

IN THE MATTER OF

THE EXECUTIVE COUNSEL OF THE FINANCIAL REPORTING COUNCIL

-and-

(1) BDO LLP

(2) DAVID WYN ROBERTS

EXECUTIVE COUNSEL'S FINAL DECISION NOTICE

Pursuant to Rule 18 of the Audit Enforcement Procedure

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

1. INTRODUCTION

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

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

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

1.3.1. "**FY2014**" means the financial year ended 31 December 2014, "**FY2014 financial statements**" means the consolidated financial statements of AmTrust Europe Limited ("**AEL**") for that period, and "**FY2014 Audit**" means the statutory audit of the FY2014 financial statements.

- 1.3.2. **“FY2015”** means the financial year ended 31 December 2015, **“FY2015 financial statements”** means AEL’s consolidated financial statements for that period, and **“FY2015 Audit”** means the statutory audit of the FY2015 financial statements.
- 1.3.3. **“Audits”** means both the FY2014 Audit and the FY2015 Audit.
- 1.4. Pursuant to Rule 16(b) of the AEP, Executive Counsel has decided that the first Respondent firm, BDO LLP (**“BDO”**) and the second Respondent, David Wyn Roberts (**“Mr Roberts”**) are liable for Enforcement Action, having made *Adverse Findings* against each of them.
- 1.5. This *Final Decision Notice* is issued pursuant to Rule 18 of the AEP in respect of the conduct of:
 - 1.5.1. BDO in relation to the Audits. BDO was the *Statutory Audit Firm* for the Audits.
 - 1.5.2. Mr Roberts, a partner of BDO, in relation to the Audits. In respect of the FY2014 financial statements and the FY2015 financial statements, he was the *Statutory Auditor* of AEL and signed the audit reports on behalf of BDO.
- 1.6. In this *Final Decision Notice*, BDO and Mr Roberts are referred to together as the **“Respondents”**.
- 1.7. In accordance with Rule 18 of the AEP this *Final Decision Notice* sets out Executive Counsel’s *Adverse Findings* and *Sanctions*.
- 1.8. This *Final Decision Notice* is divided into the following sections:
 - 1.8.1. Section 2: Executive Summary of the *Adverse Findings*;
 - 1.8.2. Section 3: Background;
 - 1.8.3. Section 4: *Relevant Requirements* to which the *Adverse Findings* relate;
 - 1.8.4. Section 5: Detail of the *Adverse Findings*;
 - 1.8.5. Sections 6 and 7: *Sanctions*;
 - 1.8.6. Section 8: Costs.

2. EXECUTIVE SUMMARY OF THE ADVERSE FINDINGS

- 2.1. AEL is an insurance company with multiple lines of business across the UK, Europe, Asia-Pacific and Canada. Its primary underwriting activities are within the medical malpractice, legal expenses, special risks and warranty, casualty lines and property classes of business.

- 2.2. As is set out in this *Final Decision Notice*, there were failings by the Respondents in the manner in which the Audits were conducted.
- 2.3. Whilst this Notice explains the failings in the Respondents' audit work, it does not question the truth or fairness of the FY2014 financial statements or the FY2015 financial statements.
- 2.4. The *Adverse Findings* in this Notice relate to an area of audit work which was fundamental for the Audits: the approach of AEL's management to setting its annual technical provision for outstanding claims. For the FY2014 Audit, the *Adverse Findings* concern audit work on management's compliance with the recommended industry accounting practice in respect of provision for claims (namely the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business (the "**ABI SORP**")). For the FY2015 Audit, the *Adverse Findings* concern audit work on AEL's provision for claims in the following respects: 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.
- 2.5. Section 5 of this *Final Decision Notice* sets out the detailed *Adverse Findings*.
- 2.6. Executive Counsel imposes the following *Sanctions* in respect of the Respondents:

BDO

- 2.6.1. A financial penalty of £200,000 discounted to £160,000 for admissions and early disposal;
- 2.6.2. A published statement in the form of a reprimand;
- 2.6.3. A requirement that BDO shall implement in respect of the audit of insurance undertakings 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
- 2.6.4. A requirement that for a period of two years from the date hereof BDO shall undertake a quality performance review of the work relating to the obtaining and evaluating of actuarial audit evidence for all *Statutory Audits* of insurance undertakings that used independent actuaries as auditor's experts and shall report the results annually to the FRC.

Mr Roberts

2.6.5. A published statement, in the form of a reprimand against Mr Roberts in respect of the breaches of Relevant Requirements as set out in this *Final Decision Notice*.

3. BACKGROUND

The Respondents

- 3.1. In 2014/15, BDO was ranked as the sixth largest audit firm in the UK, with audit revenue of £132 million and 102 audit principals in 2015. BDO had first been appointed as the Statutory Audit Firm for AEL for the financial year ended 31 December 2007 and remained as such for all subsequent years until the FY2015 Audit. The FY2015 Audit was BDO's last engagement as Statutory Audit Firm.
- 3.2. Mr Roberts is a partner of BDO, with 30 years' auditing experience. He signed the FY2014 Audit report and the FY2015 Audit report, on behalf of BDO.
- 3.3. He had been the Statutory Auditor for AEL since 2013.
- 3.4. The Respondents' statutory responsibility was to form an opinion as to whether the FY2014 and FY2015 financial statements showed a true and fair view and had been properly prepared in accordance with IFRS and the Companies Act 2006.
- 3.5. An audit involves obtaining sufficient appropriate audit evidence about the amounts and disclosures in the financial statements in order to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
- 3.6. Audit evidence is defined in ISA 500 as "information used by the auditor in arriving at the conclusions on which the auditor's opinion is based". Audit evidence is primarily obtained from audit procedures performed during the course of the audit.

AEL and Italian hospitals medical-malpractice insurance

3.7. In both 2014 and 2015 AEL's most significant individual line of business by gross written premiums was the Italian hospitals medical-malpractice indemnity line of business ("**MedMal**"). After entering the MedMal market in 2009, AEL had by 2015 become its leading provider, with about half of the market share.

3.8. [REDACTED]

[REDACTED]

[REDACTED] AEL increased its ultimate loss estimates, and corresponding reserves, for each of the underwriting years from 2010 to 2013. [REDACTED]

[REDACTED] Pricing, meaning both premium rates and underwriting terms such as deductibles, was of importance to [REDACTED] the 2014 and 2015 underwriting years [REDACTED]. [REDACTED] in 2015 AEL's management considered four new alternative methods in setting its estimates of ultimate loss ratios for MedMal claims [REDACTED]. [REDACTED]. Three of those new methods, which were alternatives, were affected by a pricing index, which was developed by AEL's parent company's actuaries.

Audit work in relation to technical provision for outstanding claims

- 3.9. The technical provision for outstanding claims (the "**Provision**") was the largest balance sheet item in AEL's FY2014 and FY2015 financial statements. At 31 December 2014 AmTrust held a gross Provision of £562 million, which comprised approximately 50% of the total liabilities of £1.112 billion. At 31 December 2015 AmTrust held a gross Provision of £657 million, which comprised approximately 50% of the total liabilities of £1.321 billion. The Provision was determined, for both of the Audits, to be a matter of considerable judgement by management (in valuing reserves by reference to a loss ratio for each class of business) and therefore an area of significant risk of material misstatement.
- 3.10. In auditing the approach taken by management in setting the Provision, for both of the Audits, BDO relied upon the work of a firm of independent actuaries instructed by BDO as the auditor's expert (the "**Auditor's Expert**").

3.11. MedMal claims liability was of major importance to the Provision in both the FY2014 and FY2015 financial statements.

3.12. In order to comply with the ISAs, the Respondents, in their audit work on management's approach to the Provision in relation to MedMal claims, were required to evaluate, among other matters, management's compliance with the ABI SORP as the relevant recommended accounting practice.

The ABI SORP

3.13. The note on accounting policies in the FY2014 financial statements stated that the financial statements had been prepared in accordance with the ABI SORP, which provided as follows (under the heading "Claims – Annual Basis"):

"94. Provision should be made at the balance sheet date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. There may be a considerable degree of uncertainty as to the eventual outcome of some insurance contracts with a wide range of possible outcomes ...

95. The level of claims provisions should be set such that no adverse run-off deviation is envisaged ... However, given the uncertainty in establishing a provision for outstanding claims, it is likely that the final outcome will prove to be different from the original liability established. In setting the provision, consideration should be given to the probability and magnitude of future experience being more adverse than assumed. Where there is considerable uncertainty concerning future events a degree of caution will be necessary in the exercise of the judgement required for setting provisions such that liabilities are not understated."

(The ABI SORP was withdrawn with effect for accounting periods beginning on or after 1 January 2015 and so was not formally applicable to the FY2015 financial statements. However, the principles of the ABI SORP continued to be applicable under the guidance issued by the FRC's Auditing Practices Board in its Practice Note 20: The Audit of Insurers in the United Kingdom.)

3.14. AEL's compliance with the ABI SORP arose as a significant matter during the FY2014 Audit in the light of the Auditor's Expert's opinion that the Provision in the FY2014 financial statements was towards the lower end of the range of reasonable central

estimates and the Auditor's Expert's express caution, in relation to MedMal, that there was significant scope for continued adverse deterioration in loss ratios.

MedMal Pricing Index

- 3.15. In their audit work on the Provision for FY2015, the Respondents were also required by the ISAs to evaluate the role of the pricing index that had been relied upon by AEL in setting the estimated loss ratios for MedMal (the "**MedMal Pricing Index**"). The pricing of MedMal insurance was of importance to AEL's approach in 2015 to its estimation of ultimate loss. The reports of both AEL's actuaries and the Auditor's Expert referred to the MedMal Pricing Index in connection with setting lower reserves for the 2014 and 2015 underwriting years.
- 3.16. The Auditor's Expert's review of management's approach to setting the Provision was a highly important audit procedure in relation to an area of audit identified as high risk. The Respondents' understanding and evaluation of the Auditor's Expert's conclusions was therefore an obviously salient part of the Audits.

4. RELEVANT REQUIREMENTS TO WHICH THE ADVERSE FINDINGS RELATE

- 4.1. Rule 1 of the AEP states that *Relevant Requirements* has the meaning set out in regulation 5(11) of the Statutory Auditors and Third Country Auditors Regulations 2016 ("**SATCAR**"). The *Relevant Requirements* include, but are not limited to, the International Standards on Auditing (UK and Ireland) ("**ISA(s)**") issued by the International Auditing and Assurance Standards Board.
- 4.2. The ISAs relevant to *this Final Decision Notice* are those effective for audits of financial statements for periods ending on or after 15 December 2010.
- 4.3. The *Relevant Requirements* referred to in this Notice are the following:
- 4.3.1. ISA 230 (Audit Documentation);
 - 4.3.2. ISA 500 (Audit Evidence);
 - 4.3.3. ISA 540 (Auditing Accounting Estimates); and
 - 4.3.4. ISA 620 (Using the Work of an Auditor's Expert).

Extracts from the ISAs setting out those parts which are of particular relevance to the *Adverse Findings* are set out in Appendix 1 hereto.

5. **ADVERSE FINDINGS**

Adverse Finding 1 – Documentation of FY2014 Audit work on management’s compliance with recommended industry accounting practice

- 5.1. A significant matter arising during the FY2014 Audit was AEL’s compliance with the ABI SORP. On the basis of an exchange of emails with the Auditor’s Expert, Mr Roberts reasonably concluded that AEL had complied with the ABI SORP. However, this email exchange was not placed on the audit file. The evidence documented on the audit file did not record how the auditor had considered whether (in light of the Auditor’s Expert’s comments) the ABI SORP had been complied with and how the auditor had reached a conclusion on that matter. In consequence, the Respondents breached paragraph 8 of ISA 230, by failing to prepare adequate audit documentation recording a significant matter arising during the audit, the conclusion reached thereon, and significant professional judgment made in reaching that conclusion, relating to management’s compliance with the ABI SORP in respect of the gross technical provision for outstanding claims in the FY2014 financial statements of AEL.

Adverse Finding 2 – FY2015 Audit work on management’s accounting estimates

- 5.2. In relation to the FY2015 Audit, the pricing of MedMal insurance was of importance to AEL’s estimation of ultimate loss ratios and eventual setting of the Provision for MedMal claims liability in respect of the 2014 and 2015 underwriting years. The MedMal Pricing Index had an effect on three of the four alternative models considered by AEL in its estimation of ultimate loss ratios and therefore was an input into one of management’s significant accounting estimates. However, neither the Auditor’s Expert nor the Respondents in their audit work gave any detailed consideration to the Pricing Index or the data and assumptions on which it was based. In consequence:

5.2.1. In breach of paragraph 6 of ISA 500, the Respondents failed to design and perform audit procedures that were appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to one of management’s significant accounting estimates by not directly testing the MedMal Pricing Index;

5.2.2. In breach of paragraph 13 of ISA 540, the Respondents failed to adequately test how management made the accounting estimate and the data on which it was based or to adequately evaluate whether the method of measurement used

was appropriate in the circumstances in respect of the impact of the MedMal Pricing Index;

5.2.3. In breach of paragraph 12 of ISA 620, the Respondents failed, in relation to the MedMal Pricing Index, to make a sufficient evaluation of the adequacy of the auditor's expert's work for the auditor's purposes by verifying the relevance, completeness, and accuracy of the source data used by the expert;

5.2.4. In breach of paragraph 8 of ISA 230, the Respondents failed to prepare adequate audit documentation recording a significant matter arising during the audit, the conclusion reached thereon, and the significant professional judgment made in reaching that conclusion, namely the decision taken not to perform any substantive work directly on the MedMal Pricing Index.

Adverse Finding 3 – FY2015 Audit work to gain understanding of the opinions of the auditor's expert actuaries

5.3. The Respondents' understanding and evaluation of the Auditor's Expert's review of AEL's claims reserving was highly important to the FY2015 Audit. The Respondents' understanding and evaluation was evidenced by Mr Roberts comments marked up on the Expert's draft report and Mr Roberts also discussed the report with management. However, the Respondents' communication with the Auditor's Expert, following receipt of the Auditor's Expert's draft report, was limited to a single brief telephone conversation which was not documented. This was insufficient for the purpose of enabling the Respondents properly to understand and evaluate the Auditor's Expert's opinions. Consequently:

5.3.1. In breach of paragraph 6 of ISA 500, the Respondents failed to design and perform audit procedures that were appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence of the Respondents' understanding of the opinions of the auditor's expert;

5.3.2. In breach of paragraph 12 of ISA 540, the Respondents failed to hold discussions with the auditor's expert which were adequate for the purpose of gaining an understanding of the opinions of the auditor's expert as to whether management had appropriately applied the requirements of the applicable financial reporting framework relevant to the accounting estimate and whether

management's methods in making those estimates were appropriate and had been applied consistently;

5.3.3. In breach of paragraph 12 of ISA 620, the Respondents failed to hold discussions with the auditor's expert which were appropriate for the purpose of evaluating the adequacy of the auditor's expert's work, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence, the relevance and reasonableness of the expert's assumptions and methods, and the relevance, completeness, and accuracy of the source data used by the expert;

5.3.4. In breach of paragraph 8 of ISA 230, the Respondents failed to prepare adequate audit documentation recording their discussions with the auditor's expert that were held for the purpose of gaining an understanding of the expert's opinions.

6. SANCTIONS – BDO

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

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

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

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

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

- 6.2. Paragraph 12 of the Policy provides that the primary purpose of imposing Sanctions for breaches of the *Relevant Requirements* is not to punish, but to protect the public and the wider public interest.
- 6.3. Executive Counsel imposes the following *Sanctions* against BDO:
- 6.3.1. a financial penalty of £200,000 discounted to £160,000 for admissions and early disposal. The financial penalty shall be paid no later than 28 days after the date of this *Final Decision Notice*;
 - 6.3.2. a published statement in the form of a reprimand;
 - 6.3.3. a requirement that BDO shall implement in respect of the audit of insurance undertakings 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 judgments; and
 - 6.3.4. a requirement that for a period of two years from the date hereof BDO shall undertake a quality performance review of the work relating to the obtaining and evaluating of actuarial audit evidence for all *Statutory Audits* of insurance undertakings that used independent actuaries as auditor's experts and shall report the results annually to the FRC.
- 6.4. In reaching this decision, Executive Counsel has, in summary, considered the following matters in accordance with the Policy.

Seriousness of the breaches of *Relevant Requirements*

- 6.5. The breaches of *Relevant Requirements* determined by this *Final Decision Notice* related to highly significant balance-sheet items and an area of high audit risk. The four *Relevant Requirements* breached are important ones, designed to ensure the quality and effectiveness of the audit. However, as set out in paragraph 2.3 above, this *Final*

Decision Notice does not question the truth or fairness of the FY2014 or the FY2015 financial statements.

- 6.6. The breaches of *Relevant Requirements* were not intentional, dishonest, deliberate or reckless.
- 6.7. BDO did not stand to gain any profit or benefit from the breach of the *Relevant Requirements* (save to the extent that it received the fees chargeable for the Audits).
- 6.8. It is not alleged that the breaches in this case were repeated or ongoing breaches.
- 6.9. The breaches did not cause loss to or adversely affect anyone.
- 6.10. In 2019, BDO (prior to the firm's expansion that year by its merger with Moore Stephens) was ranked as the sixth largest audit firm in the UK, with 259 partners across all functions. Its UK revenue in the 52 weeks to 29 June 2018 was £469m and its audit fee income was £165m. While it is not alleged that the FY2014 or the FY2015 financial statements were in fact misstated, or that any person has suffered actual loss, the breaches of *Relevant Requirements* could undermine confidence in the standards of conduct in general of *Statutory Auditors* and *Statutory Audit Firms*, and/or in *Statutory Audit*.

Identification of *Sanction*

- 6.11. Having assessed the nature, seriousness, gravity and duration of the breaches and the further factors set out below, Executive Counsel has identified the combination of *Sanctions* specified at paragraph 6.3 above as appropriate.
- 6.12. Executive Counsel has considered whether any aggravating or mitigating factors exist and taken any such factors into account (to the extent that they have not already been taken into account in relation to the nature, seriousness, gravity and duration of the breaches).

Aggravating factors

- 6.13. There are no aggravating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

Mitigating factors

- 6.14. BDO has a good compliance history and disciplinary record with no prior sanctions under the AEP or Accountancy Scheme. Executive Counsel has considered this mitigating factor and it is reflected in the determination of sanction in respect of BDO. In addition,

the Executive Counsel has taken into account certain remedial steps that BDO has taken in response to the AQR team's findings that led to the referral to enforcement.

Deterrence

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

Discount for Admissions and Settlement

6.16. BDO has made partial admissions in respect of the breaches of ISA 230 (Audit Documentation). Executive Counsel has taken into account these admissions as well as the stage at which early disposal has been reached and applied a discount of 20% for admissions and early disposal.

Other considerations

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

7. SANCTIONS – MR ROBERTS

7.1. Executive Counsel imposes the *Sanction* against Mr Roberts of a published statement in respect of the breaches of Relevant Requirements as set out in this *Final Decision Notice*.

Seriousness of the breaches of *Relevant Requirements*

7.2. The breaches of *Relevant Requirements* determined by this Notice related to highly significant balance-sheet items and an area of high audit risk. The four *Relevant Requirements* breached are important ones, designed to ensure the quality and

effectiveness of the audit. However, as set out in paragraph 2.3 above, this Notice does not question the truth or fairness of the FY2014 or the FY2015 financial statements.

7.3. The breaches of *Relevant Requirements* were not intentional, dishonest, deliberate or reckless.

7.4. Mr Roberts did not stand to gain any profit or benefit from the breach of the *Relevant Requirements*.

7.5. It is not alleged that the breaches in this case were repeated or ongoing breaches.

7.6. The breaches did not cause loss to or adversely affect anyone.

Identification of Sanction

7.7. Having assessed the nature, seriousness, gravity and duration of the breaches, Executive Counsel has identified the *Sanction* specified at paragraph 7.1 as appropriate.

7.8. Executive Counsel has then considered whether any aggravating or mitigating factors exist and taken any such factors into account (to the extent that they have not already been taken into account in relation to the nature, seriousness, gravity and duration of the breaches).

Aggravating factors

7.9. There are no aggravating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

Mitigating factors

7.10. Mr Roberts has a good compliance history and disciplinary record with no prior sanctions under the AEP or Accountancy Scheme. Executive Counsel has considered this mitigating factor and it is reflected in the determination of sanction in respect of Mr Roberts.

Deterrence

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

Discount for Admissions and Settlement

7.12. Mr Roberts has made partial admissions in respect of the breaches of ISA 230 (Audit Documentation). Executive Counsel has taken into account these admissions as well as the stage at which early disposal has been reached.

8. COSTS

8.1 Executive Counsel requires that the Respondents pay her costs of £129,500. Such costs shall be paid no later than 28 days after the date of this *Final Decision Notice*.

Signed:

A large black rectangular redaction box covering the signature of Jamie Symington.

Jamie Symington
DEPUTY EXECUTIVE COUNSEL

Date: 25 June 2020

APPENDIX 1 – EXTRACTS OF RELEVANT REQUIREMENTS

International Standards on Auditing (UK and Ireland) (“ISA”)¹

1. ISA 230: Audit documentation

1.1. Paragraph 5 states as follows:

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

- (a) A sufficient and appropriate record of the basis for the auditor’s report; and*
- (b) Evidence that the audit was planned and performed in accordance with ISAs (UK and Ireland) and applicable legal and regulatory requirements.”*

1.2. Paragraph 8 states as follows:

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

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs (UK and Ireland) and applicable legal and regulatory requirements;*
- (b) The results of the audit procedures performed, and the audit evidence obtained; and*
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”*

2. ISA 500: Audit evidence

2.1. Paragraph 6 states as follows:

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

3. ISA 540: Auditing accounting estimates, including fair value accounting estimates, and related disclosures

3.1. Paragraph 12 states as follows:

¹ Issued October 2009 and effective for audits of financial statements for periods ending on or after 15 December 2010. (The succeeding revision of the applicable ISAs was issued in June 2016, effective for audits of financial statements for periods ending on or after 17 June 2017.)

“Based on the assessed risks of material misstatement, the auditor shall determine:

- (a) Whether management has appropriately applied the requirements of the applicable financial reporting framework relevant to the accounting estimate; and*
- (b) Whether the methods for making the accounting estimates are appropriate and have been applied consistently, and whether changes, if any, in accounting estimates or in the method for making them from the prior period are appropriate in the circumstances.”*

3.2. Paragraph 13 states as follows:

“In responding to the assessed risks of material misstatement, as required by ISA (UK and Ireland) 330, the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate:

- (a) Determine whether events occurring up to the date of the auditor’s report provide audit evidence regarding the accounting estimate.*
- (b) Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether:*
 - (i) The method of measurement used is appropriate in the circumstances; and*
 - (ii) The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework.*
- (c) Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedure.*
- (d) Develop a point estimate or a range to evaluate management’s point estimate. For this purpose:*
 - (i) If the auditor uses assumptions or methods that differ from management’s, the auditor shall obtain an understanding of management’s assumptions or methods sufficient to establish that the auditor’s point estimate or range takes into account relevant variables and to evaluate any significant differences from management’s point estimate.*
 - (ii) If the auditor concludes that it is appropriate to use a range, the auditor shall narrow the range, based on audit evidence available, until all outcomes within the range are considered reasonable.”*

4. ISA 620: Using the work of an auditor's expert

4.1. Paragraph 12 states as follows:

“The auditor shall evaluate the adequacy of the auditor’s expert’s work for the auditor’s purposes, including:

- (a) The relevance and reasonableness of that expert’s findings or conclusions, and their consistency with other audit evidence;*
- (b) If that expert’s work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and*
- (c) If that expert’s work involves the use of source data that is significant to that expert’s work, the relevance, completeness, and accuracy of that source data.”*