

# HBOS – fraud, cover-up and consistent public exp...

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*The following is a guest post by [Professor Atul K. Shah](#) reflects on the implications of the [‘Turnbull Report’ on HBOS](#), recently leaked:*

A Bank is a very special institution at the heart of economic life. That is why its licencing is restricted and supervision is very close and tight. One of the largest British Banks, HBOS rose and collapsed spectacularly in a period of seven years — and the detailed reasons behind this scandal have only come as a drip feed, and often after lots of public anger and pressure. Alongside regulators, auditors have a significant role in independent monitoring and reporting, but no warnings were raised by them prior to the collapse of HBOS. The eventual cost of the failure may never be known, but the latest estimate suggests it as £52billion, making it the highest corporate failure in British history. In my extensive academic analysis over this scandal, now published as a Routledge book, there was a forensic study of this failure, demonstrating that politics was at the heart of the mis-management and audit and regulatory failures.

It is now known that there was a specific tumour in the history of HBOS. This was fraud at its Reading branch, which was known and covered up, not only by the original HBOS management, but also by the new Lloyds bosses who took over the collapsed Bank. This was known about since 2004, but was covered up in the final year of the Bank, even when it was known to be material and should have been reported to shareholders. Purely through the diligence of customers who had been defrauded, and some excellent police leadership, criminal charges against the fraudsters were successful, and the main criminals finally put behind bars in 2017.

Whistle-blowers like Paul Moore and Sally Masterston, who had warned of the excessive risks and fraudulent behaviour, were fired for their courage in speaking truth to power. Even the police commissioner, raised serious concerns about the regulatory and audit cover-ups over this scandal, aghast at the lack of public scrutiny and accountability of the over-seers. Regulators, with highly skilled staff and public resources, rather than tackling the fraud at its root, colluded to hide it and cover it up.

In 2013, an inside report was commissioned by Lloyds. This is now known as the

Turnbull Report. It was written by an experienced accountant, risk manager and auditor named Sally Masterston. It suggested very serious mis-conduct over the Reading scandal, from auditors, consultants, regulators, and management. She alleged criminal behaviour of key professional supervisors and consultants, who, she said, knowingly looked away from the fraud or profited from it. This report, because it was explosive in its potential impact to senior Directors and influential accountants, was covered-up until leaked last week to the public, five years after its original writing. It makes for very embarrassing reading about the scale of the collusion, and the series of lies and cover-ups perpetrated by senior management.

The Turnbull evidence further highlights the fundamental problems we have within our financial regulatory system, which is flawed, ineffective, and captured by powerful interests. The result was a huge and continuing loss to the public purse. Regulators rely on the management to control and monitor. They in turn rely on professionals to 'independently' endorse risky culture or accounting, but no-one gets punished or imprisoned when things go pear-shaped.

Academics, whose public duty it is to speak truth to power, often look away at such major crises, in the narrow-minded pursuit of their careers and research publications, looking for high theory and ivory tower breakthroughs.

In the meantime, the public gets duped and paralysed by a lack of power and technical know-how to challenge the fundamentals.

What Turnbull shows is how far professionals lost any sense of culture and conscience, and how greedy they became in the pursuit of private profit at any cost. And it also shows how regulators have lost the might to challenge. In the process they have become highly politicised and captured by powerful interests. This has to stop.