



Big Four Audit Quality Review results decline

18 June 2018

The Big Four audit practices must act swiftly to reverse the decline in this year's audit inspection results if they are to achieve the targets for audit quality set by the Financial Reporting Council (FRC). Overall results from the most recent inspections of eight firms by the FRC show that in 2017/18 72% of audits required no more than limited improvements compared with 78% in 2016/17. Among FTSE 350 company audits, 73% required no more than limited improvements against 81% in the prior year.

Across the Big 4, the fall in quality is due to a number of factors, including a failure to challenge management and show appropriate scepticism across their audits, poorer results for audits of banks. There has been an unacceptable deterioration in quality at one firm, KPMG. 50% of KPMG's FTSE 350 audits required more than just limited improvements, compared to 35% in the previous year. As a result, KPMG will be subject to increased scrutiny by the FRC.

Stephen Haddrill, CEO, FRC, said,

"At a time when public trust in business and in audit is in the spotlight, the Big 4 must improve the quality of their audits and do so quickly. They must address urgently several factors that are vital to audit, including the level of challenge and scepticism by auditors, in particular in their bank audits. We also expect improvements in group audits and in the audit of pension balances. Firms must strenuously renew their efforts to improve audit quality to meet the legitimate expectation of investors and other stakeholders."

The increased FRC scrutiny of KPMG includes inspecting 25% more KPMG audits over its 2018/19 cycle of work; and monitoring closely the implementation of the firm's Audit Quality Plan. KPMG agrees that its efforts in recent years have not been sufficient; the FRC will hold KPMG's new leadership to account for the success of their work to improve audit quality.

The FRC has also reported on the results of its inspections of four other firms, BDO, GT, Mazars and Moore Stephens. These reports show general improvements in the quality of inspected audits.

Other actions taken by the FRC include:

Setting out to firms earlier in the year concerns over various aspects of bank audits, including their challenge of management and provisioning against loan losses and PPI mis-selling claims.

Reviewing the effectiveness of Root Cause Analysis by the firms to identify the real causes of audit shortcomings and whether their action plans will effectively address the FRC's concerns.

Agreeing actions with firms on all audits where shortcomings were identified.

Taking enforcement action under the Audit Enforcement Procedure where appropriate.

Implementing a new audit firm monitoring approach, focusing on five key pillars of leadership and governance, firm values and behaviours, business models and financial soundness, risk management, and evidence of audit quality.

Reports

[BDO LLP Public Report 2017/18](#) (PDF)

[Deloitte LLP Public Report 2017/18](#) (PDF)

[Ernst & Young LLP Public Report 2017/18](#) (PDF)

[Grant Thornton LLP Public Report 2017/18](#) (PDF)

[KPMG LLP Public Report 2017/18](#) (PDF)

[Mazars LLP Public Report 2017/18](#) (PDF)

[Moore Stephens LLP Public Report 2017/18](#) (PDF)

[PwC LLP Public Reporting 2017/18](#) (PDF)

Notes to editors:

1. The Financial Reporting Council's (FRC) mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.
2. The FRC will issue its broader annual assessment of the UK market later in the year.
3. The FRC's Audit Quality Review is explained here <https://www.frc.org.uk/auditors/audit-quality-review>
4. The FRC's audit enforcement procedure is explained at <https://www.frc.org.uk/getdoc/0edeb43e-265e-4d61-9caf-989bcf7becf7/audit-enforcement-procedure>
5. The FRC's Audit Firm Monitoring Approach is explained here <https://www.frc.org.uk/auditors/audit-firm-monitoring-approach>
6. All Press enquiries should be directed to:

Peter Timberlake, Head of Communications, on telephone: 020 7492 2397/ 07768 502332, or email: p.timberlake@frc.org.uk

Rita Carolan, Communications Manager, on telephone: 020 7492 2307/ 07428 149096 or email: r.carolan@frc.org.uk

Alana Sinnen, Communications Manager, on telephone: 020 7492 2395/ 07949 005526 or email: a.sinnen@frc.org.uk

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Peter Timberlake
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