Australian Citizens Party

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MEDIA RELEASE

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City of London also nervous about Hayne report

The Morrison government is already in damage control over the Hayne Royal Commission's final report, which they will delay making public until Monday afternoon. But Australia's government and banks are not the only ones chewing their nails in anticipation. The City of London banks are also nervous, desperate that Australia's banking inquiry doesn't lead to a similar inquiry in the UK. Bankers all over the world would be similarly nervous.

Back on 2 May 2018, after just two rounds of Hayne's royal commission hearings, British reporter Katherine Griffiths warned in Rupert Murdoch's London *Times* that "UK lenders should scent danger from Australian banking's dirty secrets". She revealed the nervousness in London that Australia's royal commission would fuel a renewed push to break up the banks, which might spread globally. Griffiths wrote, "In Australia, it is possible that the commission will take things one step further, by demanding a break-up of the country's big banks in an attempt to enforce better behaviour and improve competition. *That would be something for the UK's large lenders to worry about, because even though the reputation of Australia's financial system has been tarnished, it is a precedent that could capture the imagination of banking critics the world over*." (Emphasis added.)

Last week, with the deadline for the final report approaching, Griffiths issued a new warning in the 23 January 2019 *Times*: "Copying Australia's banks inquiry would be bad news for lenders and customers".

Griffiths wrote: "Once the distraction of Brexit is over, how attractive would it be for a battered and bruised Conservative Party, let alone an anti-capitalist Labour Party, to seize on the Australian commission as something the UK could copy? That would be very bad news for Britain's banks…."

Why is a British establishment journalist so panicked about an Australian banking inquiry? Because banking is globalised, and the fraud and corruption in Australia's banks infect banking systems all over the world. The Hayne royal commission has not just exposed bank crimes and misconduct, but it has raised serious questions about the watchdogs—the regulators who supervise the banks and the auditors who examine their books—who instead of policing the banks have been their accomplices. This is true the world over! These watchdogs escaped sanction following the 2008 banking crash but are now coming under more scrutiny. If Australia's inquiry forces the UK and other jurisdictions to launch their own investigations, it could bring down the corrupt vested interests in the whole globalised system.

You can see this potential currently in the UK, where the government and Big Four global accounting firms are scrambling to head off growing calls to break up auditors into separate auditing and consultancy businesses. They are in a panic over a report commissioned by the UK Labour Party, *Reforming the Auditing Industry*, which exposes the failings, conflicts of interests and corruption in the auditing system for large banks and corporations that is dominated, worldwide, by just four firms—PricewaterhouseCoopers (PwC), Ernst & Young (EY), KPMG and Deloitte. Through the determination of Labour leader Jeremy Corbyn and his shadow chancellor John McDonnell to take on and clean out the corruption in the City of London, they are setting the agenda, despite being in official Opposition, to which the establishment is being forced to respond, as the following chronology attests:

In mid-2018 McDonnell commissioned retired accounting professor Prem Sikka to lead an inquiry into auditing; in September 2018 the Theresa May government's Business Secretary Greg Clark also called for an inquiry into the accounting firms; and in October 2018 the Competition and Markets Authority (CMA) established its own inquiry.

Prem Sikka's team released their *Reforming the Auditing Industry* report on 14 December, which called for the Big Four firms to be broken up into separate auditing and consultancy businesses, and for the UK to establish a statutory (public) auditor for all financial companies and large corporations; on 18 December the CMA also proposed a break-up of the Big Four auditors (the CMA is chaired by retired Conservative MP Andrew Tyrie, who in 2013 had chaired a parliamentary inquiry which similarly proposed a form of Glass-Steagall separation of banks into commercial banks and investment banks); the same day, obviously in response to the Sikka Report and CMA proposal, Business Secretary Clark finally appointed London Stock Exchange chairman Donald Brydon to conduct the auditing inquiry he'd foreshadowed in September, no doubt expecting Brydon would be friendlier to the auditors and come to different conclusions.

This was a blatant delaying tactic to protect the Big Four: London’s *Times* reported 29 January that the Big Four firms have all written to Parliament begging for the CMA’s proposed reforms to be postponed for at least 12 months until the Brydon inquiry is completed, yet it hasn’t even started! Prem Sikka told the 29 January *Times* that 12 months is too long to wait: “The CMA’s reforms must not be postponed as audit quality and the audit market is in a dire state”, he said. Examples abound: just a week earlier, Frank Field, the chair of the parliamentary inquiry into the collapse of giant UK logistics contractor Carillion, had accused the company’s auditor KPMG of “egregious wrongdoing at every stop on this gravy train”.

Meanwhile, in Australia, the auditors are also coming under more scrutiny, prompted by the Citizens Electoral Council’s 18 January call for the Auditor-General to audit the major banks, as their audits by the Big Four cannot be trusted. On 24 January the former independent inspector-general of taxation Ali Noroozi was widely criticised for his decision to join PwC, which specialises in helping corporations avoid tax—such blatant conflicts of interests were once ignored. And the same day the Australian Securities and Investments Commission (ASIC) criticised the audits conducted by the big accounting firms, revealing that one in five are unreliable and accusing them of being “compromised” by their business model of providing consultancy services for the firms they audited.

Whatever the recommendations of Hayne’s final report, it is clear, both in Australia and worldwide, that taking on the issue of auditing and the big auditors (which Hayne was blocked from examining) is key to cleaning up the financial system.