

THE MOST SERIOUS FINANCIAL SCANDAL OF MODERN TIMES**26. FINANCIAL REPORTING COUNCIL'S ROLE IN COVER UP**

The audit and governance regulator, the Financial Reporting Council (FRC) has attracted significant criticism for its inability to spot impending corporate collapses such as Carillion and BHS. These failures have been unfortunate but are unlikely to have been deliberate.

However, the FRC has played a significant role in the cover up and refusal to investigate audit failure at Lloyds / HBoS ¹. This was intentional and almost certainly the result of pressure from Government.

The FRC's improperly close connections with ²**1. Lloyds Bank**

The Government has been responsible for appointing the Chairman and Deputy Chairman of the FRC and its connections with Lloyds Bank have remained improperly close throughout the period from 2006 until only last year, 2019.

Sir Victor Blank was, surprisingly for a time, permitted to combine being a member of the FRC (2002-2007) with Chairmanship of Lloyds Bank (2006-2009). It was Sir Victor Blank, who was informed about the HBoS Reading fraud in October 2008, prior to Lloyds' takeover of HBoS in January 2009.

Later, Sir Win Bischoff, who was Lloyds' Chairman (2009-2014), stepped down - to become Chairman of the FRC from 2014 until last year.

2. KPMG

The FRC's conduct committee was weighted with four former partners of KPMG represented on its ten-strong conduct committee. In 2013, the regulator refused to investigate KPMG's 2007 audit of HBoS and only reversed its decision two years later under pressure from MPs.

Still, after a further two years and ignoring the evidence of a third HBoS whistleblower, the FRC cleared KPMG of all wrongdoing in September 2017, which was a decade on from the highly contentious audit oversight but astonishingly convenient being just a month before the start of the court case involving Lloyds' 2009 rights issue.

¹ <https://www.ianfraser.org/the-frcs-evasiveness-tells-us-its-unfit-for-purpose/>

² "Lloyds Banking Group – widespread wrongdoing and criminal fraud": Presentation, Westminster Central Hall, 4th September 2019, slide 26.

In April 2018, the FRC hired the legal firm Fieldfisher in its efforts to resist a freedom of information request to disclose its files, which would throw light on its 2013 decision not to investigate KPMG's 2007 audit of HBOS.

Finally in June 2018, having cleared the leading accounting firm nine months earlier of all wrongdoing, the FRC performed a perfect U-turn and complained of an "unacceptable deterioration" in KPMG's audit quality. Three months prior to that, the former second permanent secretary at HM Treasury, Sir John Kingman had been appointed to conduct a complete review of the FRC, so the regulator's June statement looks to have been made largely for his benefit.

FRC – not fit for purpose and still not replaced

However, in December 2018, Sir John Kingman ³ concluded that the Financial Reporting Council was not fit for purpose and should be replaced by a new regulator, the Audit, Reporting and Governance Authority (ARGA), equipped with stronger powers of enforcement.

Nevertheless, almost two years later, nothing has been done amid further drift in official policy and the ongoing refusal to recognise, let alone address, the serious wrongdoing in which leading accounting firms have been engaged.

³ <https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report#:~:text=The%20Independent%20Review%20of%20the,published%20its%20report%20to%20government.&text=The%20FRC%20regulates%20auditors%2C%20accountants,with%20the%20professional%20membership%20bodies.>