FRC to review standard of bank audits

by Richard Crump       13 Dec 2013

ATTEMPTS to improve the quality of auditing of banks and building societies since the onset of the financial crisis have been insufficient, the UK's accounting watchdog said as it announced it will be scrutinising the profession over the coming year.

In its draft plan and budget for 2014/15, the FRC said it will conduct a formal review of bank audits in the second quarter of next 2014 as soon as this year's annual reports have been completed to find out why progress in improving their quality has been so slow.

"Concerns about the quality of auditing of banks and building societies persist," said Baroness Hogg, chairman of the Financial Reporting Council. "The issues and concerns that have been raised mean that a specific review of audit in this sector is warranted."

Auditors have been heavily criticised for failing to spot the bad practices that contributed to the onset of the financial crisis in 2008, while the FRC's ongoing audit inspections have already identified various failings in how financial institutions are audited.

The FRC's review will focus on the testing of loan loss provisions and general IT controls and look carefully at issues including the specific actions taken by the major firms to address issues previously identified and whether they have been effective.

"The review will aim to assess the extent to which the firms' actions to address the FRC's concerns are having an impact and if not, identifying what further action is required," Hogg said.

PwC, which recently replaced KPMG as auditors of HSBC, defended the quality of its audit work and claimed that it is already subject to "robust inspections" by the FRC.

"We remain committed to continuing to achieve the highest levels of quality and continue to support measures that seek to improve audit quality and build confidence in the profession and market," PwC said in a statement.

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