

Value of Public Company Audits at Stake in BDO High Court Appeal

By Amanda Iacone 2025-05-15T15:43:43000-04:00

- Auditor warns expanded liability sets ‘dangerous precedent’
- Second Circuit deemed BDO’s misstatements material to investors

Investor trust in audits of US-listed companies is at stake as BDO USA P.C. asks the US Supreme Court to decide whether the firm should face shareholder fraud claims over its work for an insurance company.

BDO wants the justices to review a circuit court ruling that found AmTrust Financial Services Inc. investors could sue the accounting firm over its faulty audits for the insurance company. The firm’s petition to the high court argues that “innocent” mistakes or misstatements by auditors aren’t “material,” or sufficient to sway shareholder investment decisions.

A decision supporting BDO’s position could undermine the value of the audit report to investors and creditors, who rely on auditors’ assessment to determine if corporate accounting for revenue and asset values is reliable, said Steven Mintz, a professor emeritus of accounting at California Polytechnic State University.

“The audit profession would have to go back and revisit the whole format of the audit report. Because if they agree with BDO, they are lessening the importance of the audit report,” Mintz said of the justices.

BDO declined to comment.

Audit reports inform investors whether a company’s financial statements provide a fair picture of its performance. They also detail which standards the auditor relied on to complete its assessment, among other details.

BDO shouldn’t face the shareholders’ claims because its work, which initially fell short of US audit standards, didn’t alter the audit’s ultimate conclusions or the information

available to investors about AmTrust’s financial health, the auditor argued in its [petition](#) to the Supreme Court.

The Second Circuit Court of Appeals decision also deviates from past Supreme Court rulings on a materiality standard that prevents “auditors from being exposed to crushing liability for innocent and anodyne mistakes,” BDO argued.

Allowing the appeals court ruling to stand would set a “dangerous precedent” expanding accounting firms’ liability in the Manhattan-based circuit, where securities fraud claims are typically filed, BDO said in its petition.

Lawyers representing shareholders who brought the original suit declined to comment on BDO’s challenge.

Investors sued AmTrust, BDO, and several underwriters for misleading them about the company’s financial health after the insurer restated five years of results—spanning 2012 through 2016—to correct revenue recognition for warranties and other accounting errors. They also accused BDO of sloppy auditing for not detecting AmTrust’s accounting errors.

“We’ve got one of the biggest firms in the US saying ‘I can lie to you in my audit report and you can’t sue me,’” said Lynn Turner, a former chief accountant for the Securities and Exchange Commission and a frequent critic of the audit industry. “We pay over \$17 billion a year for these audits. Why would anyone want to continue to pay that \$17 billion if BDO was to prevail?”

Turner joined a legal brief asking the Second Circuit to reconsider a prior ruling. The SEC filed its own related [brief](#) on the appeals court ruling that found audit reports were too generic to be meaningful to investors.

The commission [suspended](#) three BDO auditors for their work on AmTrust’s 2013 audit, finding that they didn’t complete key steps in the audit until after the insurer filed its annual financial statements.

A Second Circuit panel found in an October [ruling](#) that BDO had issued a “false certification” that its work for AmTrust met Public Company Accounting Oversight Board standards. The judges determined that such “misstatements” in the auditor’s opinion were material to investors.

The full appeals court in January declined BDO’s petition to review the panel’s decision.

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The case is [BDO USA LLP vs. New England Carpenters Guaranteed Annuity and Pension Funds et al](#) , U.S., No. 24-1151, petition docketed 5/9/25 .

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