

Sanctions against BDO and a partner

29 July 2020

The Financial Reporting Council (FRC) has issued a Final Decision Notice under the Audit Enforcement Procedure (AEP) and imposed sanctions against BDO LLP (BDO) and partner, David Roberts (the Respondents), in relation to the statutory audit of the financial statements of AmTrust Europe Limited (AEL) for the two financial years ended 31 December 2014 and 31 December 2015 (FY2014 and FY2015).

The following sanctions have been imposed against BDO:

1. A financial sanction of £200,000 (discounted for admissions and early disposal to £160,000);
2. A Reprimand;
3. Two requirements in respect of the audit of insurance undertakings:
 - a. That BDO shall implement an appropriate training programme designed to improve quality and consistency in the firm's processes for obtaining and evaluating independent actuarial audit evidence and in the documentation of those processes and of auditors' key judgements; and
 - b. That, for a period of two years from the decision date, BDO shall undertake a quality performance review of the work relating to obtaining and evaluating actuarial audit evidence from independent actuaries as auditor's experts and shall report the results annually to the FRC.

The sanction of a Reprimand has been imposed against Mr Roberts.

The Respondents will also pay Executive Counsel's costs of the investigation.

AEL is an insurance company with multiple lines of business across Europe, Asia-Pacific and Canada. The breaches of Relevant Requirements in this case related to an area of audit work which was fundamental for the audits: the approach of AEL's management to setting its technical provision for outstanding claims. For the FY2014 audit, a single breach was determined, concerning a failure in documentation of the relevant audit work. In respect of the FY2015 audit, there were breaches in three areas of audit work on provision for claims: the use of independent actuaries as auditor's experts, the testing of management's accounting estimate and the data on which it was based and the evaluation of the method of measurement used by management.

The Decision Notice does not question the truth or fairness of the Company's financial statements for the two years in question. The breaches of Relevant Requirements were not intentional, dishonest, deliberate or reckless.

The sanctions determined by Executive Counsel reflect, among other things, the fact that BDO had already adopted a number of appropriate measures designed to address the shortcomings evident in the audit work in question, following a report by the FRC's Audit Quality Review team on the FY2015

audit of the Company. In addition, BDO and Mr Roberts have a good compliance history and disciplinary record with no prior sanctions under the AEP or Accountancy Scheme.

Jamie Symington, Deputy Executive Counsel to the FRC, said:

“The failings in this case related to an area of high audit risk, namely the consideration of an insurance company’s approach to its provision for claims. The Auditors relied on the opinions of independent expert actuaries without taking sufficient steps to gain an understanding of or to evaluate their work.”

A link to the Final Decision Notice can be found [here](#).

Notes to editors:

1. The FRC’s purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.
2. Past [FRC Enforcement Outcomes](#) can be found here.
3. To meet its responsibility as the competent authority in respect of audit enforcement, the FRC operates the Audit Enforcement Procedure. This procedure applies to the investigation and sanctioning of breaches of the various requirements of the statutory auditors of Public Interest Entities (PIEs) and any other cases retained by the FRC including AIM companies with a market capitalisation in excess of €200m.

In brief, the stages of the Audit Enforcement Procedure are:

- Initial case examination and decision to investigate
- Investigation
- Decision by Executive Counsel as to whether to issue a Decision Notice (a notice with the findings and recommended sanction);
- Referral to Enforcement Committee and decision by the Enforcement Committee whether to issue a Decision Notice; and
- Referral to a Tribunal
- In order for a matter to be referred for investigation by the FRC’s Executive Counsel under the Audit Enforcement Procedure, the FRC’s Conduct Committee is required to decide whether there is good reason to investigate an Allegation in relation to a Statutory Auditor and/or a Statutory Audit Firm.

Investigations are usually conducted by Executive Counsel and the Enforcement division. The FRC’s Conduct Committee may direct that the investigation is delegated to a Recognised Supervisory Body (RSB) which will provide an investigation report to the Executive Counsel so that (s)he may decide

whether to issue a Decision Notice.

4. All Press enquiries should be directed to:

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5. If you no longer wish to receive press releases from the FRC please email unsubscribe@frc.org.uk.