

## PUBLIC NOTICE

### Enforcement Action

#### IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY (IAASA)

#### IN THE MATTER OF

**John O Callaghan**

Respondent

1. Following an investigation by the Irish Auditing and Accounting Supervisory Authority ('the Authority'), a Settlement Agreement has been agreed and the Authority has decided to impose a **reprimand** and the respondent is further **fined €10,500**.

2. The contraventions were admitted by the respondent.

#### Background

3. This matter concerned the statutory audit of the financial statements of Greenlight Reinsurance Ireland DAC for the year end 2018 (herein the entity). The respondent as a statutory auditor was the Engagement Quality Control Reviewer (EQCR) for the statutory audit of those financial statements.

4. Although the entity was a subsidiary of a Cayman Islands domiciled company which is quoted on the NASDAQ stock exchange in the United States, the respondent was required to perform his role as an EQCR for the audit of the entity on its statutory financial statements in accordance with the relevant applicable auditing standards (ISA's Ireland) as it is registered in Ireland.

#### The Relevant Standards of Conduct

5. As a result of the deficiencies identified in the audit file reviewed, contravention of ISA 220 (Ireland) was identified in respect of the respondent's role as an EQCR. Aspects of this ISA are referred to in this document.

6. Auditors are required to conduct an audit in accordance with applicable technical and professional standards, the relevant auditing standards, were the International Standards on Auditing (Ireland) ("ISAs"). The respondent as the EQCR was required to independently and objectively evaluate the significant judgments the audit team made, and the conclusions reached in formulating the auditor's report.

7. The purpose of ISAs is to establish standards and general principles with which auditors are required to comply. Together they form a body of standards that should be applied before an auditor can express an opinion that financial statements give a 'true and fair view' within the meaning of the Companies Act 2014.

**In your role as the EQCR for the audit of the Financial Statements of Greenlight Reinsurance Ireland, Designated Activity Company("the Entity") for the year ended 31 December 2018, you failed adequately or at all, to perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. In particular:**

**(i) there was no or no sufficient evidence of queries/ challenges raised concerning the sufficiency of work performed in the following areas:**

- (a) on the level of supervision or direction by the engagement partner in the conduct of the audit work performed by the BDO network firm in significant risk areas (i.e. Premium income, Provisions for loss reserves/claim and or Investments those areas) including the appropriateness of the materiality level for the audited entity and the engagement partners conclusions in respect of those significant risk areas.**
- (b) There was insufficient evidence to conclude that the audit work of the BDO network firm was performed in accordance with ISAs (Ireland);**
- (c) The audit approach taken to test internal controls relevant to the audit of the significant accounts - Gross premiums written and Total loss reserves, was not communicated to those charged with governance (TCWG).**

*ISA 220 (Ireland) paragraph 20 states:*

*The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:*

- a) Discussion of significant matters with the engagement partner;*
- b) Review of the financial statements and the proposed auditor's report;*
- c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and*
- d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.*

8. There was evidence in the documentation on the audit file that the respondent as EQCR performed his reviews and signed checklists confirming his review. However, having performed such a review the respondent did not identify or raise issues concerning the quality of the engagement team work, in particular concerning the engagement partner's conduct and supervision of the work performed to support his opinion.

9. There was a lack of documentation on the audit file to demonstrate that the respondent adequately or at all performed an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report in significant risk areas including the appropriateness of the materiality level for the audited entity and the engagement partner's conclusions in respect of those significant risk areas. The following examples highlights those risk areas:

#### Premiums

10. The BDO network firm tested a sample of six contracts related to the entity. There was no rationale recorded on the audit file as to why it was concluded that the sample of six contracts was sufficient. The engagement team examined two of these six contracts tested by the BDO network

firm. One of the steps performed by the BDO network firm was an “examination of accounting treatment”. This was done with reference to US GAAP (US Generally Accepted Accounting Principles). There was no evidence that the treatment in accordance with the entity’s accounting framework was reviewed. Further, the work performed by the BDO network firm was performed with reference to the parent company’s materiality levels, which are far higher than the materiality levels set for the entity.

#### Technical reserves

11. The engagement team’s expert; BDOC-Actuarial, was engaged by the BDO network firm to examine the overall adequacy of the loss reserve for the parent company by evaluating methods, data, and significant assumptions used in developing estimates. BDOC-Actuarial performed its work and stated its conclusions with reference to the parent company’s materiality thresholds. The parent company’s materiality was \$7.5m compared to the materiality level for the audit of the entity which was \$672k. In those circumstances there was no explanation on the audit file as to how any of the conclusions reached by BDOC-Actuarial could have been used as evidence in the audit of the entity. Further, there was insufficient audit evidence on the audit file that steps were taken by the engagement team to ensure that the audit work was performed in accordance with the requirements of ISAs (Ireland). The BDO network firm performed the audit of the parent company based in United States and the entity’s accounts were consolidated into this company. On this audit the majority of the audit work was performed by the BDO network firm based in the United States. BDO network engaged BDOC actuarial (BDO US Internal Actuary) team to examine the overall adequacy of the loss reserve for the parent company. The audit work performed by the BDO network firm was performed in accordance with US GAAS (US Generally Accepted Auditing Standards), not ISAs (Ireland). There was insufficient evidence on the audit file to indicate that the audit was performed in accordance with the relevant standards for Ireland. In the planning document on the audit file there was a note stating that “none of the limited differences noted between US GAAS and ISA’s would lead to insufficient audit testing”. This statement was recorded on the audit file and does not evidence how each relevant ISA was assessed or how it was complied with.

12. A controls-testing approach was performed to the audit of Gross premiums written and provision Technical reserves, both of which are significant risk areas. However, the controls testing approach was not communicated in the report to TCWG. The BDO network firm had identified two deficiencies in internal controls and these were communicated to those charged with governance of the parent company. However, the engagement team did not evidence that they had assessed whether these constituted significant deficiencies for the purposes of the entity and did not communicate these issues to TCWG of the entity.

#### **Sanction**

13. The sanction imposed must be proportionate balancing the need to protect the public with the respondents’ own interests.

14. The purpose of sanction is to declare and uphold proper standards of conduct amongst statutory auditors and statutory audit firms and to maintain public and market confidence in statutory auditors and statutory audit firms and their regulators. In addition, the purpose of sanction is to protect the public from statutory auditors and statutory audit firms whose standard of work falls short of the high-quality audit expected of statutory auditors and statutory audit firms.

15. In coming to the appropriate and proportionate sanction the Authority took into account the Authorities sanctions guidance (effective from 8 March 2021) : The Authority also had regard to its published policy on settlement agreements. The Authority had regard to:

- (a) The gravity and duration of the relevant contravention;
- (b) The degree of responsibility of the specified person;
- (c) The financial strength of the specified person;

- (d) The amount of profits gained or losses avoided by the specified person in consequence of the contravention;
- (e) The level of cooperation of the specified person with the Supervisory Authority;
- (f) Previous relevant contraventions committed by the specified person.

16. In considering the appropriate sanction in this case the Authority took into account a number of factors.

17. In mitigation the respondent has engaged with the Authority. The respondent's timely admissions demonstrate his insight into the contraventions that were identified. The Authority has also taken into account that the respondent has no previous disciplinary history and he no longer works in the public interest entity field.

18. In considering the level of engagement of the respondent with the Authority, an early settlement discount was also applied to any fine imposed. The Authority took into account the timing of the admissions and it considered that it was appropriate to apply an early settlement discount of 30% to the level of the fine imposed.

19. The Authority considered the sanction options open to it in ascending order of seriousness and it concluded that the appropriate and proportionate sanction in respect of the respondent is a **reprimand** and that he be further **fined €10,500**.

Dated: 28 March 2023