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Accounting experts seek independent probe into KPMG's audit of HBOS

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KPMG is based at Canary Wharf

Accounting experts have called for an independent investigation into KPMG's audit of collapsed lender HBOS, arguing that preliminary inquiries by the UK accounting watchdog do not go far enough.

The Financial Reporting Council announced on Thursday that it had asked its executive council to make preliminary inquiries into KPMG's audit of HBOS under its disciplinary scheme for the

accounting profession.

"This announcement is a very limited and tentative gesture," said Dr Atul Shah, a senior lecturer at Suffolk Business School, University Campus Suffolk.

"It is very narrow in focus (thereby limiting the chance of finding fault), and only begins a whole chain of step-by-step investigations, which can take years to finish and of course would not be independent. We have no confidence in this latest announcement at all."

Last year the FRC said it had looked into KPMG's audit work performed on loan-loss provisions in HBOS's corporate division and had not found reasonable grounds to suspect misconduct.

Its new case will consider the appropriateness of management's use of the "going concern" assumption in the preparation of the financial statements for the year ended December 31 2007.

Dr Shah argues that by highlighting only one year, the focus of the FRC's preliminary inquiries is too narrow because the eventual £20.5bn collapse of HBOS was the result of an aggressive sales culture and growth trajectory with weak risk controls that built up over many years.

Paul Moore, the former head of regulatory risk at HBOS between 2002 and 2005, warned about this and alleged he was fired for blowing the whistle on excessive risk-taking at the bank.

Mr Moore and Dr Shah are part of a group of accounting specialists who in December wrote to Andrew Tyrie MP, chairman of the Treasury select committee, setting out a series of recommendations in relation to KPMG's audit of HBOS. They point out that Paul George, the FRC's executive director for conduct, formerly spent 14 years at KPMG where he was a partner.

The group suggests that the Treasury select committee ought to require the FRC to engage impartial auditors as independent overseers; and that KPMG's entire audit file for HBOS and its working papers should be opened to this independent oversight.

As well as Mr Moore and Dr Shah, the group also includes Professor Prem Sikka, a leading academic in the fields of audit and accounting; Tony Shearer, an ex-audit partner at Deloitte; Ian Fraser, a financial journalist; and Brian Little, a campaigner for whistleblowers.

The FRC said its investigation would be conducted "with the necessary robustness and rigour required. The conduct committee is independent of the FRC Board for the purposes of disciplinary actions."

KPMG is currently being investigated by the FRC for its audit of the Co-operative Bank, after the Treasury committee criticised KPMG for failing to uncover a £1.5bn black hole in the Co-op's finances, revealed after the mutual organisation tried to buy up Lloyds bank branches in 2013.

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