

PwC handed £1.8m fine over BT audit work

Big Four accounting firm PwC has been fined £1.75m by the accounting watchdog over its audit work for BT carried out in the wake of fraud in the telecoms giant's Italian operations in 2016.

The Financial Reporting Council (FRC) said it also fined audit partner Richard Hughes £42,000 over the BT work. Both PwC and Mr Hughes admitted breaches of the rules in relation to their audits of the financial impact disclosed by BT over the Italian fraud affair.

As well as the fines, PwC and Mr Hughes were issued with "severe" reprimands by the FRC. Penalties were reduced by 30% from £2.5m for PwC and £60,000 for Mr Hughes thanks to early admissions of rule breaches.

BT revealed a hit of around £513m from the Italian accounting fraud, as well as debt adjustments of £72m, in its accounts to the end of March 2017, which were examined by PwC.

The FRC said PwC and Mr Hughes did not approach the audit of BT's treatment of the debt adjustments with "the necessary professional scepticism" – and failed to "adequately" document the audit work across the entirety of the BT Italy adjustments.

But it stressed there was no finding that BT's 2017 financial statements were misstated, that the total sum of the BT Italy adjustments were wrong, "or that the breaches were intentional, dishonest or reckless".

Claudia Mortimore, deputy executive counsel at the FRC, said: "In determining the financial impact of a major fraud detected within a business, difficult but important issues relating to

appropriate accounting treatment and disclosures will need to be addressed.

“It is vital that these are subject to robust audit so that the users of financial statements can have confidence that the financial impact is properly and accurately stated in subsequent financial statements.

“The sanctions imposed in this case, where certain elements of the adjustments following a fraud were not subject to the required level of professional scepticism, underscore this message and will serve as a timely reminder to the profession.”

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