

Bank audits were dire, but the question is not why, but...

Published: January 15, 2026, 4:06 am

The [FT has a report this morning that begins](#):

The regulatory body that oversees the auditing profession has criticised the industry's "below average" quality and slow pace of reform in bank audit work.

In particular, the Financial Reporting Council questioned the adequacy of testing of banks' loan loss provisions and general IT controls.

It's hard to work out who got the report more wrong; the FT or the FRC.

First, there are only four auditors of banks of any size in the UK: KPMG, PWC, EY and Deloitte. They have all been proved to be consistently bad. That means that bank auditing is not below average. It is universally bad.

Second, the failure to provide bad debt was because the International Financial Reporting Standard reporting regime does not work on an anticipated loss model; it works on a realised loss model. That meant that losses could not be booked until they went wrong; the ability to predict some would go wrong was no longer enough. So the question is not whether the auditing was bad, but should be about firstly why this model was adopted and second what the role of the Big 4 firms was in its adoption. That is where the corruption at the heart of accounting and auditing lies.

Third, the question should then be asked as to why the supposed 'true and fair' over-ride did not apply and the auditors did not insist on the banks provisioning despite the accounting framework in which they were reporting not requiring them to do so. For this the villain in the piece is the Institute of Chartered Accountants in England and Wales whose guidance [on this issue is discussed by Tim Bush here in evidence given to the House of Lords](#). Without having any legal right to do so the ICAEW basically exonerated this approach, but also fundamentally failed to recognise the duty in law that a company has a primary duty to ensure its own solvency when doing so. Clearly that duty was not fulfilled by the banks and their auditors failed to raise issue with them despite that fact.

In that case then the question of audit quality is important but far from being the most important issue. That most important issue is the systemic failing of bak auditing and why the undue influence of the Big 4 on the International Accounting Standards Board and so International Financial Reporting Standard and in turn on the Institute of Chartered Accountants in England and Wales allowed this to happen.

But I have a strong suspicion those questions will not be asked.