

Accounting Forum >

Volume 39, 2015 - [Issue 1](#)

1,603 Views | 37 CrossRef citations to date | 3 Altmetric

Original Articles

The corrosive effects of neoliberalism on the UK financial crises and auditing practices: A dead-end for reforms

Prem Sikka

Pages 1-18 | Received 26 Aug 2014, Accepted 17 Oct 2014, Published online: 27 Feb 2019

🗨️ Cite this article 🔗 <https://doi.org/10.1016/j.accfor.2014.10.004>



Sample our
Economics, Finance,
Business & Industry Journals
>> **Sign in here** to start your access
to the latest two volumes for 14 days

📄 Full Article 📊 Figures & data 📖 References 🗨️ Citations 📊 Metrics

📄 Reprints & Permissions

Read this article

Share

Abstract

The UK's financial sector has been the subject of frauds and crisis during every decade since the 1970s. The crisis has been fuelled by neoliberal ideologies which emphasise light-touch regulation, individualisation, excessive faith in markets and pursuit of private profits, with little regard for social consequences. Auditors are expected to flag matters of concern to shareholders and regulators, but that did not happen in the events leading to the 2007–2008 banking crash or any of the other headline scandals. Despite the failures, banking and auditing reforms continue to be grounded in neoliberal ideology and are unlikely to address the crisis.

Keywords:

Financial crisis

Banks

Financial sector

Auditing

Neoliberalism

The state

Notes

I am very grateful to two anonymous reviewers and the editor for their patience and helpful comments.

1 The Independent, Alistair Darling: We were two hours from the cashpoints running dry, 18 March 2011, <http://www.independent.co.uk/news/people/profiles/alistair-darling-we-were-two-hours-from-the-cashpoints-running-dry-2245350.html> (accessed 28.02.14).

2
http://www.bankofengland.co.uk/education/Documents/targettwopointzero/t2p0_ge_supplement.pdf (accessed 03.03.14).

3 Financial Times, GDP estimates set to push UK economy above pre-crisis peak, 20 July 2014, <http://www.ft.com/cms/s/0/a2938720-0e88-11e4-b1c4-00144feabdc0.html#axzz3EFbDOUCM> (accessed 24.09.14).

4 Financial Times, When will the big squeeze on wages end? 6 September 2013, <http://www.ft.com/cms/s/0/1abaeafe-161e-11e3-856f-00144feabdc0.html#axzz39VMrgiZi> (accessed 29.07.14).

5 The Act created two new structures: the Prudential Regulation Authority (PRA), under the umbrella of the Bank of England, and the Financial Conduct Authority (FCA). The PRA is responsible for the prudential regulation and supervision of the financial sector. The FCA is responsible for the promotion of competition, functioning of markets, preventing market abuse and the protection of consumers.

6 For evidence see <http://www.bankofengland.co.uk/pru/Pages/about/prapeople.aspx> and <http://www.fca.org.uk/about/structure/board> (accessed 25.06.14).

7 Financial Times, Osborne backs sweeping reforms for banking industry, 8 July 2013, <http://www.ft.com/cms/s/0/c94870ba-e7bf-11e2-9aad-00144feabdc0.html#axzz32IFckJHI> (accessed 20.04.14).

8 The Telegraph, Lord Lawson says banking reforms won't make system safe, 5 April 2014,

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10747096/Lord-Lawson-says-banking-reforms-wont-make-system-safe.html> (accessed 20.04.14).

9 The Telegraph, Andrew Tyrie: bank reform legislation 'so weak as to be virtually useless', 8 July 2013,

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10167457/Andrew-Tyrie-bank-reform-legislation-so-weak-as-to-be-virtually-useless.html> (accessed 20.04.14).

10 Within the available space, this paper does not examine the role of fair value accounting in the crisis which has also attracted considerable attention (see Financial Services Authority, [2011](#); UK House of Commons Treasury Committee, [2009b](#); also see The Economist, The crisis and fair-value accounting, 18 September 2008, <http://www.economist.com/node/12274096> (accessed 29.03.14).

11 The background is further scandals and also the fallout out from the 9/11 attacks on the World Trade Centre in New York which led to disputes amongst syndicates about their liabilities.

12 Hansard, House of Commons Debates, 20 June 1985, cols. 384-393; 26 July 1985, cols. 1442-1450.

13 Lord Phillips of Sudbury, Hansard, House of Lords Debates, 27 November 2013, col. 1435, <http://www.publications.parliament.uk/pa/ld201314/ldhansrd/text/131127-0001.htm> (accessed 21.01.14).

14 Bank of England, Quarterly Bulletin, 2010 Q 4, <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1004.pdf> (accessed 15.02.14).

15 Hansard, House of Common Debates, 15 January 1987, col. 412.

16 Financial Times, Darling seeks full release of BCCI report, 12 March 2011, <http://www.ft.com/cms/s/0/7f6d5df8-4c0c-11e0-82df-00144feab49a.html#axzz2qwQJoLbN> (accessed 27.02.14).

17 Some aspects of this are brought to light by the case of Prem Sikka v Information Commissioner, EA/2010/0054, 11 July 2011, available from:

<http://www.informationtribunal.gov.uk/DBFiles/Decision/i544/20110909%20Decision%20and%20Conf%20Sch%202.pdf> (accessed 15.01.14).

18 BBC News, How Leeson broke the bank, 22 June 1999,
<http://news.bbc.co.uk/1/hi/business/375259.stm> (accessed 15.06.14).

19 Financial Times, US banks fear being forced to take \$5000bn back on balance sheets, 4 June 2008, <http://www.ft.com/cms/s/0/33cab6b4-31d1-11dd-b77c-0000779fd2ac.html#axzz2qhGUrpm4> (accessed 27.03.14).

20 BBC News, Credit crunch at \$1.2 trillion, 25 March 2008,
<http://news.bbc.co.uk/1/hi/business/7313637.stm> (accessed 11.02.14).

21 This was eventually not paid as the Bank ran into serious financial difficulties.

22 CNN Money, The last days of Bear Stearns, 31 March 2008,
http://money.cnn.com/2008/03/28/magazines/fortune/boyd_bear.fortune/ (accessed 30.01.14).

23 As per annual financial statement filed with the SEC for the year to 30 November 2007.

24 Financial Times, Tale of two banks exposes pay as wrong target of critics, 14 April 2014, <http://www.ft.com/cms/s/0/a9a41d96-c3e1-11e3-a8e0-00144feabdc0.html#axzz33U4CmaNp> (accessed 29.03.14).

25 Quote attributed to hedge fund investor and the world's second richest man Warren Buffett - see BBC News, Buffett warns on investment 'time bomb', 4 March 2003,
<http://news.bbc.co.uk/1/hi/2817995.stm> (accessed 17.02.14).

26 http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1997/press.html (accessed 25.03.14).

27 European Commission, Commission fines banks € 1.71 billion for participating in cartels in the interest rate derivatives industry, 4 December 2013,
http://europa.eu/rapid/press-release_IP-13-1208_en.htm?locale=en (accessed 29.03.14).

28 US Department of Justice press release, Attorney General Eric Holder Announces Guilty Plea in Credit Suisse Offshore Tax Evasion Case, 19 May 2014,

<http://www.justice.gov/iso/opa/ag/speeches/2014/ag-speech-1405192.html> (accessed 19.05.14).

29 BBC News, UBS fined \$1.5bn for Libor rigging, 19 December 2012, <http://www.bbc.co.uk/news/business-20767984> (accessed 25.03.14).

30 BBC News, Morgan Stanley to pay out \$1.25bn to settle lawsuit, 5 February 2014, <http://www.bbc.co.uk/news/business-26043498> (accessed 05.02.14).

31 US Department of Justice, Justice Department, Federal and State Partners Secure Record \$13 Billion Global Settlement with JPMorgan for Misleading Investors About Securities Containing Toxic Mortgages, 19 November 2013, <http://www.justice.gov/opa/pr/2013/November/13-ag-1237.html> (accessed 13.01.14).

32 US Federal Housing Finance Agency, FHFA Announces \$1.9 Billion Settlement With Deutsche Bank, 20 December 2013, <http://www.fhfa.gov/webfiles/25898/FHFADeutscheBankSettlementAgreement122013.pdf> (accessed 13.01.14).

33 US Federal Housing Finance Agency, FHFA Sues 17 Firms to Recover Losses to Fannie Mae and Freddie Mac, 2 September 2011, http://www.fhfa.gov/webfiles/22599/PLSLitigation_final_090211.pdf (accessed 19.01.14).

34 SEC press release, Goldman Sachs to Pay Record \$550 Million to Settle SEC Charges Related to Subprime Mortgage CDO, 15 July 2010, <http://www.sec.gov/news/press/2010/2010-123.htm> (accessed 09.01.14).

35 US Federal Energy Regulatory Commission, Barclays Bank PLC, Daniel Brin, Scott Connelly, Karen Levine and Ryan Smith, 16 July 2013, <http://www.ferc.gov/eventcalendar/Files/20130716170107-IN08-8-000.pdf> (accessed 20.01.14).

36 Financial Conduct Authority press release, FCA fines Lloyds Banking Group firms a total of £28,038,800 for serious sales incentive failings, 11 December 2013, <http://www.fca.org.uk/news/press-releases/fca-fines-lloyds-banking-group-firms-for-serious-sales-incentive-failings> (accessed 20.01.14).

37 BBC News, Standard Chartered hit by \$300m in Iran fines, 10 December 2012, <http://www.bbc.co.uk/news/business-20669650> (accessed 20.01.14).

- 38 European Commission press release, Statement on CDS (credit default swaps) investigation, 1 July 2013, http://europa.eu/rapid/press-release_SPEECH-13-593_en.htm?locale=en (accessed 20.01.14).
- 39 The Guardian, Former Goldman Sachs director Rajat Gupta guilty of leaking insider secrets, 15 June 2012, <http://www.theguardian.com/business/2012/jun/15/rajat-gupta-guilty-leaking-insider?newsfeed=true> (accessed 20.01.14).
- 40 US Department of Justice, UBS Enters into Deferred Prosecution Agreement, 18 February 2009, <http://www.justice.gov/opa/pr/2009/February/09-tax-136.html>.
- 41 BBC News, UBS France fined 10m euros amid tax evasion probe, 26 June 2013, <http://www.bbc.co.uk/news/business-23062363> (accessed 20.01.14).
- 42 The Guardian, RBS avoided £500m of tax in global deals, 13 March 2009, <http://www.theguardian.com/business/2009/mar/13/rbs-tax-avoidance> (accessed 22.01.14).
- 43 The Independent, Zero tax for RBS on massive profits from bond trades, 29 February 2012, <http://www.independent.co.uk/news/business/news/zero-tax-for-rbs-on-massive-profits-from-bond-trades-7462573.html> (accessed 20.01.14).
- 44 Bloomberg, Ex-RBS Bankers Charged Over Movie Tax-Avoidance Scheme in U.K., 30 January 2014, <http://www.bloomberg.com/news/2014-01-30/ex-rbs-bankers-to-be-charged-in-u-k-movie-tax-avoidance-scheme.html> (accessed 31.01.14).
- 45 The Guardian, George Osborne drafts new law on corporate tax dodgers, 28 February 2012, <http://www.theguardian.com/business/2012/feb/28/barclays-confirms-tax-avoidance-scheme-shut> (accessed 20.01.14).
- 46 HM Treasury press release, Government action halts banking tax avoidance schemes, 27 February 2012, <https://www.gov.uk/government/news/government-action-halts-banking-tax-avoidance-schemes> (accessed 20.01.14).
- 47 Financial Times, Volcker criticises UK banking reforms, 17 October 2012, <http://www.ft.com/cms/s/0/6d605922-1883-11e2-8705-00144feabdc0.html#axzz32rH8MJ2u> (accessed 20.01.14).
- 48 The Independent, Goldman's Blankfein Awarded \$23 Million for Work in 2013, 4 April 2014,

<http://online.wsj.com/news/articles/SB100014240527023035327045794814030583964>

[42](#) (accessed 22.04.14).

49 The Guardian, JP Morgan doubles CEO Jamie Dimon's salary despite billions in fines, 24 January 2014, <http://www.theguardian.com/business/2014/jan/24/jp-morgan-jamie-dimons-salary-billions-fines> (accessed 30.01.14).

50 Financial Times, Bank chiefs' pay in 2012, 23 June 2013, <http://www.ft.com/cms/s/0/37049d24-da58-11e2-8062-00144feab7de.html#axzz2qwQJoLbN>.

51 The Herald, Million pound salaries for 95 RBS employees, 9 March 2013, <http://www.heraldscotland.com/news/home-news/million-pound-salaries-for-95-rbs-employees.20449379> (accessed 20.01.14).

52 EU Observer, EU bonus cap to have little impact on bank pay, 23 January 2014, <http://euobserver.com/economic/122852> (accessed 28.01.14).

53 The Guardian, Goldman Sachs top staff received £2.7m pay deal on average in 2012, 30 December 2013, <http://www.theguardian.com/business/2013/dec/30/goldman-sachs-top-staff-pay-deal> (accessed 20.01.14).

54 BBC News, RBS directors get £18.25m share deal, 7 March 2014, <http://www.bbc.co.uk/news/business-26486059> (accessed 27.03.14).

55 TUC press release, City bonus pool twice as big as its corporation tax bill, 11 February 2014, <http://www.tuc.org.uk/economic-issues/corporate-governance/city-bonus-pool-twice-big-its-corporation-tax-bill> (accessed 02.02.14).

56 The Independent, Arrest in Johnson Matthey case, 16 November 1997.

57 The Times, City fraud squad called in to investigate JM Bankers, 18 July 1985.

58 The Guardian, Bank serves JMB writ, 30 January 1986.

59 The Times, Auditor pays 25m pounds to settle JMB dispute, 22 October 1988.

60 The Guardian Lloyd's gaffe spurs probe: Insurance market to investigate auditing error in annual results, 6 September 1985.

- 61 The Independent, Accountants shiver as cover slips away; a legal onslaught is scaring off insurers, 1 August 1993.
- 62 The Guardian, Garston insurance crash – ‘millions of pounds have been telegraphed abroad’, 30 January 1990; The Independent, Financial scandals put spotlight on auditors, 7 August 1990.
- 63 Hansard, UK House of Commons Debates, 15 October 1990, col. 1021.
- 64 Hansard, UK House of Commons Debates, 6 November 1992, col. 527, <http://www.parliament.the-stationery-office.co.uk/pa/cm199293/cmhansrd/1992-11-06/Debate-1.html> (accessed 20.01.14).
- 65 Accountancy Age, BCCI: auditor hit with £1m in fines and costs, 20 April 2006, <http://www.accountancyage.com/aa/news/1790188/bcci-auditor-hit-gbp1m-fines-costs> (accessed 20.01.14).
- 66 Accountancy Age, Coopers paid £65m in Barings case, 18 June 2003, <http://www.accountancyage.com/aa/news/1786952/coopers-paid-gbp65m-barings> (accessed 20.01.14).
- 67 The Telegraph, Barings’ accountants fine cut by 75pc, 30 April 2002, <http://www.telegraph.co.uk/finance/2761259/Barings-accountants-fine-cut-by-75pc.html>.
- 68 The Guardian, KPMG admits negligence over Independent, 26 June 2008, <http://www.theguardian.com/business/2008/jun/26/independentnewsmedia.insurance> (accessed 20.01.14).
- 69 Financial Times, Lord Lawson baffled by bank auditors, 4 January 2011, <http://www.ft.com/cms/s/0/8268c0da-1834-11e0-88c9-00144feab49a.html#axzz33QZBGXKf> (accessed 20.01.14).
- 70 <http://amlawdaily.typepad.com/032312e%26ycomplaint.pdf> (accessed 20.01.14).
- 71 London Evening Standard, It's still the human element that counts, 23 January 2008, <http://www.standard.co.uk/news/its-still-the-human-element-that-counts-6672357.html> (accessed 27.01.14).

72 Financial Reporting Council press release, Investigation announced in connection with KPMG Audit Plc and The Co-operative Bank plc, 20 January 2014, <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2014/January/Investigation-announced-in-connection-with-KPMG-Au.aspx> (accessed 21.01.14).

73 Financial Reporting Council press release, Statement following Parliamentary Commission on Banking Standards report into failure of HBOS, 10 April 2013, <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/April/Statement-following-Parliamentary-Commission-on-Ba.aspx> (accessed 20.01.14).

74 Financial Times, Investment banks hail victory in Basel battle, 13 January 2014, <http://www.ft.com/cms/s/0/69dd59fc-7c79-11e3-9179-00144feabdc0.html#axzz33U4CmaNp> (accessed 20.01.14).

75 The following exchange took place in the UK House of Commons. Austin Mitchell: To ask the Chancellor of the Exchequer what the notional value of derivatives held by the banks regulated by the Financial Services Authority is; and what information is held about the maturity and exposure of such derivatives. Greg Clark: This information is not currently available. The shortfall in information available to regulators on derivatives during the financial crisis led the G20 in 2009 to propose that all over the counter derivative trade information should be reported to Trade Repositories. This requirement, which is expected to enter into force in the EU by the start of 2013, will allow information on all derivatives trades to be made available to the relevant authorities. (Hansard, House of Commons, 22 October 2012, col. 620W).

76 BBC News, Are banks taking dangerous mortgage risks? 5 October 2012, <http://www.bbc.co.uk/news/business-19842201> (accessed 20.01.14).

77 Wall street Journal, One in Three Audits Fail, PCAOB Chief Auditor Says, 24 January 2014, <http://blogs.wsj.com/cfo/2014/01/24/one-in-three-audits-fail-pcaob-chief-auditor-says> (accessed 25.01.1414).

78 Financial Times, Lord Lawson baffled by bank auditors, 4 January 2011, <http://www.ft.com/cms/s/0/8268c0da-1834-11e0-88c9-00144feab49a.html#axzz33QZBGXKf> (accessed 20.01.14).

79 Section 172 of the UK Companies Act 2006 states that directors have a duty to promote the success of the company for the benefit of its members as a whole (i.e. shareholder collectively) and in doing so have regard (amongst other matters) to the

interests of the company's employees, suppliers, customers, the community and the environment.

Related research

People also read

Recommended articles

Cited by
37

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa