

The time has come to investigate KPMG for audit failure...

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I'm pleased to share this guest blog by [Dr. Atul K. Shah, Senior Lecturer, Suffolk Business School](#):

It is well known that there was widespread audit and accounting failure in the UK prior to the 2008 Financial Crash. However, not one Big 4 audit firm has been investigated about their unqualified audits of major failed Banks prior to the Financial Crash, despite several appeals from academics like [Professor Prem Sikka of Essex University](#), journalist [Ian Fraser](#), [author of Shredded](#) — the truth about the RBS failure, and [Richard Murphy](#).

This seems about to change with the latest letter from the Treasury Select Committee headed by Mr. Andrew Tyrie. They have [asked the Financial Reporting Council](#) to reopen its investigation into KPMG over its audit of HBOS, the biggest banking failure in British history, costing over £50 billion of public money. “It is now essential that the FRC get on with this investigation (into KPMG) without delay” — they write in a letter to the FRC CEO Stephen Hadrill. Kicking it into the long grass has been FRC’s strategy so far, but it may be that if it does so again, huge questions will be raised by the public over its own credibility as a regulator of Corporate Conduct and Accounting.

Here at Suffolk Business School, I have done [detailed forensic research on the role of KPMG in the audit failure of HBOS](#) and this paper also includes an interview with the head of Audit Quality and Ethics at KPMG. All relevant papers are [linked here](#) — and they provide rich detail. One key source for the research was the [HBOS whistleblower and author Paul Moore](#) who kept a detailed account of all his experiences and correspondence, and was also an ex-KPMG partner before he joined HBOS. Paradoxically, KPMG wrote an independent report endorsing his sacking by the HBOS CEO James Crosby, even though he was a partner there and known to the firm.

The principal findings from my research are that there were:

- * significant conflicts of interest between professional, public interest and commercial values;*
- * poor ethical rules and enforcement;*

- * *revolving doors between KPMG, regulators and government;*
- * *a culture of little professional scepticism and challenge to the Board of HBOS.*

Further research by me, which explores the [politics of risk management at HBOS](#) and the [Regulatory Arbitrage services provided by KPMG](#) suggest that instead of managing public risk of its audit clients, KPMG seems to give a high priority to managing its own 'regulatory risk' and publicly admits this. If KPMG is itself a regulator, and manages its own regulatory risk, what does all this mean for our corporate governance and accountability system for large corporates?

The problems seem to me to be much wider and [systemic to the accounting profession](#), its ethics, conduct and regulation. Much more policing and punishment is needed of the Big 4 firms, and audit should be taken out of their control in my view as they are highly conflicted with their consultancy services. Also the ICAEW needs to discipline firmly its members involved in the HBOS fiasco. And the FRC needs a fundamental shakeup.