

How could the FRC have decided KPMG were in the clear w..

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The Times has reported a major development in the fiasco of the Financial Reporting Council clearing KPMG of any audit failure in [giving a clean report](#) on HBOS's 2007 accounts months before that bank collapsed. As they report (behind a paywall, but I share some of it because of the public importance of the issue):

The Financial Reporting Council ruled that KPMG was reasonable in vouching for the health of HBOS, but “was aware” in 2007 of going concern problems at UK banks.

Confidential minutes from a high-level City meeting in 2007 raise questions about the ruling this week by the Financial Reporting Council that KPMG was “reasonable” in vouching for the health of the soon-to-fail bank HBOS.

With the credit crunch in full swing, a meeting of investment chiefs and senior accounting professionals at the offices of Schroders two weeks before Christmas 2007 heard how the FRC was “fully aware that there might be ‘going concern’ problems” at UK banks.

Yet the FRC, the main regulator for UK accountancy firms, this week cleared KPMG of any failings when in February 2008 the accountants judged HBOS to have made £5.5 billion of profits and to be a going concern. The FRC ruled that market conditions at the time did not show KPMG’s judgment to be unreasonable.

As they add:

Minutes of the Company Reporting and Auditing Group, seen by The Times, show that the attending accountants, who included Neil Sherlock, KPMG’s public and regulatory affairs partner at the time, were well aware of serious question marks being raised about the quality of bank assets.

They discussed how banks made differing judgments about the quality of assets, which ranged from prudent to aggressive, and that the Financial Services Authority was “concerned” about the more aggressive judgments.

I share the view of Stella Fearnley, noted as follows:

Stella Fearnley, professor of accounting at Bournemouth University and a former member of the FRC audit inspection board, said the group's minutes were "very significant". She said the FRC decision this week was "complete tripe," adding, "I don't believe they [KPMG] could not have known there was something wrong. Companies do not go bust overnight."

I should add The Times note;

An FRC spokesman said: "We undertook a thorough investigation which included the opinions of external experts. Our conclusion is that the test for misconduct was not met."

Then the test was wrong is the only conclusion I can reach.

This one will not be going away.