

## PUBLIC NOTICE

### Enforcement Action

## IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY (IAASA)

### IN THE MATTER OF

**Stephen McCallion**

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 in respect of the respondent a reprimand and the respondent is further fined €16,800.
2. The contraventions were admitted by the respondent.

### Background

3. This matter concerned the statutory audit of the financial statements of North of England P&I Designated Activity Company for the year end 20 February 2023 (herein the entity). The respondent as a statutory auditor was the Engagement Quality Control Reviewer (EQCR) for the statutory audit of those financial statements. The term EQCR is referred to throughout this document as the financial statements in question are for the year end 20 February 2023 (ISQM 2 was not in force at the relevant time).
4. The entity is licenced by the Central Bank of Ireland to carry on non-life insurance business in Ireland. Its main activity is the insurance of marine risks, in the form of marine liability cover provided to ship owners and charterers, in respect of Protection & Indemnity (P&I), Freight Demurrage & Defence (FD&D) and War Risks. Its risks are primarily written on a mutual basis, whereby persons entering ships for insurance in these classes become Members of the classes and corporate Members of the Company's parent, North Standard. The entity also provides insurance cover for fishing vessels and small craft in respect of hull and machinery, liability (including P&I and passenger liability cover), personal accident, defence risks, and

aquaculture insurance covering stock, equipment, vessels and support craft used in the farming of fish and other aquatic organisms. These classes of business are written on a non-mutual basis, providing a diversified income stream to support the underwriting of the mutual book of business on a not-for-profit basis.

5. The entity, was established in 2019 as a new insurer to write the European risks of North of England P&I Club (now North Standard Limited (NSUK)). The insurance cover written by the entity was a continuation of risks previously written by NSUK for those European members who could no longer be covered by the UK company following changes to regulation. Consequently, there would be certain processes which were performed using data and information relating to the group entity, North Standard Limited UK and subsidiaries ("group"). The work evidenced on the audit file refers to and relies on financial information relating to the group's audit trial balance and accounting records.

### **The Relevant Standards of Conduct**

6. As a result of the deficiencies identified in the audit file reviewed, a number of contraventions were identified.
7. Statutory 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 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. Given the role of the EQCR the following was considered:

*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. The Authority also had regard to Chartered Accountants Ireland(CAI) Code of Ethics:

*CAI Code of Ethics (in force at the relevant time):*

*113.1 The principle of professional competence and due care imposes the following obligations on members:*

*...*

*(b)To act diligently in accordance with applicable technical and professional standards when providing professional services.*

**1. In your role as the EQCR for the audit of the Financial Statements of North of England P&I Designated Activity Company financial statements (“the Entity”) for the year end 20 February 2023, you failed adequately, 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:**

**1.1 there was insufficient evidence of queries/challenges raised concerning the sufficiency of work performed relating to:**

- (i) the valuation and cut off of technical provisions and reinsurer’s share of technical provisions, in particular:**
  - a. the insufficient appropriate audit evidence obtained in relation to the reconciliation of the actuarial data to the accounting records and underlying system for accuracy and completeness.**
  - b. the insufficient appropriate audit evidence obtained to support the explanations of the material differences noted in the documented reconciliation of the key actuarial input, claims data, to the Entity’s accounting records.**
  - c. the insufficient design and performance of audit procedures to obtaining sufficient appropriate audit evidence in relation to the accuracy of the allocation of the IBNR (“Incurred But Not Reported”) Pool, allocated from the Group to the Entity by applying a tonnage percentage.**
  - d. the insufficient testing in relation to the accuracy of the allocation of the Group’s margin for uncertainty to the Entity, including the consideration by the engagement partner of potential management bias.**
  
- (ii) the lack of evaluation performed by the engagement partner in relation to the appropriateness of the actuary’s work for the Entity, in particular:**

- a. the insufficient audit procedures performed in relation to the reconciliation of data disclosed in the model output/report to accounts.
- b. the insufficient audit procedures performed in relation to the testing of \$2.1m, identified as the IBNR margin relating to one of the claims.
- c. the insufficient evidence of an assessment by the auditor of each “reliances, limitations and uncertainties” raised by the actuary.

(iii) the insufficient substantive audit procedures performed on material disclosures in the financial statements.

(iv) the insufficient testing of the completeness and accuracy of journals identified as part of the journal entry testing procedures.

(v) the inaccurate communications to those charged with governance, in particular:

- a. the auditor’s failure to communicate the following significant risks:
  - i. the existence of claims estimates.
  - ii. the existence of RI share of Technical Provisions.

9. 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’s work, in particular concerning the engagement partner’s conduct and supervision of the work performed to support her opinion.
10. In respect of 1.1(i)(a)-(d) above there was insufficient evidence on the file of queries or challenges raised by the respondent.
11. The auditor’s report, noted one of the stated completed procedures by the engagement team, in relation to this key audit matter and significant risk area was “*reconciled key actuarial inputs used in actuarial models to accounting records*”. The work evidenced on the audit file refers to and relies on financial information relating to the group audit trial balance and accounting records when reconciling data for the purposes of actuarial models. The audit file documentation did not demonstrate the relevance and reliability of group data as evidence of the accuracy and completeness of the data in relation to the audited entity.
12. The audit file included the claims development data, used by the actuaries. In the attempted reconciliation of this data, the engagement team included the pool and mutual claims estimate listings, and the substantive procedures performed on this listing, as one the key evidence used in the reconciliation of the data used by the actuaries. However, the audit work evidenced on the audit file on this listing was insufficient

in order for the engagement team to rely on the completeness and accuracy of the listing for the purpose of reconciliation with actuarial data. Firstly, the completeness test evidenced on the “quaystone listing” work sheet of the pool and mutual claims estimate listing workpaper relied upon and referenced work papers as support for material amounts and adjustments. These referenced workpapers were either an incorrect reference and related to a workpaper not included on the Entity’s audit file or were workpapers, included on the audit file, that did not provide audit evidence relating to the material amounts and adjustments applied to the completeness test. A further example was in relation to the audit work performed in the IBNR Lead and Reconciliation to Actuarial Report (EU) workpaper. In the “results by class” work sheet of this workpaper, the audit file included a reconciliation between the “stat file vs North Actuarial Report”. There was insufficient evidence on the audit file to support the reconciliation between the entity and actuary reports.

13. The audit file evidenced an assessment by the engagement team of the pool IBNR reserving process at the entity. An IBNR Pool is a reserve fund that insurers or self-insured groups set aside to cover claims that have already happened but have not yet been reported. The IBNR pool is allocated across the audited entity’s group by applying a tonnage percentage (tons of weight carried on a ship/cargo that the entity has insured) to the total pool IBNR reserves. This resulted in an amount of \$22.7m allocated to the audited entity. The audit file includes an EU pool allocation split workings workpaper, however a number of issues were noted in relation to insufficient audit work evidenced within this workpaper relating to the testing of the accuracy of the allocation to the entity.
14. The engagement team obtained the actuarial report from their actuary which stated that they had reviewed the approach taken for the margin at a combined level i.e. group level and provided that, at a high level, the margin to the entity looks reasonable. This was not sufficient evidence for the margin of uncertainty for the entity, particularly considering the materiality of the margin and that the actuary had commented in their report that they had not reconciled any inputs used in the margin calculation. The audit file provided insufficient evidence as to how the engagement team understood the margin of uncertainty in relation to the entity and how it has been calculated for the entity. Furthermore, given that this was an accounting estimate, the engagement team did not sufficiently evidence their challenge and consideration of potential management bias in relation to the margin of uncertainty for this entity.
15. In respect of Ground 1.1 (ii)(a)-(c), the engagement team’s actuary recorded that it is the responsibility of the engagement team to reconcile data disclosed in the model output/report, to accounts (including premiums, paid claims, incurred claims etc). The audit file failed to sufficiently evidence the reconciliation of data disclosed in model output/report to accounting records. There was insufficient evidence of what queries or challenges the Respondent made in this regard.
16. On the audit file it is recorded that the actuary provided six instances of reliances, limitations and uncertainties on its actuarial procedures which amounted to caveats on the procedures undertaken by the

actuary over the technical reserves. There was insufficient evidence on the audit file of how the engagement team assessed and concluded on each of the “reliances, limitations and uncertainties” raised by the actuary for this statutory audit. There was insufficient evidence of queries or challenges raised by the respondent as the EQCR as to the sufficiency of the work performed.

17. In respect of Ground 1.1 (iii) there was insufficient evidence of queries/challenges raised concerning the sufficiency of work performed in relation to substantive audit procedures performed on material disclosures in the financial statements, including the note disclosures relating to the significant risk and key audit matter area. Furthermore, the engagement team had not included sufficient evidence on the audit file to support the evaluation whether the effects of the related party relationships and transactions disclosed, cause the financial statements to be misleading or prevent the financial statements from achieving fair presentation. There was insufficient evidence of queries or challenges raised by the respondent, as the EQCR, as to the sufficiency of the work performed.
18. In respect of 1.1(iv) there was insufficient evidence of queries/challenges raised by the Respondent concerning the testing of the completeness and accuracy of journals identified as part of the journal entry testing procedures. The management override of controls workpaper outlined the work to be performed in relation to significant risk area of management override of controls, and outlined that the engagement team identified six criteria of journal entries and other adjustments that would result in the need for further testing.
19. The engagement team stated in the workpaper that the analysis and conclusion on the journal entry testing performed were in the referenced work sheets within the workpaper. However, it was unclear from the journal entries working paper how completeness of the general data used for journal entry testing was evidenced. The net loss of the total journals in this workpaper was evidenced as \$5.9 million, whilst the net loss per the trial balance and financial statements was approximately \$6.1 million. There was insufficient evidence on the audit file addressing the differences noted to be satisfied on the completeness of the journal entry data used as part of the management override of control journal testing.
20. Furthermore, there was insufficient evidence on the audit file of the engagement team assessing the reasonableness of specific journal entries, flagged by the firm’s automated tool as journals that were unusual or large value journals.
21. In the audit file a significant risk was assigned to the existence assertion of both the claim estimates and the reinsurance share of technical provisions. In the mapping document, the engagement team linked these significant risks to the areas of technical provisions and reinsurance share of technical provisions. However, within the communication documents, the titles of the significant risk areas communicated to those charged with governance and the corresponding description of key risks of errors in the areas of technical provisions and reinsurance share of technical provisions only communicated the valuation, completeness and cut off assertions as significant/key risks. Therefore, the communication with those charged with governance did not adequately communicate that the auditor had identified the existence assertion, relating to both the

areas of technical provisions and reinsurance as a significant risk area. The respondent as the EQCR should have performed an objective evaluation of the significant judgments made by the engagement team and the communications made to those charged with governance.

### **Sanction**

22. The sanction imposed must be proportionate balancing the need to protect the public with the respondents' own interests.
23. 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.
24. 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.
25. In considering the appropriate sanction in this case the Authority took into account a number of factors. The Authority took into account that it was the respondent's responsibility as the EQCR to ensure objective evaluation of the significant judgments made by the audit team before the audit report was issued. In mitigation the respondent engaged from the outset of the preliminary investigation with the Authority. The respondent's admissions demonstrate insight into the contraventions that were identified. The Authority has also taken into account that the respondent has no previous disciplinary history. It is accepted that this case does not concern matters relating to personal gain or dishonesty.
26. 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.

27. 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** €16,800.

Dated:26 May 2026