

Large company accounts are works of fiction

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I have this morning posted this video on YouTube, addressing an issue of accounting and transparency that matters to me.

I think the format for accounting used by large companies might provide data of use to financial markets. However, the impression that these accounts give to the world is also seriously misleading, not least because they suggest that a company undertakes transactions that it has never had legal responsibility for.

Most people need different data from that which large companies provide about themselves. They need detailed information about the individual trading entities that those large companies own, wherever they might be in the world, and a great deal of that data is still too often hidden from view by the accounts that large companies present. It's time that these largest companies were a great deal more transparent about themselves.

<https://youtu.be/yHh1jX5OXI?si=A2q4hAXbMeiqY2y3>

The transcript is here:

The accounts of large companies in the UK are complete works of fiction. Now, I don't make that claim lightly. I make it because that's, well, completely true.

If you pick up the accounts of any large company - the bank that you probably save with, or an energy company like BP or Shell, or the companies who are going to supply you with your water if you live in some parts of the country, or the energy suppliers, or a retailer - the accounts that you'll pick up are really big.

If you've got a physical copy, hundreds of pages - and they are literally a work of fiction. Why? Because those accounts are presented as if they are the financial performance of the parent company. Call it Marks and Spencer PLC, call it Tesco PLC, or Barclays PLC,

whoever it might be. It literally makes no difference. Those accounts pretend that they are the trading of that particular parent company. But, every single one of those companies operates through very large numbers of subsidiary companies.

In other words, if you go into a supermarket, you don't buy from Tesco PLC. You'll buy from Tesco Stores or something like that.

If you go into a bank in the UK, you will probably not trade with the parent company but with its banking subsidiary.

If you deal with a manufacturing company, you won't deal with the parent company. You'll deal with the company that operates the particular site where you are buying from or selling to.

Now this really matters because, first of all, there is literally no company that undertakes the transactions that are reflected in those accounts, which is why I call them a work of fiction. They are simply created by adding together in a very particular way the accounts of all those subsidiary companies.

And I say in a very particular way because in accounting we call it consolidation, and that means we take out of view all the transactions between the subsidiary companies - which is where vast amounts of tax abuse takes place, by the way - and exactly how tax abuse in tax havens always occurred.

So first of all, we don't see the true picture about what's going on with regard to the true level of trading within the group and between group companies.

And secondly, if we're trading with a particular subsidiary, or if you're employed by a subsidiary, the fact that the group as a whole might claim to have great performance doesn't mean to say that the part of the group that you're interested in - who might owe you money, who might employ you, who might be polluting your environment, or whatever else it might be - you don't know how they're doing.

Nor do you know if they're paying tax.

And you also don't know if you look at the group as a whole, how much of its activity is hidden in tax havens or anywhere else. Where in the world is it operating?

Large companies might want to present this particular view to the world as if they are a single entity, which makes their shareholders very happy. But the rest of us who deal with that group need to know, who are you?

What companies do you own?

Where are you?

Where are you trading in the world?

What do you do? Because no group does just one thing.

How many people do you employ?

How much profit you make in that activity?

So, will that particular activity survive?

Do you pay your tax?

How much is invested in this? Because if that money is withdrawn from your community, it might have a real impact.

Something called country-by-country reporting, an idea that I created in 2003, and which was endorsed by OECD - the Organisation for Economic Cooperation and Development, based in Paris, in 2015 - would deliver that information for us, but as yet, it's not on public record in the UK.

We need it because we need to end the fiction that one set of accounts will tell us everything that a large company is doing and we need to find out what it is doing in every single one of its subsidiaries as well. And we can never do that at present because they aren't required to even put the full list of their company names in their accounts.

And they aren't required to put a copy of the subsidiary accounts for every company that they own on their website.

Those last two things will make a big difference. Talking about what is going on in all their subsidiaries in clear, unambiguous language to everybody they engage with is critical if they're to have the license to operate that we as a society give them. And we aren't, as yet, getting a fair bargain in that process.