

The Politics of Risk, Audit and Regulation – A Case Study of HBOS

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I'm pleased to share the following guest post by my friend [Professor Atul Shah](#) on his new book, out this week:

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The modern industry and professions of accounting and finance have gone awry. Greed continues to eat culture and ethics for lunch. Institutions with their gleaming towers and global brand names are finding ever more sophisticated ways of exploiting people, corporations and governments. Rules are used so they can be broken by skilled lawyers, bankers and accountants. Gaps are actively cultivated and exploited, without any conscience. Professions are busy legitimating this conduct and behaviour, even promoting it and exploiting it for their own profit. The City of London is now widely regarded as the harbinger of such evil, and the evidence is littered all around us, from tax avoidance and offshore secrecy, to banking and audit frauds which continue uninhibited. Mis-selling is not an aberration but a norm — firms just have to find ways of not getting caught doing it, using the rules and regulations to defend their actions. People directly involved in these decisions and actions never get caught or prosecuted, even after billions have been paid out by government rescues. Its white-collar fraud, disguised as cleverness.

My latest book on the HBOS failure, the largest corporate collapse ever in British history, microscopically exposes the above truths, by looking in detail at the leaders, [***the auditors, and the regulators – and the ideology which drove them.***](#)

Author of the book on RBS failure, [Ian Fraser](#), wrote the forward. It has detailed chapters on each of these themes, based on independent and objective [research](#) which also interviewed the HBOS whistle-blower Paul Moore who was fired in 2004. The fifth largest UK banking juggernaut, licenced by the state, was too powerful for anyone, including the regulators, to raise uncomfortable questions. A small number of people including the CEO and the Chairman colluded in bringing a several hundred years old institution to its knees in seven years. Investors rode the gravy train as they did not look behind the numbers, nor did they penalise the bad culture and hubris early

on. The politics and revolving doors which sustained the misrepresentation are staggering, and deserve the fullest exposure to concerned students and defrauded customers. The book helps readers to understand that [real finance is not about smart investment decisions and prudent risk management taught in the classroom](#), but about greed, deceit, accounting lies and investor bribery through dividends and share buy-backs. The City of London acts as a hub of collusion where people can become anonymous when they choose to, and pocket the profits long before anyone really discovers what was really done and who was behind it.

The book goes further than blaming people, to analysing the theory and ideology which sustains and even promotes this kind of behaviour and corruption. If politics is so critical, how come it is not taught in finance, nor discussed in the research theories and papers? If the truth is inter-disciplinary, how come researchers in finance create sharp intellectual boundaries for their discipline, and rarely engage with scholars outside their discipline? If the accounting profession is keen to defend its ethics and independence, how come it does not prosecute the biggest culprits which are so conflicted by their supermarket of services that they are driven primarily by profits and fees and do not deserve to be called professionals? These are the uncomfortable questions explored in the book, pointing to a massive reform of finance teaching and education, so that in time the culture and institutions of finance may be reformed. At present, culture and ethics are outside the finance syllabus, and whole PhD's are granted without any mention of these. No wonder even the regulator the FCA tried to avoid a culture review of banking, even after Parliament demanded it so vehemently.

Reading the book will reveal to you how culture and ethics were destroyed at HBOS, and the ideology and false theories which helped to sustain this hubris. It will also show that specialisation into disciplines and sub-disciplines, especially in business, has major drawbacks. Experts can use the complexity and jargon to get away scot-free and to also protect their territory and expertise, profiting along the way. It [raises major questions about what it is that drives the big professional firms, and the limits of their public interest and accountability](#). The story of HBOS weaves the tapestry of the City of London and its corridors of power and secrecy which really run British finance today. If only this behaviour were to Brexit, we would all be better for it. But there is no sign of it. And accountants and bankers still lie at the heart of this business. All this shows how urgently we need wisdom in finance, which was explained in [my earlier book on Ethical Finance](#).

Atul K. Shah is Professor of Accounting and Finance at the University of Suffolk. The book is published by Routledge and available now.