

UK auditors are rubbish at their jobs

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I [posted this video](#) to YouTube this morning. In it I argue that UK auditors are rubbish at their jobs. Major audit failures - on Carillion, BHS, Patisserie Valerie and others - prove that, as do the £150 million or so of fines large audit firms have paid for substandard audit work in the last decade or so. So what can be done about this? Do audit firms need to be broken out of the consulting firms they're linked to, or should the government take on the job instead?

<https://www.youtube.com/watch?v=qP0ZmXJFR8s>

The transcript is as follows:

The UK's auditors are rubbish at their jobs. I really don't need to go very much further with that statement, it's obviously true. We've had so many major corporate failures in recent years.

Carillion, PLC, a major outsourcing construction company working on large government contracts.

British Home Stores - BHS - of course, that failed too.

Patisserie Valerie, a straightforward fraud that the auditors somehow or other failed to notice.

And if we go back into history, there have been so many more.

Over the last decade or so, UK auditors have paid about £150 million in fines for their failure to undertake their work properly. Relatively small beer in terms of the total fees they charge their clients, but some indication of just how bad the quality of their work is.

Regular reports from the Financial Reporting Council, who monitor their work, say that all the UK auditors fail to deliver audits that come up to any reasonable standard in at least a significant number of the cases that they have examined. None of them can be said to be functioning well.

What's going wrong? Why? And does this matter?

Well, let's deal with that last point first. Yes, this really does matter, because we live in an economy which is dominated by the private sector. And if the private sector is to operate fairly, appropriately, properly, accountably, then we need to know what the companies in which our pension funds, our savings and so much else is invested in, are doing with the money that is entrusted to their care.

And we need to know that they're paying the right amount of tax amongst other things.

If the auditors aren't doing their job properly, we can't have properly functioning financial markets.

We don't know we've got the right amount of tax paid.

We can't be sure that these companies are being well managed.

We might all be being conned, and in some cases, undoubtedly, we have been.

So, auditors have a fundamental role to play, effectively as the policemen of the financial system, but they're not doing that job. So, what can we do about it?

Well, either we can say auditors, you must only audit. In other words, these large audit firms, and you know the names of some of the biggest - KPMG, the one that I trained with, PricewaterhouseCoopers - PwC these days, EY - that was called Ernst and Young until recently, until initials became the choice of almost all these firms, excepting Deloitte, who are the last of the big four firms.

These firms could be split so that there's just an audit firm and a consulting and tax and advisory firm alongside it, but quite independent of the audit firm.

That's not how things work now. They can supply advisory services to their clients. They can have conflicts of interest arising as a result. They don't concentrate only on their primary role, which is saying whether the accounts of large companies are true and fair.

If they don't want to split - and that's their choice, they are private sector operators at the end of the day - and they decide this isn't a market they want to stay in, then the government could step in instead.

Now, this is my preferred option. I actually think it's desirable. We have a thing called the National Audit Office in the UK. It audits the government's own accounts, and it

used to audit the accounts of local authorities in the days when those were properly audited - they aren't anymore because, unfortunately, that was put out to private sector tender - but if only we created that authority as a fully functioning audit agency that could also audit the largest companies in the UK, all of which are called public interest entities - the ones that really impact the well-being of people in this country - then we could have a properly functioning audit facility in the UK that held these companies to account for what they do, required them to make proper disclosures to us in society, whether we are shareholders or not, and did report at the same time whether they thought the proper amount of tax was being paid by them.

Do I think that this could transform UK markets? Yes. Why? Because people would begin to believe in the credibility of financial markets again. I don't think they do right now. I hope they will. A proper audit function run by the state could restore that credibility and help financial markets be restored in public confidence.