

MG Rover debacle can't hide accounting regulatio...

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I [mentioned my concern about the fine imposed by accountancy regulators on Deloitte yesterday](#). My friend and colleague Prof Prem Sikka has addressed the issue more thoroughly [on The Conversation website](#), and I reproduce his comments here, with permission:

The UK accountancy watchdog has barked. The Financial Reporting Council (FRC) has fined Deloitte & Touche [£14 million](#) for failures relating to the demise of MG Rover. The [report](#) says Deloitte was engaged in huge conflicts of interest as the firm acted both as auditor and advisor to the company and its directors.

The MG Rover debacle began in 2000 when four businessmen (subsequently known as the Phoenix Four) bought the ailing carmaker from BMW for just £10. The purchase was accompanied by a loan of £423 million from BMW and the UK government also provided additional funds. Deloitte acted as auditor of MG Rover and an adviser to the Phoenix Four. The company continued to receive a clean bill of health from auditors. Between 2000 and 2005, the Phoenix Four collected around £42 million in remuneration. With advice from Deloitte some £7.7 million ended up in an [offshore trust](#) in Guernsey. In 2005, the company collapsed with debts of nearly £1.4 billion. Some 6,000 workers lost their jobs.

Following a public outcry, the Department of Business Innovation and Skills appointed inspectors, one of whom was an accountant, to investigate the debacle. The two volume report ([here](#) and [here](#)) cost £16 million and was published in 2009. The report noted that between 2000 and 2005, Deloitte received £30.7m in fees, of which £28.8m related to consultancy, that is, only £1.9 related to audits.

Deloitte was advising the company and its directors and then audited the resulting transactions. Hence the concerns about possible conflicts of interest and the disciplinary tribunal's conclusion that Deloitte "failed to be sufficiently objective in its work for MG Rover". Deloitte is found guilty of "misconduct" and the [FRC report](#) states: "the acts which amount to misconduct were quite deliberate" and the firm and its lead partner "placed their own interest ahead of that of the public and compromised their

own objectivity. This was a flagrant disregard of the professional standards.”

The FRC's reputation as an accounting watchdog was severely battered by the banking crash. All distressed banks received a [clean bill of health](#) from their auditors even though depositors were queuing outside banks to withdraw their cash and governments were bailing out banks. The FRC failed to investigate any of the auditing firms. The MG Rover debacle has given it an opportunity to reinvent itself. The £14 million fine on Deloitte is the highest ever against any accounting firms. But all is not what it seems.

For any regulatory system to be effective regulators need to act swiftly. That has not been the case for the FRC. It [initially announced](#) its intention to investigate the conduct of Deloitte as auditor and adviser to the MG Rover Group in August 2005. The wheels of the profession grind slowly and then it claimed that will proceed after the inspectors' reports if finalised, which was published in 2009. It has taken the FRC another four years to do anything. This is hardly a model of swift action.

The £14m fine may be the largest ever, but needs to be seen in perspective. It is less than half of the £30.7m fees collected by Deloitte. So despite failures and “misconduct”, the firm has still made considerable profit. The firm's [UK revenues](#) are around £2.5 billion; that's £6.85m a day. The fine amounts of the loss of about two days' revenue. This is unlikely to make accountancy firm partners quake in their boots.

The fine will fill the coffers of the FRC and will not be used to compensate creditors, employees, or taxpayers who provided social security and other benefits for the redundant workers.

The MG Rover episode does not herald a new dawn in the regulation of auditors. Despite the toxic effects of conflicts of interest and calls from parliamentary committees, the FRC has [resisted](#) a total ban on auditors acting as consultants for companies. So companies will continue to audit the transactions they themselves have overseen. Some of the darker practices could be flushed out and given public visibility by compulsory [tendering of audits](#), but the FRC opposes that too.

For the time being, the MG Rover episode may legitimise the FRC's regulatory credentials but the fault lines are as big as ever and will not go away.