



CROSSING THE LINE

A FACILITATOR'S GUIDE



PROFESSIONAL
STANDARDS
DEPARTMENT

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FOREWORD



Dear Facilitator,
Welcome to the Facilitator's Guide for our new educational film drama, *Crossing the Line*.

Crossing the Line has taken 17 months to create and continues the initiative I started at ICAEW in 2015 to improve ultimately the quality and

reliability of corporate reporting and audit work. *Crossing the Line* follows earlier audit films *False Assurance* (2015), *Without Question* (2018) and our economic crime film, *All Too Familiar* (2022).

It is my hope that *Crossing the Line* will provoke important discussions among accountants and directors all around the world about what it means, and what it takes, to do the right thing. As I said at the launch event for *Crossing the Line* on 20 May 2025 at Chartered Accountants' Hall, the most important words in the film are those Ellie shouts at Jamie in the last part of the film:

“ Forget keeping her onside,
forget the promotion, forget the
dream house, some things are
more important.”

I hope *Crossing the Line* reminds all watching it about the importance of the fundamental principles of integrity, objectivity, competence and due care, professional behaviour and confidentiality. You will need to decide how well the lead characters in the film fare in complying with these principles. Do they “cross the line”?

I have been asked why the film does not say what happened afterwards to the members of the audit team (other than what happens to the Jamie/Ellie relationship). The omission is deliberate. It's for the audience watching this film to decide how good was Jo in leading the Xoltic audit team, what action (if any) should have been taken against Adam for his lack of challenge on the Scarbridge FC audit and, of course, what consequences Jamie should face for his actions at the end of the film.

I hope you will pass on the feedback which comes from your audiences. We need to know how widely the film is being used and how well it is being received as that helps us justify the time and effort in making more films in the future.

Duncan Wiggetts
Chief Officer
ICAEW Professional Standards
June 2025

INTRODUCTION

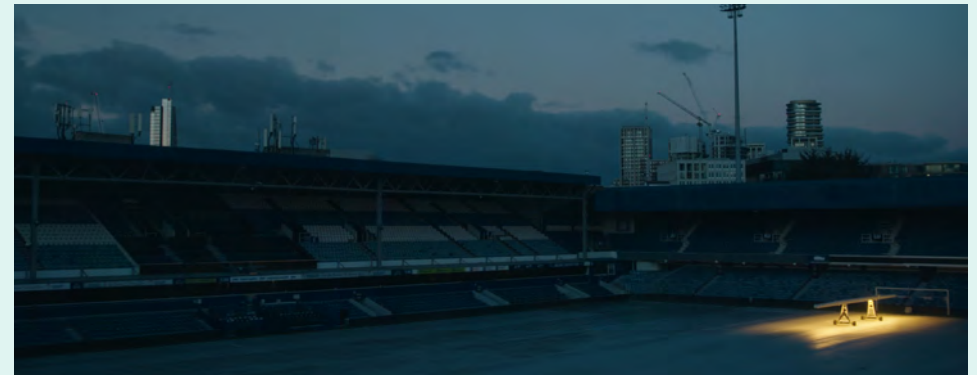
Crossing the Line takes viewers into the high-stakes worlds of Xoltic plc, a fast-growing software development company and Scarbridge FC, a once top-division football club which has fallen on hard times. See how the two audit teams navigate the complexities of signing off their accounts as the film reveals how the companies' and the audit teams' paths intertwine in unexpected ways.

Lewis Trent is one of the founding directors of Xoltic and he explains in the first scene how he supported Scarbridge FC as a boy and felt compelled to use his new-found wealth from the stock market listing of Xoltic to stop the club going out of business. He promises Scarbridge FC fans that he intends to take the club back to the top division "where it belongs". Lewis also expresses confidence that Xoltic will hit the higher performance targets promised to shareholders by Xoltic's board to fight off a recent hostile takeover bid.

After that opening scene, the film explores the ethical dilemmas and professional pressures faced by those in leadership and assurance roles. It addresses core audit themes – including integrity, the disclosure of contingent liabilities, auditor independence, revenue recognition and going concern assessments – in a dynamic and engaging way.

As the protagonist wrestles with the challenge of saving the football club from relegation while driving growth in a competitive tech market, the film underscores the fragility of success and the critical importance of transparency and accountability. It highlights the key role played by audit committees, external advisers and assurance providers in maintaining trust and upholding professional standards.

Ultimately, it asks the question: when do actions "cross the line"?



“

The film explores the ethical dilemmas and pressures faced by leaders, highlighting the fragile balance between ambition and integrity.

Please give your feedback and encourage your learners to also do so, by accessing our [short survey](#).



TRAINING OBJECTIVES

The overall learning objectives for a *Crossing the Line* training session are to:

- remind participants of the importance of acting at all times in compliance with the fundamental principles in the International Ethics Standards Board for Accountants Code of Ethics;
- consider how cultural, organisational and behavioural factors might adversely impact the quality of audit work, compliance with ethical principles and ability to “speak up”;
- stress the importance of compliance with the requirements of the International Standards on Auditing (ISA) including, in particular, the evaluation and assessment of audit evidence; and
- increase awareness of the importance of identifying fraud risks and the need for auditors to consider their reporting obligations (including anti-money laundering (AML) requirements).

HOW SHOULD THE FILM BE USED?

While *Crossing the Line* can be used as a learning tool in a variety of ways, we strongly recommend delivering the film as part of an in-person, interactive workshop. This setting provides the most effective environment for discussion and reflection on the ethical and professional challenges seen throughout the film. Sessions are often most impactful when they include a mix of junior and senior staff, encouraging diverse perspectives and peer learning across different experience levels, so this is encouraged where feasible.

For online sessions, the film can be shown in two different ways:

- 1 screen share the film with all participants using an online meeting platform which offers video optimisation (such as Zoom); or
- 2 share the link to the film and the Who's Who Character Guide with participants in advance. Ask them to watch each part of the film on their local device, press pause at the end of each section and return to the call or breakout room at a set time.

Please note that due to the high-quality nature of the film, and therefore the resulting file size, screen sharing *Crossing the Line* without video optimisation may result in a loss of video quality.

FACILITATED DISCUSSIONS

Crossing the Line is split into four parts.

- Part 1 – 19.5 minutes
- Part 2 – 21 minutes
- Part 3 – 11.5 minutes
- Part 4 – 5 minutes

Total running time: approximately 57 minutes

We have identified seven opportunities for **Facilitated discussions** within the film and for each have provided a series of **Topics** containing a number of questions which could be posed and a series of **Points to consider** which we would be expecting participants to identify (many of these lists are not exhaustive).

The table below summarises the timings of each discussion within the film.

	Facilitated discussion	Timing of stop	Total length (per part)
Part 1	Discussion 1A	00:15:46	00:19:30
	Discussion 1B	00:19:30 (end of Part 1)	
Part 2	Discussion 2A	00:33:18	00:20:51
	Discussion 2B	00:40:21 (end of Part 2)	
Part 3	Discussion 3A	00:49:11	00:11:33
	Discussion 3B	00:51:54 (end of Part 3)	
Part 4	Discussion 4	00:56:53 (end of Part 4)	00:04:59

Given the longer length of Parts 1 and 2, these contain more topics and questions than in Parts 3 and 4. Also, the facilitated discussions which come later in the film ask participants to look back on what they have seen throughout the film to be able to evaluate the performance of some of the characters or where there were red flags indicating a risk of fraud.

Four of the suggested facilitated discussions are at the end of each of the four parts. The ends of Parts 1-3 mark the end of each audit and so provide an opportunity to look back at how well or badly each audit team fared during that audit.

The remaining three suggested facilitated discussions – potentially the most interesting ones – are those where we recommend pausing the film before the end of each of Parts 1, 2 and 3 to ask participants to identify what is going well or badly at that point and to ask them what they would do next before they see how events unfold.

HOW LONG DOES A “CROSSING THE LINE” TRAINING SESSION LAST?

In our experience, training sessions using ICAEW films can vary in length from a few hours to two days, and length will be dependent on the needs of the audience and any additional tailoring.

We suggest that the minimum time to run an effective training session (including some meaningful discussion covering all the topics and questions contained in this Facilitator's Guide) would be between 4-5 hours.

For those selecting to cover only certain topics or themes, we would suggest allowing at least 2-3 hours, but facilitators will need to consider carefully how many topics they can include while still sufficiently covering the identified learning objectives.

WHAT KINDS OF TOPICS ARE COVERED?

In identifying the topics at each facilitated discussion, we have tried to focus not just on technical issues arising in the preceding part of the film but also on the ethical dilemmas confronting a number of the characters. We have also focused on behavioural, cultural and organisational issues which might be impacting the performance of the audit teams.

We have indicated whether a topic is predominantly technical, ethical or behavioural by using the following symbols throughout this guide. This will make it easier to put together a training session which, for example, focuses only on the ethical issues raised throughout the film.

As you will see, some topics may encompass two or all three of these areas.



**ETHICAL
MATTERS**



**TECHNICAL
ASPECTS**



**CULTURAL AND
BEHAVIOURAL
CONSIDERATIONS**

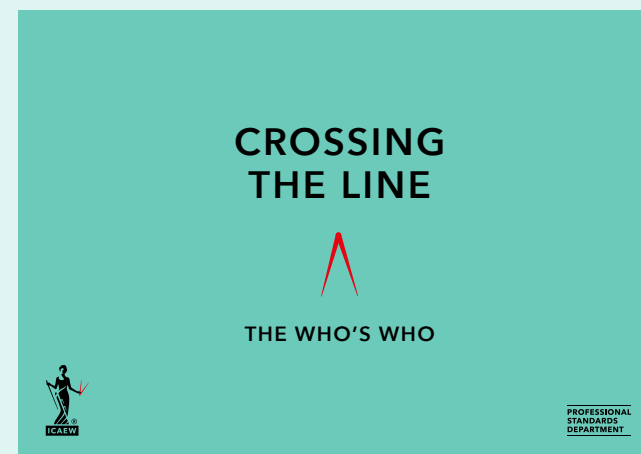
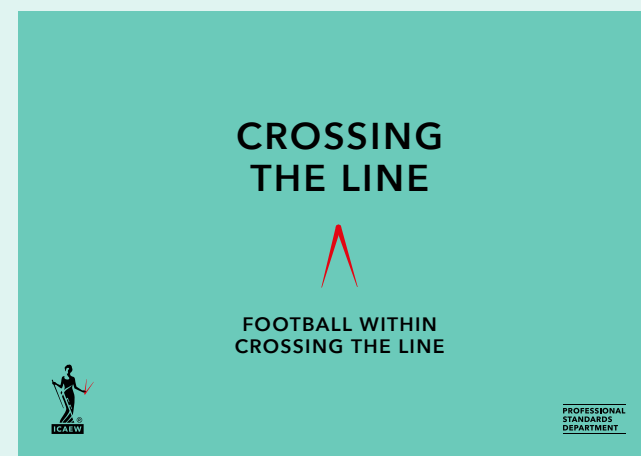
ADDITIONAL RESOURCES

We have created a separate helpsheet covering some of the football concepts and terminology used in the film (Football Within Crossing the Line). We would recommend that either participants are provided with this before a training session or that time is taken at the start of a training session to run through the document to help ensure that everyone can understand the basic concepts. While each concept is explained in conversations between the characters, we have found through pilot sessions that it is worth spending time at the start to run through them.

The Who's Who Character Guide is a useful reference to give each participant at the start of the session so they can quickly familiarise themselves with the characters.

Throughout the Facilitator's Guide we have also provided a number of links to relevant legislation and guidance for reference. This provides the opportunity for facilitators to delve deeper into a particular topic if it is of interest to the participants.

Finally, the film highlights a range of pressures and ethical dilemmas that can arise in audit and corporate environments. These scenarios may resonate with participants who have, or may currently be, encountering similar stresses or dilemmas in their careers. Facilitators should be mindful of the potential emotional impact on participants and consider signposting participants to relevant internal or local support and mental health resources. ICAEW students, members, and former members can also access free, confidential support through www.caba.org.uk



CROSSING THE LINE

PART 1

TOPICS COVERED

- Planning the Xoltic audit
- Auditing of revenue
- Accounting for/auditing the Monsal legal claim
- Limitation of scope
- Interoffice relationships
- Engagement quality reviewers
- Limited waiver of privilege agreements
- Disclosure notes for contingent liabilities
- Audit completion

OVERVIEW

This first section of the film is 19.5 minutes long. In it we meet the main characters and start to understand some of the key events and challenges being faced at both Xoltic and Scarbridge FC. We also follow the Laston audit team, under the leadership of a new engagement partner, through the first audit of Xoltic since the company was targeted for a rival takeover bid.

Learning Objectives

- Discuss how to design and perform audit procedures to obtain sufficient appropriate audit evidence regarding the recognition, measurement, and disclosure of revenue.
- Understand the procedures for identifying, assessing, and disclosing legal claims and contingent liabilities.
- Understand the role of professional scepticism and challenge throughout the audit (ISA 200).
- Understand the impact of organisational culture at audit clients on decision-making and on audit teams' risk assessment.

PART 1 – DISCUSSION 1A

We recommend that the film should be paused at the end of the meeting between Andi and Jamie at 00:15:46 to prompt some or all of the following discussions.



TOPIC 1.1 – PLANNING THE XOLTIC AUDIT

What observations do you have about the way in which Jo conducted the planning meeting?

POINTS TO CONSIDER

- While Jo led the meeting, it was clear that she was keen to hear contributions from others in the team in determining the audit approach.
- It was also clear that Jo was prepared to take a different approach to the previous year's audit, taking into account what had happened to Xoltic since that last audit. This included specifically revisiting the materiality threshold given increased pressure on management due to higher returns promised to shareholders to fend off the hostile takeover.



Note for facilitators

We only see part of the meeting on film, but it is important to highlight here the importance of encouraging contributions from the whole team especially giving confidence to more junior members to speak up.

Based only on what the audit team knew or should have known, what general factors relating to Xoltic's financial position or the Xoltic management team should it have considered in its assessment of risks of material misstatement and/or fraud?

POINTS TO CONSIDER

- Xoltic management will be under significant pressure due to the revised revenue and profit targets promised by the Xoltic board to shareholders to ward off the hostile takeover.
- The pressure to hit targets and avoid board/public criticism creates an environment where ethical boundaries could be crossed.
- This is exacerbated by senior executives being subject to a lock-in agreement regarding the sale of the rest of their shares which creates a strong financial incentive to keep the Xoltic share price high until the senior executives are able to sell all of their shares.
- The business software sector that Xoltic currently operates in is highly competitive.



Note for facilitators

The participants know a lot more at this stage about the integrity of senior management than the audit team who have not been present in most of the management meetings in Part 1.

What factors should have been considered in relation to revenue recognition?

POINTS TO CONSIDER

- Incentives for fraud such as pressures to deliver to market expectations/keep share price high to maximise future share sales when permitted under the lock-in agreement.
- Revenue recognition policies including assessment of compliance with IFRS 15.
- Controls relating to revenue recognition.
- Timing of revenue recognition.
- Any unusual contract terms, including consideration of the economic substance of the transaction ("substance over form").
- Closeness to meeting required targets.
- The mix of software being sold is now a mix of Version 5 and Version 6. This may indicate technological advances and a move into other delivery platforms which will need to be understood in the design of the revenue testing approach.
- Linked to this, the audit team should consider the impact of potential technological obsolescence through impairment testing of Version 5 intangible software assets.

What else should the audit team have considered in its planning meeting?

POINTS TO CONSIDER

- An update to entity understanding to help identify any other areas of potential risk and the testing approach.
- Consideration of whether a lower materiality level should be applied to specific areas such as (but not limited to) the remuneration of management and those charged with governance, or related party transactions.
- Agreement on the overall audit timetable, including fieldwork dates, client deliverable deadlines, and timing of engagement quality reviews, to ensure timely completion and reporting.
- Audit team resource including requirement for any audit team specialist input eg, an IT specialist or technology sector experience.
- Assignment of responsibilities within the audit team, with clear allocation of roles and responsibilities, including who will lead on key risk areas, review work performed, and liaise with specialists.



TOPIC 1.2 – AUDITING OF REVENUE

How well did the audit team do in its review of the reseller transactions involving Kingstorm and Brackton?

POINTS TO CONSIDER

- The use of data analytics as part of revenue testing was beneficial as it highlighted two high-value transactions close to year-end. The transactions may not have been individually material (in line with the audit team's historic understanding about the size of contracts shared in the planning meeting), however the identification of two anomalies enabled the audit team to follow up on the unusual characteristics.



Note for facilitators

This may also be an opportunity to discuss your own firm's policies and procedures relating to the use of data analytics, and the importance of obtaining high-quality data from clients.

- Jamie correctly identified that the key issue was whether Kingstorm and Brackton acted in the capacity of principal or agent, and that targeted audit procedures should be performed to evaluate this. This assessment should be guided by IFRS 15 paragraphs B34–B38. In particular, paragraph B34A outlines two key steps.
 - Identify the specified goods or services promised to the customer.
 - Assess who controls each specified good or service (ie, Xoltic, Kingstorm or Brackton) before it is transferred to the customer.

- The outcome of this assessment should determine whether the revenue for the two Version 6 sales has been appropriately recognised.
- However, subsequently, Jamie and Reese relied on enquiry alone to get comfort over these reseller agreements, principally in a meeting arranged with Andi, the Global Sales Director. While he asked many relevant questions, Jamie was not sufficiently sceptical about the answers he received and failed to probe sufficiently some of the answers provided. Examples are below.
 - Jamie failed to challenge Andi's explanations about Kingstorm being involved in a domestic sale and receiving an unusually high discount and Brackton acting as a reseller for the first time despite strong indicators these arrangements were not usual practice for Xoltic.
 - When assessing the Brackton/Redbank transaction, Jamie focused more on the collectability of the reseller debt rather than whether Brackton was acting as principal or agent and if the relevant criteria had been met to recognise the revenue in the period.
 - As the Global Sales Director, Andi will have a vested interest in presenting the reseller agreements positively, which could lead to biased or incomplete information. This did not appear to have been considered.
- It also does not appear that the explanations provided by Andi were independently corroborated to other sources, documentation, or audit team understanding. Further verification should have been obtained in the following areas.
 - Andi states that Xoltic is "not strong in the healthcare sector". Jamie could have verified this by checking Xoltic's historical presence in the healthcare sector to sales transactions listings and customer analysis from the previous couple of years.
 - Andi also confirmed that the arrangement with Kingstorm was "not just a one-off". Depending on how long after year-end the audit testing is being conducted, the audit team may have been able to review other post-year-end sales transactions and correspondence with Kingstorm to assess the validity of this statement.

- Andi implied that there was significant discussion regarding the second reseller agreement with the Brackton MD before finalising. Andi also states she had received a further email the day before the call regarding collectability and that Xoltic was providing a lot of subcontracting work going forward. The audit team should request to see copies of all correspondence to support the claims made and assess whether Brackton is acting as agent or principal.
- Jamie and Reese should also have reviewed the pipeline of subcontracting work for Brackton to determine whether this could support Andi's collectability assessment.

If no further testing was performed after the meeting with Andi, there is insufficient audit evidence to support the recognition of the revenue for these two transactions.

- It is not clear whether the team considered involving Ash, the Finance Director, in the meeting or engaging with her separately – an omission that, as the viewer saw from witnessing the call between Lewis and Ash, may have missed an opportunity to test the robustness of her position on the accounting treatment.

What advantages and disadvantages were seen from holding a virtual meeting with Andi to challenge the Version 6 reseller agreements?

POINTS TO CONSIDER

- Use of virtual meetings and their suitability will depend on a number of factors.
- The use of a video call to hold the meeting with Andi may have allowed the conversation to take place with a busy senior director sooner than otherwise might have been possible and may have overcome logistical barriers such as the audit team and Andi being in different locations.
- However, the detachment inherent in a video call allowed Andi to control the conversation and also allowed her to end the call abruptly before Jamie had had the opportunity to reflect on the information provided and to confer with Reese.
- Holding this important discussion via a video call, rather than in person, also limited Jamie and Reese's ability to gauge Andi's body language and to assess whether she was comfortable in providing the answers.



TOPIC 1.3 – ACCOUNTING FOR/ AUDITING THE MONSAL LEGAL CLAIM

How should Xoltic be accounting for the Monsal claim in its financial statements?

POINTS TO CONSIDER

- While Ash confirmed at the meeting with Jo and Jamie that it was management's intention to disclose the Monsal claim in the notes to the financial statements, failure to comply with the relevant accounting requirements may still result in a material misstatement of Xoltic's financial position either through inadequate disclosure of a contingent liability or a failure to recognise a provision if the claim is likely to result in a significant financial outflow.
- Under IAS 37 an entity should recognise a provision if it is probable that an outflow of cash or other economic resources will be required to settle the provision. If an outflow is not probable, the item is treated as a contingent liability.
- As the Monsal legal case is still in the early stages and relates to an alleged infringement of intellectual property (IP), there is not yet a legal or constructive obligation on Xoltic. This would likely be treated as a contingent liability because it is not probable that a settlement will be needed. However – this is dependent on the legal advice given, and any other information supporting management's assessment.

- If considered a contingent liability, Xoltic should disclose in its financial statements a brief description of the nature of the contingent liability and, where practicable:
 - an estimate of its financial effect;
 - an indication of the uncertainties relating to the amount or timing of any outflow; and
 - the possibility of any reimbursement.
- There are also potential reputational risks which could arise if the Monsal claim is not appropriately reflected in the financial statements, including loss of stakeholder trust and negative publicity. In addition, operational risks may arise if the claim leads to significant financial outflows that impact core operations and going concern, particularly if these impacts had not been previously provided for.

How did Jo handle the pushback from Lewis Trent regarding the disclosure of legal advice related to the Monsal claim? What should she do next?

POINTS TO CONSIDER

- It is expected that auditors will be provided with all relevant information to support significant decisions/judgements in the financial statements which includes privileged material. Here, Xoltic management have determined that an outflow of funds is not probable and that the claim should be disclosed as a contingent liability in the financial statements. Auditors should expect to see evidence to support that accounting treatment.

- Clients may be concerned that disclosing legal advice will waive privilege in that advice and mean that it could be seen and relied on by other parties including another party in the ongoing litigation. However, when a client shares privileged material with an auditor, this is done under an implied limited waiver of privilege such that the auditor can comply with their duties under the ISAs.
- After getting the strong push-back from Lewis, Jo should consider consulting with either a technical specialist or the engagement quality reviewer assigned to this audit.
- Jo should also consider raising with Xoltic's Audit Committee the refusal by management to disclose the advice, making clear that a continuing refusal could result in a limitation of scope in her audit opinion.
- Jo should also consider whether she should be instructing her own legal opinion on the likelihood of Xoltic successfully defending the claim.

Could Jo rely instead on, say, a report from the Xoltic Chief Technology Officer (CTO) highlighting the weaknesses in the Monsal claim?

POINTS TO CONSIDER



Note for facilitators

Lewis's challenge to Jo about the sufficiency of the CTO report does not happen until the end of Part 1 but this hypothetical question will allow participants to consider the ISA requirements.

- ISA 500 stipulates that auditors are required to obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the audit opinion. When relying on the work of a management expert, the auditor must evaluate the competence, capabilities, and objectivity of that expert, as well as the appropriateness of the expert's work as audit evidence for the relevant assertion.
- If a report is prepared by the CTO to support Xoltic's assessment of the validity of the Monsal claim in the financial statements, the CTO should be regarded by the audit team as a management expert.
- While it is likely the CTO may have the technical expertise to understand the weaknesses in the Monsal claim, the audit team should be sceptical about the CTO's objectivity since the CTO is an employee of Xoltic and directly involved in the matter.
- Therefore, when evaluating the appropriateness of the expert's work as audit evidence, an internal report from the CTO may not be sufficient on its own due to the potential bias and lack of independence. Jo would need to consider obtaining external technical and legal advice to provide an assessment of the findings in such a report.

Beyond requesting sight of the legal advice, what other steps should the Xoltic audit team be taking in respect of the Monsal claim?

POINTS TO CONSIDER

Once the audit team has been made aware of the claim it will need to consider the following points.

- Revisit its risk assessment.
 - Given the potential financial impact of the Monsal claim, it is likely that this would be deemed a significant risk.
 - Failure of management to inform the Laston audit team until now shows ineffective communication and indicates a lack of transparency by management. The audit team members should revisit their inherent risk assessment of the wider audit, including potentially reassessing planned work across other areas in case there is other information which is adverse to the accounts which has also not been disclosed.
 - The Laston audit team should check to ensure that the Audit Committee has been made aware of this claim. If this has not been disclosed by management to the Audit Committee either, this would raise significant governance concerns.
 - Assess the reasonableness of management's assumptions and estimates related to the claim.
 - Request copies of all correspondence relating to the claim and review.
 - Assess the competence and experience of Xoltic's legal advisors.
 - Consider the need to speak directly with the legal advisors.
 - Consider getting third-party external expertise through the use of an auditor expert, if necessary, to be able to help conclude on the appropriate accounting treatment.
- As there are indications of lack of transparency, the audit team should gain assurance that it has been provided with all relevant documentation.
 - Review the adequacy and completeness of disclosures.
 - Evaluate the potential impact of the Monsal claim on Xoltic's going concern assessment.
 - Consider the requirements for specific management representations.



TOPIC 1.4 – LIMITATION OF SCOPE

In what circumstances should auditors consider inserting a limitation of scope paragraph in an audit opinion? What steps should be considered in advance of taking that step?

POINTS TO CONSIDER

Circumstances when a modification to the auditor's opinion is required

- ISA 705 paragraph 6(b) states that an auditor shall modify the opinion in the auditor's report when they are "unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement".
- In the case of Xoltic, if the audit team is not provided with the legal advice, it would need to consider, following the requirements of ISA 501 for litigation and claims, whether sufficient appropriate evidence can be obtained through performing alternative audit procedures. If this is not possible, the requirements of ISA 705 6(b) will apply.

Circumstances for inserting a limitation of scope

- ISA 705 also states that an auditor shall disclaim an opinion when they are "unable to obtain sufficient appropriate audit evidence on which to base the opinion", and they "conclude that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive".
- As previously discussed in [Topic 1.3](#), the Monsal claim could be considered as a pervasive matter because the potential size of the claim may represent a "substantial proportion of the financial statements" because it will be based on historic Version 5 sales. It is also a matter for which any corresponding financial statement disclosures would be fundamental to the user's understanding of Xoltic's financial statements.

Steps to be considered

- As Lewis is refusing to provide the legal advice, it may not be possible for the audit team to conclude definitively whether the claim results in a provision or a contingent liability under IAS 37. Consequently, Xoltic's management has imposed a limitation on the scope of the audit that may result in the need to express a qualified opinion or to disclaim an opinion on the financial statements.
- In these circumstances, ISA 705 expressly states that the auditor shall request that management remove the limitation which means Jo would need to request the legal advice once again despite Xoltic's view that it is privileged.
- If management continued to refuse to disclose, Jo would need to communicate the matter to the Audit Committee and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate evidence. The complex circumstances of the Monsal claim means performing alternative procedures may be difficult or impossible to complete without management support and provision of all relevant legal correspondence.
- If Jo was unable to obtain further audit evidence, and the limitation remains, she will have to determine whether the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive such that a qualification of the opinion would be inadequate to communicate the gravity of the situation.
- At this point, Laston would either withdraw from the audit, if it is practicable and possible to do so or, if withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim its opinion on the financial statements.
- Jo should ensure that she consults internally throughout and escalates as necessary in determining which course of action is taken.



TOPIC 1.5 – INTEROFFICE RELATIONSHIPS

What potential threats and risks could arise from Ellie and Jamie's personal relationship?

POINTS TO CONSIDER

- Personal relationships between employees within an accountancy firm can present several challenges and considerations that need to be carefully managed.
- Even if the individual believes they can remain objective, the perception of bias by others can undermine the credibility of the audit. It is important to avoid situations where personal relationships could be seen as compromising the auditor's independence.
- The most obvious issue is where there is a relationship between two accountants working in the same team particularly at different levels of seniority where one may be reviewing the other's work. This scenario would create a threat to integrity or objectivity. If couples in a relationship found themselves in this situation and their relationship was not known within the firm, it would be important for them to declare their relationship to the partner leading the audit so that the potential threats could be safeguarded.

- In the film, Jamie and Ellie have formed a relationship but, while they work in Laston's audit department and have different levels of seniority, they are currently working in two different audit teams so there is no current risk of reviewing each other's work. However, as they are different grades, it is possible that Jamie may have to review Ellie's work if they were to be allocated to the same audit in the future.
- Ellie has also clearly taken an interest in the Xoltic audit due to Lewis Trent being a famous personality. Her interest raises the possibility of a threat to compliance with the fundamental principle of confidentiality as, while Jamie and Ellie both work at Laston, information should remain confidential within audit teams and should not be discussed wider within the firm, particularly as Xoltic is a listed company and some information which is known to Jamie may be market-sensitive.



Note for facilitators

You could use this fictional scenario to talk about your own firm's policies and procedures in respect of interoffice personal relationships and the need for disclosure.

PART 1 – DISCUSSION 1B

We recommend that this discussion takes place at the end of Part 1.



TOPIC 1.6 – ENGAGEMENT QUALITY REVIEWERS

When is an engagement quality reviewer required? What impact did Lucas have on how the Xoltic audit was completed?

POINTS TO CONSIDER

- Under ISQM 2 an engagement quality review is “an objective evaluation of the significant judgements made by the engagement team and the conclusions reached” and should be completed on or before the date of the audit report.
- An engagement quality review is required on certain types of engagement under ISQM 2, including:
 - audits of financial statements of listed entities;
 - audits or other engagements for which an engagement quality review is required by law or regulation; and
 - audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks.

- The involvement of an engagement quality reviewer helps maintain professional scepticism as they can bring a fresh perspective to challenge the audit team’s assumptions and conclusions. Engagement quality reviews provide an additional layer of scrutiny, assessing whether the work performed, and the conclusions reached, on significant judgements by the audit team are appropriate.
- Here, at the end of Part 1, Lucas, the Engagement Quality Reviewer, helps reinforce the need for Jo to obtain a copy of the legal advice to rule out that a provision is required and indicates the need to stress that failure to see the advice will create a limitation of scope in the audit. Lucas is also right to advise Jo that any disclosure note will need to include details of the likely outcome of any claim, should it be successful.
- Jo is concerned that causing tension with Lewis may compromise the bid which Laston is making to take over the audit of Scarbridge FC. Lucas – being more detached from the engagement and the individuals involved – is able to point out that this is not a relevant consideration and that Jo’s actions should be solely based on what is the right action to take to complete the audit.



Note for facilitators

You may wish to include additional content to outline your own firm’s policies and procedures in respect of engagement quality reviews and other quality reviews.



TOPIC 1.7 – LIMITED WAIVER OF PRIVILEGE AGREEMENTS

When discussing access to the legal advice, Jo refers to an agreement sent over by Jamie that will protect against any wider disclosure. This is what would be termed a limited waiver of privilege agreement in the UK context.

**What is the purpose of a limited waiver of privilege agreement?
When might this be used?**

POINTS TO CONSIDER

- Limited waiver of privilege agreements allow a privileged document (or documents) to be shared with a third party for a limited and specific purpose on terms that the third party will treat the information disclosed as confidential and cannot pass the information on to any other party.
- It should be rare that auditors agree to (or suggest) such an agreement as they generally have a legal right to all information and explanations required for the purposes of their audit, and it is covered by the preconditions for an audit set out in ISA 210. This does not always mean that clients are obliged to provide privileged information but, if not provided, this would be expected to lead to a limitation in scope or disclaimer of audit opinion depending on the significance of the matter.





TOPIC 1.8 – DISCLOSURE NOTES FOR CONTINGENT LIABILITIES

Was Jo right to insist on further information being provided by Xoltic in its disclosure note? When would “exceptional circumstances” apply?

POINTS TO CONSIDER

- Jo needs to ensure that the relevant disclosures in relation to the Monsal claim have been appropriately made in line with IAS 37. As mentioned previously, if the claim is considered a contingent liability, Xoltic should disclose in its financial statements a brief description of the nature of the contingent liability. IAS 37 also requires disclosure, where practicable, of an estimate of the contingent liability's financial effect, an indication of any uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.
 - However, in extremely rare cases, where disclosure of some or all of the information required could seriously prejudice the position of the entity, IAS 37 states that it need not disclose the information. However, it should still disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.
 - An example of a “rare case” given in the standard is a dispute with other parties, and the accompanying guidance includes an illustration where the information usually required by IAS 37 “is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claim can be successfully resisted by the company”.
- The legal dispute with Monsal could be a situation where disclosing all the facts could prejudice the outcome of the litigation and is a matter of judgement which should be assessed on a case-by-case basis. Jo asked for the disclosure to “set out possible outcomes” which Lucas also concurred with as part of the engagement quality review.
 - The prejudicial disclosures exemption is only to be applied in rare situations, and it is not intended to help entities deliberately conceal details concerning provisions or contingent liabilities. Auditors should be aware that management and their legal advisors may quite commonly assert that information would be seriously prejudicial, so the auditor may need to challenge this robustly and consider obtaining independent legal advice.
 - In any case where management uses the seriously prejudicial disclosure exemption after appropriate challenge by the auditor, the auditor will normally obtain specific management representations as further confirmation of the position.



TOPIC 1.9 – AUDIT COMPLETION

Do you have any concerns about how this audit has been completed by the Xoltic audit team?

POINTS TO CONSIDER

➤ Failure to obtain sufficient assurance regarding the reseller transactions.

- There is no indication in the last few scenes that Jamie and Reese have followed up on the issues they had identified with the reseller transactions after their call with Andi.
- This should have included performing audit procedures such as, but not limited to, those outlined in [Topic 1.2](#).

➤ Failure to follow up on the change of legal advisors.

- We see, from her final meeting with Lewis and Ash, that Jo has now learned that Xoltic has instructed new lawyers to defend the Monsal claim. However, she asks Lewis only whether the new lawyers are also advising Lewis not to disclose the legal advice.
- Jo does not ask why Xoltic has instructed new lawyers and does not ask whether Xoltic has received any written legal advice from its initial lawyers and, if such exists, does not extend her request for disclosure of that advice too. In failing to probe this, Jo has missed out on the possibility of learning that Xoltic's usual lawyers were not as optimistic about a successful defence and seeing evidence which might suggest that the Monsal claim was likely to be successful (revealed in the telephone conversation between Lewis and Ash). This would have supported the need for Xoltic to take a provision in its accounts.
- It is also unclear whether Jo has checked on the expertise of the new lawyers given the specialist nature of this claim.

➤ Failure to identify that a former Monsal employee worked on the development of Version 5 software from a review of the legal documents.

- While Jamie has been asked to review the legal claim documents, he does not appear to have identified that it has been alleged that Xoltic's Version 5 software was created by a team which included an ex-Monsal employee, specifically someone who had also been involved in the creation of the Monsal software programme that had allegedly been copied. From the conversation between Lewis and Ash, it appears that this was one of the main concerns of Xoltic's original legal advisors which had fed into their more pessimistic advice about the chance of a successful claim.
- This raises the question as to whether Jamie had sufficient expertise or experience to be reviewing the legal claim documents, whether Jo should have reviewed them herself given the potential significance of this claim, and whether they should have instructed their own legal advisors to review these documents to help the audit team determine whether a provision was necessary.

➤ Is Jo too stretched/delegating too much to Jamie?

- It is clear from the last scene in Part 1 that Jo is overloaded with work. We see that she is relieved that she does not need to spend any time reviewing the output of Jamie's work on the reseller agreements. This is concerning as ISA 220 states that the engagement partner should review audit documentation relating to significant matters and judgements – such as the reseller agreements. It is important that Jo takes responsibility for all key aspects of the audit work.
- It also raises the question of how much Jo has been told about the concerns which emerged from the initial review by Reese. If Jo had known how unusual these agreements appeared to be, she might have decided that she needed to attend the meeting with Andi or at least made sure that further enquiries were undertaken to corroborate the representations given by Andi. It is also not clear whether Jo knows that Jamie and Reese have not asked any questions of Ash about the accounting for these transactions.

- Jo also leaves Jamie to follow up on the legal advice even though this is critical to the conclusion of the audit. She is relying on Jamie to review the advice to ensure that it supported the company's assertion that no provision was required. She is also delegating to Jamie the review of the company's disclosure note regarding the contingent liability. Given the importance Jo has attached to the note making full disclosure of the likely impact to shareholders, it was incumbent on her to review the contents of this note.

Part 1 – Resources and guidance

Fraud

[Failure to prevent fraud offence guidance for large companies](#) (effective 1 September 2025)



Data Analytics

[Using data analytics in external audit](#) – ICAEW Resources

Ethical threats

[Ethical standard for auditors](#)

[ICAEW Code of Ethics](#)

[International Code of Ethics for professional accountants](#)

Engagement quality reviews

[ISQM \(UK\) 2](#)

[ISQM 2](#)

[Engagement quality reviews for smaller practices](#) – ICAEW guidance

[Part 1 – safeguarding the quality of your audits](#) – ICAEW article

Professional scepticism

[Professional scepticism](#) – ICAEW resources hub

[What makes a good environment for auditor scepticism and challenge](#) – FRC report (2022)

Professional judgement

[Professional judgement](#) – ICAEW resources hub

CROSSING THE LINE

PART 2

TOPICS COVERED

- Scarbridge FC audit planning meeting
- Related party transactions
- Scarbridge FC stand damage
- Evaluating audit evidence
- Assessment of final audit evidence
- Handling of the meeting with the CEO
- Going concern
- Objectivity
- Speaking up/whistleblowing
- Indicators of economic crime

OVERVIEW

This section of the film lasting 21 minutes primarily focuses on the continuing events at Scarbridge FC and the club's first audit by Laston. The film delves deeper into the financial struggles faced by the club including escalating costs to repair the storm damage to the stand and ongoing cashflow management issues, both of which are continuing to risk the club's ability to comply with league financial regulations. Additionally, the film examines how these events influence Laston's first-year audit approach, following its successful tender bid.

Learning Objectives

- Identify appropriate actions to take when faced with ethical dilemmas in the workplace.
- Understand the significance of, and risks associated with, related party transactions including considerations for management in identifying RPTs, and the impact of RPTs on the audit approach (ISA 550).
- Understand the auditor's responsibilities in assessing the competence, capabilities, and objectivity of experts, including assessment of the appropriateness of the expert's work as audit evidence (ISA 500).
- Discuss the importance of thorough documentation and evidence gathering to support audit conclusions (ISA 230 and ISA 500).
- Understand management and auditor responsibilities in assessing the going concern assumption, considering both entities cash flow challenges and financial difficulties (ISA 570).
- Discuss the concept of "tone at the top" and its impact, using examples from the film where leadership decisions affected employee behaviour and outcomes.
- Raise understanding and awareness of red flags relating to possible economic crime.

PART 2 – DISCUSSION 2A

We recommend that the film should be paused before Adam's phone call with Lewis at 00:33:18, with the facilitator asking the following questions.



TOPIC 2.1 – SCARBIDGE FC AUDIT PLANNING MEETING

What specific considerations should the audit team have had in planning this audit of Scarbridge FC?

POINTS TO CONSIDER



Note for facilitators

We only see a small extract of the planning meeting on screen so it is not clear what else was covered by the team during that discussion. This question is designed to tease out what other matters should have been discussed in the rest of that meeting. The list below is not designed to be exhaustive, and participants may come up with other suggestions.

- **First-year audit requirements:** The audit team should ensure compliance with ISA 300 by communicating with the predecessor auditor to understand the reasons for the change and to obtain relevant information about the previous audit. This includes reviewing the predecessor auditor's working papers and discussing any significant issues encountered during the prior audit, and the performance of audit procedures necessary to obtain sufficient appropriate audit evidence over opening balances.

- **Audit team expertise:** As the audit team members appear from the film to lack experience in auditing football clubs, they should consider involving specialists or seeking additional training to ensure they have the necessary expertise to conduct the audit effectively. This may include consulting with experts in football club finances or consulting with the other responsible individuals (RIs) who have relevant experience.
- **Change of ownership of Scarbridge FC:** The audit team should review all legal documents related to the change of ownership following acquisition to understand the terms and conditions of the acquisition. This includes assessing any additional disclosure requirements that may arise due to the change in ownership and structure, and consideration of whether this gives rise to additional significant risks.
- **Gain an understanding of Lewis's ambitions as an owner:** The team should evaluate Lewis's intentions as a new owner, whether it is a short-term turnaround to sell the club or a long-term investment. This understanding will inform the audit approach and risk assessment.
- **Due diligence review:** The audit team should review the due diligence performed during the acquisition to identify any potential risks or issues that may impact the financial statements. This includes assessing the accuracy and completeness of the information provided during the acquisition process, and the competency and experience of the firm engaged to complete the due diligence.

- **Understanding and impact of relevant laws and regulations:** The audit team should assess the impact of relevant laws and regulations, such as the applicable football financial regulations, on the club's financial statements. This includes evaluating whether non-compliance with these regulations constitutes a significant risk that needs to be addressed during the audit.
- **Understanding of Scarbridge FC's financial history:** As part of obtaining the wider entity understanding of the club, the audit team should gain a thorough understanding of the club's financial history, including past financial performance and compliance with football financial regulations. This will help in identifying areas of significant risk and potential fraud risk factors to inform the overall risk assessment process. This is particularly relevant as Scarbridge FC is close to breaching the three-year aggregate loss limit under the financial rules which may increase incentives for fraudulent financial accounting to increase revenue or reduce costs to avoid a regulations breach and deduction of points.
- **Going concern:** Auditors must perform risk assessment procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Linked to the understanding of the club's financial history, there are a number of indicators which the audit team would be aware of that raise concerns regarding the club's financial viability including the following points.
 - The club came very close to breaching the three-year loss limits set by the football financial regulations, with two previous years of large losses, and needing to break even in the current year. It is implied that the club nearly would have gone bust but for the acquisition by Lewis.
 - The club has already shown reliance on Lewis's personal investment – as Lewis quickly “maxed out” the limits within the financial rules as to how much equity can be invested by an owner during his first year of ownership. It seems likely that the club will need continued investment next year, requiring consideration of both Lewis's ability to provide the finance, and whether the amounts required will comply with the financial rules.

- The club is remaining in the second tier for another season with lower crowds, with lower revenue through reduced TV exposure.
- The damage to the stand has introduced additional unknown cash outflows to repair the roof if not covered by insurance, and reduced revenue income through reduced capacity.
- The new lucrative deals for Jadon Quinn and a new head coach.



Note for facilitators

The answers provided by participants regarding Scarbridge FC's financial viability should be limited to those known at the time of the planning meeting; others only emerge later during Part 2 and are dealt with in subsequent topics.

- **Audit approach:** The audit team will also need to consider how risk assessment procedures and related activities performed in line with ISA 315, including assessment of the control environment (including the IT systems), has informed the audit approach as tailored to the football industry and more specifically the league in which Scarbridge FC plays.

This would include, but is not limited to, the identification of risks of misstatement including significant risks. Key risk areas are likely include going concern, revenue recognition disaggregated by risk across the various revenue streams, player valuation and impairment, the impact of the storm damage to the stand, and the acquisition/change of ownership.



TOPIC 2.2 – RELATED PARTY TRANSACTIONS

What weaknesses have you detected in the audit team's review of related party transactions?

POINTS TO CONSIDER



Note for facilitators

You may need to remind participants that the audit team was not present during the conversation between Lewis and Andi when it became clear that Lewis is a beneficial owner of Riverbank.

- IAS 24 defines a related party to include an entity's subsidiaries, associates, joint venture interests, key management and close family members of key management. The standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments. An entity's transactions with related parties must be disclosed regardless of whether a price is charged.
- In the film, Adam determines that Riverbank is not a related party solely on hearing confirmation that Lewis is neither a director nor recorded as a shareholder of Riverbank. However, neither he, nor the audit team as a whole, appear to have sufficiently investigated the relationship between Lewis and Riverbank despite the following.

- There being clear evidence of a family relationship with Lewis's brother-in-law a director and majority shareholder (as per Ellie's internet research) and the potential "de facto" influence or control Lewis might have through family connections, including whether Lewis could be regarded as a shadow director.
- Knowledge which Adam gains from his meeting with Jo that Lewis had joined a meeting after being at "an important site visit at Riverbank" and Jo's impression from that meeting that Lewis was closely involved with Riverbank.
- Riverbank had taken over as the main sponsor of Scarbridge FC, and it had agreed a sponsor fee which appeared unusually high for a second-tier team.
- Mayor Smith, the lawyers working on the Riverbank scheme, are the same lawyers who were working for Lewis in a personal capacity on his takeover of Scarbridge FC and they were also the new lawyers whom Lewis had brought into Xoltic to advise on the Monsal claim.

- The audit team appears to rely instead on superficial checks, rather than conducting a more in-depth assessment of the ownership and control of Riverbank to follow up the findings of Ellie's preliminary internet research.
- The audit team members fail to identify that there may be an additional motivation here for Lewis to want to disguise any relationship he may have with Riverbank. They know that the league rules preclude the inclusion of any revenue from related parties in the calculation of clubs' losses (Adam mentions this to Jo) and that the club has only narrowly avoided breaching the aggregate three-year loss limit (this is mentioned at the planning meeting) so, the unusually high sponsorship fee being paid by Riverbank has helped the club stay within the loss limit. This makes it even more important that the auditors rule out the possibility that Riverbank may be related and that it is being used a conduit by Lewis to inject more personal funds into the club beyond the maximum amount he has already injected under the equity owners' rules.

- While we see in the film from the conversation between Andi and Lewis that Lewis has some form of beneficial ownership in Riverbank, this is not something the audit team will be aware of and official documentation (such as incorporation documents, accounts, and other legal paperwork) will be unlikely to show any obvious links beyond the family connection already identified. However, given the family connection and the potential for circumventing the financial rules by channelling funds through related parties, the audit team should perhaps have considered other procedures such as a thorough review of all correspondence between Scarbridge FC and Riverbank leading up to the sponsorship agreement being put in place and a review of other evidence of possible control by Lewis over Riverbank such as whether he was a party to funding agreements for Riverbank or internet searches looking to track any mention of Lewis's involvement in Riverbank.
- Even if no specific evidence can be identified, given the family connection, the audit team should have considered whether it was necessary to obtain a specific written representation confirming that Lewis has no beneficial interest in Riverbank and that Riverbank is not considered to be a related party.
- Any assessment undertaken would need to be clearly documented on file summarising findings, minutes of discussions held including evidence of challenges of management, and judgements made.

What steps should the audit team members take if they identify undisclosed, related party transactions during the audit?

POINTS TO CONSIDER

- ISA 550 requires auditors to investigate if they find evidence of related party relationships or transactions that management has not disclosed and determine whether the underlying circumstances confirm their existence.
- If a member of the audit team identifies that Riverbank is a related party or the existence of other related parties or significant related party transactions that have not previously identified or disclosed to them, the audit team member will need to:
 - promptly communicate the relevant information to the other members of the audit team;
 - request management to identify all transactions with the newly identified related parties for the auditor's further evaluation;
 - inquire as to why the entity's controls failed to enable the identification or disclosure of the related party relationships or transactions;
 - perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;
 - reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
 - if the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit.
- Under ISA 550, unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties. However, in the case of Scarbridge FC, it is unclear whether there is anyone else to whom a report can be made other than Lewis.



TOPIC 2.3 – SCARBRIDGE FC STAND DAMAGE

What are possible short- and long-term financial impacts of the stand damage on Scarbridge FC?

POINTS TO CONSIDER

- The damage to the stand will result in a loss of match day revenue, including ticket sales, concessions, and reduced footfall to the club shop impacting merchandise sales, and potential decline in fan engagement and attendance if the stand remains damaged for a significant period.
- Scarbridge FC does not have sufficient insurance coverage to rebuild and there is potential need for additional funding depending on the extent of the damage to the stand's roof which could impact cashflows and potentially the club's position as a going concern.
- The damage might also deter potential sponsors and investors, impacting the club's ability to secure future funding.

Which specific audit risks and issues arise from the damage to the stand at Scarbridge FC?

POINTS TO CONSIDER

- The damage to the stand may result in significant risks over the completeness of the proposed provision for repair costs given the potential impact on the financial statements and the club's compliance with the Financial Rules and, in particular, the three-year aggregate loss limit.
- The damage to the stand may also impact audit testing for revenue, capitalisation of assets versus expenses, impairment of existing assets, and going concern. As there has been significant storm damage to the stand putting it out of action until health and safety sign off on any remedial works, there is an indication that the stand should be tested for impairment under IAS 36. If the carrying amount exceeds its recoverable amount, an impairment loss should be recognised.
- Insufficient insurance may also be an indicator of poor operational controls which could have an impact on risk assessment, and other audit testing.
- Football regulations often include specific requirements regarding the adequacy of insurance. While this will be specific to the jurisdiction, the audit team should consider if there are any non-financial football regulations which the club needs to comply with.
- While the club is insured, an insurance receivable can only be recognised as an asset if it is virtually certain that the reimbursement will be received. "Virtually certain" is a high threshold to reach, and it is not unusual for this to result in costs being recognised in the financial statements in a different accounting period to that of the recognition of the related insurance receivable particularly where there is a complex claim and assessment process.

- The audit team will need to obtain and review correspondence with the insurance company to confirm the claim's status and any potential limitations on coverage and accuracy of the insurance receivable. Insurance payouts received for the stand will be included in profit or loss when they become receivable.
- Given the limit to the club's insurance cover, the audit team may need to evaluate management's assessment on whether a provision is needed for the repair costs that exceed the insurance coverage.



How well has the audit team performed in auditing the costs of the stand repair up to the point where Scarbridge FC decides to change its accounting for the work?

POINTS TO CONSIDER

- The audit team has reviewed the insurance policy and noted the coverage cap for two million. It has recognised the risk of underinsurance for the cost of the works, particularly in light of the uncertainty surrounding the cost of roof repairs and appear to have factored this into its risk assessment.
- The team has also recognised that any costs exceeding the insurance limit could cause the club to breach the league's three-year loss threshold, triggering regulatory consequences.
- Ellie had traced the initial insurance reimbursement to the club's receipt and matched it to the contractor's first payment. This has provided good audit evidence supporting the recognition of the insurance receivable and has demonstrated appropriate procedures to test recoverability.
- Ellie has also identified a potential issue with the completion of the repair works by going on site. This highlights the benefits that can be gained by being on site/physically inspecting assets or other key items such as identifying audit risks that may not be apparent from documentation alone.

What additional audit procedures should be performed in light of the change of accounting based on the conclusions of the surveyor's report?

POINTS TO CONSIDER

Expensing/capitalising the costs

- The audit team first needs to understand whether the costs incurred by the contractor to bring the stand back into match-day use are restoring the stand beyond its original state or simply restoring it to its original condition without any enhancement to value or significant prolonging of the useful life. The decision to classify an expense is not always clear-cut and often requires judgement. Only those costs that meet the requirements under IAS 16 should be capitalised.
- Generally, investment in stadiums is allowable in many jurisdictions and not treated as a cost under football financial regulations if it is capitalised and depreciated but it may be included in the cap if expensed. The audit team should also consider this in the context of management bias given the large number of other indicators of conditions that cast doubt on going concern.
- While the audit team is not present during the meeting between Lewis and Lee, it is clear that Lee has been provided with two quotes:
 - six million for a rebuild of the stand with new longer-lasting materials; and
 - two million for patch-up repairs.
- If the club had opted for the rebuild with new longer-lasting materials, this would have likely enhanced the future economic benefits of the stand so those costs could have been capitalised. However, as Lewis and Lee opted for the cheaper quote for patch-up repairs, these were only going to restore the stand to its original condition and should be expensed.

This shows the importance of the audit team requesting all correspondence with both the health and safety assessor and the contractor, including original quotes, to gain an insight into whether the works agreed are to restore the stand to its original condition or enhance further.

- It is not made clear in the film whether the stadium is leased by Scarbridge FC or directly owned by Lewis through the acquisition. Whilst the recognition criteria in IAS 16 that need to be met will be the same, the ownership arrangement would have an impact on the categorisation of any capitalised costs (leasehold improvements vs property improvements) and the associated depreciation would need to correctly align to the correct category in line with the relevant accounting policies.



Evaluation of the surveyor's report

- In accordance with the requirements of ISA 500, the audit team should obtain a copy of the surveyor's report and then evaluate the competence, capabilities, and objectivity of the surveyor who is being used as a management expert. In particular, the audit team should ensure that the surveyor has the necessary qualifications and experience to provide a reliable report.
- Given that the change of accounting based on the report will keep Scarbridge FC within the three-year aggregate loss limit, it is important that the audit team maintains professional scepticism and probes carefully this evidence provided by management. Questions which should be considered include the following.
 - What are the surveyor's qualifications and experience in assessing similar projects?
 - Were there any specific challenges or limitations encountered during the assessment?
 - How were the conclusions in the report derived, and are they supported by sufficient evidence? How involved was management in driving the direction of the report?
 - How confident is the surveyor in his conclusions?
- The audit team may wish to cover some or all of these points through a meeting with the surveyor directly.
- The audit team members should document their conclusions about the report, including assessment of any inconsistencies or contradictory evidence. They should consider obtaining a second opinion from another surveyor if there are significant concerns about the reliability of the report.



TOPIC 2.4 – EVALUATING AUDIT EVIDENCE

How has the audit team approached the obtaining of audit evidence to support the Andre Sime contract and the Riverbank sponsorship deal?

POINTS TO CONSIDER

- In line with ISA 200 and ISA 500 auditors should apply professional scepticism and critically evaluate evidence provided. This involves assessing the reliability and completeness of the evidence, whether there are any indicators of management bias or fraud and corroborating the evidence with independent sources. Auditors should also be aware of any red flags or inconsistencies in the evidence and follow up on them and not try to make the facts “fit”.

Andre Sime transfer agreement

- To gain comfort that they have all relevant parts of a contract, the audit team members should request a complete copy of the contract from management and cross-check it with other available documentation, such as board minutes, emails, and correspondence related to the contract. They should also perform a detailed review of the contract terms and compare them with industry standards or similar contracts.
- While Ellie has checked that the full four million has been received for Andre Sime, she has concerns about the transfer fee and whether she's seen all contractual documents due to the documents being “in the local language”. Where documents received require translating, the audit team members should consider the options available to them. This could include the following points to consider.

- Identifying whether the skills exist internally (either within the audit team, or in the wider audit firm) to translate.
- Asking management to provide a translation. This may additionally require an assessment of the management expert used.
- Use of an external translator. Ideally this would be someone who specialises in the relevant industry or technical field to ensure accurate and reliable translations.
- Use of an online translation tool.

The audit file should document the translation process, including tools used and any verification steps taken.



Note for facilitators

Depending on the firm's policies and approach to using online translation tools you may wish to expand on this area further.

Online translation tools are becoming ever more sophisticated but may not always provide accurate translations, especially for technical or industry-specific terminology. This can lead to misunderstandings or misinterpretations of the audit evidence, potentially affecting the conclusions made. Auditors should consider whether the complexity of the documents being translated are suitable for online translation tools.

Using online translation tools may also expose sensitive information to third-party services. Auditors should take steps to ensure that any online translation tools used comply with data protection regulations and maintain the confidentiality of sensitive information.

- The audit team members should have also considered why the Scarbridge FC finance director only has untranslated copies and understand how the finance director was comfortable that they understood the terms and that they had accounted for the transaction correctly.
- Ellie also has concerns about the standing of the counterparty, Meriano FC, as the club is based in a league which has been beset by financial scandals and about the price paid by Meriano FC for Andre Sime which appears to be four times more than both Meriano FC's reported first offer and four times more than his estimated value at the time according to a transfer value website. These discoveries/concerns made it even more important that the audit team establishes that they have received and reviewed the full contract. The audit team should have pressed for an answer as to whether there was an appendix to the contract, whether there were any linked transactions and should have considered requesting a confirmation from the counterparty.
- It becomes clear that the audit team has not received all relevant contractual documents relating to this transfer when Lee reveals in the subsequent meeting with the auditors that Meriano FC had been forced to pay a higher price for Andre Sime after the latter had signed a contract extension with Scarbridge FC (so could not leave for free at the end of the following season on a free transfer). It is also clear from that meeting that the audit team was not aware of the extension agreement.
- While Lee sends to Adam during their meeting a link to a press conference held by the Meriano President explaining why the club had had to pay four million for Andre Sime, there is no mention of any work having been carried out to confirm the veracity of the video.

Riverbank sponsorship deal

- The Riverbank agreement has been correctly identified as a significant source of income and Ellie has managed to obtain a copy of the sponsorship agreement.
- Sam is right to get Ellie to review the agreement to check that its provisions correspond to the revenue which has been booked since it was entered into and to check that the future payments are correctly stated in the forecasts for the next 12 months (for the assessment of going concern).



PART 2 – DISCUSSION 2B

We recommend that this discussion takes place at the end of Part 2.



TOPIC 2.5 – ASSESSMENT OF FINAL AUDIT EVIDENCE

How well has the audit team done in the last few scenes in gathering sufficient audit evidence in respect of the contractual arrangements?

POINTS TO CONSIDER

There are still a number of problems with the audit evidence gathered by the team.

Andre Sime transfer

- At the time of signing the audit, the audit team has still not received a copy of the extension agreement with Andre Sime. Without seeing and reviewing this agreement, there is no basis to support the fee of four million paid for Andre Sime as the only contractual evidence seen by the audit team shows his contract terminating in a year supporting a value of only one million.
- Ellie has not been able to corroborate the information provided in the press conference by the President as her research has not identified any other reports of that event. There is no discussion as to whether this casts doubt over the veracity of the video and whether the conference actually took place.

Jadon Quinn transfer

- There are concerns about whether the audit team has seen all contractual documentation relating to the Jadon Quinn transfer and, in particular, why the agreement the team has seen does not include anything about image rights.
- While Sam challenges whether the amount payable in the contract includes image rights and is told that the contract covers “all they are paying him”, this should still be considered unusual. Additional audit testing should be performed to ensure sufficient audit evidence has been obtained. This may be through seeking assurance direct from Jadon Quinn and/or his agent that there is no separate image rights deal but, if this is not possible, conducting a review of all correspondence between Scarbridge FC and Jadon Quinn’s agent or getting confirmation from Mayor Smith there is no separate image rights agreement.
- The audit team may also wish to consider requesting specific management representations confirming that there are no other side documents or addendums to the contract documentation already provided.

Riverbank

- ⑤ While the audit team has obtained a copy of a new, revised agreement with Riverbank, the team is struggling to understand why Riverbank would revise the existing agreement to pay more and what additional benefits it is getting and whether they are worth the additional amount. This would require further exploration with management.
- ⑤ It is also still not clear whether any benchmarking on the value of sponsorship rights has been carried out to determine whether the amount being paid by Riverbank in the original sponsorship agreement was in line with expectations.

Surveyor's report

- ⑤ While Adam challenges Lewis about the reliability of the report and tells his team members that he believes that they can rely on the report as it is from a reputable firm, there are still a number of issues with the team relying on it.
 - It is still not clear that there has been any formal assessment of the surveyor's competence and experience.
 - There has been no assessment of the reliability of the conclusions given the numerous caveats in it.
 - It is not clear that it has been possible to arrange a meeting with the surveyor to test the robustness of his conclusions given the caveats.
 - The team does not appear to have received confirmation from the author of the valuation that the CEO's wife – who we now know to be a partner in this surveyor's firm – has not been involved at all in any of the work done to value the stand and that the valuation conclusion has not been influenced at all by her.

- ⑤ Despite the above issues, Adam rules out obtaining independent third-party advice to corroborate the claim because there is insufficient time before he is due to sign the audit. However, he fails to recognise that this is an important issue within the audit which could determine the difference between whether Scarbridge FC has incurred a further loss during this financial year and breached the three-year loss aggregate.
- ⑤ In the circumstances, Adam should have considered indicating to his client that he needed to obtain his own valuation report and that, if this was not available before the deadline for signing the audit, the club would not have audited financial statements to submit by that deadline. While this would have met with fierce resistance from Lewis, and could have led to a penalty from the League for the failure to file, Adam could have pointed to the very late change in accounting by the company and the provision of a heavily caveated report only a short time before the deadline for submitting audited accounts as justification for his delay in completing the audit.



TOPIC 2.6 – HANDLING OF THE MEETING WITH THE CEO

How well did Adam handle the private conversation he had with Lewis about his concerns? What could/should he have done differently?

POINTS TO CONSIDER

- A face-to-face meeting with Lewis would have been more appropriate for Adam given the serious issues he needed to discuss. This format would also have allowed him the opportunity to assess Lewis's body language effectively. It is not clear why Adam has decided to tackle these subjects in a call/meeting without also having Sam present as she is a lot closer to the detail.
- Adam starts the conversation by complaining about being confronted with significant changes in accounting "just days before I'm supposed to sign an audit opinion". While there may be a deadline for filing audited accounts with the league by 31 August, there is no requirement that the accounts must have a clean audit opinion or that they should not contain a scope limitation. Adam should clarify that, unless he can get comfortable with this late change in accounting, he will not be able to sign a clean audit opinion and, therefore, he needs Lewis's assistance in getting him comfortable.
- This could then have led to Adam requesting, as a minimum, a meeting with the surveyor to discuss the report's caveats. This was the prime opportunity to insist on it and ensure that Lewis understood the importance of facilitating such a meeting. Adam could, and should, have also used this opportunity to explore the feasibility of obtaining grounds access for an independent surveyor to assess whether the works to the stand could constitute improvements. Instead, Adam allows himself to be bullied by Lewis – "Then I really don't think you're in a position to challenge how we're accounting for these costs."
- Adam's challenge in relation to the link between the surveyors and Riverbank was doomed to fail without the team having done more work to determine whether Lewis did have de facto control or significant influence over Riverbank. Lewis was able to dismiss easily any link between the surveyor and Riverbank as having nothing personally to do with him.
- It appears from what happens following the call that there is a possibility that Adam may have been subsequently influenced by Lewis's pitch for sympathy at the end of the conversation: "We've had a rough year. Sponsor going bust, storm damage, inadequate insurance. The last thing I need is a fight with the league on what gets counted as losses." It is important for an audit partner to remain objective and not allow their judgements and decisions to be influenced by the unfortunate financial position of their audit client.



TOPIC 2.7 – GOING CONCERN

How should an audit team approach an assessment of an entity's ability to continue as a going concern?

POINTS TO CONSIDER

- Auditors should design and perform risk assessment procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This includes obtaining an understanding of management's assessment of the entity's ability to continue as a going concern and evaluating the process management used to make its assessment.
 - Auditors should evaluate the adequacy of management's assessment of the entity's ability to continue as a going concern for at least twelve months from the date of the financial statements.
 - The entity's cash flow forecasts should be thoroughly reviewed to ensure they are realistic and achievable. This includes assessing the impact of potential revenue streams, costs, and contingency plans for addressing potential shortfalls. This includes evaluating the feasibility of selling key players or extending the club's overdraft to cover any financial gaps.
 - Auditors should document their evaluation of management's assessment, including the procedures performed, the evidence obtained, and the conclusions reached.
- If events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, auditors must perform additional audit procedures to gather sufficient appropriate audit evidence. These procedures may include reviewing management's plans for future actions, assessing the feasibility of these plans, and considering the impact of any mitigating factors.
 - Auditors must determine the implications for the auditor's report if they conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - If adequate disclosure is made in the financial statements, auditors should include an emphasis of matter paragraph in the auditor's report. If disclosure is inadequate, auditors should express a qualified or adverse opinion.
 - File documentation should be sufficient to support auditors' conclusions about the entity's ability to continue as a going concern.

How well do you believe the Scarbridge FC audit team has performed in its assessment of Scarbridge FC's ability to continue as a going concern?

POINTS TO CONSIDER

While the audit team members reviewed the cashflow forecasts and identified areas of concern to follow up, they then relied on enquiry alone through conversations with Lewis and Lee to resolve these areas. The failures to challenge included the following.

- Acceptance of management's decision to include cup revenue based on a 10-year average performance by Scarbridge FC in the cup rather than based on the early exits in the last couple of seasons.
 - It is not clear why management's forecasted revenue figure should be considered reliable given the club's early exits at round one in recent seasons.
 - It is also the case that Scarbridge FC spent many of the 10 years in the top division with presumably a stronger team which would have boosted the 10-year average.
 - It is not clear that any checks were carried out subsequently to ensure that the forecasted length of cup run is in line with a 10-year average performance.
- Acceptance that Jadon Quinn is not due to receive any additional payments for image rights which would offset the increase in commercial income due to Jadon Quinn shirt sales.
 - The team accepts Lee's verbal confirmation that the agreement provided to the auditors contained all of payment obligations to Jadon Quinn despite it being normal for high-profile players to earn significant amounts through image rights' deals tied to sales of "named" merchandise.

- It is not clear whether the team has reviewed that agreement carefully to check that it covers all payments to Quinn, including the specific inclusion of payments for image rights, and/or that there is no mention of any other agreement by which Quinn would receive additional payments.
- Acceptance that the revenue forecasts for Scarbridge FC should be based on higher gate receipts and prize money for a much higher league finish than in the previous season despite the following.
 - The only significant changes being the addition of a new head coach and the signing of Jadon Quinn who is coming to the end of his career.
 - The risk that Jadon Quinn may not score the goals required to put Scarbridge FC at the top of the second tier and/or that he might suffer a serious injury limiting his playing time.
 - The limited amount of money which could be made available during the January transfer window to boost/enhance the club's fortunes or to respond to injuries given how strained the club's finances would be and the limit on the amount of money which could be introduced by Lewis.
- Acceptance that the projected league finishing position used in the revenue forecasts is also reasonable because Lee has already been conservative by reducing Lewis's original projection of automatic promotion to only finishing in the play-offs.
 - It is not clear whether there has been any subsequent challenge as to how the original and revised league finishing positions were forecast.
 - The audit team also does not consider the potential management bias being shown. If Lee is revising Lewis's projections on league finishing position, are other assurances being provided by Lewis also too optimistic?

- Acceptance that any shortfall in revenues could be compensated by the sale of Rico Jackson in the January transfer window.
 - While Sam is concerned about this contingency plan due to an understanding that Rico Jackson has suffered a serious injury, there is an acceptance of Lewis's suggestion that his lack of fitness by January is just "newspaper gossip" and that this is a realistic prospect.
 - There is no mention during or after the meeting of the audit team getting a confirmation directly from the Scarbridge FC medical staff, or another qualified individual, corroborating that Rico Jackson could be fit by the January transfer window and able to pass a medical for a club wishing to acquire him then.
- Acceptance of Lewis's oral confirmation that, if the forecasted revenue does not materialise and it is impossible to sell Rico Jackson in January, that there will be no problem in extending the club's overdraft as it is underpinned by his Xoltic shares.
 - The audit team does not appear to have received any formal confirmation from the club's bank that it would be prepared to extend the overdraft (and we know that it is unlikely to give this confirmation from Lewis's discussion with Andi at Xoltic's office).
 - The audit team does not appear to consider the current value of Lewis's Xoltic shares or that the bank would be cautious in securing an overdraft against current value of shares without discounting.



Note for facilitators

The following points were not raised in the meeting between the audit team and Lee and Lewis but perhaps should have been. These should be seen as "bonus" answers.

- Acceptance that forecasted gate receipts will not be hit by delays in building works and the stand being out of action for a longer period than was initially expected.
- Acceptance that Riverbank will pay the increased sponsorship fee – there seems to be little work carried out to analyse Riverbank's ability to pay these high amounts.
- Acceptance that Lewis can provide financial support – the audit team also does not appear to have considered the ability of Lewis to inject his own cash into the club to cover for revenue shortfalls.
 - Failure to consider the rules on how much money can be injected per season into clubs by equity owners and how much has already been spent by Lewis in relation to the new season (if anything).
 - Failure to consider Lewis's personal financial position to be able to release funds to inject into the club given that his shares are pledged to the bank including what other financial resources he has which could be liquidated to help prop up the club if revenue shortfalls, Rico Jackson cannot be sold and the bank will not extend the club's overdraft.



TOPIC 2.8 – OBJECTIVITY

Sam and Ellie are clearly concerned that Adam may be a supporter of Scarbridge FC. If Adam turns out to be a Scarbridge FC fan, should he be signing the club's audit report?

POINTS TO CONSIDER

- Auditor independence is fundamental to financial integrity, ensuring audits are conducted without bias.
- The Ethical Standard requires that an audit firm shall take steps to ensure that, when carrying out an engagement, the integrity, objectivity and independence of the firm and each covered person is not affected by any existing or potential conflict of interest.
- If Adam were a supporter of Scarbridge FC, this may mean a threat exists such that independence is, or is perceived to be, compromised. Being a fan does not necessarily result in an ethical breach, however disclosure of this fact through open and transparent conversations within Laston would be expected.
- If Adam were a supporter of Scarbridge FC, he should have declared his connection with Scarbridge FC at the time when he was first asked to take on this audit engagement. Adam and Laston's management would then have had to consider whether he could remain independent or whether his objectivity was impaired through his allegiance to Scarbridge FC.

- Any decision by the firm to allow him to continue as the audit partner should also consider the need for additional safeguards to be applied as necessary, so that it is probable that an objective, reasonable and informed third party would no longer conclude that integrity or objectivity (and therefore independence) are compromised. An example of such a safeguard could be the use of a second reviewer to review sections of the audit file relating to significant risks and key judgements made during the audit.



Is there any indication in the film that Adam's objectivity might be impaired?

POINTS TO CONSIDER

There are indications in the film that Adam's objectivity may be impaired due to his lack of scepticism and failure to challenge the following points.

- Adam accepts the explanation and video link provided by Lee Caldwell without further questioning the authenticity or asking for further work to be done to corroborate the explanation that a higher fee was paid due to Andre Sime signing a new contract.
- Adam decides to rely on the surveyor's report without insisting on a meeting with the surveyor to ask questions regarding the caveats and vagueness despite having told Lewis that he was not sure "how much reliance they could be placed on it". He also fails to consider the feasibility of obtaining an independent survey report and, if need be, pushing back the date for signing the audit report to obtain this (even if that puts Scarbridge FC in breach of league rules for late submission).
- Adam dismisses the possible related party connection between Riverbank and Lewis on the basis that Lewis is not recorded as either a director or shareholder in Riverbank ignoring (and not properly investigating) other evidence which suggests that Lewis was in a position of control or influence over Riverbank including the following.
 - Riverbank has paid an unusually high sponsorship fee to take over as main sponsors during the previous season in line with rates usually paid for sponsorship of first-tier teams.
 - Riverbank has agreed to replace that agreement with a new one for the following season where it is obliged to pay more – even though it could have continued with lower payments under the old contract – for relatively vague additional benefits.
- Adam often appears to be seeking or favouring confirmatory evidence in reaching conclusions and dismissing any contradictory information brought to his attention.
- Adam fails to give support to, or join in with, the challenges which were made by Sam in the meeting with Lee and Lewis on the optimism in the club's financial forecasts for the next 12 months. At times, Adam is seen to be closing down lines of challenge or suggesting how the club might be able to deal with the shortfalls. He fails in that meeting to insist on receiving direct confirmation from Scarbridge FC's medical team that Rico Jackson could be fit enough to pass a medical required by a purchaser in the January transfer window and to insist on receiving direct confirmation from Scarbridge FC's bank that it would be prepared to extend Scarbridge FC's overdraft in order to ensure funding for the club in the least optimistic scenario.

How should Laston management react if information comes to its attention that suggests that Adam's objectivity is impaired prior to him signing off the audit?

POINTS TO CONSIDER

- If Adam is a supporter, Laston's management will need to assess urgently whether there is a threat to his independence,
- If members of management conclude that there is a threat, they should consider whether it is now possible to transfer the audit to another partner with the relevant expertise and availability to get comfortable with the audit work already carried out.
- If the audit is not transferred to another partner, then the firm should implement appropriate safeguards such as those set out previously.
- After dealing with the immediate issue, Laston's management should investigate Adam's reasons for not having recognised and disclosed this possible threat to his objectivity either when the audit was first allocated to him or very soon into the audit work. The firm will need to decide whether this matter falls to be dealt with through an internal disciplinary process and whether this needs to be reported to any regulator or professional body.

How can firms avoid situations where an audit partner's objectivity might be impaired?

POINTS TO CONSIDER

- Firms can take steps to mitigate risks from occurring by:
 - implementing robust policies and procedures for identifying and managing conflicts of interest;
 - ensuring auditors disclose any personal or financial interests at the start of each audit engagement;
 - establishing guidelines for reassigning audit responsibilities when a conflict is identified; and
 - regularly reviewing and updating independence policies to align with current standards and regulations.
- Firms should also consider whether there are any safeguards that should be implemented to mitigate any threat.



TOPIC 2.9 – SPEAKING UP/ WHISTLEBLOWING

Did Sam/Ellie have sufficient evidence to form a reasonable concern that Adam might be a supporter of Scarbridge FC and that his objectivity might be impaired? If so, what steps should Sam/Ellie have taken?

POINTS TO CONSIDER

- Both Sam and Ellie have picked up separately information which appears to suggest that Adam might be a supporter of Scarbridge FC. Sam saw a notification from the club regarding the purchase of tickets pop up on his laptop screen while Ellie's friend, George, has told her that he saw Adam in the club bar prior to the last game of the season.
- There are plausible explanations for both concerns. Adam could have subscribed to the club's information channel in order to get a better feel for how the club operated and it seems from Ellie's conversation with George that Adam was not wearing Scarbridge FC colours in the bar and may have just been entertaining clients. Ellie's information is also hearsay. Given the nature of the information, Jamie is right in suggesting to Ellie that Sam's first action should be to discuss her concerns with Adam as it is possible that he might be able to assuage her, and Ellie's, concerns.
- If Sam was concerned about approaching Adam directly about their concerns, she should look at her firm's whistleblowing policies and follow the directions in that policy. Alternatively, if the firm has an Ethics Partner, Sam should ask to speak to that person to run through her concerns. While Ellie is more junior within the team, she should also consider whether she believes that a report should be made particularly if she believes that Sam has decided not to say anything.



Note for facilitators

You may wish to use this topic as an opportunity to outline your own firm's policies and procedures in relation to speaking up and highlight who staff should speak to within the firm if there are any concerns.



TOPIC 2.10 – INDICATORS OF ECONOMIC CRIME

Working back through the storyline of the Scarbridge FC audit, what are the red flags that could indicate economic crime?

POINTS TO CONSIDER

Red flags applicable to this scenario and more generally

- **Business in financial distress:** Businesses that are struggling financially may be more susceptible to investment from organised crime groups looking for legitimate businesses to launder their money. In the film, Lewis is a lifelong fan of Scarbridge FC but there are many case studies where criminals buy a legitimate business or provide capital. Football clubs are high-transaction businesses and offer opportunities to launder cash.
- **Complex corporate structures:** There is a complex web of ownership between Scarbridge FC, Xoltic and Riverbank with Lewis, and his extended family having significant involvement in Riverbank. This allows Lewis to provide additional owner capital into the football club, via the sponsorship deal, without falling foul of the owner-capital rules of the football league. While complex corporate structures can be used to hide beneficial ownership, they can also be used to transfer funds through intercompany transactions which are subject to less audit scrutiny. This typology was used within the Russian Laundromat money laundering scheme. It is also possible to extract funds from a business through such complex corporate structures and there have been cases where owners have been accused of asset-stripping sports teams through intercompany transactions.
- **Cash-based business:** Although not explicitly mentioned in the film, the nature of retail outlets around the football ground means that there are likely to be high levels of cash transactions. Cash-based businesses pose AML risks, particularly when organised crime groups are involved, as they use the legitimate cash transactions to mask the laundering of “street cash”, which is often used to buy/sell drugs.
- **High-risk jurisdictions:** We do not know much about either Fermanio or the country in which Meriano FC is based but Ellie does explain that Meriano FC play in a league beset by financial scandals. The firm should consider whether its clients are established in countries that are known to be used by money launderers, or whether the parties to a transaction are established in such a country. When determining geographic risk, factors to consider may include the perceived level of corruption, criminal activity, and the effectiveness of money laundering or terrorist financing controls within the country. For some small firms, any client with an overseas footprint may pose AML risk.
- **Professional adviser network:** There is no suggestion that either the legal firm or the firm of surveyors are professional enablers, but organised crime groups will have their preferred professional services firms who will provide them with advice and services to further their money laundering activity. Firms should be wary of why a client has changed professional advisers and seek to understand why this happened, as well as validating the credentials of the adviser.
- **Stand construction:** Sports teams build new stands or facilities to further generate revenues. However, organised crime groups will use construction companies that are also within their control to cycle monies between the two businesses, legitimising illicit funds. Furthermore, the construction companies themselves may be involved with modern slavery.

- **High net worth individuals:** Lewis is likely a high net worth individual, where the AML risk lies in the use of corporate structures or the services of professional advisors to structure affairs to minimise their tax exposure. Risk will be greatest when the structures are complex and involve high secrecy jurisdictions. In the film, we have already seen that Lewis has organised his affairs in a way which conceals his ownership of Riverbank.

Red flags more specific to sports businesses and football

- **Sports-washing:** Sports-washing is a term used to describe the practice of using sports to improve reputations and can be achieved through hosting sporting events, purchasing or sponsoring sports teams, or participating in sports. Sports-washing can help the reputation of an individual, providing them with the kudos and veneer of respectability, or can aim to normalise a particular brand – such as FTX, the cryptocurrency exchange, which had wide-ranging sponsorship deals across all major sports in the US. Although Riverbank doesn't appear to be in need of reputational repair, sponsorship deals that are "too good to be true" may be covering up criminality.
- **Player valuations:** Players are considered assets to their clubs and undergo subjective valuation on the transfer market. Players are typically represented by agents whose financial conduct is not regularly screened, yet they have significant influence over the relationships that players may develop with interested clubs and associated individuals. This presents opportunities for unscrupulous behaviour. Unlike other high-value transactions (such as property or art), sports transactions currently do not require enhanced scrutiny beyond ordinary money-laundering requirements, although Europe has recently brought high-level professional football clubs, football agents and European football associations into the scope of the EU's AML framework. There have also been cases of players being transferred for high values but the player earns very small wages, indicating a form of modern slavery.

One red flag may not mean a situation is suspicious, but given the number of red flags, what steps would you take if you have formed a suspicion of money laundering?

POINTS TO CONSIDER

- If this question is covered during a training session, the facilitator should outline its policy on how staff can report internal suspicious activity to the money laundering reporting officer. This should include the following.
- What information to record on the engagement file.
 - What information to document for an internal report, and whether there is a standard template or portal to share the information through.
 - With whom staff should share information (eg, the name of the MLRO).

Part 2 – Resources and guidance

Accounting for football clubs

[Accounting for football clubs](#) – ICAEW resource page

[The future of football and finance](#) – ICAEW webinar recording (broadcast April 2025)



Related Parties

[Shadow director](#) – definition under the UK Companies Act

Going Concern

[Evaluating going concern](#) – ICAEW technical pages

Ethics

[Whistleblowing](#) – ICAEW Ethics resource

[What makes a good environment for speak-up and internal challenge](#) – FRC Report (2024)

Economic crime in sport

[AASG risk outlook](#) – ICAEW Report

[UNODC global report on corruption in sport](#) – UN Office on Drugs and Crime (UNODC) report

[The involvement of organised crime groups in sports corruption](#) – Europol Situation report

[Money laundering through the football sector](#) – FATF Report

[Money laundering in football: the not so beautiful game?](#) – RUSI commentary

[Alisher Usmanov: Everton-linked Russian billionaire has assets frozen by EU](#) – BBC Sport article

CROSSING THE LINE

PART 3

TOPICS COVERED

- Draltec acquisition
- Review of audit work carried out so far
- Next steps for the Xoltic audit
- The importance of audit quality reviews
- Assessment of Jo's performance on the Xoltic audits

OVERVIEW

This section of the film is 11.5 minutes long. It predominantly focuses on the next year's audit of Xoltic following its recent acquisition of a foreign subsidiary Draltec, and the resultant complexities that arise during the component audit by a Laston's network firm. The film also tracks the ongoing financial pressures at Scarbridge FC which ultimately lead to the club falling into insolvent administration* and relegation to the third tier.

Learning Objectives

- Identify and address potential risks and misstatements in group audits in line with ISA 600.
- Understand the role of professional scepticism and challenge throughout the audit (ISA 200).
- Understand the auditor's responsibilities in identifying and assessing the risks of material misstatement due to fraud, and designing and implementing appropriate audit procedures (ISA 240).
- Understand the impact of organisational culture on decision-making and performance.

*For international audiences: A company going into administration is a UK legal process when a company becomes insolvent and is put under the management of appointed insolvency practitioners. The aim of administration proceedings is to rescue and rehabilitate insolvent but potentially viable companies.

PART 3 – DISCUSSION 3A

We recommend pausing the film at 00:49:11, after the meeting between Jamie and Jo in which Jamie provides an update on his visit to Fermanio, to prompt some or all of the following discussions.



TOPIC 3.1 – DRALTEC ACQUISITION

How would Xoltic's acquisition of Draltec affect this year's audit work?

POINTS TO CONSIDER

- The acquisition of Draltec means that consolidated financial statements will need to be filed by Xoltic.
 - The audit should be performed in accordance with the requirements of ISA 600 Group Audits.
 - As this is the first year as a group audit, Jo should ensure that her audit team has the relevant experience and expertise to carry out a group audit and address any gaps in knowledge through training or introducing other experienced resource.
 - The planning should start at the group level, including consideration of financial reporting and consolidation processes, internal controls, and operational activities across the expanded group. This should also include understanding of any post-acquisition integration plans put in place to align operations relevant to the period being audited.
- Additional understanding at a Draltec component level will need to be gained through planning discussions and other risk assessment procedures in line with ISA 315.
 - Even though the firm has elected to use its network firm in Fermanio as component auditor, it will still need to evaluate the competence, experience and resources of the component auditor to ensure they can satisfactorily perform the component audit.
 - The group audit team will need to be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including clearly communicating the scope and timing of their work, and evaluating the results. As part of its review of component reporting/working papers, the group audit team should evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed to support conclusions.
 - The group audit team members will also need to determine if the review can be performed remotely or if travel to Fermanio is required. They should also assess potential language difficulties and plan how to address them.
 - The group audit team will also need to consider whether the acquisition impacts its risk assessment for this audit with potential identification of new significant risks arising from the transaction such as acquisition accounting (discussed below) or component level risks coming out of local and group planning discussions such as risks arising as a result of a lower-than-expected pipeline of work and loss of key sales personnel.

What work does the audit team need to do to audit the Draltec acquisition itself?

POINTS TO CONSIDER

- Evaluate and verify the acquisition has been accounted for correctly in line with IFRS 3.
- Examine the purchase agreement to understand the terms and conditions of the acquisition, including any contingent consideration, warranties and indemnities.
- Assess management's approach in calculating the fair value of Draltec's identifiable assets and liabilities, including intangible assets such as customer relationships and technology using the appropriate valuation techniques. As Mayor Smith performed the due diligence, the audit team will need to evaluate the competence, capabilities, and objectivity of Mayor Smith's use as a management expert.
- Verify the calculation of any goodwill tracing through to supporting documentation and payments.
- Perform impairment testing for goodwill and other intangible assets which were acquired taking into account the impact of the reduced pipeline of deals, and the impact of the lost sales staff.
- Verify the accuracy and completeness of the transaction costs related to the acquisition, such as legal fees and ensure these are expensed as incurred.
- Reassess the overall risk profile of Xoltic, considering any integration challenges and potential financial instability brought by the acquisition.
- Ensure that the financial statements include all required disclosures relating to the acquisition, and related party transactions that might have arisen as part of the acquisition.



TOPIC 3.2 – REVIEW OF AUDIT WORK CARRIED OUT SO FAR

How would you evaluate the component audit of Draltec and its oversight by the Laston head office team?

POINTS TO CONSIDER

- There appear to be resourcing issues.
 - It became clear early in the audit during Jo's conversation with Jamie asking for feedback on the planning meeting, that Laston (Fermanio) LLP was struggling with resources for this audit. The audit was unplanned and arose as a result of Xoltic's acquisition of Draltec and the decision by Xoltic's Audit Committee for Laston's Fermanio office to take over the Draltec audit. Jamie even relays that the local office had (jokingly) suggested letting the existing auditors continue for another year.
 - There also appears to be little personal engagement of David, the partner assigned to this audit in Fermanio – is he too busy with other work to supervise his team?
- There are also communication issues between the audit teams.
 - Jamie's video call with Remi shows that, at a relatively late stage in the audit, the group team has not received an assurance that there are no issues arising in Draltec which will impact the group audit.
 - It is also clear from that call that the group team had no prior notice of there being an important meeting taking place at the end of that week with Draltec management and also that the issues to be raised in that meeting had not been shared with the head office team.

- There is a good, proactive response from Jo.
 - Jo makes a positive decision to send out Jamie to try to provide her and the head office team with a direct understanding of the extent and quality of the audit work which has been carried out in Fermanio and to attend the important meeting with Draltec.
 - Jamie is then able to provide her with a first-hand account about the deficiencies in the audit work and the concerns regarding the collection of money owed to Draltec.

What do you think of the work carried out on the reseller transactions in the second-year audit and how Jamie conducted the meeting with Andi?

POINTS TO CONSIDER

- The first point to note is that Jo recalled that there had been an issue with reseller transactions at the end of the first-year audit and made a point of telling Jamie to check on whether the deals were ultimately concluded and that the accounting had been appropriate in the end. This was a good direction to give and shows Jo's awareness of the requirement in ISA 315 to consider previous experience when planning and performing an audit.

By following up on the prior year audit, the audit team can understand if any previously identified issues have been resolved and verify that expected action by management has been taken if required. It is not clear that the Brackton and Kingstorm sales would have been reviewed otherwise.
- It is also clear that some research had been undertaken by the audit team before Jamie's second interview with Andi. The team had established the following.
 - Kingstorm had not been involved in any domestic healthcare sales during the most recent financial year being audited.

- The Brackton sale to Redbank had been cancelled after year-end and a direct sale had taken place between Xoltic and Redbank.
- The sales management log contained details of ongoing discussions between Xoltic's sales team and Redbank through to the direct sale taking place.

This research put Jamie in a better place to ask more robust questions during this audit.

- Jamie also benefitted by this meeting being face-to-face which allowed him and Reese to observe and assess Andi's body language when responding to their questions which is much more difficult to do on a video call.
- Jamie's inquiry into why Kingstorm was not involved in any domestic healthcare sales during the last financial year highlights the importance of verifying that prior year agreements and expectations are still relevant and being acted upon. The analysis of data to understand that Kingstorm has not made further domestic sales enabled Jamie's challenge of previous representations made by management.
- While it was not pushed during the interview, it should have been apparent to the audit team after the call that the evidence pointed heavily, although not conclusively, to Kingstorm having only been involved in one sale which Xoltic had been expected to have completed directly with National Pharmacists. This should have raised the concern that Kingstorm could have been used to "park" that transaction around the year-end so that Xoltic could book the revenue in the first year.
- There are a few other unanswered questions though still with the Kingstorm deal where further research might have been useful before or after the interview with Andi including the following.
 - Did the audit team establish either last year or ahead of this interview whether Kingstorm was a specialist in the healthcare sector? If it wasn't, this would have raised serious questions about the reliability of management representations during the first-year audit.

- Did the audit team members do any research to see how valuable Kingstorm was to Xoltic as a reseller? If it accounted for very few sales over the past 3-5 years, why had Andi been so ready to provide them with a 100% increase on the usual discount to preserve the relationship?
- Whether there were any other sales during the second year audited where the discount was 100% more than normal – was the Kingstorm deal with Redbank the only deal where the discount had been doubled in the last two years? Were there any other transactions completed outside of healthcare and this country through Kingstorm and had the discounts been normal?

Some of these unanswered questions may have been easy to check and could have provided valuable context regarding the information the audit team received about the Kingstorm transaction during the first-year audit. This might have raised concerns about the reliability of management's explanations – prompting further scrutiny of other representations being relied on. Without this broader context, Jamie was unable to pursue the issue further.

- Jamie and Reese would also have been able to pick up from Andi's body language, particularly during this part of the meeting, that she was very uncomfortable in answering these questions.





TOPIC 3.3 – NEXT STEPS FOR THE XOLTIC AUDIT

What should Jo do now about Jamie's concerns about Draltec and the reseller transactions?

POINTS TO CONSIDER

- Jo should consult with Lucas, the Engagement Quality Reviewer, in respect of what has emerged and to run through with him what actions she believes she needs to take. Jo may also wish to consult any internal technical team.

Issues at Draltec

- It appears from Jamie's report to Jo of his trip to Fermanio that there are serious question marks over the collectability of receivables at Draltec.
 - Some payments were being withheld by clients pending installation issues being fixed by Draltec – but there appears to be no reliable information on whether the issues could be resolved and the timetable for resolving those issues by Draltec.
 - Little comfort on whether Draltec could collect "many outstanding payments from smaller clients".
 - Little comfort on collectability of debts owed by companies which might be related to Draltec.

All of this points to either more time being needed to obtain greater assurance over collectability (extension of audit timetable) or the need for Jo to discuss with David whether Draltec should include a significant bad debt provision in its accounts.

- Jo would also need to consider what impact a significantly larger bad debt provision at Draltec might have on the group accounts.
- Jo and Jamie (together with David) would also need to consider whether, given the poor state of Draltec's internal controls, there were any other areas where Draltec's accounts could be materially mis-stated and whether sufficient assurance had been gathered by the local team to avoid further adjustments being required. Again, Jo would need to consider the impact of any adjustments in Draltec's accounts on the group accounts.
- Jo should be agreeing with David that the Draltec directors should be made to sign up to extensive representations in the final representation letter including confirmations that the audit team has been correctly informed of all related parties.
- Jo should also be agreeing with David that he will submit a management letter highlighting weaknesses in Draltec's internal controls so that she can pick that up in her report to Xoltic's Audit Committee.



Reseller transactions

- ⑤ Once Jo has had Jamie's report of the meeting, she will need to consider whether there are grounds to doubt the reliability of Andi's representations on the Brackton transaction and whether she should be reporting concerns about Andi's integrity to the Audit Committee with a recommendation that an investigation be carried out into the timing of the booking of revenue and the circumstances surrounding that transaction.
- ⑤ Jo will also need to consider how much the audit team is relying on Andi's representations for other parts of its audit and, if significant, Jo will need to indicate that she may not be able to sign her audit until further assurance is obtained. Jo should also review her identification and assessment of fraud risks at Xoltic.
- ⑤ Even if Jo decides that she does not have enough evidence to raise questions about Andi's integrity, Jo will need to include a reference to her concern about the possible booking of revenue in the wrong year in her Summary of Misstatements for the Audit Committee. Jo will also need to consider when and how to flag the inclusion of this concern in her report to Xoltic management.
- ⑤ If Jo is making any report which might provoke further review or investigation, Jo should also discuss this with her risk management team/ in-house legal team so that they can advise her on how to word the report and so that they can assess any risks regarding the quality of the audit work carried out around these reseller transactions in the prior year.

PART 3 – DISCUSSION 3B

We recommend that this discussion takes place at the end of Part 3.



TOPIC 3.4 – THE IMPORTANCE OF AUDIT QUALITY REVIEWS

How have the audit reviews differed between the Xoltic and Scarbridge FC audits?

POINTS TO CONSIDER

- Lucas's engagement quality review of the Xoltic file appears to be thorough (again) as he brings up proactively Jamie's note on the reseller transactions. It is unclear at this meeting whether Jo had already decided to include the reseller transactions in her summary of misstatements but, if she was thinking about referencing the transactions, Lucas may well have confirmed her thoughts on the most appropriate course of action. Lucas may also have played an important part in the reporting of a misstatement to the Audit Committee and updates to include additional representations relating to the reseller transactions in the management representation letter.
- It seems from the film that the second review of the Scarbridge FC audit work may not have been carried out as thoroughly particularly from the reference made by Sam in her conversation with Ellie to her understanding that, at the time of the review, Rob was "drowning in work". While the objective and extent of a second review may differ to that of a formal engagement quality review, it is important to ensure that any review is conducted correctly, and the appropriate amount of time is allocated.

➤ If Rob had not been "drowning in work" and had carried out a thorough review of the key aspects of the Scarbridge FC audit, he might have questioned/challenged the following.

- The acceptance of the going concern assessment by Scarbridge FC management due to over-optimistic forecasts and no reliable contingency if the increased revenue does not materialise – no evidence that Rico Jackson would be fit enough to pass a medical in the January transfer window to raise funds or proof that Scarbridge FC's bank would extend the overdraft.
- The acceptance of the late change in accounting for the costs of the repairs of the damaged stand and the reliance on a caveated, vague surveyor's report.
- The insufficiency of audit evidence to explain the higher-than-expected transfer fee for Andre Sime.
- The judgement made on whether Riverbank was a related party due to the control/influence of Lewis Trent.



Note for facilitators

As well as formal engagement quality reviews required by ISQM 1, a firm may also choose to perform other types of review such as "second partner reviews", "in process" reviews or similar, but firms should be clear about the type of review being performed, and whether this is a formal ISQM 2 engagement quality review with the corresponding eligibility, performance, and documentation requirements, or whether it is an internal quality risk response that does not require the rigour or scope of an ISQM 2-compliant engagement quality review. You may wish to also include specific content relating to your own firm's requirements in this area.



TOPIC 3.5 – ASSESSMENT OF JO'S PERFORMANCE ON THE XOLTIC AUDITS

What impressed you about how Jo led the audit work during the two audits carried out at Xoltic?

POINTS TO CONSIDER

Year 1 audit

- As the new engagement partner, Jo took the opportunity to refresh the approach, including revisiting materiality and updating for new risks including incentives to deliver to shareholders instead of following the prior year file. Jo also encouraged her team to be sceptical.
- Jo also demonstrated strong leadership and integrity by standing up to Xoltic management on the need to see the legal advice on the strength of Xoltic's defence to Monsal's IP infringement claim and in ensuring that the disclosure note regarding this contingent liability provided a range of potential outcomes so as to ensure that shareholders were probably informed of the potential impact on Xoltic.
- Jo also listened and acted upon the advice from the engagement quality reviewer during the first audit about the need to review the company's legal advice and that she should not be taking into account the pitch by other Laston partners for the audit of Scarbridge FC.
- Jo also handled well the meeting with Lewis and Ash where she made clear what she would need to see on the Monsal claim. Jo did not introduce this in a threatening way and also offered to speak directly to Xoltic's lawyers to try to resolve the issue and had also forwarded a copy of a limited waiver agreement.

Year 2 audit

- Jo was keen to hear feedback from Jamie about how the planning meeting went for the second-year audit and was firm on the message that the team needed to remain alert for any overbooking of revenue given Xoltic had only just met its profit target for the year.
- Jo also remembered that there had been an issue about some reseller transactions at the end of the last audit and she acted appropriately in directing Jamie to check back to see what happened to those transactions. Without this direction, what Andi had done to "park" these transactions may never have come out.
- Jo also made the right decision when it became clear that Jamie was struggling to get information from the audit team in Fermanio to ask him to fly out there to meet with the audit team to understand what audit work it had completed and also to be present at the meeting with Draltec management. This helped provide her with much more accurate, first-hand information regarding the state of Draltec's internal controls and the recoverability of its receivables which led to her including those concerns in her report to the Audit Committee which ultimately led to the firing of Draltec management once its attempts to inflate revenue were uncovered by internal audit.
- Jo acted appropriately in her actions in requesting the local Fermanio partner (David) to get local management signed up to more extensive representations, particularly in relation to related party transactions, and in asking him to include concerns about Draltec's internal controls in his management letter so that she could report this onto the Audit Committee.
- While we do not see in the film the whole of Jo's conversation with Lucas, it also becomes clear that Jo has consulted properly with him and discussed with him what to do in relation to the concerns which Jamie has flagged in respect of the Version 6 reseller transactions. This results in her informing the CEO/CFO the following day of her intention to flag the Brackton transaction in her summary of misstatements.

- Jo is also correct in making it clear that it is the responsibility of Lewis and Ash to write a paper to the Audit Committee to explain the Brackton error. This is the client's responsibility although, in practice, too often the expectation is that the auditor will do this in their report to the Audit Committee.

What could/should Jo have done better during the two audits?

POINTS TO CONSIDER

Year 1 audit

- While Jo takes the appropriate action in insisting on receiving the Monsal claim legal advice and in insisting that the disclosure note provides a range of possible outcomes if Xoltic were to lose this claim, Jo then appears to leave it to Jamie to review the legal advice when it is disclosed and also to review the re-draft of the disclosure note. Indeed, it is not clear whether she intends to review either document herself. Given that a successful claim could have a material impact on Xoltic's accounts, this is something which should have been followed up by Jo personally even if the first review is carried out by Jamie.
- Jo also does not seem to consider any wider implications about the integrity of her client after her surprise at not being told about the Monsal claim at the start of her audit. Jo should have revisited her risk assessment and consider what else the audit team may not have been told about.
- While Jo is also aware that there are some issues with the reseller transactions highlighted by the data analytics review, she does not ask for a detailed debrief from Jamie on the outcome of his meeting with Andi and just accepts his word that he and Reese received sufficient assurances from that meeting that the revenue from those transactions could be properly booked in the year when the sale was completed.

- If Jo had asked for a full debrief from Jamie, she might have asked him and Reese to have obtained some further information eg, the emails about the timing of the completion of the Brackton sale referred to by Andi and further evidence regarding Brackton's ability to pay. Jo might have also asked for further work to be done to verify the rationale given by Andi as to why Kingstorm had been given a much larger discount than usual (eg, how many sales had Kingstorm completed and/or how valuable was it as a partner for Xoltic, whether it was a specialist in healthcare etc).
- It has also become clear that the reason why Jo is not enquiring further into other aspects of the Xoltic audit is that she is also dealing with issues on at least two other audits which need to be signed off at the same time. However, we do not see Jo discuss with the Head of Audit at Laston how she might be supported through this period or Jo considering whether it might be possible to push back the completion of the audit for some or all of these clients to ensure that the work is properly completed.
- It is also concerning that Jo was worried that standing up to Lewis over the withholding of the Monsal legal advice could adversely impact Laston's pitch for the Scarbridge FC audit. It took Lucas to point out that this was not a relevant consideration for what action she should take.

Year 2 audit

- Jo fails during this audit to recognise and monitor the extent of the resourcing issues at the local firm in Fermanio despite this being flagged right at the start of the audit by Jamie after his first call with David, the local partner assigned to the Draltec audit. There is no sign that Jo took any action in respect of this warning. Jo should have considered taking additional alternative actions such as (but not limited to):
 - speaking directly herself to David, the lead partner in Fermanio, to gain a first-hand understanding of the resourcing issues;
 - speaking to her head of audit regarding the potential resourcing issue and asking the head of audit to talk to their equivalent in the Fermanio firm (if David is not the head of audit in that firm) to probe whether the

component audit team could be provided by resources freed up from elsewhere;

- speaking to the Chair of the Audit Committee about the wisdom of insisting that the Draltec audit is carried out by Laston's local office when there are resourcing issues and potentially suggesting instead that the audit remain with the existing auditors for one more year and provide assurances about the work of that firm being closely monitored/supervised by her team; and
- considering whether it was possible/practical to provide assistance to the local office from within her own team. Could Jamie or another manager be asked to go out and help supervise the work of the local audit team?

- While Jo subsequently makes the right call in deciding to send Jamie over to review the local team's work and to attend the important meeting with Draltec management, there is again no evidence that she has taken any action herself to ensure that there is sufficient resource being applied by the Fermanio firm. Despite being told by Jamie that David was not turning up for scheduled calls and that there was a lack of information coming through to her team, we do not see Jo trying to contact David herself to understand why he was continually absent and to get assurance regarding the state of the audit work.
- It is also concerning that Jo leaves Jamie and Reese to carry out the interview with Andi on what they have discovered regarding the reseller transactions which were queried during the previous year's audit. Given Andi's seniority and the new information suggesting that a significant amount of revenue may have been booked in the wrong year – potentially improperly with the involvement of a senior director – Jo should have been present at this meeting in a supporting capacity even if not leading on the questions.
- It is also not clear from the little we see of Jo's virtual meeting with Lucas as to whether she has read Jamie's note on this meeting or, if she has, whether she was going to raise concerns about the reseller transactions as it is Lucas who says that he would like to discuss with Jo issues which have been raised by Jamie's note.

Part 3 – Resources and guidance

Group Audits

[Auditing groups of companies](#) – ICAEW technical resources

[Business combinations](#) – ICAEW hub page



Audit Quality Reviews

[Engagement quality reviews for smaller practices](#) – ICAEW guidance

[Part 1 – safeguarding the quality of your audits](#) – ICAEW article

CROSSING THE LINE

PART 4

TOPICS COVERED

- Jamie's file notes
- Quality management and culture at Laston
- Fraud

OVERVIEW

This section of the film is 5 minutes long. It focuses on the actions of Jamie when faced with a professional dilemma as the Xoltic plc audit file is reviewed by the regulator, and during a final epilogue it dramatically unveils the outcomes for both companies after the pivotal events in Parts 1-3, revealing the long-term impact of key decisions and actions taken throughout the film.

Learning Objectives

- Understand the importance of ethical decision-making.
- Explain the consequences of falsifying documents and backdating records.
- Evaluate the effectiveness of leadership approaches in promoting ethical behaviour.
- Identify strategies to promote ethical behaviour within an organisation.
- Discuss the importance of thorough documentation and evidence gathering to support audit conclusions (ISA 230 and ISA 500).

PART 4 – DISCUSSION 4

Due to its short length, Part 4 should be played in full followed by a comprehensive discussion. This discussion should cover the topics listed below, but also address any outstanding areas not yet discussed, and allow time for the participants to reflect on the events in the film on a stand-back basis before concluding.



TOPIC 4.1 – JAMIE'S FILE NOTES

What are the obligations on an auditor in relation to the documentation of an audit?

POINTS TO CONSIDER

- In accordance with ISA 230, the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
 - the nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
 - the results of the audit procedures performed, and the audit evidence obtained; and
 - significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

The auditor shall retain any other data and documents that are important in supporting the auditor's report as part of the audit documentation.

- As the audit file does not include the notes of the component review performed onsite in Fermanio, it does not tell the full story of the group audit, including the oversight and direction by the group team, and any scepticism or challenge made to support the conclusions reached on a key area of the audit.

Which two ethical dilemmas are embedded in Part 4?

POINTS TO CONSIDER

- The clearest ethical dilemma is the one faced by Jamie when he cannot find copies of the notes he took of his review of the audit work carried out in Fermanio and of the important meeting with the Draltec management team. Jamie has to consider whether to breach the fundamental principle of integrity by creating backdated documents to provide to Jo and for her to provide to the regulators.
- The second ethical dilemma is one which faces Jo. After Jamie tells her what he has done, she is the only person who knows this and is the only recipient of the emails. It is clear from the rest of the film that she thinks a lot of Jamie, has sponsored him for promotion and is aware that he is engaged to be married and will also know that, if she reports what he has done to her HR department, other people within Laston will take decisions which could ultimately lead to Jamie losing his job and possibly facing disciplinary action from his professional body.

What actions should Jo take after Jamie tells her that he has backdated the file notes he sent to her?

POINTS TO CONSIDER

- While relieved that Jamie has admitted what he has done and that she has not sent the documents onto the firm's regulator, Jo should not leave the matter there. Jamie created and backdated file notes after the meeting with the regulators when he discovered he could not find any record or notes made from his on-site review of the audit work carried out by Laston (Fermanio) LLP. Jamie then emailed them to Jo without explaining that he had backdated the documents. In doing so, he has breached the fundamental principle of integrity.
- Jamie's breach is aggravated by the following factors.
 - He has not only backdated the documents, but he has also found a document from the time when he was at a meeting in Fermanio and copied over that document so that the metadata in his "new" file note shows the date of the original meeting.
 - He knows that Jo wants to receive the file notes because she intends to provide them to Laston's regulator prior to the next meeting the following day. Jamie knows, therefore, that his actions will mislead not only the partner in charge of the audit but his firm's regulator.
- Jamie's breach of the integrity principle is mitigated by the following factors.
 - He realises that his actions are wrong and runs back to the office to make an admission to Jo about what he has done.
 - He has acted quickly enough to limit those being misled to just Jo and to reduce the chance of his actions also misleading the firm's regulator (although he was lucky that Jo had not already forwarded the documents to the regulator).
- Although thankful that Jamie has informed her about what he has done and that she had not yet forwarded the documents to the firm's regulator, Jo cannot ignore the fact that Jamie sent her documents without informing her that he had only just created and backdated them with a view to them being accepted as genuine contemporaneous file notes. Jo will need to inform her HR Director and take advice on what to do next.
- Jo will also need to consider whether she should have concerns about any other aspect of Jamie's work on the Xoltic audit – are there other aspects of assurance in relation to significant matters where she is relying on Jamie's work alone or documents created by him?
- Jo will also need to inform the firm's risk management team/legal team about what has happened and about what she should say to the firm's regulator at the following day's meeting regarding the lack of documentation regarding the firm's review of the work of the component auditor.
- Jamie's actions will likely be the subject of internal disciplinary proceedings within Laston and, depending on the jurisdiction and country-specific requirements, his actions may also need to be reported to the firm's regulator for possible investigation and disciplinary proceedings by the regulator.
- It will be up to Laston to decide based on the outcome of its own disciplinary process whether Jamie should continue to work for them and up to the firm's regulator whether any further action is taken and, if so, what sanctions would be imposed.

How could more robust audit file completion procedures have helped avoid Jamie finding himself in this situation?

POINTS TO CONSIDER

- Robust audit completion procedures including a thorough review of documentation supporting significant risks and key audit matters should be designed to spot any missing information before the audit report is signed.
- These should be completed with sufficient time to remedy any review points noted. In this scenario, neither Jo as Engagement Partner, nor Lucas as the Engagement Quality Reviewer had spotted the gap in documentation for a likely significant risk area, a part of the audit file they would have been expected to review.
- ISA 230 requires auditors to complete the administrative assembly of the final audit file on a timely basis after the date of the audit report. In the UK, this is 60 days, although many audit firms may have a shorter time frame as part of their procedures. The standard is very prescriptive on what can and cannot be added to the file in this period.
- It is possible certain documents or emails may be missed from audit files due to error. If this is identified, for example during an inspection, those in the audit team should simply acknowledge this providing whatever contemporaneous emails or documents that may be available elsewhere to support an explanation of what was done/evidence seen at the time. Most, if not all, regulators will accept such explanations, even if their conclusions are that matters were not appropriately evidenced on the file and the outcome will be far less severe than if they know or suspect lack of integrity or that there has been falsification of documents.



TOPIC 4.2 – QUALITY MANAGEMENT AND CULTURE AT LASTON

What concerns do you have about the way Laston operates its audit business?

POINTS TO CONSIDER

There are a number of areas linked to Laston's system of quality management which may indicate the presence of quality risks which may not have been identified by the firm in its implementation or ongoing monitoring and evaluation under ISQM 1. Examples include the following.

Governance and leadership and/or relevant ethical requirements

There are points in the film where members of the audit teams do not feel able to speak up to raise concerns or admit to failings which is not a sign of a healthy culture.

- Sam does not believe they have enough evidence to sign the audit but does not appear to have any way to act on this concern.
- Sam and Ellie are reluctant to raise the concerns which they have about the possibility that Adam's reluctance to challenge aspects of Scarbridge FC's accounts and going concern assessment is due to him being a supporter of Scarbridge FC.
- Jamie clearly feels that he is unable to admit to Jo that he has no contemporaneous notes of his work to review the audit work undertaken in Fermanio for fear that this will cause Jo to think less of him and that this will undermine his promotion.

There are also moments in the film where there may be a question mark as to whether Laston has done enough to stress the importance of abiding by the fundamental principles.

- Jamie's decision to backdate file notes and to provide them to the partner in charge of the audit and for them to be forwarded to the firm's regulator. Jamie appears to prioritise promotion, salary increase, buying a new house ahead of his own integrity.
- Adam's failure – if he is a Scarbridge FC supporter – to consider whether he has the appropriate level of objectivity required to sign off the Scarbridge FC audit.
- Jo's initial hesitation about pushing the need for her to see Xoltic's advice on the Monsal legal claim for fear of causing friction with Lewis Trent at a time when fellow partners are pitching for the Scarbridge FC audit.

Acceptance and continuance of client relationships and specific engagements

There is evidence throughout the film that Laston may have a growth strategy which is not supported by adequate resources.

- After Lewis Trent's acquisition of Scarbridge FC, the firm tries to capitalise on its connection with Lewis to pitch to take over the audit even though both of its specialist partners are "maxed out" on other audits over the summer.
- As a direct consequence of specialist partners being "maxed out", engagement partners are being asked to take on specialist audits despite not having relevant experience, and potentially without adequate support – both Jo and Adam do not have football club experience.
- It is clear from Sam's comments to Ellie about her "rushing around on other issues" and her complaint that those bidding for new work "should make sure we've got enough staff to cover them" – that the Scarbridge FC audit team may not be fully resourced.

- Sam tells Ellie that Rob, the review partner on the Scarbridge FC audit, was "drowning in work" when she was chasing him to complete his review which suggests that there was a shortage of time available among other partners to carry out the second partner review.
- Is it also possible that the reluctance to tell the Audit Committee that Laston (Fermanio) LLP does not have the resources to carry out the year 2 audit is due to a desire to retain the additional revenue which will come in this year to the Laston group from taking over this audit?
- Linked to this, it is clear that the Fermanio office is coming under inappropriate pressure from its larger network firm to take on work that it is not comfortable with or ready for.

There is also an indication that Laston may not be appropriately considering risks relating to client acceptance and independence.

- There does not appear to be any consideration of elevated risks around high-profile/prestige clients.
- Jo appears from the conversation between Jamie and Ellie to have been asked to lead on the Scarbridge FC audit when already auditor on the Xoltic audit – this may or may not have caused independence considerations but it is not clear either way if this was considered.

Engagement performance

There appear to be weaknesses in the quality of the performance of the audits leading to a risk over audit quality.

- Jo leaves Jamie with the final review of the Monsal legal advice and disclosure note and is not sufficiently and appropriately involved with the finalisation of the issues with the reseller transactions because her time is stretched across the completion of three audits at the same time.
- The onboarding and training of lateral hires, such as Adam, do not appear to provide sufficient support and coaching to ensure they are following firm policies.

- ⑤ Having been asked to take on the Scarbridge FC audit a second quality review was identified as required, but this was allocated to an engagement partner without capacity, not completed adequately and the process itself doesn't appear to be taken seriously.
- ⑤ The engagement review process of the second-year Xoltic audit file did not identify that Jamie's notes of his on-site review of the local team's audit of Draltec were missing.

Resources

There are indications that Laston has not adequately provided sufficient resources or the personnel that have the necessary competence and capabilities to carry out its roles appropriately.

- ⑤ Laston appears to have an approach of pitching for work without considering how the audits would be resourced and if there is capacity.
 - Pressure is placed by the Xoltic Audit Committee to accept the Draltec audit, and in turn Laston puts pressure on a network firm at short notice to complete the subsidiary audit which does not appear appropriate.
 - The conversation between Sam and Ellie referenced Sam's view that Laston had bid for the Scarbridge FC audit without ensuring it had the relevant resources to carry out the work.
 - There is a suggestion that pervasive staff shortages are accepted and unresolved.
 - There are also suggestions that getting audits completed in time with a deadline is more important than getting them right and completing all of the work.
- ⑤ Engagement partners face pressure during critical periods, such as signing multiple large audits in one week. This can lead to missed issues and poor completion procedures.
- ⑤ Laston should make its own informed decisions and resign if it does not have the resource/capability.

Monitoring and remediation process

- ⑤ There appear to be inconsistencies in the firm between the two engagement partners approach in directing each audit and level of challenges made resulting in inconsistencies in audit quality. Is this a wider issue across the firm's whole client portfolio and are sufficient monitoring activities in place to identify such deficiencies?

What measures could Laston put in place to manage some of the resourcing pressures?

POINTS TO CONSIDER

While resourcing and deadline pressures are present at most audit firms, this should be managed appropriately. Firms should have suitable measures in place to ensure they:

- ⑤ only bid for work where they have the necessary resources to deliver quality audits;
- ⑤ encourage a culture of open communication where team members can voice concerns about workload and resource constraints, allowing for timely adjustments;
- ⑤ establish clear guidelines and expectations for engagement partners, emphasising the importance of audit quality and provide the support to challenge client assurances when necessary; and
- ⑤ perform regular portfolio reviews for individual RIs to more effectively manage workload.



TOPIC 4.3 – FRAUD

Who is responsible for the prevention and detection of fraud?

POINTS TO CONSIDER

- Preventing and detecting fraud is everyone's responsibility. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of an entity and management.
- ISA 240 sets out the auditor's responsibilities relating to fraud in the audit of financial statements. Auditors have a duty to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether caused by fraud or error.
- The fraud triangle is a model used to explain the reasons that lead individuals to commit fraud. It consists of three components: opportunity, pressure, and rationalisation.
 - **Opportunity:** Opportunity arises when individuals perceive that they have a chance to commit fraud without being caught. Weak internal controls, lack of oversight, and inadequate separation of duties can create opportunities for fraud.
 - **Pressure:** Also known as motivation or incentive, this component refers to the personal or financial pressures that drive individuals to commit fraud. These pressures can include financial difficulties, personal debts, or the desire to meet performance targets.
 - **Rationalisation:** This is the process by which individuals justify their fraudulent actions. They convince themselves that their behaviour is acceptable, for example by convincing themselves that they are underpaid, that they will only "borrow" funds, or that their actions are for a greater good.

- By addressing the opportunities for fraud, understanding the pressures that individuals may face, and recognising the ways in which they might rationalise their actions, auditors can better identify and mitigate the risk of fraudulent activities.

What were the key fraudulent activities identified at Xoltic and Scarbridge FC?

POINTS TO CONSIDER

- The fraudulent financial reporting transactions in the film relate to the following.
 - The fraudulent revenue recognition for the Version 6 reseller schemes at Xoltic.
 - The manipulation of sponsorship deals and player transfer fees to cover losses at Scarbridge FC.
 - The creative accounting for the repair costs of the Scarbridge FC stand.
 - The manipulation of forecasts to present a false picture of trading at Scarbridge FC.
 - The authenticity of the evidence provided to the auditors at Scarbridge FC relating to the Andre Sime transfer.
 - Financial irregularities at Draltec, resulting from the local CEO and CFO's negligence or complicity.



Note for facilitators

The film doesn't make it clear whether fraud or error is the cause of the financial irregularities, but the immediate departure of both individuals indicates a serious issue.

- The frauds involved collusion, deliberate failure to record aspects of transactions, and intentional misrepresentations being made to Laston.

How did weaknesses in the internal and cultural environments at both companies contribute to the opportunity for fraud?

POINTS TO CONSIDER

- **Poor controls environment:** The opportunity for fraud at both Xoltic and Scarbridge FC is increased due to the following.
 - Weak internal controls in relation to revenue recognition – At Xoltic, the lack of sufficient controls over contracts leads to the ability to manipulate the Version 6 sales. At Scarbridge FC, the use of creative accounting practices for the Andre Sime transfer deal was made possible due to collusion and keeping the detail hidden within foreign documents without those documents being translated or understood by the Finance Director.
 - Insufficient segregation of duties – The CEO's involvement in, or support of, others engaging in questionable transactions without adequate oversight from other departments or the board at Xoltic is a concern.
 - Inadequate controls over the identification and management of related party transactions – In the film, this predominantly focuses on the sponsorship deal at Scarbridge FC with Riverbank, but there may be others.
 - Insufficient controls over financial reporting – Disclosures of liabilities relating to provisions for the Monsal claim were not sufficient until challenged by the audit team.
 - Lack of rigour over the review of financial forecasts – it is shown in the film that Lewis is not reviewing the Scarbridge FC cashflows prepared by Lee in Part 2 of the film. This would likely contribute to continued financial struggles and poor strategic decision making.
- **Lack of financial oversight and ineffective governance:** The film highlights the absence of thorough financial oversight at both companies.
 - At Xoltic, there seems to be inadequate oversight by the Audit Committee who appear not to be aware of the potential liability in relation to the Monsal claim.

- At Scarbridge FC, particularly in managing player contracts and sponsorship deals. For example, Lee mentions that he had no idea about the final payments owed for players bought two years ago, or that the stand was under-insured.

- **Insufficient due diligence:** Inadequate due diligence was completed as part of the acquisition of Scarbridge FC (final player payments and stands being under-insured) and Xoltic's acquisition of Draltec (weaknesses in internal controls and misleading forecasts).
- **Weaknesses in the audit process:** A lack of professional scepticism and challenge in the audit process may provide a perceived opportunity for fraud as it becomes apparent to management that it is less likely audit procedures will be designed to detect material fraud. The audit team for Scarbridge FC focuses on delivering results on time rather than obtaining the right quality of evidence allowing Lee and Lewis to avoid further questioning.

Weaknesses in the extent of Jo's final partner review of key issues at completion in the first-year audit of Xoltic may have led to the Version 6 reseller issues not being sufficiently challenged in that year's audit. Although this matter was followed up in the subsequent year and flagged to the Audit Committee at that point, could more have been done to challenge and deter the opportunity for fraud at the time?

- **Company culture:** Throughout the film, aggressive tactics and a poor tone at the top, exemplified by Lewis's leadership, create opportunities for fraud at Xoltic and Scarbridge FC. Lewis's acceptance of questionable deals without proper scrutiny fosters an environment where unethical practices can thrive, and he permits key members of his team to use aggressive tactics to achieve company targets.
- **Lack of balanced viewpoints:** Lewis surrounds himself with staff who comply with his requests, creating an environment where he is not challenged. The law firm, Mayor Smith, and the surveyors firm also appear to be dependent on him and his companies for billable work which further insulates him from challenge.

What role did “pressure” play in the fraudulent activities at both Xoltic and Scarbridge FC?

POINTS TO CONSIDER

- **Financial pressures:** The Xoltic directors face significant financial pressures including the need to meet sales targets and deliver the results promised to shareholders, both of which are likely to be missed in each year.

Key members of staff including the CEO, CFO and Global Sales Director are restricted by a lock-in agreement from selling their shares until later dates so there is pressure to keep the stock price high for maximum personal benefit

Lewis also has the added financial pressure that Scarbridge FC has to break even to stay within the league’s three-year aggregate loss limit. Lewis’s desperation to cover losses and avoid relegation is evident throughout the film.

- **External pressures:** Media scrutiny of Xoltic’s accounts, particularly regarding the Monsal claim, adds external pressure on the company’s directors to present a favourable financial position.

Lewis is also expected to deliver on promises made to both the Xoltic shareholders having seen off a take-over bid by one of its rivals, and also to the fans of Scarbridge FC to get it “back to the top division where it belongs”.

- **Timing pressures:** Certain transactions such as player transfers have to be completed within short time frames meaning there is pressure to make high-stakes decisions quickly and without due consideration.
- **Personal pressures:** As well as pressures from Scarbridge FC and Xoltic, Lewis faces personal pressures from other family business interests including Riverbank.

How did the individuals rationalise their actions?

POINTS TO CONSIDER

- Lewis rationalises his actions as being for the benefit of the Scarbridge FC fans to avoid point deductions and relegation and also that they are necessary to avoid a league investigation and further trouble.
- Lee rationalises his actions (in particular the Andre Sime transfer) because he believes he is not alone in doing these types of deals and that other football clubs “are doing strange stuff every day to stay within the financial rules”.
- The Xoltic directors rationalise their actions in implementing the reseller “solution” by believing it is necessary to meet sales targets. They also believe that it is in everyone’s best interest to keep the stock price high.

Did you spot the deepfake? How can auditors maintain professional scepticism when evaluating evidence that could be falsified using AI?

POINTS TO CONSIDER

- Auditors should also be aware of the possibility they may be provided AI-generated evidence and should remain alert for conditions that indicate a record, or document, may not be authentic.
- Auditors should consider whether audit evidence has been obtained from independent and objective sources. AI-generated content can be biased or influenced by the creator’s intentions and prompts.

- Auditors should understand and assess the source of audit evidence and its authenticity. With AI-generated (or suspected AI-generated) content, it is crucial to confirm that the evidence is genuine and not manipulated. Cross-referencing information from multiple sources can help identify inconsistencies.
- The reliability of the video link for the Andre Sime transfer could be assessed by verifying the authenticity of the video and the credibility of the source through confirming that it was recorded at the stated time and place and by corroborating to other press releases. Ellie is quoted in the film as stating "I'm still concerned about the Sime transfer. I haven't seen the contract extension, and I can't find any other report of the press conference on that video clip." showing that attempts were made to verify the video. However there was pressure on Sam not to follow up and it is this lack of challenge that led to the Sime revenue income being accepted.

Part 4 – Resources and guidance

Audit Documentation

[Quality documentation getting it right first time](#) – ICAEW webinar
[Importance of audit file assembly](#) – ICAEW article

ICAEW duty to report requirements

[Guidance on your duty to report misconduct](#) – ICAEW guidance relating to Disciplinary Bye-law 6.1*

Quality Management

[ISQM hub](#) – ICAEW resource hub

Fraud

[ICAEW Code of Ethics](#)
[International Code of Ethics for professional accountants](#)
[The Fraud Act 2006](#)
[Failure to prevent fraud offence guidance for large companies \(effective 1 September 2025\)](#) – Economic Crime and Corporate Transparency Act 2023

Deepfakes

The below articles from ICAEW highlight some considerations relating specifically to deepfakes which may be useful to share more widely.

[A deep dive into deepfakes](#)
[I deepfaked myself. It was terrifyingly easy](#)
[How to guard against voice cloning and deepfake scams](#)
[From dummy data to deepfakes](#)

*Applicable to all ICAEW members, firms, affiliates and "relevant persons" as defined in the disciplinary framework.

ICAEW's regulatory and conduct roles

Our role as an improvement regulator is to strengthen confidence and trust in those regulated by ICAEW.

We do this by enabling, evaluating and enforcing the standards expected by the profession, oversight regulators and government.

ICAEW's regulation and conduct roles are separated from ICAEW's other activities through internal governance so that we can monitor, support and take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the ICAEW Regulatory Board and oversight regulators including the Financial Reporting Council, Office for Professional Body Anti-Money Laundering Supervision, The Insolvency Service and the Legal Services Board.

We:

- **authorise** firms and individuals to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** registered firms and individuals to ensure they operate in accordance with laws, regulations and expected professional standards;
- **investigate** complaints and hold ICAEW Chartered Accountants and students, ICAEW-supervised firms and regulated and affiliated individuals to account where they fall short of the required standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help ICAEW's regulated community comply with laws, regulations and expected professional standards.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 210,000 members and students around the world. 98 of the top 100 global brands employ ICAEW Chartered Accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor more than 11,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is working towards becoming net zero, demonstrating our commitment to tackle climate change and supporting the UN Sustainable Development Goal 13.

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We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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ICAEW is working
towards becoming
net zero

* includes parent companies. Source: ICAEW member data
March 2025, Interbrand, Best Global Brands 2024