

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

(1) KPMG LLP

(2) NICOLA QUAYLE

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EXECUTIVE COUNSEL'S FINAL DECISION NOTICE

Pursuant to Rule 18 of the Audit Enforcement Procedure

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*This Final Decision Notice is a document prepared by Executive Counsel following an investigation relating to, and admissions made by, the Respondents. It does not make findings against any persons other than the Respondents and it would not be fair to treat any part of this document as constituting or evidencing findings against any other persons or entities since they are not parties to the proceedings.*

**1. INTRODUCTION**

- 1.1. The Financial Reporting Council (the “**FRC**”) is the competent authority for *Statutory Audit* in the UK and operates the Audit Enforcement Procedure (the “**AEP**”), effective 17 June 2016. The AEP sets out the rules and procedure for the investigation, prosecution and sanctioning of breaches of *Relevant Requirements*.
- 1.2. The AEP contains a number of defined terms and, for convenience, those defined terms are also used within this document. Where defined terms are used, they appear in italics.
- 1.3. This *Final Decision Notice* also uses the following additional definitions:
  - 1.3.1. “**FY2016**” means the financial year ended [REDACTED] 2016;
  - 1.3.2. “**FY2016 financial statements**” means [REDACTED] (“**the Company**”) consolidated financial statements for that period; and

- 1.3.3. **“FY2016 Audit”** means the *Statutory Audit* of the FY2016 financial statements.
- 1.4. Pursuant to Rule 16(b) of the AEP, Executive Counsel has decided that the Respondents are liable for Enforcement Action, having made Adverse Findings against each of them. This *Final Decision Notice* is issued pursuant to Rule 18 of the AEP in respect of the conduct of:
  - 1.4.1. KPMG LLP (**“KPMG”**) in relation to the FY2016 Audit. KPMG was the *Statutory Audit Firm* for the FY2016 Audit.
  - 1.4.2. Ms Nicola Quayle, a partner of KPMG, in relation to the FY2016 Audit. For FY2016, Ms Quayle as the *Statutory Auditor* of the Company and signed the FY2016 Audit report on behalf of KPMG.
- 1.5. In this *Final Decision Notice*, KPMG and Ms Quayle are referred to as the **“Respondents”**.
- 1.6. On 20 December 2019, Executive Counsel issued a *Decision Notice* pursuant to Rule 17 of the AEP. The Respondents have provided written agreement to the *Decision Notice*. Consequently, and in accordance with Rules 17 and 18 of the AEP, this *Final Decision Notice*:
  - 1.6.1. outlines the *Adverse Findings* with reasons;
  - 1.6.2. outlines the *Sanctions* with reasons; and
  - 1.6.3. outlines the amount payable in respect of Executive Counsel’s costs of the matter.
- 1.7. This *Final Decision Notice* is divided into the following sections:
  - 1.7.1. Section 2: Executive Summary of the *Adverse Findings*;
  - 1.7.2. Section 3: Background;
  - 1.7.3. Section 4: *Relevant Requirements* to which the *Adverse Findings* relate;
  - 1.7.4. Section 5: Detail of the *Adverse Findings*;
  - 1.7.5. Section 6 and 7: Proposed *Sanctions*; and
  - 1.7.6. Section 8: Costs.

## **2. EXECUTIVE SUMMARY OF THE ADVERSE FINDINGS**

- 2.1. In December 2014, the FRC published a statement indicating that it expected to see *“high quality disclosure”* in relation to *“complex supplier income arrangements”* (defined

in the statement as “fees, contributions, discounts, multiple offers and volume rebates”) in companies’ financial statements and that it planned to include these as an area of focus when it reviewed audits and accounts in 2015.<sup>1</sup> Furthermore, in the “Plan & Budget and Levies 2015/2016” (published in March 2015), the FRC confirmed that: “We will pay particular attention in our reviews to ... the reporting of complex supplier income arrangements”.

- 2.2. The *Adverse Findings* in this *Final Decision Notice* relate to the FY2016 Audit of “complex supplier arrangements”. In particular, the *Adverse Findings* concern the FY2016 Audit of the reporting of two distinct categories of supplier rebates that were recognised by the Company, namely “Promotional Income” and “Overrider Income” (as further explained below).
- 2.3. Section 5 of this *Final Decision Notice* sets out the detailed *Adverse Findings*. Whilst this *Final Decision Notice* explains the failings in the Respondents’ *Statutory Audit* work it does not question the truth or fairness of the FY2016 financial statements.
- 2.4. This *Final Decision Notice* proposes the following *Sanctions* in respect of the Respondents:

KPMG

- 2.4.1. a financial penalty of £700,000 including an upward adjustment for aggravating factors, and discounted for admissions and early disposal by 35% so that the financial penalty payable is £455,000;
- 2.4.2. a published statement in the form of a reprimand against KPMG in respect of the breaches of *Relevant Requirements*, as set out in this *Final Decision Notice*;
- 2.4.3. a declaration that the FY2016 Audit report signed on behalf of KPMG did not satisfy certain *Relevant Requirements*, as set out in this *Final Decision Notice*; and
- 2.4.4. a requirement that, within a period of two years from the date hereof KPMG shall undertake a quality performance review (“QPR”) of three *Statutory Audits* for which Ms Quayle is the *Statutory Auditor*, such QPRs to be conducted by a *Statutory Auditor* from KPMG’s London office. KPMG shall report the results annually to the FRC.

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<sup>1</sup> <https://www.frc.org.uk/news/december-2014/frc-urges-clarity-in-the-reporting-of-complex-supp>

## Ms Quayle

- 2.4.5. a financial penalty of £45,000 discounted for admissions and early disposal by 35% so that the financial penalty payable is £29,250;
- 2.4.6. a published statement in the form of a reprimand against Ms Quayle in respect of the breaches of *Relevant Requirements* as set out in the *Final Decision Notice*; and
- 2.4.7. a requirement for Ms Quayle to undertake appropriate training, in respect of the ISAs set out in paragraph 4.1 of this *Final Decision Notice*, in a format to be agreed with the FRC.

### **3. BACKGROUND**

#### The Respondents

- 3.1. In 2018, KPMG was one of the largest audit firms in the UK. In the year to 30 September 2018 its audit fee income was £572m.
- 3.2. Ms Quayle is a partner of KPMG with twenty-three years' auditing experience. She was a non-executive board member of KPMG UK and Chair of KPMG's Audit and Risk Committee from 1 October 2014 to 30 September 2017, Head of KPMG's Audit Practice in the North from 1 June 2016 to 30 September 2017 and was appointed as Office Senior Partner in Manchester on 1 October 2017.
- 3.3. Ms Quayle signed the FY2016 Audit report, on behalf of KPMG, in respect of the FY2016 financial statements. [REDACTED]  
[REDACTED]
- 3.4. The Respondents' statutory responsibility was to form an opinion as to whether the FY2016 financial statements showed a true and fair view and had been properly prepared in accordance with IFRS and the Companies Act 2006.
- 3.5. An audit involves obtaining sufficient appropriate "audit evidence" about the amounts and disclosures in the financial statements in order to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Audit evidence is defined in ISA 500 as "*information used by the auditor in arriving at the conclusions on which the auditor's opinion is based*". Audit evidence is primarily obtained from audit procedures performed during the course of the audit.

## The Company

- 3.6. [REDACTED]  
[REDACTED]  
[REDACTED]
- 3.7. [REDACTED].

## The FY2016 Audit in relation to Promotional Income and Overrider Income

- 3.8. The Company recognised two distinct categories of supplier rebates, namely:
- 3.8.1. Promotional Income; and
  - 3.8.2. Overrider Income.
- 3.9. Promotional Income consists of supplier-funded rebates connected to specific short-term promotional activity. It is calculated as an agreed discount from the units sold by the Company. The reporting of Promotional Income requires little or no judgment or estimation.
- 3.10. Overrider Income consists of supplier-funded rebates calculated by reference to trading performance. It is payable in accordance with contractual arrangements agreed annually with suppliers. The amount of Overrider Income depends on factors such as the volume of purchases (e.g. sales growth) and relates to longer periods than Promotional Income (e.g. over a year). The reporting of Overrider Income (unlike Promotional Income) therefore requires judgement and estimation to reflect uncertainty as to future trading activity. It also involves a high level of manual intervention which is susceptible to fraud or error. Overrider Income is thus an area of higher audit risk than Promotional Income.
- 3.11. Overrider Income was identified as an area of audit focus for FY2016. The controls relating to reconciliations of Overrider Income were also recorded on the FY2016 Audit file as “*high risk*” of failure of the controls (although this was erroneous as the auditors did not rely on these controls; these errors were not identified at the time by the auditors or the engagement partner).
- 3.12. Furthermore, the FY2016 Audit file did not document any audit risk assessment in relation to the reporting of Promotional Income, nor did it explain why the audit risk in relation to reporting of Promotional Income differed from (and was lower than) Overrider Income. The FY2016 Audit file referred generically to “Supplier Income” when it was

concerned with Overrider Income. The distinct treatment of the different risks relating to Promotional Income was not adequately articulated.

3.13. As regards the audit work carried out for the FY2016 Audit:

3.13.1. The auditors considered supplier statement reconciliation workbooks which had been produced by the Company. However, while the Respondents state that certain audit work was carried out to verify the provenance of the information in these workbooks by reference to the actual statements received by the Company from suppliers, no such work is documented in the FY2016 Audit file. The FY2016 Audit file does not contain copies of the supplier statement reconciliation workbooks (or indeed of the supplier statements from which the relevant data was extracted).

3.13.2. As a result, the FY2016 Audit file does not contain sufficient appropriate audit evidence verifying the provenance of the information contained in the supplier statement reconciliation workbooks. The FY2016 Audit file does not record that the auditors addressed whether the information in the workbooks purportedly extracted from supplier statements matched the actual supplier statements.

3.13.3. In relation to a large supplier in FY2016, the Promotional Income balance in the supplier statement reconciliation workbook contained a very substantial "remit" line item. This single item (out of 71 items) constituted almost 50% of the total receivable for Promotional Income from the supplier. This item was approximately 8 times larger than the next largest item, and approximately 35 times larger than the average item. The auditors did not conduct any substantive inquiry into this unusually large item.

3.13.4. The Company used a manually accounted trial balance code ("**63010 Promo Adjustments**") in preparing the accounts that underlay the FY2016 financial statements. As at [REDACTED] 2016, the total for the year recorded on this account was 117% of the materiality level set by the auditors for the 2016 Audit. However, the only procedure carried out by the auditors in relation to this trial balance was a substantive analytical review in relation to the aggregate of all gross margin adjustments across 56 accounts (including 63010 Promo Adjustments) to confirm whether the figure in FY2016 was similar to the corresponding figure in the previous year as a proportion of sales. As set out below at paragraph 5.1.2, this procedure was insufficient.

- 3.14. While referred to by the Company (and in the 2016 Audit file) as “income”, supplier rebates are in fact a reduction in the cost of goods sold. Promotional Income was typically recorded by the Company on the trade creditors ledger and set off against the amount due from the Company to the supplier. Overrider Income was recorded by the Company on the trade debtors ledger.
- 3.15. Although Promotional Income and Overrider Income were correctly accounted for by the Company within cost of sales, there are incorrect references on the FY2016 Audit file to Promotional Income and Overrider Income, in the revenue audit section of the audit file (rather than cost of sales).

#### **4. RELEVANT REQUIREMENTS TO WHICH THE ADVERSE FINDINGS RELATE**

- 4.1. Rule 1 of the AEP states that *Relevant Requirements* has the meaning set out in regulation 5(11) of the Statutory Auditors and Third Country Auditors Regulations 2016 (“**SATCAR**”). The *Relevant Requirements* include, but are not limited to, the International Standards on Auditing (UK and Ireland) (“**ISAs**”) issued by the International Auditing and Assurance Standards Board. The ISAs relevant to this *Final Decision Notice* are those effective for audits of financial statements for periods ending on or after 15 December 2010. The *Relevant Requirements* referred to in this *Final Decision Notice* are:
- 4.1.1. ISA 200 (Overall Objectives of the Independent Auditor and the Conduct of an Audit);
  - 4.1.2. ISA 220 (Quality Control for an Audit of Financial Statements);
  - 4.1.3. ISA 230 (Audit Documentation);
  - 4.1.4. ISA 240 (The Auditor’s Responsibilities Relation to Fraud in an Audit of Financial Statements); and
  - 4.1.5. ISA 500 (Audit Evidence).
- 4.2. Extracts from the ISAs setting out those parts which are of particular relevance to the *Adverse Findings* are set out in Appendix 1 hereto.

## **5. ADVERSE FINDINGS**

### **Adverse Finding 1 – Audit planning and execution**

- 5.1. In breach of paragraph 15 of ISA 200 the Respondents failed to exercise sufficient professional scepticism in that they:
- 5.1.1. Failed to explain on the FY2016 Audit file why the audit risk in relation to Promotional Income differed from that relating to Overrider Income; and
  - 5.1.2. Failed to perform sufficient audit procedures in relation to a manually accounted trial balance code, 63010 Promo Adjustments, which was included within cost of sales in the 2016 financial statements. The substantive analytical review, which was the only procedure carried out for this account, did not provide sufficient audit evidence and was not capable of doing so as designed.
- 5.2. In breach of paragraph 15 of ISA 200 (and paragraph 12 of ISA 240), the Respondents failed to exercise sufficient professional scepticism in that they:
- 5.2.1. Failed to conduct any substantive inquiry into the provenance of a very substantial Promotional Income balance on the reconciliation workbook of a large supplier, which balance was by far the largest single item and approximately 35 times larger than the average item.

### **Adverse Finding 2 – Audit work conducted on Promotional Income balances**

- 5.3. In breach of paragraph 6 of ISA 500 and paragraph 8(a) of ISA 230 the Respondents failed to obtain, and document on the audit file, sufficient appropriate audit evidence:
- 5.3.1. The Respondents failed to obtain sufficient appropriate audit evidence in relation to verifying the provenance of the information contained in the supplier statement reconciliation workbooks;
  - 5.3.2. Whilst the Respondents state that certain audit work was carried out in relation to verifying the provenance of such information, the work was not documented in the FY2016 Audit file; and
  - 5.3.3. Particularly, the Respondents did not retain on the FY2016 Audit file copies of supplier statement reconciliation workbooks to support the summaries of supplier statement reconciliations documented on the FY2016 Audit file.



### **Adverse Finding 3 – Audit work conducted on the reconciliation of Override Income**

- 5.4. In breach of paragraphs 8 and 15(a) of ISA 220, the audit engagement partner, Ms Quayle, failed to deal with certain matters that fell within the scope of her responsibility for the direction, supervision and performance of the audit engagement in compliance with *Relevant Requirements*, in that:
- 5.4.1. The FY2016 Audit file recorded the controls relating to reconciliations of Override Income as “*high risk*” of the failure of the controls. This was erroneous as the auditors did not rely on these controls. However, a thorough review of the relevant part of the file should have detected the inconsistency between the FY2016 Audit file and the actual work undertaken; and
- 5.4.2. Despite both the Company and the Respondents using the terminology of revenue or income to describe Override Income and Promotional Income, these credits were actually accounted for within cost of sales and not revenue. The references in the FY2016 Audit file to their inclusion within revenue were incorrect and misleading to a reader of the FY2016 Audit file.

## **6. PROPOSED SANCTIONS – KPMG**

- 6.1. Paragraph 10 of the FRC’s Sanctions Policy (Audit Enforcement Procedure) (the “**Policy**”) provides that *Sanctions* are intended to be effective, proportionate and dissuasive. The reasons for imposing *Sanctions* are identified in paragraph 11 of the Policy as the following:
- 6.1.1. to declare and uphold proper standards of conduct amongst *Statutory Auditors* and *Statutory Audit Firms* and to maintain and enhance the quality and reliability of future audits;
- 6.1.2. to maintain and promote public and market confidence in *Statutory Auditors* and *Statutory Audit Firms* and the quality of their audits and in the regulation or the accountancy profession;
- 6.1.3. to protect the public from *Statutory Auditors* and *Statutory Audit Firms* whose conduct has fallen short of the *Relevant Requirements*; and
- 6.1.4. to deter *Statutory Auditors* and *Statutory Audit Firms* from breaching the *Relevant Requirements* relating to *Statutory Audit*

- 6.2. Paragraph 12 of the Policy provides that the primary purpose of imposing *Sanctions* for breaches of the *Relevant Requirements* is not to punish, but to protect the public and the wider public interest.
- 6.3. Executive Counsel proposes the following *Sanctions* against KPMG:
- 6.3.1. a financial penalty of £700,000, including an upward adjustment for aggravating factors, and discounted for admissions and early disposal by 35% so that the financial penalty payable is £455,000;
  - 6.3.2. a published statement in the form of a reprimand against KPMG in respect of the breaches of *Relevant Requirements*, as set out in this *Final Decision Notice*;
  - 6.3.3. a declaration that the FY2016 Audit report signed on behalf of KPMG did not satisfy certain *Relevant Requirements*, as set out in this *Final Decision Notice*; and
  - 6.3.4. a requirement that, within the period of two years from the date hereof KPMG shall undertake a quality performance review (“**QPR**”) of three *Statutory Audits* for which Ms Quayle is the *Statutory Auditor*, such QPRs to be conducted by a *Statutory Auditor* from KPMG’s London office. KPMG shall report the results annually to the FRC.
- 6.4. In reaching this decision, Executive Counsel has, in summary, considered the following matters in accordance with the Policy.

#### Seriousness of the breaches of *Relevant Requirements*

- 6.5. The principal objective of a *Statutory Audit* is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. As a result of the breaches of *Relevant Requirements*, the FY2016 Audit failed to achieve that objective in relation to specific matters specified in this *Final Decision Notice*. However, as set out in paragraph 2.3 above, this *Final Decision Notice* does not question the truth or fairness of the FY2016 financial statements.
- 6.6. The FRC had indicated prior to the FY2016 Audit that “*complex supplier arrangements*” would be the subject of particular focus in the review of audits by the FRC. Accordingly, the Respondents were on notice to ensure that their work and disclosures in relation to such arrangements should be of high quality.
- 6.7. The breaches of *Relevant Requirements* indicate that the internal review and quality procedures in this area, applied at KPMG, were ineffective.

- 6.8. While it is not alleged that the FY2016 financial statements were in fact misstated, or that any person has suffered actual loss, the breaches of *Relevant Requirements* could undermine confidence in the standards of conduct in general of *Statutory Auditors* and *Statutory Audit Firms*, and/or in *Statutory Audit*.
- 6.9. KPMG is a large audit firm, with 603 partners across all functions. Its UK revenue in the year to 30 September 2018 was £2.34bn and its audit fee income was £572m.
- 6.10. The breaches of *Relevant Requirements* relate to a discrete area of the FY2016 Audit and only one audit year. The sums involved were, however, material.
- 6.11. The breaches of *Relevant Requirements* were not intentional, dishonest, deliberate or reckless.
- 6.12. KPMG did not stand to gain any profit or benefit from the breach of the *Relevant Requirements* (save to the extent that it received the fee chargeable for the FY2016 Audit).

#### Identification of *Sanction*

- 6.13. Having assessed the nature, seriousness, gravity and duration of the breaches of *Relevant Requirements*, Executive Counsel has identified the combination of *Sanctions* as set out in paragraph 6.3 above.
- 6.14. Executive Counsel has then taken into account any aggravating and mitigating factors that exist (to the extent that they have not already been taken into account in relation to the nature, seriousness, gravity and duration of the breaches).

#### Aggravating factors

- 6.15. KPMG has a poor recent disciplinary record, including, since May 2018:
- 6.15.1. a fine of £5 million (reduced to £3.5 million for settlement) and a severe reprimand for Misconduct in relation to the FY2011 CASS audits of The Bank of New York Mellon London Branch and The Bank of New York Mellon (International) Limited;
  - 6.15.2. a fine of £5 million (reduced to £4 million for settlement) and a severe reprimand for Misconduct in relation to the FY2009 audit of The Co-operative Bank plc;
  - 6.15.3. a fine of £6 million and a severe reprimand for Misconduct in relation to the FY2008 and FY2009 audits of Lloyd's Syndicate 218 (Equity Red Star);
  - 6.15.4. A fine of £3 million (reduced to £2.1 million for settlement) and a severe

reprimand for Misconduct in relation to auditor independence in relation to the FY 2013 and FY 2014 audits of Ted Baker plc; and

6.15.5. A fine of £4.5 million (reduced to £3.15 million for settlement) and a reprimand for Misconduct in relation to the FY 2013 audit of Quindell plc.

6.16. Ms Quayle held the senior management responsibilities within KPMG (including within the audit practice), referred to in paragraph 3.2 above.

6.17. There are no other aggravating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

6.18. Executive Counsel has considered these aggravating factors and they are reflected in the financial penalty set out at paragraph 6.3.1.

#### Mitigating factors

6.19. The firm has provided the level of co-operation required by the AEP, but not such as merits a further discount to the financial penalty.

6.20. There are no other mitigating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

#### Deterrence

6.21. Having considered the matters set out at paragraphs 72 and 73 of the Policy, Executive Counsel considers that no adjustment for deterrence is required in this case.

#### Discount for Admissions and Settlement

6.22. Having taken into account the admissions by KPMG and the stage at which those admissions were made (at an early point within Stage 1 of the case in accordance with paragraph 84 of the Policy), Executive Counsel determined that a reduction of 35% as to the financial penalty is appropriate.

#### Other considerations

6.23. In accordance with paragraph 47(c) of the Policy, Executive Counsel has taken into account the size / financial resources and financial strength of KPMG and the effect of a financial penalty on its business and whether any financial penalty would be covered by insurance.

## 7. PROPOSED SANCTIONS – MS QUAYLE

7.1. Executive Counsel proposes the following *Sanctions* against Ms Quayle:

- 7.1.1. a financial penalty of £45,000 discounted for admissions and early disposal by 35% so that the financial penalty payable is £29,250;
- 7.1.2. a published statement in the form of a reprimand against Ms Quayle in respect of the breaches of *Relevant Requirements* as set out in the *Final Decision Notice*; and
- 7.1.3. a requirement for Ms Quayle to undertake appropriate training, in respect of the ISAs set out in paragraph 4.1 of this *Final Decision Notice*, in a format to be agreed with the FRC.

7.2. In reaching this decision, Executive Counsel has, in summary, considered the following stages and taken account of the following factors in accordance with the Policy.

### Seriousness of the breaches of *Relevant Requirements*

- 7.3. The principal objective of a *Statutory Audit* is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. As a result of the breaches of *Relevant Requirements*, the FY2016 Audit failed to achieve that objective in relation to specific matters specified in this *Final Decision Notice*. However as set out in paragraph 2.3 above, this *Final Decision Notice* does not question the truth or fairness of the FY2016 financial statements.
- 7.4. The FRC had indicated prior to the FY2016 Audit that complex supplier arrangements would be the subject of particular focus on the part of the FRC.
- 7.5. Ms Quayle held the senior management responsibilities within KPMG (including within the audit practice), referred to in paragraph 3.2 above.
- 7.6. The breaches of *Relevant Requirements* relate to a discrete area of the FY2016 Audit and only one audit year. The sums involved were, however, material.
- 7.7. While it is not alleged that the FY2016 financial statements were misstated, or that any person has suffered actual loss, the breaches of *Relevant Requirements* could undermine confidence in the standards of conduct in general of *Statutory Auditors* and *Statutory Audit Firms*, and/or in *Statutory Audit*.
- 7.8. The breaches of *Relevant Requirements* were not intentional, dishonest, deliberate or reckless.

### Identification of *Sanction*

- 7.9. Having assessed the seriousness of the breaches of *Relevant Requirements*, Executive Counsel has identified the combination of *Sanctions* as set out in paragraph 7.1 above.
- 7.10. Executive Counsel has then taken into account any aggravating and mitigating factors that exist (to the extent that they have not already been taken into account in relation to the seriousness of the breaches).

### Aggravating factors

- 7.11. Ms Quayle has a poor regulatory record. She was the *Statutory Auditor* for four *Statutory Audits* which have been the subject of adverse audit quality reviews by the FRC between 2012 and 2016; two received grade 2B ('acceptable overall with improvements required'), and two (one of which was the FY2016 Audit) received grade 3 ('significant improvements required').
- 7.12. There are no other aggravating factors that have not already been considered in the context of the seriousness of the breaches of *Relevant Requirements*.

### Mitigating factors

- 7.13. Ms Quayle did not stand to gain any profit or benefit from the breaches of the *Relevant Requirements* (save to the extent that she had an interest in KPMG being paid engagement fees for the FY2016 Audit).
- 7.14. Executive Counsel considers that the aggravating and mitigating factors are balanced such that no adjustment to the financial penalty is required.

### Deterrence

- 7.15. Having considered the matters set out at paragraphs 72 and 73 of the Policy, Executive Counsel considers that no adjustment for deterrence is required in this case.

### Discount for Admissions and Settlement

- 7.16. Having taken into account the admissions by Ms Quayle and the stage at which those admissions were made (at an early point within Stage 1 of the case in accordance with paragraph 84 of the Policy), Executive Counsel determined that a reduction of 35% as to the financial penalty is appropriate, such that a financial penalty of £29,250 is payable.

### Other considerations

- 7.17. In accordance with paragraph 47(d) of the Policy, Executive Counsel has taken into account the following matters:

- 7.17.1. the financial resources of Ms Quayle and whether she is insured as to any financial penalty; and
- 7.17.2. that Ms Quayle has already been fined £20,000 by KPMG in relation to her conduct regarding the FY2016 Audit, and she received fines from KPMG in 2013 and 2014, as a result of FRC Audit Quality Reviews of other *Statutory Audits*.
- 7.18. Executive Counsel's determination in this *Final Decision Notice* also reflects the fact that Ms Quayle has agreed with KPMG that she will not undertake PIE *Statutory Audits* for a period of two years from the date of this *Final Decision Notice*.

## **8. COSTS**

- 8.1. Executive Counsel proposes that the Respondents pay her costs in this matter, being £89,000. Such costs shall be paid no later than 28 days after the date of this *Final Decision Notice*.

**Signed:**



**Claudia Mortimore  
DEPUTY EXECUTIVE COUNSEL**

**Date: 23 December 2019**

## **APPENDIX 1 – EXTRACTS OF RELEVANT REQUIREMENTS**

### **International Standards on Auditing (UK and Ireland) (“ISA”)<sup>2</sup>**

#### **1. ISA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK and Ireland)**

1.1. Paragraph 15 states as follows:

*“The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.”*

#### **2. ISA 220: Quality Control for an Audit of Financial Statements**

2.1. Paragraph 8 states as follows:

*“The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.”*

2.2. Paragraph 15 states as follows:

*“The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (b) The auditor’s report being appropriate in the circumstances.”*

#### **3. ISA 230: Audit documentation**

3.1. Paragraph 5 states as follows:

*“The objective of the auditor is to prepare documentation that provides:*

- a) A sufficient and appropriate record of the basis for the auditor’s report; and*
- b) Evidence that the audit was planned and performed in accordance with ISAs (UK and Ireland) and applicable legal and regulatory requirements.”*

3.2. Paragraph 8 states as follows:

*“The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:*

*The nature, timing and extent of the audit procedures performed to comply with the ISAs (UK and Ireland) and applicable legal and regulatory requirements;*

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<sup>2</sup> Issued October 2009 and effective for audits of financial statements for periods ending on or after 15 December 2010. (The succeeding revision of the applicable ISAs was issued in June 2016, effective for audits of financial statements for periods ending on or after 17 June 2017.)



*The results of the audit procedures performed, and the audit evidence obtained; and*

*Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”*

**4. ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements**

4.1. Paragraph 12 states as follows:

*“In accordance with ISA (UK and Ireland) 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance.”*

**5. ISA 500: Audit evidence**

5.1. Paragraph 6 states as follows:

*“The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.”*