017 Audit, in failing to consider the reliability of the representations made by Akazoo and to obtain corroborating evidence there was a breach of paragraph 4 of ISA 580.

5.86. In the 2018 Audit, in failing to identify that those representations were inconsistent with other audit evidence and consider the impact on the audit, there was a breach of paragraph 17 of ISA 580.

Breach Area 4: Failures in the process of obtaining external confirmations of debtor balances.

Relevant Requirements

5.87. Paragraph 7 of ISA 505[113] provides that:

> *"[w]hen using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:*
>
> *(a) Determining the information to be confirmed or requested;*
>
> *(b) Selecting the appropriate confirming party;*
>
> *(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and*
>
> *(d) Sending the requests, including follow-up requests when applicable, to the confirming party."*

[113] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

5.88. Paragraph 12 of ISA 505[114] provides that: *"In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence."*

5.89. Paragraph 16 of ISA 505[115] provides that: *"The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary."*

5.90. Paragraph A5 (which addresses paragraph 7(c)) of ISA 505[116] provides that: *"A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request and ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required of the confirming parties."*

5.91. Paragraph A11 (which addresses paragraph 10) of ISA 505 provides that: *"ISA (UK)*[117] *500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability. All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:*

- *Was received by the auditor indirectly; or*

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[114] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

[115] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

[116] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

[117] Reference is made to ISA (UK and Ireland) 500 for the Revised October 2009 version of ISA 505 applicable to 2016 Audit.

• *Appeared not to come from the originally intended confirming party*."

5.92. Paragraph A12 (which addresses paragraph 10) of ISA 505[118] provides that: *"Responses received electronically, for example by facsimile or electronic mail, involve risks as to reliability because proof of origin and authority of the respondent may be difficult to establish, and alterations may be difficult to detect. A process used by the auditor and the respondent that creates a secure environment for responses received electronically may mitigate these risks. If the auditor is satisfied that such a process is secure and properly controlled, the reliability of the related responses is enhanced. An electronic confirmation process might incorporate various techniques for validating the identity of a sender of information in electronic form, for example, through the use of encryption, electronic digital signatures, and procedures to verify web site authenticity."*

5.93. Paragraph A14 (which addresses paragraph 10) of ISA 505[119] provides that: *"The auditor is required by ISA (UK)*[120] *500 to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence. The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor."*

5.94. Paragraph A24 (which addresses paragraph 16) of ISA 505[121] provides that:

"*When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:*

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[118] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

[119] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

[120] Reference is made to ISA (UK and Ireland) 500 for the Revised October 2009 version of ISA 505 applicable to 2016 Audit.

[121] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 505 revised October 2009.

(a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;

(b) A response deemed unreliable;

(c) A non-response; or

(d) A response indicating an exception."

Audit Work

5.95. In each of the Audits, to obtain evidence over the completeness, accuracy, and existence of the debtor balances,[122] the Audit Team sought to obtain written external confirmation from the Aggregators of the debtor balance for each.

5.96. In the 2016 Audit, the requests for confirmations were sent on Akazoo's letterhead, signed by the CEO and asked the recipient to indicate whether they agreed with a *"balance in our favour"* as of 31 December 2016, or not. The requests asked for responses to be sent directly to the auditors, providing an address, fax number, and email address.

5.97. Three out of the four Aggregators provided responses to the requests:

5.97.1. The confirmation for Aggregator D was sent from an email address at the Aggregator D domain name*"*[123]. The attached confirmation was signed and confirmed a debtor balance of "*€8,034,628.04*"[124]. The covering email was sent to the Audit Team with Akazoo employees copied in.

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[122] Akazoo Subsidiary B: frca001:00002746/ CC_0002602-CC_0002602 and Akazoo Subsidiary A: frca001:00002778/ CC_0002631-CC_0002631.

[123] frca001:00028840/ CC_0027690- CC_0027690

[124] frca001:00028836/ CC_0027690- CC_0027691

5.97.2. The confirmation for Aggregator A was sent from an address at Aggregator A's domain name.[125] The attached confirmation[126] was signed but did not record whether or not the balance said to be due of "*€11,331,229.97*" was owed. The email was sent to an employee of Akazoo and was copied to other employees of Akazoo and to members of the Audit Team.

5.97.3. The confirmation for Aggregator B was sent from an email address at Aggregator B's domain name [127]. The attached confirmation was signed[128] and confirmed a debtor balance of "*€8,727,582*". The covering email was sent to an employee of Akazoo and copied to a member of the Audit Team.

5.97.4. Aggregator C did not respond to the request for confirmation. There is no evidence that the Audit Team identified and/or chased for the missing confirmation or considered any alternative procedure to obtain the required assurance.

5.98. In the 2017 Audit, requests for confirmation of sums owed as of 31 December 2017 were sent to all four Aggregators on 26 June 2018.[129] The requests were sent by email by the relevant manager at Akazoo and copied to a member of the Audit Team from Crowe Greece.

5.99. The requests followed a different format from those sent out during the 2016 Audit. They included a table and invited each recipient to *"fill in the amount of your claim or debt."* [130] The intention was thus that each Aggregator should not be asked to confirm

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[125] frca001:00028858/ CC_0027709- CC_0027709

[126] frca001:00028851/ CC_0027709- CC_0027710

[127] frca001:00028843/ CC_0027686- CC_0027686

[128] frca001:00028835/ CC_0027686- CC_0027687

[129] frca001:00028870/ CC_0027722- CC_0027722, frca001:00028884/ CC_0027724- CC_0027724, frca001:00028896/ CC_0027741- CC_0027741, and frca001:00028898/ CC_0027745- CC_0027745

[130] frca001:00028874/ CC_0027722- CC_0027723 attached to a cover email frca001:00028870/ CC_0027722- CC_0027722, frca001:00028882/ CC_0027724- CC_0027725 attached to a cover email frca001:00028884/ CC_0027724- CC_0027724, frca001:00028885/ CC_0027741- CC_0027742 attached to a cover email

a figure put forward by Akazoo, but rather that it should determine independently any sum that it considered that it owed to Akazoo. In each case, however, Akazoo prepopulated the table with the balance that, according to its own records, was owed by the Aggregator.

5.100. All four Aggregators provided responses to the requests:

5.100.1. The confirmation from Aggregator A was provided to the Audit Team by Akazoo but without the covering email showing the origin of the document. The confirmation was included in a clip of documents as one document generated by Akazoo.[131]

5.100.2. The responses from Aggregator B[132] and Aggregator D[133] were sent back to the relevant manager at Akazoo, copied to a member of the Audit Team from Crowe Greece.

5.100.3. The response from Aggregator C[134] was sent back directly to a member of the Audit Team from Crowe Greece, copied to Akazoo.

5.101. In the 2018 Audit the Audit Team provided templates for requests for confirmation of sums owed as of 31 December 2018. These templates reverted to the approach in the

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frca001:00028896/ CC_0027741- CC_0027741, and frca001:00028892/ CC_0027745- CC_0027746 attached to a cover email frca001:00028898/ CC_0027745- CC_0027745.

[131] Page 2, frca001:00028913/ CC_0027769- CC_0027770 attached to a cover email from Akazoo to the Audit Team frca001:00028917/ CC_0027769- CC_0027769.

[132] frca001:00028908/ CC_0027761- CC_0027762 attached to a cover email frca001:00028914/ CC_0027761- CC_0027761

[133] frca001:00028909/ CC_0027757- CC_0027758 attached to a cover email frca001:00028916/ CC_0027757- CC_0027757

[134] frca001:00028910/ CC_0027759- CC_0027760 attached to a cover email frca001:00028915/ CC_0027759- CC_0027759

2016 Audit, and asked the recipients to "*confirm the following balance(s) in [your/our] * favour of Euro[ ] at 31 December 2018.*"[135]

5.102. Requests in that format were prepared by Akazoo using the debtor balances in the version of FY18 ledgers extracted by Akazoo on 7 February 2019.[136] These were sent by email to all four Aggregators on 28 March 2019.[137] The requests were sent to the Aggregators by Akazoo, with members of the Audit Team copied into the covering emails. Responses to those requests were received as follows:

5.102.1. On 16 April 2019, Aggregator D sent a confirmation of the debtor balance via email to Akazoo, copying in the members of the Audit Team.[138] The confirmation was signed and stated that the relevant debtor balance as of 31 December 2018 (approximately €14 million) was agreed.[139]

5.102.2. On 17 April 2019, Aggregator B sent a confirmation of the debtor balance to Akazoo[140] but this was not sent to or copied to the Audit Team. The confirmation included the relevant debtor balance as of 31 December 2018 (approximately €13 million) and was signed but the signatory did not delete

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[135] frca001:00017445/ CC_0016300- CC_0016301 attached to a cover email frca001:00017452/ CC_0016300-CC_0016300

[136] Ledgers for Akazoo Subsidiary A: frca001:00017446/ CC_0016300- CC_0016302, frca001:00017469/ CC_0016300- CC_0016305 and ledgers for Akazoo Subsidiary B: frca001:00017447/ CC_0016300- CC_0016303, frca001:00017454/ CC_0016300- CC_0016306 attached to a cover email frca001:00017452/ CC_0016300-CC_0016300

[137] frca001:00028973/ CC_0027816- CC_0027816, frca001:00028964/ CC_0027813- CC_0027813, frca001:00028961/ CC_0027810- CC_0027810, and frca001:00028949/ CC_0027797- CC_0027797

[138] frca001:00032310/ CC_0031148- CC_0031148

[139] frca001:00032306/ CC_0031148- CC_0031149 attached to a cover email frca001:00032310/ CC_0031148-CC_0031148

[140] frca001:00029009/ CC_0027857- CC_0027859 attached to a cover email frca001:00029013/ CC_0027857-CC_0027858, both are attachments to an email forwarded by Akazoo: frca001:00029015/ CC_0027857-CC_0027857

the words *"We are not in agreement for the following reasons."*[141] and so did not confirm that the amount was agreed.

5.102.3. On 17 May 2019, Akazoo forwarded the confirmation response from Aggregator B in paragraph 5.102.2 to the Audit Team, a month after it had been received from Aggregator B.[142]

5.102.4. Also on 17 May 2019, Aggregator A sent an email to Akazoo stating:

> *"…In our books, dated 31/12/2018, our balance is 0 (as client) and € 3.702.750,14 (as vendor)*
>
> *If you need properly signed documents, please send us the correct letters."*

This was forwarded to the Audit Team on the same day.[143]

5.102.5. Three days later, on 20 May 2019, Akazoo forwarded electronic copies of the signed confirmation letters from Aggregator A to the Audit Team.[144] The sum that had been included in the debtor confirmation letter by Akazoo (approximately €19 million) had been amended by the signatory in manuscript to read *"€3,702,750.14"*[145], consistent with the email sent to Akazoo on 17 May 2019.

5.102.6. On 4 June 2019, Akazoo provided the Audit Team with a signed confirmation letter from Aggregator C.[146] The confirmation included the relevant balance as of 31 December 2018 (approximately €900,000) but the signatory did not

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[141] frca001:00029009/ CC_0027857- CC_0027859 attached to a cover email frca001:00029013/ CC_0027857- CC_0027858, both are attachments to an email forwarded by Akazoo: frca001:00029015/ CC_0027857- CC_0027857

[142] frca001:00029015/ CC_0027857- CC_0027857

[143] frca001:00029012/ CC_0027863- CC_0027863

[144] frca001:00029017/ CC_0027867- CC_0027868 and frca001:00029016/ CC_0027867- CC_0027869 attached to a cover email frca001:00029033/ CC_0027867- CC_0027867

[145] frca001:00029016/ CC_0027867- CC_0027869

[146] frca001:00021028/ CC_0019874- CC_0019875

delete the words "*We are not in agreement for the following reasons*" and so did not confirm that the amount was agreed.[147]

5.102.7. However, during April 2019 the audit team became aware that, in respect of three of the four Aggregators the amounts included in the confirmations sent in March did not represent the year end balances of FY18.[148] In particular, they did not reflect the significant reductions in debtor balances resulting from the Offset Agreements and the Tripartite Agreements.[149] On 15 May 2019, Akazoo provided the Audit Team with a revised version (labelled as "*FINAL*") set of FY18 ledgers and accounts for Akazoo Subsidiary A and Akazoo Subsidiary B, extracted on the same day.[150]

5.103. This difference had been reflected in the confirmation received from Aggregator A but not the other affected Aggregators. On 6 June 2019, Akazoo sent further confirmation letters to Aggregator D and Aggregator B. These referred to the earlier confirmations requested and the responses received and recorded in each case a sequence of further transactions, and asked for confirmation that they *"have subsequently been recorded in your books."*[151]

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[147] frca001:00021021/ CC_0019874- CC_0019876 attached to a cover email frca001:00021028/ CC_0019874- CC_0019875

[148] For example, in the email on 8 April 2019, Person A provided an update to Person B that she still had not had the "*finalised revenue figures*" (frca001:00032185/ CC_0031012- CC_0031012) and on 2 May 2019, Person A referred to a "*new TBs, GLs etc*" to be provided following her conversation with Person C on 25 April 2019: frca001:00032430/ CC_0031265- CC_0031266.

[149] Attachments to the cover email frca001:00032975/ CC_0031785- CC_0031785 include Offset Agreements (Aggregator B: frca001:00032969/ CC_0031785- CC_0031808, Aggregator D: frca001:00032974/ CC_0031785- CC_0031795) and the Tripartite Agreements: frca001:00032977/ CC_0031785- CC_0031809, frca001:00032980/ CC_0031785- CC_0031810).

[150] Amongst all attachments, the ledgers for Akazoo Subsidiary A: frca001:00019486/ CC_0018332- CC_0018337 and Akazoo Subsidiary B: frca001:00019496/ CC_0018332- CC_0018341 are attached to a cover email frca001:00019485/ CC_0018332- CC_0018332.

[151] frca001:00021478/ CC_0020325- CC_0020327 and frca001:00021475/ CC_0020325- CC_0020328 attached to a cover email frca001:00021480/ CC_0020325- CC_0020326

5.104. Responses from both were received by Akazoo and forwarded to Mr Bostock on the same day[152] but in each case the signatory did not delete the words *"We are not in agreement for the following reasons."*[153] and so did not confirm that the transactions were agreed.

Breaches of Relevant Requirements

5.105. In each of the Audits, there were numerous and repeated failures to follow the requirements of ISA 505 and to have regard to the accompanying guidance, both in relation to the process for requesting confirmations and in evaluating the responses received.

5.106. On each of the Audits, the confirmation requests were all sent by Akazoo rather than the Audit Team. All of the confirmation responses were received electronically, but the Respondents did not identify or consider the consequent risks to the reliability of the confirmations. The Respondents did not perform any procedures to validate the identities of the senders or otherwise ensure the reliability of the responses received, such as checking that the email addresses of the individuals who returned the confirmations were associated with a legitimate domain name and/or contacting the senders separately (for example by telephone) to verify the source and contents of a response.

5.107. There were also numerous occasions where the confirmation responses were not sent directly to the Audit Team but were either sent to Akazoo and copied to Audit Team members or sent to Akazoo and then provided to the Audit Team by Akazoo, but the Respondents did not consider the consequent risks to the reliability of the confirmations.

5.108. On the 2017 Audit, the confirmation requests were designed to require the recipients to specify figures but were nevertheless prepopulated by Akazoo with the debtor figures for which the confirmation was sought, thereby reducing the evidential value of the confirmations. In the 2018 Audit, the confirmation requests were sent with figures

[152] frca001:00021523/ CC_0020372- CC_0020372

[153] frca001:00021517/ CC_0020372- CC_0020374 and frca001:00021518/ CC_0020372- CC_0020373 attached to a cover email frca001:00021523/ CC_0020372- CC_0020372

described as year end amounts when that was apparently not accurate, necessitating further requests.

5.109. The range of failings were such that, on 2017 and 2018 Audits, the Respondents failed to maintain control over the external confirmation requests, in breach of paragraph 7 of ISA 505.

5.110. In the 2016 Audit, Aggregator C provided no response to the request at all, and the response from Aggregator A failed to indicate whether the balances were agreed or not and in the 2018 Audit responses from three of the Aggregators[154] did not indicate whether the balances were agreed or not. In each case, the Respondents failed to follow up on these non-responses to the requests for confirmations, in breach of paragraph 12 of ISA 505.

5.111. In each year, the Respondents failed to identify the numerous factors that potentially called into question the robustness of the process adopted for requesting confirmations or the reliability of the responses received and did not properly evaluate whether the results of the external confirmation procedures provided relevant and reliable audit evidence, or whether further audit evidence was necessary, in breach of paragraph 16 of ISA 505.

Breach Area 5: Failure to maintain professional scepticism

Relevant Requirements

5.112. Paragraph 15 of ISA 200[155] provides that: *"The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated."*

5.113. Paragraph 12 of ISA 240[156] provides that: *"In accordance with ISA (UK) 200 (Revised June 2016),*[157] *the auditor shall maintain professional skepticism throughout the audit,*

[154] Aggregator D, Aggregator B, and Aggregator C.

[155] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 200 updated June 2013.

[156] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 240 updated June 2013

[157] Reference is made to ISA (UK and Ireland) 200 for the updated June 2013 version of ISA 240 applicable to 2016 Audit.

recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance."

5.114. Paragraph 7 of ISA 550 provides *"Planning and performing the audit with professional skepticism as required by ISA (UK) 200 is therefore particularly important in this context, given the potential for undisclosed related party relationships and transactions."*

5.115. Additionally, paragraph 16 of ISA 550[158] provides that: *"If the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures required by paragraph 15 or through other audit procedures, the auditor shall inquire of management about: (a) The nature of these transactions; and (b) Whether related parties could be involved."*

Audit Work

5.116. In each of the Breach areas described in paragraphs 5.1 to 5.115 above there were specific matters where the effective planning and performance of the audit required the Respondents to act with appropriate professional scepticism:

5.116.1. To gain a sufficient understanding of Akazoo's business and its systems and processes and any relevant controls, particularly in relation to the risk of misstatement due to fraud.

5.116.2. To give proper consideration to the commercial relationship between Akazoo and the Aggregators, which was fundamental to the operation of the business, and to whether the evidence obtained in the audits indicated that the Aggregators were (as presented by Akazoo) independent businesses of substance, transacting with Akazoo on arms-length terms.

5.116.3. In carrying out audit procedures relating to revenue and debtors, to seek to obtain evidence from sources independent of Akazoo.

[158] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 550 updated June 2013.

5.116.4. To ensure that the Audit Team maintained control over the process of obtaining confirmations of debtor balances, and to critically evaluate the reliability of the evidence obtained.

5.117. There were also a number of matters that arose in the 2018 Audit that merited specific investigation and should, collectively, have caused the Respondents to approach the audit and in particular the risk of fraud with a heightened level of scepticism:

5.117.1. No cash at all was received from the Aggregators in FY18, with no apparent reason or explanation for why that was the case;

5.117.2. The fact that no cash was received from the Aggregators in FY18 was contrary to the representations made during the finalisation of the 2017 Audit.

5.117.3. The Tri-Partite Agreements were highly unusual commercial arrangements that enabled Akazoo to settle its own debts without paying any cash, and where there was no explanation as to why the apparently unrelated third party suppliers were each prepared to accept the Aggregators as counterparties, who themselves had not paid any cash to Akazoo in FY18.

5.117.4. Two of the Aggregators, who were apparently independent of Akazoo and unrelated to each other, provided confirmations of erroneous FY18 debtor balances (see paragraphs 5.102.1 and 5.102.2) and then subsequently provided further confirmations (see paragraph 5.103) that a significant proportion of those balances had been settled via non-cash transaction.

5.118. However, there was a notable lack of scepticism in each of the matters identified above. In particular, in each of the areas the Respondents relied on information or representations from Akazoo management without appropriate challenge and failed to obtain third party evidence. Further, in relation to obtaining confirmations from the Aggregators, over the course of the Audits, they allowed Akazoo to assume an increasing level of control over the process, did not recognise the risk arising from ceding control in that way, and did not properly evaluate the responses received.

5.119. The lack of scepticism persisted during the 2018 Audit, despite the specific matters identified at paragraphs above.

<u>Breaches of Relevant Requirements</u>

5.120. In each of the areas identified above, the Respondents failed to plan and perform the Audits with appropriate scepticism and to give proper consideration to the risks of misstatement due to fraud. On each of the Audits, there were thus breaches of paragraphs 15 and 17 of ISA 200 and paragraph 12 of ISA 240.

5.121. Further, the Tri-Partite Agreements entered into by Akazoo in FY18 were outside Akazoo's normal course of business and suggested that at least some of the counterparties might be related, but appropriate enquiries were not made. There was thus a breach of paragraph 16 of ISA 550.

Breach Area 6: Failures in audit documentation

<u>*Relevant Requirements*</u>

5.122. Paragraph 5 of ISA 230[159] provides that:

"The objective of the auditor is to prepare documentation that provides:

(a) A sufficient and appropriate record of the basis for the auditor's report; and

(b) Evidence that the audit was planned and performed in accordance with ISAs (UK)[160] *and applicable legal and regulatory requirements."*

5.123. Paragraph 8 of ISA 230[161] provides that:

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

(a) The nature, timing and extent of the audit procedures performed to comply with the ISAs (UK)[162] *and applicable legal and regulatory requirements; …*

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[159] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 230 updated June 2013.

[160] Reference is made to "ISA (UK and Ireland)" for the updated June 2013 version of ISA 230 applicable to 2016 Audit.

[161] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 230 updated June 2013.

[162] Reference is made to "ISA (UK and Ireland)" for the updated June 2013 version of ISA 230 applicable to 2016 Audit.

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

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

5.124. Paragraph 9 of ISA 230[163] provides that:

"In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

(a) *The identifying characteristics of the specific items or matters tested; …*

(b) *Who performed the audit work and the date such work was completed; and*

(c) *Who reviewed the audit work performed and the date and extent of such review."*

<u>*Audit Work*</u>

5.125. On each of the Audits, the audit documentation is inadequate in recording the audit procedures performed, evidence obtained, and conclusions reached, and as a consequence the audit files do not contain a sufficient and appropriate record of the basis for the Respondents' report. In particular, in all of the Audits:

5.125.1. There is limited documentation on the audit files that shows the extent of the testing performed on revenue.

5.125.2. There are many documents included on the audit files where it is not possible to tell whether the document is a work paper generated by the Audit Team, information produced by Akazoo, or a combination of the two.

5.125.3. There are many cases where the objective, method, results, and conclusion of a particular audit procedure was unclear unless the relevant working paper was attached to a particular work programme.

[163] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 230 updated June 2013.

5.126. Failures in specific audits include:

5.126.1. On the 2017 Audit, the customer ledgers up to May 2018 for Akazoo Subsidiary B[164] were obtained by the Audit Team from Akazoo, but there is no evidence on the audit file to indicate that any audit procedures were performed on this document and how or why the document was obtained apart from limited audit documentation by the Audit Team as explained in paragraph 5.66.

5.126.2. Also on the 2017 audit file, regarding the bad debt provision for Akazoo Subsidiary A, the Respondents recorded on the audit programme that they had reviewed Akazoo's bad debt assessment, that no provision was needed and that 81% of debtors were payable within 90 days.[165] There is however no record of the identity of the employee with whom this was discussed, or why he or she considered that no provision was required.

5.126.3. Also on the 2017 audit file, the work programme covering subsequent receipts of debtor balances by Akazoo Subsidiary B records that: *"We performed a review of significant year end debtor balances, and reviewed payments received post year end. We obtained explanations from management for any slow payments made."*[166] There is, however, no record of the individual items tested, what work was in fact done, or what discussions were held with management and when or where this discussion took place.

5.126.4. On both the 2017 and 2018 audit files, the documentations of revenue transaction testing for Akazoo Subsidiary A[167] are not attached to the relevant audit programmes for revenue and/or debtors, and there is insufficient documentation on what audit work was done, or how it was performed (see paragraphs 5.39.2 and 5.43).

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[164] frca001:00003104/ CC_0002965- CC_0002965

[165] Page 2, frca001:00003311/ CC_0003170- CC_0003170

[166] Page 2, frca001:00003273/ CC_0003136 - CC_0003136

[167] For 2017 Audit: frca001:00003123/ CC_0002966- CC_0002966 and for 2018 Audit: frca001:00001482/ CC_0001448- CC_0001448

5.126.5. On the 2018 audit file, a work paper named *“AKAZOO audit work 23.5.19 revenues per segments final”*[168] was attached to support the audit programme for walkthrough but there is no documentation on the 2018 audit file on how the data was obtained or from whom, who performed the work and what objective was to be achieved by such work.

5.126.6. Also on the 2018 audit file, the work papers for the bad debt provision consideration (aged debtor ledgers) for Akazoo Subsidiary A[169] and Akazoo Subsidiary B[170] do not include any proper record of the work said to have been done.

5.127. The UK-based Audit Team identified issues with the documentation prepared by the Audit Team based in Greece in the course of the 2016 Audit[171], but the deficiencies were not sufficiently addressed and resolved on the 2016 Audit itself, or on the 2017 and 2018 Audits.

Breaches of Relevant Requirement

5.128. For each of the Audits, in light of the deficiencies set out above, the audit files do not contain a sufficient and appropriate record of the basis for the Respondents’ report, or enable an experienced auditor with no experience of the audit to understand the nature, timing and extent of the work done, or the results of that work. There were thus breaches of paragraphs 8 and 9 of ISA 230.

Breach Area 7: Failure to properly direct and supervise the Audits

Relevant Requirements

[168] frca001:00001392/ CC_0001304- CC_0001304

[169] frca001:00001297/ CC_0001270- CC_0001270

[170] frca001:00001300/ CC_0001271- CC_0001271

[171] See Transcript of interview of Person B, 7 February 2022, page 25 [frca001:00029048]

5.129. Paragraph 8 of ISA 220[172] provides that: *"The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned."*

5.130. Paragraph 15(a) of ISA 220[173] provides that: *"The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements…"*

5.131. Paragraph A15 of the Application and Other Explanatory Material to ISA 220[174] (which addresses paragraph 15(a)) provides that:

"Supervision includes matters such as:

- *…*
- *Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.*
- *Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement."*

<u>*Audit Work*</u>

5.132. Mr Bostock was responsible for the overall quality of the audit work performed and ensuring that professional standards were complied with. The failures in the areas described above each of which demanded individual attention from the engagement partner, evidence a failure sufficiently to meet that requirement. There were also a number of significant matters where either closer supervision or more direct involvement of Mr Bostock was required:

5.132.1. There was a failure during the 2018 Audit to identify that the representation made during the 2017 Audit (to the effect that cash had been received from

[172] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 220 updated June 2013.

[173] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 220 updated June 2013.

[174] The version of ISA applicable to the 2016 Audit is the ISA (UK and Ireland) 220 updated June 2013.

the Aggregators to settle the debt outstanding as of 31 December 2017) was incorrect, and the implications for the audit. The representation had been made directly to Mr Bostock and he should have satisfied himself that it was reliable.

5.132.2. There was also a failure during the 2018 Audit to consider the commercial rationale for the Tri-Partite Agreements. They were significant and unusual transactions and Mr Bostock should have satisfied himself that the risks relating to them had been properly identified and addressed in the course of the audit.

5.132.3. The IT Audit Report was prepared for the 2018 Audit but there is no record on the audit file of Mr Bostock's review of the report or consideration of its impact on the risks of misstatement, relevance to any particular audit areas and any further audit procedures that might be required.

5.133. Further, the deficiencies in audit documentation referred to above were not identified and addressed by Mr Bostock in his review.

5.134. Additionally, Mr Bostock visited Greece once in the course of the 2016 Audit and only visited the premises of Akazoo rather than Crowe Greece, and not at all in the course of the 2017 and 2018 Audits. This was despite the fact that the majority of the substantive audit work was performed by Audit Team members based in Crowe Greece. This was insufficient to provide effective supervision.

<u>Breaches of Relevant Requirements</u>

5.135. On each of the Audits, in light of the deficiencies set out above, Mr Bostock failed to properly take responsibility for the direction, supervision, and performance of the Audits in that he failed to identify key audit risks (particularly relating to the risk of fraud, hence consequently risk of material misstatements of revenue and debtors) and failed to ensure that appropriate procedures were performed and evidence obtained to provide assurance over those risks. There were thus breaches of paragraphs 8 and 15(a) of ISA 220.

5.136. Crowe is also responsible for that failure on the part of Mr Bostock.

6. *SANCTIONS* – CROWE

6.1. Paragraph 10 of the FRC's Sanctions Policy (Audit Enforcement Procedure) (the "**Policy**") provides that *Sanctions* are intended to be effective, proportionate, and dissuasive. The reasons for imposing *Sanctions* are identified in paragraph 11 of the Policy as the following:

6.1.1. to declare and uphold proper standards of conduct amongst Statutory Auditors and Statutory Audit Firms and to maintain and enhance the quality and reliability of future audits;

6.1.2. to maintain and promote public and market confidence in *Statutory Auditors* and *Statutory Audit Firms* and the quality of their audits and in the regulation or the accountancy profession;

6.1.3. to protect the public from *Statutory Auditors* and *Statutory Audit Firms* whose conduct has fallen short of the *Relevant Requirements*; and

6.1.4. to deter *Statutory Auditors* and *Statutory Audit Firms* from breaching the *Relevant Requirements* relating to *Statutory Audit.*

6.2. Paragraph 12 of the Policy provides that the primary purpose of imposing Sanctions for breaches of the *Relevant Requirements* is not to punish, but to protect the public and the wider public interest.

6.3. In reaching her decision on sanctions Executive Counsel has, in accordance with the Sanctions Policy, considered the following matters.

<u>Nature, extent, and importance of the *Relevant Requirements*</u>

6.4. The *Relevant Requirements* breached embraced the majority of the audit process, including risk assessment (ISAs 240 and 315), audit execution, including the performance of certain specific audit procedures and the evaluation of the evidence obtained (ISAs 500, 505, 550 and 580), documentation (ISA 230), and direction and supervision by the engagement partner (ISA 220). The *Relevant Requirements* breached are thus extensive and important. However, the breaches relate to a single area of the audit, namely the testing of revenue and associated debtor assets.

<u>The gravity and the duration of the breaches</u>

6.5. The majority of the breaches were repeated in each of the Audits, hence accumulative in nature. During the Audits, there were various events that occurred such that an experienced auditor should have exercised enhanced levels of scepticism, and that increased scepticism should have been shown as each of the Audits progressed, and in each subsequent year. As a result, the failings became more serious over the course of the Audits.

6.6. It should also be noted that, through poor audit execution and a lack of professional scepticism the auditors were ill-equipped to identify what appears to have been serious fraud perpetrated by management throughout the relevant period.

Whether the breach caused or risked the loss of significant sums of money

6.7. The 2018 Audit took place against the backdrop of the proposed listing of Akazoo SA on the NASDAQ and therefore reported revenue was particularly significant in FY18. Financial information derived from the Financial Statements, and Crowe's unqualified audit opinions thereon were relied on to support the listing.

6.8. The listing was achieved via a reverse merger with a listed investment vehicle, raising significant funds for the company. The new management of Akazoo SA subsequently acknowledged that the FY16, FY17 and FY18 financial statements were false, and the company was delisted, with substantial losses suffered by investors. The breaches contributed to these losses.

The financial strength of the Statutory Audit Firm

6.9. Crowe is not a large audit firm. In 2022, its audit fee income was £49m and total fee income was £127m.

Whether it is likely that the same type of breach will recur

6.10. Although the breaches occurred a number of years ago, Executive Counsel considers that there remains a risk that the same type of breach could occur in the absence of remedial action. However, following an investigation by the SEC into the Respondents' conduct of the 2018 Audit, Crowe agreed to resign from all audit engagements for issuer clients in the US, withdraw its Public Company Accounting Oversight Board ("**PCAOB**") registration, and implement certain undertakings regarding the acceptance of new issuer clients. These measures serve to reduce the risk of future breaches involving US entities but provide no direct assurance regarding UK audits.

6.11. The Executive Counsel recognises that the breaches were not intentional, dishonest, deliberate nor reckless.

6.12. The Executive Counsel has also, pursuant to paragraph 26 of the Policy, had regard to sanctions imposed by the SEC in respect of events relating to the breaches found in this Decision Notice. In addition to the matters referred to at paragraph 6.11 above the Respondents agreed to pay financial penalties to the SEC[175] as follows:

6.12.1. Crowe - $750,000

6.12.2. Mr Bostock - $25,000.

<u>Identification of *Sanction*</u>

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

6.13.1. a **financial penalty** of £650,000, reduced from £1 million in light of the SEC penalty set out above. The financial penalty has been further discounted for admissions and early disposal by 30% so that the financial penalty payable is £455,000. The financial penalty shall be paid no later than 28 days after the date of the *Final Decision Notice*;

6.13.2. a published statement in the form of a **severe reprimand**;

6.13.3. a declaration that the FY16, FY17 and FY18 audit reports signed on behalf of Crowe did not satisfy the *Relevant Requirements*, as set out in this *Decision Notice*;

6.13.4. a **non-financial sanction** in the following terms:

6.13.4.1. To conduct a Root Cause Analysis to explain the causes of the breaches, and to identify any measures taken since to prevent reoccurrence.

[175] https://www.sec.gov/files/litigation/admin/2023/34-98118.pdf

6.13.4.2. To assess the effectiveness of those measures, including by reference to an agreed sample of audit engagements.

Aggravating or Mitigating factors

6.14. There are no aggravating or mitigating factors that have not already been considered in the context of the seriousness of the breaches.

Deterrence

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

Discount for Admissions and Settlement

6.16. Having taken into account the extensive admissions by Crowe and the stage at which those admissions were made, Executive Counsel determined that a reduction of 30% as to the financial penalty is appropriate, such that a financial penalty of £455,000 is payable.

Other considerations

6.17. In accordance with paragraph 47(c) of the Policy, Executive Counsel has taken into account the size / financial resources and financial strength of Crowe and the effect of a financial penalty on its business and whether any financial penalty would be covered by insurance.

7. *SANCTIONS* – Nigel Bostock

7.1. In reaching her decision on sanctions, the Executive Counsel has considered the following stages and taken account of the following factors in accordance with the Policy.

Nature, seriousness, gravity and duration of the breaches

7.2. The factors identified in paragraph 6.3 to 6.12 (save for 5.10) above are repeated here. The Executive Counsel recognises that the breaches were not intentional, dishonest, deliberate nor reckless.

7.3. In addition to this, breaches of ISA 200 (relating to professional scepticism), and ISA 220 (relating to supervision by the engagement partner) occurred, which are overarching standards that are central to the performance of an audit and the role of the engagement partner.

7.4. Mr Bostock remains a partner of Crowe, and the financial sanction imposed on him by the FRC will be met either by Crowe or by insurers.

Identification of *Sanction*

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

7.5.1. a **financial penalty** of £75,000, reduced from £100,000 in light of the SEC penalty set out above. The financial penalty has been further discounted by 30% for admissions and early settlement so that the financial penalty payable is £52,500. The financial penalty shall be paid no later than 28 days after the date of the *Final Decision Notice*;

7.5.2. a published statement in the form of a **severe reprimand**; and

7.5.3. a declaration that the FY16, FY17 and FY18 audit reports signed by Mr Bostock did not satisfy the *Relevant Requirements*, as set out in this *Decision Notice*.

Aggravating and Mitigating factors

7.6. There are no aggravating and mitigating factors that have not already been considered in the context of the seriousness of the breaches.

Deterrence

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

Discount for Admissions and Settlement

7.8. Having taken into account the extensive admissions by Mr Bostock and the stage at which those admissions were made, Executive Counsel determined that a reduction of

30% as to the financial penalty is appropriate, such that a financial penalty of £52,500 is payable.

Other considerations

7.9. In accordance with paragraph 47(d) of the Policy, Executive Counsel has taken into account the financial resources and annual income of Mr Bostock, the effect of a financial penalty on Mr Bostock and his future employment, and whether he is insured as to any financial penalty.

8. COSTS

8.1. Executive Counsel requires that the Respondents pay a contribution to her costs in this matter in the amount of £500,000. Such costs shall be paid no later than 28 days after the date of this *Final Settlement Decision Notice*.

Signed: [redacted]

Jamie Symington

Deputy Executive Counsel

Financial Reporting Council

Date: 13 August 2023

[FIRM]

Signed: [redacted] **Signed by Clyde & Co LLP for and on behalf of Crowe U.K. LLP**

Date: 23 August 2024

[INDIVIDUAL RESPONDENT]

Signed: [redacted] **Signed by Clyde & Co LLP for and on behalf of Nigel Bostock**

Date: 23 August 2024