



Financial Reporting Council

21 December 2022

## Exam cheating review

Dear UK audit firm CEO, head of UK professional body,

Earlier this year, the FRC decided to conduct a review of the controls and assurances that are in place at the largest audit firms and professional bodies to identify and prevent exam cheating. The review was prompted by recent regulatory sanctions imposed on audit firms around the world regarding exam cheating. The FRC remains deeply concerned about these events and the potential impact on UK audits. Further information about the background to our review is set out in Appendix 1.

As part of the FRC's review, we wrote to each of the seven largest audit firms ("Tier 1 Audit Firms") and to certain of the Recognised Qualifying Bodies (the "RQBs") asking them to report to us on the control and assurance arrangements they have in place to identify and prevent exam cheating. Further details of the responses received are set out in Appendix 2 (Recognised Qualifying Bodies) and Appendix 3 (Tier 1 Audit Firms).

Through this review and other supervisory activity we have become aware of instances of cheating at Tier 1 Audit Firms. These include the matters relating to the PCAOB's recent sanctioning of KPMG LLP: <https://pcaobus.org/news-events/news-releases/news-release-detail/imposing-7-7-million-in-fines-pcaob-sanctions-three-firms-four-individuals-kpmg-global-network>

The issues raised by exam cheating therefore remain live and the FRC's consideration of them, and any further regulatory action needed in response to them, is ongoing.

The information that has been provided to us to date has not revealed systemic issues related to cheating at firms or RQBs. However, it has revealed issues that require improvement. Affected firms and RQBs have committed to review and/or update relevant policies and procedures. The FRC reserves the right to take further investigation and intervention.

In addition, the FRC's Professional Oversight Team will continue to monitor and report on the performance of the RQBs in its annual oversight report and the FRC's audit firm Supervisors will continue to monitor firms' actions in this area using a risk-based approach.

The importance of identifying and eradicating cheating and of holding those involved in it to

---

8th Floor, 125 London Wall, London EC2Y 5AS | T: +44 (0)20 7492 2300 | enquiries@frc.org.uk | www.frc.org.uk

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above. Please see our privacy page at <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc> if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

account is clear. The profession therefore needs to be vigilant and to seek to continually improve the processes and controls in place in this area. The profession must also strive to maintain a culture of integrity in which the highest standards of professional behaviour are upheld. The FRC will continue to act to hold firms to account for any shortcomings that might be identified.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Sarah Rapson'.

**Sarah Rapson**  
**Executive Director of Supervision**  
Email: [s.rapson@frc.org.uk](mailto:s.rapson@frc.org.uk)

## Appendix 1 - Background

The FRC's review was launched after a number of firms were sanctioned by regulators in relation to cheating in exams, including:

- EY LLP (US firm) <https://www.sec.gov/news/press-release/2022-114> (June 2022)
- PwC LLP (Canadian firm) [https://cpab-ccrc.ca/docs/default-source/enforcement/2022-enforcement-pwc-en.pdf?sfvrsn=a19512fa\\_6](https://cpab-ccrc.ca/docs/default-source/enforcement/2022-enforcement-pwc-en.pdf?sfvrsn=a19512fa_6) (February 2022)
- KPMG LLP (Australian firm) [https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2021-008-kpmg-australia.pdf?sfvrsn=81a97edf\\_6](https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2021-008-kpmg-australia.pdf?sfvrsn=81a97edf_6) (September 2021)

On 5 July 2022, we wrote to all Tier 1 Audit Firms and RQBs asking them to formally set out the preventative and detective controls they have in place to ensure that such incidents should not happen in the UK<sup>1</sup>. We also asked how each organisation obtains assurance as to the controls' effectiveness. We have been pleased with the level of engagement on this important topic from all the organisations involved.

In their responses, Tier 1 Audit Firms and the RQBs made clear that they take these matters seriously and gave assurances as to the robustness of the measures they have in place to reduce the risk of exam cheating in the UK.

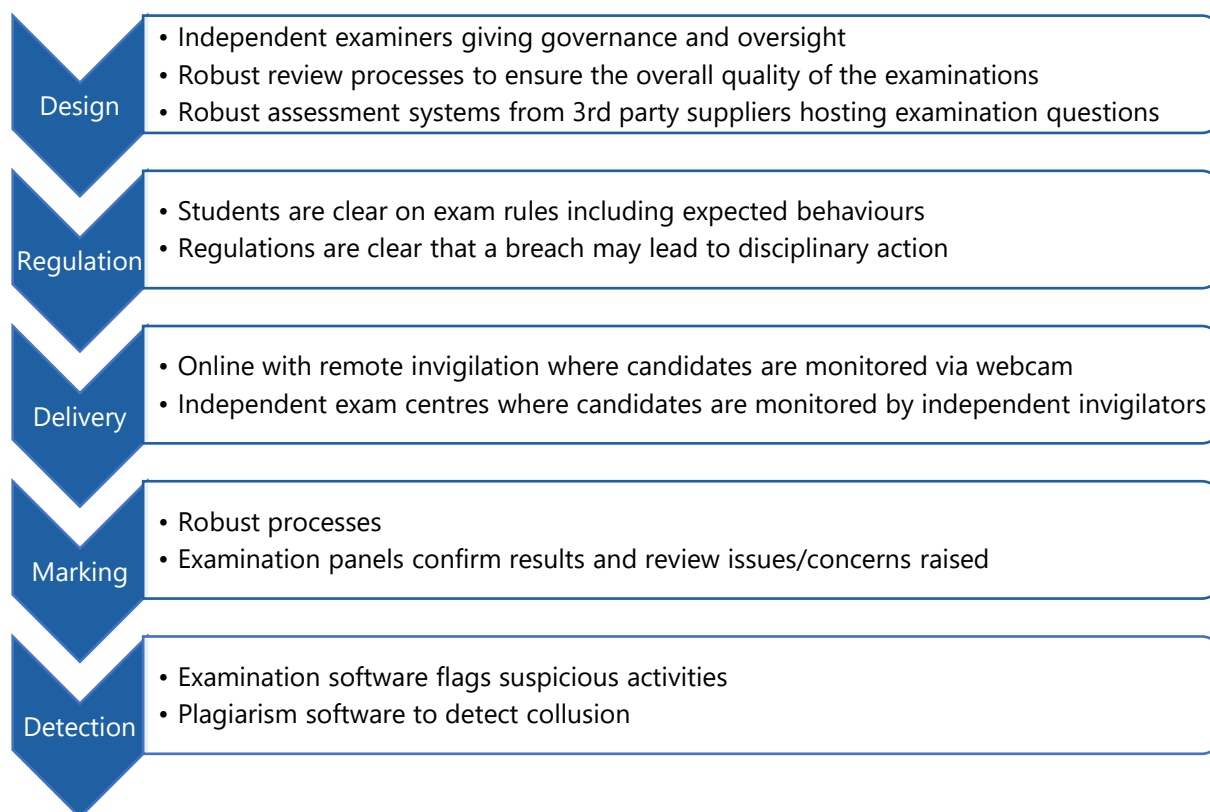
## Appendix 2 - Recognised Qualifying Bodies

We asked the RQBs to provide details of the controls they have in place to ensure the integrity of examinations and testing of students and members and to set out the preventative and detective controls they have in place to ensure that incidents of the kind referenced above do not happen in the UK. We also asked how they obtain assurance as to the controls' effectiveness.

---

<sup>1</sup> <https://www.frc.org.uk/news/july-2022/frc-seeks-assurance-from-audit-firms-and-professio>

The responses demonstrated a variety of controls across all steps of holding and marking examinations:



At two RQBs it was noted that there was the potential for organisations employing students studying for the audit qualification to become involved in the delivery of professional examinations. In both instances there was no current risk to the audit qualifications. In one instance there was a possibility for employers to register as an examination centre, but our review found that no employers had done this. In the other an option was available to students to sit exams at their employers but no students had chosen to sit exams this way. Both RQBs have agreed to change their processes to remove any potential risk.

We have noted that, where cheating instances have been identified, a number of those related to the End Point Assessment for the level 7 apprenticeship that many students are completing alongside their professional qualification. The assessment methodology includes a project report. The FRC has ongoing work to consider assessment methodologies which will include integrity of assessments both in terms of preventing and detecting cheating. Where the RQBs are End Point Assessment Organisations we will be reviewing controls around the apprenticeship End Point Assessment. A round table was held with the academic community on 31 October 2022 to discuss these assessment methodologies. Learnings from that event will be discussed with the RQBs.

## Appendix 3 - Tier 1 Audit Firms

We asked Tier 1 Audit Firms to provide details of the controls they have in place to ensure the integrity of internal assessments taken by individuals throughout their careers in the audit practice and wider firm, and the measures in place for assuring their effectiveness.

We are communicating privately with firms where we have identified opportunities for improving their controls, policies, and procedures.

We also asked the firms for the same information in respect of arrangements for invigilating assessments on behalf of RQBs. No such arrangements were reported to us.

The responses from the firms demonstrated a variety of controls in relation to exam cheating, including those summarised below:

Area	Reported processes and controls
Tone at the top, culture and communication	<p>Across all firms there is evidence of a message of a culture of zero tolerance in relation to exam cheating. Methods used include:</p> <ul style="list-style-type: none"> <li>• Declarations at the start of internal assessments requiring individuals to confirm they will not copy, confer, or otherwise cheat, and that they understand the consequences of cheating.</li> <li>• Clear provisions related to exam cheating in policies such as codes of conduct and exam training policies.</li> <li>• Encouraging a “speak-up” culture in which individuals feel able to report any instances of cheating through their line managers or anonymous whistleblowing hotlines.</li> <li>• The use of exam cheating case studies in internal ethics training, which included information on the consequences of cheating.</li> <li>• Communications across a variety of channels from firm leadership directly addressing the recent global cases of answer sharing and reinforcing that it will not be tolerated.</li> </ul>

<p>Preventative controls</p>	<p>Preventative controls used by firms to reduce the opportunity for cheating include:</p> <ul style="list-style-type: none"> <li>• The use of large question banks to reduce the chance that individuals sit the same assessment.</li> <li>• Shuffling the order of answers in multiple choice assessments.</li> <li>• Not revealing correct answers at the end of the assessment.</li> <li>• The use of IT access controls to restrict access to user and administrator profiles in assessment platforms.</li> <li>• Intentionally extending the elapsed time for individuals to complete an assessment with the aim of reducing deadline-induced pressure and the incentive to cheat.</li> </ul> <p>Many firms also consider their zero-tolerance culture (refer to <i>Tone at the top, culture and communication</i> above) to be an important deterrent.</p>
<p>Detective controls</p>	<p>Whistleblowing hotlines and other reporting mechanisms, supported by a culture in which speaking up is encouraged, are an important means for detecting instances of cheating for firms. Other detective controls identified include:</p> <ul style="list-style-type: none"> <li>• The use of data analytics to analyse unusual patterns in assessment results.</li> <li>• Tailored detective measures in the marking and moderation process for a case-study based internal assessment.</li> </ul>

<p>Obtaining assurance of effectiveness</p>	<p>Many firms have indicated that the following detective measures have been successful in identifying some instances of cheating:</p>
---	--

- Whistleblowing hotlines and other reporting mechanisms.
- Their “speak up” culture.
- Tailored detective measures in the marking and moderation process.

Other methods for obtaining assurance include:

- Periodic or risk-based reviews of firms’ learning and development policies, procedures and controls.
- Periodic review of the potential for cheating to occur.

Some firms emphasised that they are in the process of integrating the monitoring of effectiveness of controls in this area into their overall monitoring and remediation plans under ISQM (UK) 1.