

FRC awards financial sanctions against MacIntyre Hudson LLP and two former employees for breach of audit requirements

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On 9 July 2024 the Financial Reporting Council (FRC) published a Final Settlement Decision Notice under its Audit Enforcement Procedure and imposed financial sanctions and severe reprimands against MacIntyre Hudson LLP (MHA), the independent UK arm of Baker Tilly International, and two of its former employees in relation to the audit of a subsidiary of MRG Finance UK Plc for the financial years 2018 and 2019.

The investigation began in January 2022.

Sanctions and costs were as follows:

- MHA received a financial sanction of £200,000, discounted to £120,250.
- The former audit engagement partner of MHA received a sanction of £30,000, discounted to £19,500 (in relation to the 2018 audit).
- Another former employee of MHA was given a sanction of £25,000 discounted to £18,750 (in relation to the 2019 audit).

Discounts were awarded due to “*admissions and early disposal*”. MHA’s penalty was also discounted for mitigation, with the FRC stating that MHA offered an “*exceptional level of cooperation*” and accepted liability at an early stage. This serves as a timely reminder of the importance of early engagement with any investigation and shows that cooperation can result in significant reductions to sanctions.

As well as financial penalties, all were subject to a severe reprimand, a declaration that the relevant audit reports did not satisfy the relevant requirements, and an order stating that MHA and employees must take specific actions to prevent the breaches reoccurring.

The FRC’s news release states that the primary breach in both years was the “*failure during the audit acceptance and continuance processes to ultimately identify (and so conduct the audits on the basis) that the Company was a Public Interest Entity*” and that the “*failure to gain an adequate understanding of the Company, and the regulatory framework applicable to it, led directly to further breaches of Relevant Requirements, including, in both years, provision of prohibited non-audit services and a failure to ensure that an Engagement Quality Control Review was performed before the Audit Report was signed.*”

The following additional breaches of relevant requirements were identified:

- The application of correct accounting standards and documentation.
- Audit work on confirmation of bank balances, a loan to the parent company, and the going concern assumption.

This case emphasises the quantifiable value of early engagement with regulators, and in tandem, clear and pragmatic advice from the outset.

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