

May 2014

KPMG LLP and KPMG Audit Plc

Audit Quality Inspection

Findings in relation to audit evidence and judgments

Our reviews focused on the audit evidence and related judgments for material areas of the financial statements and areas of significant risk. We draw attention below to findings which the firm should ensure are addressed appropriately in future audits.

The significance of these findings in the context of an individual audit reviewed, and therefore the implications for our grading of that audit, will vary. However, whatever the implications for the specific audits reviewed, we nevertheless include the relevant findings in this report if we consider them important in the broader context of improving audit quality at the firm.

Audit of loan loss provisions

We reviewed the audit of loan loss provisions for five financial services entities.

In all five audits we identified issues relating to the extent of audit evidence to support the level of specific provisions and, in four cases, collective provisions. In particular, we continue to find cases where further audit evidence should have been obtained or there was a lack of appropriate challenge of management by the audit team.

On two of the audits, insufficient audit evidence was obtained that all forbearance arrangements in place had been identified for disclosure and provisioning purposes.

General IT controls

We reviewed the testing of the operational effectiveness of IT controls on 12 audits and found weaknesses on six of them.

In two cases, the audit procedures performed relied upon system generated reports which had not been adequately tested for completeness or accuracy. In two further audits, insufficient procedures were performed on IT systems hosted by outsourced service providers. In the remaining two audits, it was unclear how the audit team had responded to deficiencies identified by their testing.

Inventories

The audit of inventory was reviewed on six audits and we identified weaknesses in three of them.

On two of those audits, there was insufficient evidence to support the rationale for the locations selected for stocktake attendance; and insufficient procedures performed regarding changes in inventory in the period between the dates of stocktakes attended and the year end. On the third audit, there was insufficient challenge of the stock provisioning method.

Audit of goodwill and other intangible assets

We reviewed the firm's audit of goodwill and other intangible assets on nine audits and found weaknesses in six of those audits.

We concluded that two audits required significant improvements in this area. In both cases, there were errors in the disclosures made in the financial statements which had not been identified by the audit team. In these cases and one further audit, there was a lack of challenge by the audit team of key assumptions used. In two further audits, there was insufficient evaluation of the value in use calculation for certain assets. In another audit, we found insufficient evidence of the audit team's assessment of a valuation model.



KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL
United Kingdom

Tel +44 (0) 20 7311 1000
Fax +44 (0) 20 7311 3311
DX 157460 Canary Wharf 5

Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2 4HN

Our ref: ib/ds/465

16 May 2014

Dear Sirs

Audit Quality Inspection report 2013/4

We are pleased to respond to this 2013/14 Audit Quality Inspection report.

We are committed to achieving high levels of audit quality and the highest ethical standards, and to continuous improvement in both areas. We take very seriously observations and recommendations made by the FRC and have developed a detailed action plan that responds to these matters together with those identified through other internal and external review processes.

Reflecting our desire for continuous improvement, many of these actions are well progressed having been developed as issues emerged through the inspection process.

We recognise the fundamental importance of quality and ethics in our joint objective of restoring trust in audit and acknowledge the contribution of audit inspection in this process.

We would like to record our thanks to the review team for the way in which they conduct their reviews.

Further information about our approach to delivering quality audits is set out in our Transparency Report available on our website.

Yours faithfully

Tony Cates
Head of Audit

Overview of AIU findings

professionals' experiences undertaken in their previous and future. The AIU will also give particular consideration to the applicability of professional requirements in its 2011-12 enquiries.

3.3.3. Assessment marking standards

Several Auditing Standards Board (ASB) 'Guidance for Candidates' (GAC) factors effective in the UK for December 2010 have been noted. An assessment of the state of preparedness in the UK for the winter 2010/11 exam was undertaken. This was undertaken as part of the AIU's ongoing work to ensure that candidates are prepared for the exam. The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

3.3.4. Skills and knowledge assessment (Bank 1)

The AIU's scope of enquiries for 2010/11 was extended to include all topics encompassed in the UK and an emphasis placed on the quality of the candidates' answers to the questions. The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

Of particular concern was the lack of specific questions where respondents were required to apply the ASB's requirements to specific situations. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

3.3.5. Group audit arrangements

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.

The AIU's findings are set out in the table below. The AIU will continue to monitor the UK's preparedness for the exam and will continue to work with the ASB to ensure that the UK's standards are in line with the ASB's requirements.