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New roles for auditors and reporting accountants in UK banking supervision under the Banking Act 1987

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Abstract

Purpose – The paper aims to offer an exploration of the Banking Act 1987 which was passed following the failure of Johnson Matthey Bankers (JMB) in 1984. This Act extended the role of auditors in banking supervision by removing traditional confidentiality constraints and created a new role of "reporting accountant". The paper seeks to examine the origin and development of these new reporting roles. In addition, the paper considers the extent to which the findings of this historical investigation might contribute to current debates on the role of auditors in banking supervision.

Design/methodology/approach – The paper draws on official documents, personal accounts of individuals responsible for dealing with the JMB crisis, and semi-structured interviews conducted with audit partners and banking supervisors who had direct experience of implementing the supervisory reforms instituted under the Banking Act 1987. Power's explanatory schema of controversy, closure and credibility is adopted as a framework for the analysis of documentary sources and interview data.

Findings – The failure of JMB generated sufficient controversy so as to require reform of the system of banking supervision. The paper shows that JMB was a controversy since it disturbed what went before and carried with it sufficient allies for change. To achieve closure of the controversy, agreement by key actors about changes to the nature of the role of auditors was required to ensure legitimacy for the reforms. Backstage work undertaken by the auditing profession and the Bank of England provided the necessary credibility to renormalise practice around the new supervisory arrangements.

Originality/value – The paper develops Power's schema which is then employed to analyse the emergence of the new role of reporting accountant and extended role for auditors in UK banking supervision. The paper provides empirical evidence on the processes of controversy, closure and credibility that help to ensure the legitimacy of accounting and auditing change.

Keywords Banking supervision, Auditing, Reporting accountants, Financial crisis, Legitimacy, Banking, Financial reporting

Paper type Research paper

1. Introduction

In the UK the 1980s are often perceived as dominated by market deregulation and privatisation. This perception is not entirely inaccurate but it is certainly not the whole

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story. Margaret Thatcher's first government did indeed institute policies designed to liberalise the economy. Yet at the same time it also established a range of public and private offices with responsibility for the regulation of firms and markets more generally.

Banking was not initially considered in need of reform or further regulation because the weaknesses of banking supervision revealed by the secondary, or fringe, banking crisis of the 1970s had been addressed by the Banking Act 1979 (Reid, 1988). However, the failure and rescue by the Bank of England in October 1984 of Johnson Matthey Bankers (JMB), a single, small London bank, revealed the need for a further review of UK banking supervision. Failures linked to audit and supervision were deemed to have played an important part in the failure of JMB. In response, the subsequent Banking Act 1987 extended the role of auditors by removing traditional confidentiality constraints between auditor and client, thus enabling communication to take place between a bank's auditors and the Bank of England. In addition, the Act created a new role of reporting accountant, normally undertaken by a bank's auditors, whereby the Bank of England could require a bank to provide an accountant's report on any relevant topic as commissioned by the Bank of England (see Penn, 1989, pp. 69-76).

The aim of this paper is to investigate the origins of the extension of the role of auditors and the creation of the new role of reporting accountant under the Banking Act 1987. To this end the paper develops the work of Power (1993a, b, 1994, 1997) on the emerging role of auditors in financial services supervision, and Power's (1996, 2003) wider analysis of the legitimacy of accounting and auditing change. In addition, the paper considers the implications of this historical investigation for current debates about the role of auditors in banking and financial supervision following the recent financial crisis.

Interestingly, following the recent financial crisis and in contrast to JMB, audit was not perceived to be a problematic issue, at least initially. Two key UK Parliamentary committees, the House of Commons Treasury Committee (2009) and the House of Lords Select Committee on Economic Affairs (2009), each undertook wide-ranging inquiries into the causes of the financial crisis. In looking at the role of auditors, both committees concluded that auditors had not failed in their statutory duties, even as regards the issue of going concern. However, a more recent report from the House of Lords Select Committee on Economic Affairs (2011) was more critical of the role of auditors in the financial crisis[1].

A common concern of the Parliamentary committees was the lack of communication between auditors and the new financial regulator, the Financial Services Authority (FSA). The FSA's Turner Review (2009) of regulation following the financial crisis agreed with the findings of the Parliamentary committees and stated that the FSA intended in the future to have greater engagement with published accounts, accounting judgements and auditors. In a similar vein the FSA and Financial Reporting Council (FRC) launched a joint consultation paper on how "the FSA, the FRC and auditors can best work together to enhance how auditors can contribute to prudential regulation in the future" (FSA/FRC, 2010, para. 1.3). The current debate about the role of auditors in the supervision of banks and other financial services firms thus echoes a similar debate that took place following the collapse and rescue of JMB in the 1980s.

In two important essays, Power (1996, 2003) considers the extension of auditing into new areas. In "making things auditable", Power (1996) considers three recent instances

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whereby academic research, quality and brands have become subject to audit, and argues that the focus should be less on audit techniques as such, and more on how audit techniques become recognised as legitimate by processes of negotiation. Power (2003) explores further this "production of legitimacy" by reviewing a number of published studies of audit practice in its social and organisational context. From these studies, Power's summary of the essay's key finding is that the legitimacy of both auditor and auditee are in fact co-produced (Power, 2003, p. 380). Drawing on Collins (1985), Power (2003) suggests an explanatory schema which he argues is useful "in orienting research into accounting and auditing change" (p. 391). Power argues that the first step of the research process into auditing change begins with the selection and analysis of an episode of "controversy" or crisis. The second step is to analyse "closure" of the controversy whereby "consensus and order are re-constructed around practice". The third step is establishing and building "credibility" which inter alia involves "complex articulations of expert tasks and jurisdictional claims".

This paper adopts Power's (2003) threefold explanatory schema as a descriptive framework to investigate the expansion of the role of auditors and reporting accountants under the Banking Act 1987. The controversy to be considered is the failure of banking supervision arising at JMB, a recognised bank, which unexpectedly encountered severe financial difficulties and had to be rescued from bankruptcy by the Bank of England in 1984. The process of closure began with the subsequent, government initiated, review of banking supervision chaired by the Governor of the Bank of England, Sir Robin Leigh-Pemberton, which was followed by the government's response (Leigh-Pemberton Report, 1985; HM Treasury, 1985, respectively). The recommendations included a greater role for auditors and reporting accountants in the supervisory process, and the recommendations were incorporated in the Banking Act 1987 and associated guidance. The reforms were given credibility as the new arrangements were implemented by auditors and the Bank of England. The advancement of credibility following the JMB affair depended on the renormalisation of practice. The major challenges to renormalisation concerned the need to demonstrate auditor independence. In particular auditors and supervisors had to demonstrate they could engage in constructive communication and dialogue, including the commissioning of reporting accountants' reports. Thus, documentary sources surrounding the failure and rescue of JMB and the subsequent process of review, legislation and guidance are used to investigate the controversy and its subsequent closure. Credibility is investigated by drawing on interviews with senior individuals in audit firms and regulators.

The first contribution of the paper is to discuss an important but relatively unexplored instance of an extension of the auditors' role and the creation of a new role of reporting accountant, resulting in important changes to the role of auditors in the UK system of banking regulation. The paper develops the work of Power (1993a, b, 1994, 1997) by, first, tracing the origins and establishment of a new "communicative relationship" between auditors and supervisors as established by the Banking Act 1987 and, second, providing empirical evidence on its implementation.

Second, the paper represents a contribution to the wider study of ensuring the legitimacy of accounting and auditing change (Power, 1996, 2003). It makes use of Power's suggested threefold schema of controversy, closure and credibility, based on Collins (1985), as a descriptive framework (Power, 2003). The processes of change are

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investigated using a variety of sources including: documentary evidence as found in "official" documents (Bank of England, 1985a; Leigh-Pemberton Report, 1985; HM Treasury, 1985; the Banking Act 1987); personal accounts and commentaries published by key individuals such as the then Head of Banking Supervision at the Bank of England and subsequent member of the Leigh-Pemberton committee (Cooke, 1982), the partner then in charge of Peat Marwick's banking practice (Fowle, 1985) and the then Chancellor of the Exchequer responsible for dealing with JMB (Lawson, 1992); and evidence from interviews with audit partners and banking supervisors engaged in implementing the reforms. The paper explicates, develops and applies Power's schema and demonstrates: first, the importance of Collins' second aspect of controversy (Collins, 1985), which is that to be a genuine controversy, as opposed to being ignored, there must be sufficient allies for change; second, closure involves lengthy processes of negotiation and renegotiation among the allies for change to achieve agreement and which results in the co-production of legitimacy (Power, 1996); and, third, the necessity of backstage interaction for the renormalisation of practice and achieving credibility (Power, 2003).

The third contribution, based on the findings of the paper and in the context of Power's schema of controversy, closure and credibility, is to offer concluding comments on establishing legitimacy for changes to the role of auditors in UK banking and financial supervision that are under debate following the recent financial crisis. The paper questions whether a tendency to accept only solutions on which there is a wide measure of agreement may result in a failure to tackle fundamental issues. Further, to preserve credibility it is essential that communicative relationships between supervisors and auditors are maintained.

Accordingly, the paper proceeds as follows: the second section discusses Power's schema as a descriptive framework for investigating accounting and auditing change, and the research methods of the study; the third section employs Power's controversy, closure and credibility framework, and uses documentary sources and interview findings to investigate the origins, establishment and implementation of new or extended roles for auditors and reporting accountants under the Banking Act 1987; the final section draws out the key findings and discusses the implications of the study for changes to the role of auditors following the financial crisis.

2. Expansion of audit

The Power schema

In his analysis of the "politics" of financial audit (Power, 1993a, b), and in his reflections on the "audit explosion" and "audit society" (Power, 1994, 1997), Power has explored the manner in which the audit role was expanded during the 1980s to include involvement in the supervision of banks and other financial services firms. Reflecting on these developments Power points out that changes to the regulation of financial institutions have generally resulted in a pattern of arrangements where, "[...] the auditor must now report on the adequacy of accounting systems and internal controls more explicitly than for a normal statutory audit" (p. 32). In particular, he observes that, "The collapse of Johnson Matthey Bank and related criticisms of banking supervision gave rise to the legal requirements under the Banking Act 1987 for improved communication and consultation between auditors and banking regulators" (p. 33). Echoing Tattersall (1991), Power argues this new linkage between auditors and

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regulators represents a significant change insofar as "A formalised communicative relationship to a third party challenges the traditional relationship of confidentiality between auditor and company management" (p. 34).

Examining the extension of audit into the realms of research, quality management and branding Power (1996) argues that auditing needs to be understood as a socio-political process. According to Power, therefore, things become auditable when processes of negotiation lead a) to an agreement and codification as to what constitutes acceptable audit knowledge, and b) to the creation of an organisational and institutional environment within which audit can be performed. Elaborating on this process Power argues that auditability is constructed by a process of "fact building" whereby method and context are inextricably linked. Particular methods of fact building are therefore linked to particular contexts. Making things auditable in the case of branding, for example, involved the credibility of other experts; for quality management it involved the construction of abstract management systems; and for research it required detailed measurement (Power, 1996, Table 1, p. 310). Power notes that making things auditable could be extended to other contexts, and specifically identifies financial services as an area for future inquiry (p. 309).

In an essay on the theme of "auditing and the production of legitimacy", Power (2003) suggests that the legitimacy of both auditor and auditee are "co-produced" (p. 380) and provides a schema designed to elucidate such processes of co-production. Power's schema is derived from Collins (1985) and consists of three elements: controversy, closure and credibility. The elements as proposed by Power are adopted in this study as a helpful descriptive framework within which to explore the establishment of the new roles and relationships for auditors and reporting accountants, banks and the Bank of England under the Banking Act 1987.

Power (2003, p. 391) points out that a "controversy can be conceptualised as an event or chain of events which:

- will only disturb if it is different or contradicts what went before; and
- will only disturb if it carries with it sufficient allies."

A "disturbance" will become a "controversy", therefore, only if it acts a) to disrupt existing arrangements and b) to engage a range of actors with interests in common and with the capacity to press for the developments of new arrangements.

The failure of JMB can be conceptualised as a controversy since it can be categorised as a "disturbance" in both Collins' senses. It was a disturbance in Collins' first sense for at least three reasons. First, it occurred soon after a new system of banking regulation designed to strengthen supervisory arrangements after the secondary banking crisis of the 1970s was put in place under the Banking Act 1979. Second, the 1979 Act established a "two-tier" system of banking supervision whereby "recognised banks" were distinguished from "licensed deposit takers". It was, therefore, all the more surprising that JMB as a "recognised bank" should find itself in such severe financial difficulties that the Bank of England needed to rescue it. Third, the auditors of JMB, Arthur Young, had issued an unqualified report on the accounts of JMB for the year ended 31 March which was signed off on 18 June (Accountancy, 1984). Just over three months after the audit sign off, and less than six months after the financial year end, JMB collapsed. Arthur Young subsequently agreed out of court settlements and paid £24.5 million to JMB's parent company Johnson Matthey, and

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£25 million to the Bank of England – as reported at the time "the deal is the largest sum ever paid by an accountancy firm" (Accountancy, 1988, 1989).

The failure of JMB is also a disturbance in Collins' second sense, which focuses on the "social basis" for regarding the disturbance as a "genuine controversy" rather than it being ignored (Power, 2003, p. 391). Although JMB was a relatively small bank, the circumstances of its collapse and rescue indicated multiple failures: of management by the board of JMB; of supervision by the Bank of England; and of audit by the audit firm, with significant implications for audit and the accountancy profession.

As Power (1997, p. 33) points out, following a financial scandal "[. . .] programmatic confidence in regulation must be maintained and the general expectations of the efficacy of financial audit must be preserved [. . .] Consequently, a certain cosmetic reform is visible in the wake of crisis". Thus, following a financial crisis, "do nothing" is unlikely to be an option. The nature and extent of reform however depends on how radical the proposed changes are, and the extent to which they are supported. As Power (2003, p. 391) comments, "The more extreme the challenge to existing forms of order, the less legitimate it will appear and the fewer allies it will have". As suggested by Collins' second sense, since JMB was a major embarrassment for the government, the Bank of England and the City of London, and the accountancy profession, there were sufficient and powerful "allies" to ensure at least the appearance of change and reform leading to closure, the next element of the framework.

The concept of closure involves the processes whereby "consensus and order are re-constructed around practice". Closure evolves from "the processes of negotiation at different levels characterised by allies and opponents with an interest in renormalising practice" (Power, 2003, p. 391). This involves identifying the main participants, their contributions to the policy negotiations and debates, and review of policy outcomes to identify the nature and extent of changes and reforms that are put in place.

The final element in the framework is credibility. This is eloquently summed up by Power (2003, p. 392):

> [. . .] the advancement of credibility and the renormalisation of practical common sense depends on eventually "effacing" the context in which closure was contested. A great deal of work is done by agents to ensure that what is eventually done and agreed on appears natural, obvious, and temporarily at least, uncontested. The suppression of conflict, the production of working papers, the development of formal audit techniques, all involve the purification of context, authorship and interests.

Research methods

For this study controversy involves investigating accounts of the collapse of JMB and the failure of audit and banking supervision; closure is examined by considering the processes of negotiation and consensus building involving allies (and opponents) of change that led to the Banking Act 1987 and associated professional guidance; and the subsequent building of credibility through the renormalisation of practice is explored via practitioner interviews. Variety and richness is provided by consideration not only of official documentation and academic literature, but also informative personal commentaries by key individuals involved, and by reference to interview findings with banking audit partners and regulators to supplement and enrich the discussion on implementation, on which official documents and other literature are often silent.

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Key official evidence on the emergence and implementation of the Banking Act 1987 includes: Bank of England (1985a, b); Leigh-Pemberton Report (1985); HM Treasury (1985); Banking Act (1987). In addition, use is made of relevant professional and guidance documents, such as Auditing Practices Committee (APC) (1987), Bank of England (1987a, b, c), and ICAEW (1985a, b, 1986). Key personal accounts are provided by the head of banking supervision at the Bank of England (Cooke, 1982), the partner in charge of Peat Marwick's banking practice (Fowle, 1985) and the Chancellor of the Exchequer responsible for dealing with JMB (Lawson, 1992). The review of documents supported by personal accounts is a "rich" method of "portraying the values and beliefs of participants" (Marshall and Rossman, 1995, p. 85). Thus, documentary sources surrounding the rescue of JMB and the subsequent process of review, legislation and guidance are used to investigate the controversy and its subsequent closure.

The advancement of credibility following the JMB affair depended on the renormalisation of practice. The major challenges to renormalisation concerned the need to demonstrate auditor independence, and that auditors and supervisors could engage in constructive communication and dialogue, including the commissioning of reporting accountants' reports. This is examined by drawing on interviews with audit partners and banking supervisors having experience of implementing the reforms and operating under the Banking Act 1987. The interviews are drawn from a wider empirical study which investigated the role of auditors, reporting accountants and skilled persons in the supervision of financial services firms before and after the establishment of the FSA and considered not only banks but also building societies, insurers and friendly societies. The associated research report (Dewing and Russell, 2005) provided a practitioner-oriented, descriptive account of the findings. This wider study was based on interviews with 64 respondents in the field.

In contrast, this paper adopts a theoretically-oriented approach to the analysis of a key sub-set of interviewees with experience of implementing the reporting accountants' regime, and includes seven audit partners from the Big Four accountancy firms and six regulators. Specifically, it uses these interview findings to investigate the credibility element of Power's threefold schema so as to understand how the new role of reporting accountant and extended role of auditors became legitimised and practice renormalised. This occurred through the development of new communicative relationships between auditors and supervisors which took place backstage.

It should be emphasised that all interviews with partners discussed general issues regarding the role of auditors and reporting accountants/ skilled persons in financial services supervision, and for this paper includes those who had a direct and detailed experience of undertaking bank audits and reporting accountants' reports. As regards regulators, interviews were conducted with individuals who had experience in supervising financial services firms and developing regulatory standards and guidelines from the FSA and the Bank of England. A number of the interviewees had experience of a variety of regulatory regimes. Within this sub-set a number of interviewees had experience of more than one role, for example, a number of regulators had previous experience as auditors or accountants in firms.

Interviews were of a semi-structured form and were carried out jointly by two researchers. Most interviews were held with a single interviewee, although on some occasions two respondents were present. Generally these lasted for approximately one

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hour and were tape-recorded and transcribed. The transcribed text was then summarised into Nvivo, a software package, which assisted the analysis of the interview findings, primarily in a text-retrieval role (see Weitzman, 2003). This enabled views on key topic areas to be collated and grouped together from which themes were identified, for example reporting accountants' reports. Quotes from interviewees were selected to illustrate themes and to reflect a range of representative opinions. The interviews were conducted between April 2002 and November 2003 at which time reporting accountants' reports and meetings involving auditors and supervisors were still fresh in the minds of interviewees since the reporting accountants' regime continued throughout the 1990s.

The next section utilises Power's threefold framework of controversy, closure and credibility to consider the establishment of new roles and relationships for auditors and reporting accountants under the Banking Act 1987.

3. Controversy, closure, credibility

3.1 Controversy – Johnson Matthey Bankers (JMB)

The controversy which led to a greater role for auditors and reporting accountants in banking supervision was the failure of JMB, and its rescue by the Bank of England on 1 October 1984. JMB was a controversy in Collins' first sense since its failure and rescue disturbed or contradicted what went before. It was also a controversy in Collins' second sense since there were sufficient allies seeking change, but the allocation of blame and the extent of change depended on subsequent negotiations.

Following a financial collapse, as Power (1993a, p. 272) notes, it is normally the case that "institutional processes of 'blame allocation' are set in motion". As will be seen, much of the blame for the failure properly to regulate JMB was allocated by government and others to the Bank of England. Page (1986, p. 162) identifies the problems in dealing with JMB as illustrating the longstanding "opaqueness of relations" between the Bank of England and the government, although noting that the line of accountability whereby the Bank of England is accountable to HM Treasury, and HM Treasury is accountable to Parliament, is clear. In terms of blame allocation following the JMB affair, Page (1986, p. 162) however observes that, "No heads have rolled as a result". Moran (1986) suggests that the traditional process of blame allocation following JMB was not appropriate, or at least the blame should be widely spread. Moran argues that the traditional, informal system of UK banking regulation, which was continued for recognised banks under the Banking Act 1979, reflected the "political practices and cultural preferences" of the British banking elite and concludes, "If blame were to be shared – and it is doubtful if notions of blame make sense in the case of attitudes shaped by historical experience and cultural conditioning – it must be shared widely throughout the City of London" (Moran, 1986, p. 172).

There was no official investigation to allocate blame, such as a Department of Trade and Industry (DTI) investigation under the Companies Act, as was done during the secondary banking crisis for London & Counties (Department of Trade and Industry (DTI), 1976), or an inquiry conducted by a high court judge as was later done for BCCI (Bingham Report, 1992), to provide an account of, for example, the circumstances leading to the collapse of JMB, whether the auditors should have issued an unqualified report, the Bank of England's decision to rescue JMB and subsequent developments. The only "official" account of the failure and rescue of JMB was provided by the Bank

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of England itself (Bank of England, 1985a). Other extended discussions of the "Johnson Matthey Affair" as it became known, which were heavily reliant on the Bank of England's account include Moran (1986, pp. 163-77), Fay (1987, pp 138-72), Geddes (1987, pp. 107-10), Hall (1987, pp. 3-30), and Reid (1988, pp. 224-33), with Moran's account being particularly insightful.

A review was set up by Lawson, as Chancellor of the Exchequer, and chaired by Leigh-Pemberton, as Governor of the Bank of England, but its purpose was to consider the system of banking supervision following JMB (Leigh-Pemberton Report, 1985). The committee's main terms of reference were to "consider the present supervisory system and whether any early changes in supervisory procedures are called for in the light of the problems which have arisen at JMB". In other words, the aim of the review was to draw lessons from the case of JMB rather than to find out facts and to allocate blame. Lawson (1992, p. 405) later stated that the reason that no public enquiry was held was because, "It was clear, even without a public enquiry, that the supervisory side of the Bank of England had badly fallen down on the job over Johnson Matthey and its reputation had suffered as a result" and the decision not to hold a public inquiry was, "Not wishing the Bank to be humiliated any further [. . .]'.

To understand why JMB was a controversy, in both Collins' senses, it is necessary: to outline the key features of the Bank of England's approach to banking supervision pre-JMB; to consider the Bank of England's account of the reasons for the failure and rescue of JMB; and to assess the extent to which JMB disturbed because it was different to or contradicted "what went before", and carried with it "sufficient allies" to press for change (Power, 2003, p. 391).

"What went before"

The Bank of England's general approach to banking supervision prior to JMB was described in a speech by Peter Cooke, then Head of Banking Supervision at the Bank of England, given to a conference on banking organised by the ICAEW (Cooke, 1982). The speech is important because it is by the senior Bank of England official responsible for supervision and it summarises the Bank of England's approach to banking supervision after the Banking Act 1979, following the secondary banking crisis in the 1970s, but before the emergence of the JMB affair. Cooke was also to be a member of the Leigh-Pemberton review of banking supervision.

Unlike many other jurisdictions, it was not until the Banking Act 1979 that banking supervision in the UK was for the first time placed on a statutory basis. As Cooke (1982, p. 547) explains, until then the Bank of England had acted on the basis of "custom and usage" and its "longstanding authority" in the City of London, elsewhere referred to as "moral suasion" (Penn, 1989, p. 3) or raising of "the Governor's eyebrows" (Lawson, 1992, p. 407). As Moran (1986, p. 18) summarised it, "Regulation should be pictured as an exchange between partners, not an exercise in authority". However, although the 1979 Act finally brought in the statutory underpinning for banking supervision, Cooke emphasised that the "day-to-day fulfilment of that role is still handled without recourse to legal provisions" in order that the Bank of England "can be responsive to the particular features of individual institutions and developments in the market-place" (p. 547).

Two key elements of the Bank of England's unique approach to banking supervision, and which later gave rise to problems in the supervision of JMB, can be

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highlighted. The first concerns the Bank of England's individualistic and flexible approach to each bank; the second, because of the institutional structure of the Bank of England, relates to its reliance on the work of bank auditors. First, Cooke (1982, p. 548) identifies the "process of dialogue" as at the "heart of the system" and elaborates this as follows:

> Indeed, it is judgements about management which are at the heart of our supervisory process – not only from the evidence of the balance sheet and profit and loss performance but from face to face discussions with senior management of all supervised institutions. The Bank's system is designed to enable the supervisor to sit alongside management, sharing in his thinking.

As Cooke emphasises, unlike most other banking regulators, the Bank of England did not have its own cadre of banking inspectors. Cooke raises the question, "How, one is asked, can the Bank supervise effectively without a system of inspection or examination of the books of the banks and in particular the credit files" (pp. 548-9). Cooke answers by stating the Bank of England relies *inter alia* on assessment of management quality, previous loan loss experience, and monitoring of detailed returns provided by banks to the Bank of England. Cooke acknowledges this relies on "management baring their souls to us several times a year" and states that "we also learn rather quickly whose soul baring we can rely on" (p. 549).

Reliance on dialogue with management and the exercise of judgement was however supplemented by the second key element in the Bank of England's approach, highlighted not unnaturally in a speech at an ICAEW conference, which was reliance on the work performed by external auditors in reporting on banks' annual accounts. Cooke (1982, p. 549) observes that "For the auditor of course an examination process is central" and adds:

> I think it may be said that one of the main reasons why in this country we have managed to maintain a system of supervision which does not involve any examination procedure is because of the reliance we can place on the auditor's work.

To emphasise the point Cooke explains further, "To a considerable extent, the Bank depends on the bank's auditors to verify valuations of assets, liabilities and reserves, and relies, to a degree at least, on their judgement of the adequacy of internal control systems" (p. 549).

Significantly in the light of subsequent events, Cooke (1982, p. 550) goes on to note that there were however important confidentiality constraints in the relationship between supervisor and auditor since, except for qualifying the accounts, there is "[. . .] no mechanism for a bank auditor to convey unease to the supervisory authorities". Interestingly, citing Switzerland and Holland, Cooke notes this was not the case in other jurisdictions and suggests that such arrangements "may merit closer examination" in the UK (p. 550). It was the failure in particular of these two key elements of supervision – reliance on dialogue with bank management and reliance on the auditor – that caused JMB to be not just a problem but to become a controversy.

JMB affair – view from the Bank of England

According to the Bank of England (1985a) the immediate cause of the crisis was that JMB had entered into several large exposures which, it was later discovered, were understated in the quarterly returns made to the Bank of England. For two major

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customers, the Bank of England reported significant differences (as much as 50 per cent) between the exposures, measured as a percentage of the capital base, as reported by JMB in the Bank of England quarterly returns, and as compared to the actual situation as later discovered. The problem was compounded in that the March 1984 return to the Bank of England was not submitted until June. Following examination of the March return the Bank of England requested a meeting with JMB for July which was postponed until August. Following the August meeting the Bank of England expressed serious concern and JMB requested its auditors, Arthur Young, to examine these two loans in greater depth. This review indicated that substantial provisions would need to be made and on 25 September JMB alerted the Bank of England. Additional work by the auditors identified the need for further provisions against other loans. Further investigations were undertaken by a team brought in from the London clearing banks. The findings were confirmed by a separate examination by the accountancy firm, Price Waterhouse, commissioned by the Bank of England. The Bank of England attempted to persuade other City institutions to takeover JMB but was unsuccessful. In a last ditch effort a rescue operation was mounted by the Bank of England resulting in the "nationalisation" of JMB, whereby the Bank of England became its owner for the nominal payment of £1. The atmosphere of crisis was well conveyed by Geddes (1987, p. 107) as follows:

> On Sunday 30 September some 200 City bankers had their weekends ruined by an urgent summons to a meeting at the Bank of England. After hours of discussion and negotiation, continuing through the night and sustained by coffee and sandwiches, a £250 million rescue package was put together and signed at 8.30 Monday morning, just in time to enable JMB to open its doors for business[2].

While the immediate cause of the crisis at JMB was the unexpected need to make substantial provisions against large loans, the Bank of England's findings indicated that the failure of JMB was more a matter of an accident waiting to happen, and the causes of the failure of JMB were summed up as follows:

> The loan book had grown very rapidly since 1981 and it has become clear since JMB's acquisition by the Bank of England that the controls systems were inadequate; that the organisation and management of the commercial banking and credit monitoring activities had serious shortcomings; and that insufficient attention had been given to the concentration of risks involved. [. . .] The need for provisions against bad and doubtful debts was not assessed with the proper degree of caution. The judgement of management in approving so many loans which have required substantial provisions was clearly defective (Bank of England, 1985a, pp. 34-5).

In addressing the question of the supervision of JMB, the Bank of England drew attention to its reliance on auditors. In previous years up to and including the year ending 31 March 1984, JMB's "profit performance had been good" and there was "no indication of any sizable problems" as regards bad debts (p. 35). Indeed, the Bank of England pointed out, "The annual accounts carried unqualified audit reports and included a note that 'Provision is made for all known doubtful debts'" (p. 35). The Bank of England argued that there were two weaknesses in the existing system of supervision: first, the lack of any detailed analysis of the quality of loans; second, difficulties in assessing the quality and effectiveness of control procedures. These were specifically linked to the Bank of England's expectations of auditors:

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> The Bank relies heavily on a bank's external auditors to cover these subjects during the course of their work. The auditors need to satisfy themselves as to the basis on which the directors arrive at their valuation if they are to give a clean audit report. They can also be expected to review the adequacy of a bank's controls and systems during the course of an audit and to make comments to management on any aspects they consider to be less than satisfactory (Bank of England, 1985a, p. 36).

The story of the failure of JMB and of its supervision, as told by the Bank of England, demonstrates why JMB was a controversy in both Collins' senses (Power, 2003). First, it represented a major disturbance of "what went before" because it revealed fundamental flaws in the key elements of the existing model of banking supervision, as put in place under the Banking Act 1979 and as described by Cooke (1982), to guard against precisely such an outcome. In the case of the Bank of England's supervision of JMB, reliance on dialogue with bank management, and reliance on the work of bank auditors, was seriously misplaced. Second, the circumstances of JMB's collapse and rescue indicated a variety of factors had contributed to the failure, including weaknesses of management and control systems, banking supervision, and audit, which meant the disturbance carried with it "sufficient allies" for change, including the government, the Bank of England and the City of London, and the accountancy profession, to allay public concern by negotiated action.

The next step was, in Power's terminology, to achieve closure of the JMB controversy. The major problem for policymakers was the perception there had been a failure of both audit and supervision. Although an individual audit or supervision may fail, as Power (1997) noted, it is important not to cast doubts on the efficacy of audit or supervision more generally. The closure of the JMB controversy, a controversy in which the Bank of England and JMB's auditors were deeply implicated, resulted in the new Banking Act 1987 with the somewhat paradoxical outcome that the Bank of England retained its overall responsibility for banking supervision and the role of auditors was extended. The negotiations among the allies and opponents of change that led to this outcome are explored in the next section.

3.2 Closure – review, legislation, guidance

Power (2003, p. 391) described the analysis of closure as addressing the processes by which "consensus and order are re-constructed around practice" and which involves "processes of negotiation at different levels characterised by allies and opponents with an interest in renormalising practice". This involves identifying the main participants and their contributions to the policy negotiations and debates, and reviewing policy outcomes to identify the nature and extent of changes and reforms that are put in place.

The key state participants in seeking closure of the JMB affair were the government, in the form of HM Treasury as the department with overall responsibility, and the Bank of England, responsible for banking supervision and more generally for representing the interests of the City of London. The key private participant was the accountancy profession as issues relating to audit, and the reliance placed on audit by the Bank of England, were regarded as central to the failure of JMB.

Closure was a lengthy process beginning with the Leigh-Pemberton review, the report of which was published in June 1985, to which HM Treasury responded with a White Paper in December 1985, and which led to the Banking Act which received the Royal Assent in June 1987. The accountancy profession was involved in successive

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consultation processes and issued a series of technical releases (ICAEW, 1985a, b, 1986). On the Act becoming law, the Bank of England provided guidance notes which set out the bases for implementation of the relevant parts of the Act (Bank of England, 1987a, b, c). For the profession, the APC first issued interim guidance (APC, 1987) which was later followed by the issuance of an auditing guideline (APC, 1989)[3].

Of relevance are Power's (1996, 2003) studies of the ways in which audit is extended into new areas. At stake are not audit techniques as such, but rather how techniques become recognised as legitimate. Power's (1996) study of "making things auditable" involves, both, negotiating what constitutes acceptable audit knowledge, and the creation of an appropriate organisational and institutional environment within which audit is conducted. In the instances considered by Power, audit was perceived by the profession and others as being extended into new areas. However, post-JMB, the perception by government and the Bank of England was that auditors would not be undertaking anything new but, by lifting the duty of client confidentiality, auditors would be able to communicate their normal audit findings to supervisors. The key conclusion of Power's (2003) related study on the "production of legitimacy" involving reviews of field studies of the social and organisational context of auditing was that legitimacy was co-produced and involved both auditor and auditee.

A major concern of the profession in the post-JMB debates was to negotiate what audit was *not*. In other words, audit did not involve such detailed review and check as was perceived to be the case by the state in the form of the Leigh-Pemberton committee, HM Treasury and the Bank of England, and that the auditors' work was, in fact, being extended into new areas. A resolution of the issues involving the co-production of legitimacy was played out primarily between auditors and regulators, with the government in the form of HM Treasury at the "strategic" level and the Bank of England at the "operating" level, but with banks as auditees/regulatees reduced to a minor role. Negotiations were potentially complicated as an important additional concern of the profession was that the traditional auditor-client relationship should not be undermined. In other words, the profession was most anxious that auditors should *not* be seen as acting as an "inspectorate" as an arm of the Bank of England.

The exploration of the post-JMB process of closure involves consideration of possibilities for change, in particular the extent to which the disturbance, in Collins' second sense, carried with it sufficient allies, noting Power's observation that the more radical the change the fewer allies it will have (Power, 2003). It begins with the perspective of the profession on change as expressed in the personal views of Fowle, a leading practitioner and the partner in charge of Peat Marwick's banking practice, and in the joint submission by ICAEW and ICAS to the Leigh-Pemberton review. Suggestions for radical change and the emergence of allies for change are explored and a discussion of the role of government in establishing boundaries for post-JMB change is informed by a personal account subsequently given by Lawson as Chancellor of the Exchequer. The relevant recommendations of the Leigh-Pemberton Report followed by the government White Paper, the Banking Act 1987 legislation, and the subsequent guidance issued by the Bank of England and the APC are considered. The emphasis is on exploring the processes of negotiation and renegotiation on the role of auditors in banking supervision that took place between the state and the profession, and by which consensus, order and legitimacy were re-constructed and closure post-JMB was achieved.

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Post-JMB – view from the profession

In an article published after the rescue of JMB, Fowle, the partner in charge of Peat Marwick's banking practice, posed the question, "Should bank auditors and supervisors talk to each other?" (Fowle, 1985). It provides a senior accountant's post-JMB view of the auditor-supervisor relationship that can be set against Cooke's (1982) view, as then Head of Banking Supervision at the Bank of England, of the pre-JMB auditor-supervisor relationship.

Fowle (1985) reminds readers that under the Companies Acts it is the responsibility of the directors to prepare accounts that show a true and fair view, and that the auditors report to the shareholders accordingly. While this is the auditors "primary responsibility", Fowle acknowledges auditors are also aware of a "public interest duty" to third parties, which for a bank "assumes special importance" for depositors (p. 29). Fowle, citing Cooke (1982), also notes that bank auditors have been put "on notice" by the Bank of England of its reliance on the work of auditors, but pointed out that since the auditors make no separate report to the Bank of England, reliance can only be placed on the "auditors" formal report on the accounts' (p. 29).

In undertaking their primary duty in reporting on the accounts, Fowle (1985) identified that a fundamental difficulty under the Companies Acts was that if an auditor disagreed with the directors of a bank about whether the accounts showed a true and fair view, the duty of confidentiality prevented the auditor from communicating this concern (or for that matter any other concern) to the Bank of England as supervisor. The only way an auditor could convey concern about whether the accounts showed a true and fair view was by the public act of resignation or of qualification of the accounts[4]. Fowle suggested that, in this difficult situation, a way out for auditors would be "to request the bank's management to go with them to discuss the matter with the Bank of England" (p. 32). Fowle argued this would not absolve the auditors from their duty to report on the accounts, but would ensure that, should it wish to do so, the Bank of England had time to act, for example, to organise a rescue. A further advantage was that the auditors would thereby have discharged their general duty towards depositors and the public interest without compromising their duty of confidentiality to the company and their primary duty to shareholders. Fowle acknowledged this approach involved "brinkmanship" (p. 33). In addition, Fowle pointed out that confidentiality preventing the auditor communicating with the Bank of England applied in reverse, in that the Bank of England was prevented by confidentiality constraints from communicating directly with auditors. Fowle therefore suggested that to overcome the confidentiality problem a more formal "communication route" be established between bank auditors and the Bank of England (p.33).

In its submission to the Leigh-Pemberton committee, the profession not surprisingly agreed with the line of one of its leading practitioners and echoed the comments of Fowle. The profession (ICAEW, 1985a, paras. 5-7) was at pains to state its view of the role of auditors, both what it was and what it was not. For instance, the auditor was not responsible for: the management of the bank; effectiveness of its internal control systems; or preparation of its accounts. The auditor's report did not constitute an endorsement of the company's management or an endorsement of the system of internal control. It was *not* the auditor's statutory duty to report, even to management, on whether adequate controls existed (ICAEW, 1985a, paras. 5-7). The profession was

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also at pains to state that: "it should be recognised that banks do not fail because of incompetent auditing but as a result of bad management" (ICAEW, 1985a, para. 8).

The "third way", as suggested by Fowle (1985), was the position taken by the profession in its submission to the Leigh-Pemberton committee (ICAEW, 1985a, para. 4). The profession did not object to ending the duty of client confidentiality, provided that the relationship between auditors and the Bank of England was conducted within a formal framework, and, as a corollary for auditors disclosing information to the Bank of England, the Bank of England should disclose relevant information to auditors (ICAEW, 1985a, para 4(1)). The profession also recommended that notes of meetings between banks and the Bank of England should be made available for inspection by auditors (para. 4(1)), which again would be of assistance to auditors who otherwise had to rely on managements' accounts of meetings with the Bank of England. Importantly, if the duty of client confidentiality was removed, there was no reason why auditors should not undertake other tasks or disclose further information.

The profession (ICAEW, 1985a) signalled two important caveats to their possible new roles: first, that the "client-auditor relationship should not be undermined" (para. 4(3)); and, second, that matters to be dealt with in any additional reports "should be specified and be of an 'auditable' nature", emphasising that such reports "would not naturally result from the work undertaken by auditors in forming an opinion on the accounts" (para. 18). As regard the first caveat, the danger from the profession's point of view was that the client might come to view the auditor as an arm of the Bank of England, with the danger of the client-auditor relationship becoming less open and more adversarial in nature, and with the possible consequence of the client commissioning less consultancy work from the auditor. The second caveat was a concern that, in spite of carefully pointing out what an audit under the Companies Acts was not, banks, the Bank of England and HM Treasury nevertheless perceived the statutory audit to involve considerably more detailed checking than was in fact the case, and that banks and the Bank of England would therefore be reluctant to pay the additional costs of, and to accept the carefully circumscribed nature of opinions given on, additional reports produced by the auditor.

Thus, in its submission to the Leigh-Pemberton review, the profession sought vigorously to maintain its own definition as to what constituted statutory audit, thereby ensuring the profession retained the ability to define what constituted performance of additional public duties and responsibilities. Equally vigorously, the profession sought assurance that, notwithstanding the lifting of client confidentiality, such additional public duties and responsibilities should not undermine the traditional auditor-client relationship. The profession, not for the first time, therefore sought the best of both worlds.

"Allies for change"

In terms of change, as Power (2003, p. 391) notes, the greater the number of allies the less likely it is that a controversy will generate radical change. In terms of possibilities for changes to banking supervision post-JMB, a radical proposal was made by no less a person than the Prime Minister, Margaret Thatcher. Lawson (1992, p. 408) recalled that Thatcher believed that banking supervision should be taken away from the Bank of England:

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> Margaret [...] was so incensed by the extent of the Bank of England's failure over JMB that she argued strongly that the task of bank supervision should be removed from the Bank of England altogether, and entrusted to a new agency set up for the purpose.

Lawson, diplomatically, both agreed and disagreed with the Prime Minister stating, "Objectively, Margaret was absolutely right. [...] I nonetheless resisted Margaret's proposal, despite its innate good sense, for one practical reason" (p. 409). The reason given by Lawson was that it was the "unfettered" responsibility for banking supervision that gave the Bank of England its authority in the City of London and more widely.

Another radical possibility that might have been adopted was the greater public disclosure of information. Hadjiemmanuil (1996) noted that, by requiring regular returns to be made by banks, the Bank of England had instituted a "supplementary system of bank accounts" (p. 105). Hadjiemmanuil argued that this information should be made publicly available, thus reinforcing market discipline which by contrast was the prevailing attitude in reform of securities markets regulation. Although putting forward persuasive arguments for public disclosure, Hadjiemmanuil recognised that in banking the "prevailing regulatory philosophy is not favourable to the public disclosure of information" (p. 106). Another radical suggestion mentioned by McGuire (1993, p. 685) was, for banks, to expand the auditors' duty of care to include the interests of depositors. McGuire however argued that this would increase auditing costs, especially professional indemnity insurance and regarded it as a "moot point" whether the increased protection of depositors would justify such a step (p. 685). It is also arguable that expanding the auditors' duty of care would need to be accompanied by a comparable expansion of bank directors' duties.

With radical solutions lacking support, but with issues of sufficient public concern to require change, the question was how the debate should be taken forward and closure achieved. As Chancellor of the Exchequer, Lawson was in a powerful position to set in motion and influence the processes by which consensus and order were to be reconstructed. As discussed previously, Lawson did not institute an official investigation to allocate blame, arguing it was clear that the Bank of England was at fault and that, rather than "raking over" JMB, the main aim was to strengthen banking supervision for the future (p. 405).

Although Lawson was highly critical of the Bank of England, the Leigh-Pemberton committee nevertheless consisted of three senior Bank of England officials – Leigh-Pemberton, the Governor, CW McMahon, the Deputy Governor, and WP Cooke, an Associate Director – all of who can be considered to have played a major role in the JMB affair. As a counter-weight to the Bank of England members and, more specifically, to strengthen influence of HM Treasury over the outcome, Lawson (1992, p.405) states, "I was careful to put on it a strong Treasury team [...] together with a distinguished commercial banker", respectively Sir Peter Middleton, Permanent Secretary, and F Cassell, Deputy Secretary, and D Vander Weyer, Deputy Chairman of British Telecom and Director of Barclays Bank.

At least part of the failure of JMB was related to audit, and the terms of reference, agreed by Lawson as Chancellor of the Exchequer and Leigh-Pemberton as Governor of the Bank of England, required the Leigh-Pemberton committee to pay particular attention to "the relationship between auditors and supervisors" (Leigh-Pemberton Report, 1985, para. 1.1 and Annex). Fundamental to this term of reference was

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Lawson's determination to lift the "iron curtain of confidentiality" that addressed a "two-way" problem which prevented auditors communicating with supervisors, and supervisors communicating with auditors (Lawson, 1992, p. 407).

Thus, with radical reforms failing to gain sufficient support, and Lawson seeking to limit post-JMB public debate, the stage was set for closure by limited reforms, apparently orchestrated jointly by the Bank of England and HM Treasury via the Leigh-Pemberton committee, but as Lawson indicates, with the intention of his and HM Treasury views prevailing. Under the terms of reference an increased role for auditors in banking supervision became potentially important for achieving closure. The question was how "the relationship between auditors and bank supervisors" would be negotiated and resolved between the profession and the state, thus achieving closure of the JMB controversy.

Review, legislation and guidance

As might be expected from a committee dominated by senior officials from the Bank of England and HM Treasury, and with radical solutions ruled out, the emphasis of the Leigh-Pemberton Report was on continuity not change. Notwithstanding the JMB affair, the current system of UK banking supervision was praised for its "flexible nature" and the "regular contacts" between supervisors and management of banks and was an "important factor" in maintaining the City of London's role as an international financial centre (para. 2.1). The committee did not explore changing to a different system and, in particular, the establishment within the Bank of England of a banking inspectorate capable of carrying out detailed reviews as is the case in other jurisdictions. The committee recommended the outcome sought by Lawson, that is, the Bank of England should be able to rely on the assistance and cooperation of professional firms able to undertake such tasks, namely the auditors (paras. 2.3).

The Leigh-Pemberton Report's (1985, paras. 4.1-4.15) discussion of the relationship between managements, supervisors and auditors of banks reflected closely the issues raised by Cooke (1982), Fowle (1985) and ICAEW (1985a). The government's White Paper in response to the Leigh-Pemberton Report, at least so far as concerned relationships between auditors and supervisors, essentially endorsed the report's recommendations (HM Treasury, 1985, see Chapter 8 and Annex 4). These were then incorporated into the Banking Act 1987.

In the consultations involved in moving from review, to White Paper, to legislation, and finally to guidance, the profession continued to negotiate and defend its definition as to what constituted statutory audit under the Companies Acts, and the nature and performance of additional duties and responsibilities under the Banking Act 1987. In its new submissions the profession was still concerned about perceptions on: what statutory audit was and was *not*; what auditors could appropriately report on; and preservation of the client-auditor relationship. For example, the profession picked up the Bank of England referring to "verification" and "accuracy" in relation to the auditor's work (Bank of England, 1985b) and pointed out that such terms implied a "depth of examination by an auditor exceeding that carried out in the course of a normal statutory audit, or indeed of special examinations or reviews" (ICAEW, 1985b, para. 5). HM Treasury was also reprimanded for misunderstanding the nature of statutory audit. The profession restated that the auditor's duty was to express an opinion as to whether the accounts showed a true and fair view (ICAEW, 1985b, para.

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5) and not, as the White Paper "erroneously" stated, to assist shareholders "by commenting on the accounts of the company" (HM Treasury, 1985, para. 3.2).

The Banking Act 1987 established a new statutory role of "reporting accountant" which was normally fulfilled by the bank's auditors. There were three important innovations. First, under section 39, the Bank of England was able to require banks to provide reports by reporting accountants on any information that the Bank of England might reasonably require for the performance of its duties. Under section 39, the Bank of England identified the need to call for two kinds of reporting accountants" reports: first, on a bank's accounting and other records and internal controls systems ("controls reports"); and, second, on a bank's financial returns used for statistical or monitoring purposes ("returns reports"). These reports were of a "routine" nature, would be commissioned from the bank by the Bank of England, paid for by the bank, and would normally be undertaken by the bank's auditors. Second, under section 47, auditors and reporting accountants were able to communicate directly with the Bank of England on any matter that was relevant to the performance of the Bank of England's duties. Auditors would not be in breach of any duty of client confidentiality provided communications were made in good faith. The Bank of England identified such reports as "non-routine" and of an "exceptional" or "*ad hoc*" nature. The third innovation was that the Bank of England instituted trilateral meetings, involving the Bank of England, a bank and its auditor/ reporting accountant, and bilateral meetings, involving only the Bank of England and a bank's auditor/ reporting accountant. The Act was supplemented by Bank of England guidance notes for banks, auditors and reporting accountants about accounting and other records and internal control systems and the related reporting accountants" reports (Bank of England, 1987a, b, c). In turn, the APC duly produced an interim guidance, later followed by a full Auditing Guideline (APC, 1987, 1989 respectively). The government, the Bank of England and the profession, by a process of negotiation and renegotiation, had achieved closure of the JMB affair, although the nature of closure was open to further debate.

Commentators argued that the Banking Act 1987 had given significant new responsibilities to auditors, and had given the Bank of England new powers of command over auditors. For example, Lomax (1987, p. 164) argued that "a great deal of responsibility and potential cost is shifted on to the auditors simply at the stroke of a statutory pen". Moran (1986, p. 175) argued it gave the Bank of England considerable power over the auditors:

> It will have greater authority to demand information. It will be able to oblige auditors to communicate to it any unpleasant information. More generally, it will be able to oblige auditors to act as its detectives in the banking system.

Hadjiemmanuil (1996) characterised the reformed role of auditors as "surrogate bank examiners" (p. 110) and suggested that a "parallel system of bank auditing" (p. 111) had been put in place for the benefit of the Bank of England. Hadjiemmanuil (1996, p. 111) noted that the contents of the relevant auditing guideline (APC, 1989) were remarkably similar to the Bank of England's own guidance, in many cases repeated phrases "verbatim", and noted that the effect was to transform the notices into accepted professional practice.

On the other hand Hadjiemmanuil (1996, p. 113), as a lawyer, was critical of the outcomes as negotiated by the profession and, in particular, expressed concern that

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auditors were allowed a "considerable degree of autonomy in defining their responsibilities in the supervisory process". There was no obligation "to actively police" the observance of regulatory requirements but merely to report irregularities detected in the course of their ordinary audit work (p. 113). In addition, significant discretion remained with the auditors since irregularities were only reported if judged material in the opinion of the auditors. It can be argued that the outcome of the auditing guideline on banks (APC, 1989) was not dissimilar to that of the auditing guideline on fraud (APC, 1989), where Humphrey *et al.* (1993, p. 55) comment "[...] on the basic question of the auditor's responsibility for detecting fraud and the impact of fraud considerations on the audit evidence process, nothing has been given away". The conclusions of Hadjiemmanuil (1996) and Humphrey *et al.* (1993) are consistent with Power's discussion of the guidance for fraud and guidance for the audit of banks (Power, 1997, pp. 22-5, 31-6).

Not only had the profession succeeded in limiting auditors' responsibilities. The requirements of the Banking Act 1987 and the guidance framework put in place to support the Act, also enabled accountants to develop their expertise and skills in reporting on internal control systems. An inspection of the Bank of England's guidance note (1987b) on accounting and other records, internal control systems and reporting accountants' reports reveals that it went into considerable detail, and reads like an extract from a professional auditing textbook. As such, the guidance note, and the associated APC guideline (1989), set out a blue print for accountants to report on the internal control systems of banks. Power (2007) dates the rise of internal control to the Cadbury Report (1992), although acknowledging there were antecedents. Arguably, the origin of the rise in internal control could be dated to the recommendation of the Leigh-Pemberton Report (1985) or to the statutory requirement for auditors/ reporting accountants to report on internal controls under the Banking Act 1987.

Overall, a major problem for policymakers seeking closure of the JMB affair was the public perception there had been a failure of both audit and supervision. As Power (2003, p.391) noted, in discussing whether a controversy will "disturb" in the second of Collins' senses, the more extreme the challenge to the existing order, the less legitimate the challenge will appear and so will receive fewer allies. Radical changes, for example, as proposed by Thatcher (see Lawson, 1992) and also discussed by Hadjiemmanuil (1996) and McGuire (1993), which cast doubt on the efficacy of current arrangements, did not received sufficient allies. On the other hand, "do nothing" was not an option. As Power (1996, p. 294) concluded in his essay on the extension of audit into new areas, "making things auditable" was at least as much about creating a favourable organisational and institutional environment within which audit becomes recognised as legitimate, as with the audit technique itself. But, as Power (2003, p. 380) importantly concluded in his related study of "auditing and the production of legitimacy", legitimacy is co-produced. The Leigh-Pemberton committee and its terms of reference, carefully crafted by Lawson in association with Leigh-Pemberton, allied the Bank of England and HM Treasury in seeking to achieve closure of the JMB affair by building a consensus for "improvements", principally by bringing the accountancy profession on board as an ally by encouraging it to give up its long-standing tradition of client confidentiality and to take on new roles in banking supervision. The crucial outcome was that the key participants, the government, the Bank of England and the accountancy profession were, by negotiation and renegotiation, able to achieve via the

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traditional policy process of review committee, White Paper, legislation and professional guidance, closure of the JMB affair by establishing a framework for the renormalisation of practice (Power, 2003). In terms of Power's schema, the final step that remained was to ensure credibility of the implementation of the new communicative relationship.

3.3 Credibility – independence, reports, meetings

The final element of Power's schema is credibility, which involves the "renormalisation of practical common sense" to ensure "what is eventually done appears natural, obvious and [. . .] uncontested" and includes the "suppression of conflict, production of working papers, the development of formal audit techniques [. . .]" (Power, 2003, p. 391). Whereas the elements of controversy and closure of the JMB affair have been explored using documentary evidence, credibility is explored using empirical evidence based on interviews undertaken with "high-level" individuals involved in implementing the requirements of the Banking Act 1987. Interestingly, when discussing the co-production of legitimacy, Power suggests that this is a process involving both auditor and auditee (Power, 2003, p. 380). In this current study, which considers the introduction of new and extended roles for auditors in banking supervision, the practical co-production of legitimacy was undertaken by individual auditors from audit firms and individual supervisors from the Bank of England, with auditees/regulatees from banks occupying a less prominent role. Arguably, the credibility established by the regular reporting on the internal controls of banks to the Bank of England paved the way for the "rise of internal control" that Power dates as beginning with the Cadbury Report (Power, 2007).

As identified by virtually all commentators, the most important innovation of the Banking Act 1987 was the lifting of the "iron curtain of confidentiality" and the introduction of a new "communicative relationship" between auditors and supervisors (Lawson, 1992; McGuire, 1993; Moran, 1986; Penn, 1989; Power, 1997). On the other hand, the recommendation of the Leigh-Pemberton Report (1985, para. 13.9) was that auditor-supervisor dialogue, "[. . .] should not interfere with the present relationship between a bank and its auditors." This was confirmed in the government's White Paper which stated, "[. . .] the Government are conscious of the need not to undermine the traditional relationship between the auditor and his client" (HM Treasury, 1985, para. 8.3).

A major challenge for the profession therefore was to maintain its traditional relationship with the client, while developing new relationships with the supervisor. The latter required acting within the legislative framework of the Banking Act 1987 and the associated guidance from the Bank of England and the APC, and demonstrating to the Bank of England that, notwithstanding the maintenance of the traditional auditor-client relationship, auditors could act independently of the client and engage in constructive dialogue with the supervisor. The further challenges for the profession were to address the two key areas where interaction between auditors and supervisors primarily took place. The first concerned the section 39 "controls reports", where the Bank of England commissioned reports undertaken by a bank's auditors/reporting accountants about the bank's accounting records and internal control systems. The second concerned the requirement for a bank's auditors/

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reporting accountants to attend and contribute to bilateral and trilateral meetings convened to discuss *inter alia* section 39 reports and the annual audit.

The advancement of credibility following the JMB affair depended on the renormalisation of practice. The major challenges to renormalisation concerned the need to demonstrate auditor independence and that auditors and supervisors could engage constructively as regards section 39 reports and bilateral and trilateral meetings. The challenges of the new communicative relationship are explored using interview findings with senior partners and supervisors.

Auditor independence

The JMB affair was perceived as involving a failure of audit and of supervision. Closure of the JMB controversy under the Banking Act 1987 involved lifting the confidentiality constraints between auditors and supervisors. It was therefore important both to the Bank of England and the accountancy profession to establish the credibility of their new communicative relationship. In particular, it was for auditors/reporting accountants to convince supervisors that they were capable of acting in the Bank of England's interest and not just that of their clients. This was especially the case in the context of the 1980s during which perceptions had grown that a high priority for auditors was to maintain good relationships with management with the aim of obtaining lucrative consultancy assignments (Humphrey, 1997). This was all the more important since section 39 reports, although commissioned by the Bank of England, were paid for by the bank, and normally undertaken by the bank's auditors. The bank made the results of the investigations available to the Bank of England. It became clear that auditors, supervisors and banks had to work together to establish a legitimate role for auditors within this new legal framework. This backstage work of establishing legitimacy was undertaken in a context which, at least initially, was inauspicious because of on-going auditor independence concerns.

Commenting on this backstage work, audit partners recognised the question marks that hung over their conduct in the 1980s. However, partners argued that auditors were best placed to undertake the section 39 reports required by the Bank of England, and indeed other work, although it was recognised by partners that public perceptions might be otherwise. It was therefore necessary for partners and supervisors to understand and manage the process in such a way as to allay public concerns. As one partner argued:

> My view is yes, use auditors who are well informed, have a very good understanding of the client which might be enhanced by some additional projects but who are very, very well aware about how far they can go and where conflict would arise. And in terms of reporting to regulators yes, allow us to report to regulators drawing on that expertise because it's in everyone's interest. It keeps costs down. It provides more effective reports to regulators.

Moreover, another partner commented that regulators often preferred the auditor to undertake the section 39 report because auditors possessed a ready familiarity with the bank: "[. . .] you the audit firm understand the business. We don't want another firm having to get up that learning curve. We want this done quickly, efficiently, cost-effectively".

In terms of auditor independence, partners argued that it was safeguarded by statute and by a range of related procedural codes and cultural norms. Four specific forms of protection were voiced. First, there were the general professional and ethical

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guidelines of the professional accountancy bodies; second, which was most emphasised, individual accountancy firms had stringent policies in place to safeguard their perceived independence; third, in any case, raised perceptions had made all parties, especially auditors, particularly aware of issues of auditor independence and conflicts of interest; and, fourth, the Bank of England had the right to specify the appointment of an alternative accountancy firm if it had doubts about an audit firm's independence or competence. One senior partner stated that it was not in the interests of the firm to favour the client and emphasised the importance of partners taking an independent line: "Our view is that our partners should be prepared to stand against their client in front of the regulator".

Bank regulators were aware of the potential dangers of auditors acting as reporting accountants. On the other hand, one regulator explained that the Bank of England preferred the auditor to be the reporting accountant because a greater familiarity with the client firm should result in a better report: "We would have expected the auditors to have that view of the firm and that knowledge of management which would contribute to a more productive report". Related to this was the question of follow-up of section 39 reports. The view was that the auditor would also be more "vigilant" about follow-up matters, at least about "major things", because these should also be subject to review during the course of the statutory audit. Interestingly, however, another regulator pointed out there were also special section 39 reports where for various reasons, such as dissatisfaction with performance, the auditors would not necessarily be chosen as the reporting accountants. Choosing words carefully, this interviewee explained that about such reports: "Let's say they were in response to specific concerns about a bank, and they might well not be carried out by the auditors, but could be".

An additional check on the section 39 process were review meetings held between the Bank of England and the senior banking partners of the accountancy firms. The aim was an informal exchange of views whereby regulators and partners sought to improve their respective approaches. As a regulator explained, this was where partners were able to say to regulators, for example, "we didn't think your manager handled that meeting very well, or you really need to be more inquisitive of this kind of thing". Regulators could inform partners of reports that were considered to be "dodgy" or "clearly didn't stack up" or were "obviously bad value for money in anyone's terms". Such an airing "wouldn't exactly be career enhancing".

Collectively therefore it was in the interest of banks (primarily for cost reasons), audit firms and the Bank of England that the auditor, except where there were special circumstances, should normally be appointed as the reporting accountant. This was supported by arguments that it was justifiable on cost-benefit grounds and that there were sufficient formal and informal safeguards to independence.

Scoping of section 39 controls reports

It was the new section 39 "controls reports" that were important in developing the new communicative relationship. Together auditors, banks and the Bank of England had to make efforts to co-construct reports on accounting a bank's accounting and other records and internal control systems. But – what would the reporting accountants actually report on in practice? Central to the process was the scoping of the reports, which was a cooperative process involving auditors, banks and the Bank of England.

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Discussing the scoping of section 39 reports one audit partner highlighted the on-going, cyclical and collaborative nature of these engagements. In terms of describing the process one audit partner stated that since section 39 reports operated on an annual cycle, the trilateral meeting concluding the current year also included a discussion of possibilities for next year. This partner stated that the Bank of England might "throw out the suggestion of what they might look at next year" or the Bank of England would say to management "well, what's your thinking", thus indicating that the Bank of England sought a dialogue to ensure its concerns were addressed while enabling the bank to reap some benefits. The next step was for the Bank of England to issue a draft scope which would then be circulated for comments. This partner described the process as "bouncing the draft around" so that all parties were satisfied as to what was to happen. The aims were to: "get the scope focussed on what the Bank of England wanted"; "to make sure we [auditor/reporting accountant] understood what they [the Bank of England] were looking for"; and for the bank "to try and keep it down in terms of cost and interference level". Thus, the cooperative rather than the adversarial element was stressed: "Everyone came at it with a different agenda but ultimately it led to getting something that was understood and relatively focussed".

Other partners agreed that scoping of section 39 reports was a cooperative affair. However, as section 39 reports became more routine, one partner commented that scopes became "reasonably standard", for example, there might be a "treasury standard scope, or high-level controls, or credit". The result was scoping letters became "reasonably consistent" although they might be "tweaked a little". An exception was for very large financial institutions where the scope was more "bespoke" and the Bank of England might suggest possible topics and "gauge the reaction" from the auditor and management. Another partner from the same firm pointed out that another occasion where a "more tailored scoping approach" was employed was where an issue had arisen and an *ad hoc* section 39 report was required on the specific issue. In such instances scoping discussions became more tense as "the stakes get higher, and the intensity of negotiations between, first of all the client and the regulator, and then the client and the reporting accountant, would probably be slightly tougher".

As regards regulators, it is important to remember that, by deliberate choice, it was decided that the Bank of England should not acquire the knowledge and resources to undertake detailed investigations of a bank's accounting and other records and internal control systems. Indeed, this was precisely why the Banking Act 1987 gave the Bank of England powers to commission reporting accountants' reports. But this meant regulators were, potentially, at a considerable information disadvantage as compared to banks and their auditors when it came to deciding on topics for investigation and scoping of reports. This helps to explain why the Bank of England sought a cooperative rather than adversarial relationship between banks and their auditors, since without a reasonably open dialogue this mode of regulation might be rendered ineffectual. A former regulator, now a senior accountant at a bank, explained the nature of the supervisory relationship:

> I think the way the old relationship [that is under the Banking Act 1987] worked you really did build up contacts within the organisation you were supervising. It was in the interests of the supervisor to have that supervisory relationship so they could go along and have a discussion with the people involved and make sure what we were actually covering was ultimately beneficial to both sides and the institution was happy with it as well. It was quite a

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constructive dialogue that took place to agree what would be covered. Once a broad agreement had been reached then the auditors would be brought in.

A regulator with considerable experience of the Bank of England supervisory regime similarly commented that in planning what reports to commission a trilateral meeting was held: "We [the Bank of England] would have a discussion with the auditors in the presence of their client to say what we are proposing for the next year [. . .] and give them the opportunity to say, well that looks sensible". The interviewee emphasised that while the Bank of England actively sought a collaborative relationship with banks and their auditors, nevertheless the Bank of England "always had the last word".

Thus, the process of scoping section 39 reports was a key aspect in developing communicative relationships between auditors, banks and the Bank of England. The negotiated processes developed as the parties became more familiar with the annual round of co-producing the section 39 reports. The part played by the associated, face-to-face, bilateral and trilateral meetings are explored next.

Bilateral and trilateral meetings

The formal bilateral and trilateral meetings, which took place between the interested parties were, to a considerable extent, shaped by the consideration of the section 39 reports produced by the auditors/ reporting accountants, but whose scope had been co-constructed during previous meetings and correspondence between the auditor, bank and the Bank of England. These meetings were important in the formation and evolution of the communicative relationship because they increased not only the quantity of communication, but also the quality of the exchanges as participants adjusted to their new roles.

While auditors supported communication with the regulator, individual partners were divided, at least in the early stages of the regime, as to whether a confidential dialogue without the client or an open dialogue in the presence of the client was more helpful. For instance, one partner believed that the place to discuss matters was the trilateral meeting, making the significant remark that the accountancy firm's policy was:

> If we've got anything to say, we'll say it in a trilateral forum and that's it, because we don't really believe there should be any barriers to that sort of communication. [. . .] We weren't into smoke, mirrors and confusion and so on.

However, another partner, although initially having reservations about bilaterals, came to view them as a helpful forum: "Actually, we were very suspicious of it candidly when it came but I actually think it was quite useful". The main reason was because it enabled the "sharing of impressions" between audit partners and regulators, and "the good bilaterals were where you got the same impressions coming back".

In this respect it is apparent that the trilateral and bilateral meetings, which underpinned the new communicative relationship between bankers, regulators and auditors had, initially, a disruptive effect on professional conduct since the parties to these meetings had to learn "how to go on" (Power, 2003, p. 389) in a newly enlarged and yet unsettled community.

As time went by, and all sides became more familiar with the processes and with each other, bilateral meetings became "more readily accepted" and regulators became

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"more proficient" in the way they would interpret the "signals" in meetings. An audit partner emphasised that the process developed into one of mutual reassurance:

> Generally speaking I think clients were quite comfortable with us going and talking on a bilateral basis because if they felt they had a comfortable relationship with the regulator and they felt their auditors did then generally speaking everybody felt more comfortable with everybody.

A regulator also emphasised that informal contact with auditors became an important source of information:

> I got to know most of the reporting accountants very well. So I could pick up the phone and just say to them, "look this is what I think you're saying here, is that what you'd expect?", and you can get a bit of a signal from them whether that was down the right lines or not.

The complex process of decoding messages contained within the section 39 reports was mentioned by another regulator who noted that regulators might not fully understand the reporting accountant's message:

> Accountants have a language all of their own and unless you've a dictionary you can't really unlock it. And I remember when I was at [naming Big Four accountancy firm] quite a lot of instances where what the accountants thought they were saying to the supervisors, and what the supervisors thought they were hearing, were actually quite far apart.

In the opinion of this interviewee, this was partly due to a misunderstanding by regulators that auditors do "an awful lot more" work than is actually the case. An example given by another regulator of an issue which had to be "buttoned down" concerned reliance on the work of internal audit. Reporting accountants thought this was "fine", whereas the regulators "didn't expect" the reporting accountants to be relying on internal audit.

The lifting of the "iron curtain of confidentiality" between auditors and supervisors was widely seen as the most important innovation of the Banking Act 1987 (Lawson, 1992; McGuire, 1993; Moran, 1986; Penn, 1989). The problem was how the new "communicative relationship" should be implemented in practice and credibility post-JMB restored (Power, 1997, 2003). While guidance was provided by the Bank of England (1987, a, b, c) and the APC (1989), the "renormalisation" of practice involved activities undertaken "backstage", such as, evidence gathering, report scoping and writing, making judgements, formulating opinions, informal discussions, formal meetings (Power, 2003). As Power argues, the extension of audit into new areas involves co-production of legitimacy, normally undertaken by individual auditors and auditees (Power, 2003, p. 380). In extending the role of auditors in banking supervision, the major interaction in the co-production of legitimacy took place not between auditors and auditees, but between auditors and supervisors from the Bank of England, with banks playing a less prominent role as auditees/regulatees. The interview findings from audit partners and supervisors indicate that, in addition to legislation and guidance, extensive social interaction in the key areas of auditor independence, scoping of reports and bilateral and trilateral meetings was vital to the establishment of credibility of the post-JMB arrangements. Arguably, the experience gained from the extensive reporting on the internal controls of banks to the Bank of England under section 39 of the Banking Act 1987 helped paved the way for the "rise of internal control" dated by Power as beginning with the Cadbury Report (Power, 2007).

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4. Discussion and conclusion

The concluding section discusses the key findings of the study in terms of Power's schema, considers the implications for the role of auditors in banking supervision following the recent financial crisis and offers suggestions for further research.

As regards controversy, the key issue is that a controversy only disturbs if it is different to or contradicts what went before and carries with it sufficient allies for change (Collins, 1985; Power, 2003). As Power argues, it is the latter condition which is the social basis which transforms a disturbance into a controversy. The study showed that because a variety of factors had contributed to the failure of JMB, including weaknesses of management and control systems, banking supervision and audit, the disturbance carried with it sufficient allies for change, including the government, the Bank of England and the City of London, and the accountancy profession, to allay public concern.

As regards closure of the controversy, only a solution that is sufficiently acceptable to sufficient important allies (and opponents) of change will emerge as legitimate. In this regard legitimacy is co-produced by auditors and auditees. Thus, Lawson's carefully constituted Leigh-Pemberton committee and the carefully crafted terms of reference, made allies of the Bank of England and HM Treasury. The accountancy profession was encouraged to give up its long-standing tradition of client confidentiality and to take on new and extended roles in banking supervision and in turn became an ally. A framework for the "renormalisation" of practice and achievement of closure emerged via the traditional route of review committee, White Paper, legislation and professional guidance, involving the co-production of legitimacy by a process of negotiation and renegotiation among the allies for change. Lifting the "iron curtain of confidentiality" and establishing a new "communicative relationship" between auditors and supervisors was widely seen as the most important innovation of the Banking Act 1987 (Lawson, 1992; McGuire, 1993; Moran, 1986; Penn, 1989).

As regards credibility, the final element in Power's schema, the renormalisation of practice involves activities undertaken "backstage" (Power, 2003). The study showed that, in addition to legislation and guidance, extensive social interaction between auditors and supervisors was vital to the establishment of credibility of the post-JMB arrangements. Credibility was achieved backstage by individuals from the Bank of England and from audit firms having a common interest in working together to implement and normalise the new arrangements. While the controversy itself, and the process of achieving closure, largely took place "frontstage", the process of establishing credibility largely took place "backstage".

Thus, the relaxation of the duty of confidentiality owed by a bank auditor to the client as one of the most innovative changes introduced by the Banking Act 1987 cleared the way for auditors to play a greater part in the process of banking supervision (McGuire, 1993; Lawson, 1992; Penn, 1989). In the longer term, it can be argued the Banking Act 1987 also marked the beginning of the growth of interest in internal control in debates on corporate governance and risk management, although Power (2007) links the emergence of internal control to the later publication of the Cadbury Report (1992).

Overall, the findings about the legitimacy of accounting and auditing change following JMB demonstrate: first, the importance of Collins" second aspect of controversy (Collins, 1985), which is that to be a genuine controversy, as opposed to

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being ignored, there must be sufficient allies for change; second, closure involves lengthy processes of negotiation and renegotiation among the allies for change to achieve agreement and which results in the co-production of legitimacy (Power, 1996); and, third, the necessity of backstage interaction for the renormalisation of practice and achieving credibility (Power, 2003).

These findings also have important implications for debates about the future role of auditors following the recent financial crisis. Reports of inquiries conducted by Parliamentary committees did not initially indicate major concern as regards audit; rather, the committees identified as important the failure of the FSA to engage in dialogue with bank auditors (House of Lords Economic Affairs Committee, 2009, 2011; House of Commons Treasury Committee, 2009a). Since lifting the traditional auditor-client confidentiality constraint and enabling a communicative relationship to develop between auditors and supervisors was widely seen as the most important innovation of the Banking Act 1987, it is surprising such communications were allowed to lapse. That it occurred is largely a consequence of changes to the FSA's supervisory approach. In the absence of a specific reason for engaging in regular dialogue, contact between supervisors and bank auditors became the exception rather than the rule.

In terms of the study and in the context of Power's schema while the framework enabling communicative relationships between auditors and supervisors remained in place, what the FSA failed to do was to maintain the backstage interaction and engagement between individual supervisors and auditors which had led to the renormalisation of practice and established credibility following the failure of JMB. The implication is that for accounting and auditing change to be sustained all three elements of Power's schema are important and, in particular, a formal framework that encourages and facilitates continued backstage activity is vital for the maintenance of credibility of the communicative relationship between supervisors and auditors.

Another important issue concerns the fact that the more radical the change to the existing state of affairs, the less legitimate the change appears, and the fewer allies it will have (Power, 2003). In its proposals for reforms, the ICAEW is explicit about seeking only marginal, not radical, changes: "Our report identifies a number of incremental changes that, taken together, should enhance confidence in banks' reporting" (ICAEW, 2010, p. 4). In the light of the study, the ICAEW commitment to incremental change is likely to attract allies and their proposals are more likely to become regarded as legitimate, especially where improved communication between auditors and supervisors is presented merely as a return to former arrangements "[...] where the level of dialogue was much better under the previous Bank of England regime" (ICAEW, 2010, p. 14).

It becomes necessary, therefore, to raise the question as to whether as the study suggests the apparently inevitable tendency to reject radical solutions to a controversy, and to accept only solutions on which there is a wide measure of agreement, may result in a failure to tackle fundamental issues. For example, ICAEW (2010) and FSA/FRC (2010) do not address more radical and fundamental criticisms of bank audit raised in recent special editions of academic accounting journals, for example, *Accounting, Organizations and Society* (see especially Arnold, 2009; Humphrey *et al.*, 2009, Sikka, 2009) and *Managerial Auditing Journal* (see especially Sikka *et al.*, 2009; Woods *et al.*, 2009).

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Finally, in terms of further research, the study has demonstrated the usefulness of Power's explanatory schema for undertaking research into accounting and auditing change. The schema is particularly helpful as a comparative and descriptive framework for undertaking and structuring case studies of "crises" that have resulted in changes to law, regulation and practice as it directs attention successively to the causes of the disturbance, the emergence of allies (and opponents) for change, the nature and extent of changes, and the renewal of practice. Controversies involving failure followed by reform are likely to have been sufficiently important to generate extensive documentary evidence in the form of "official" publications. Further first hand evidence may be obtained from contemporaneous and subsequent publications by, and interviews with, key individuals involved in policy development and implementation. Cases of failure followed by reform are particularly prevalent in banking and financial services, and recent financial failures and scandals that might repay investigation, or re-investigation, using Power's schema include BCCI, Barings, Equitable Life and Northern Rock. The study has demonstrated that it is important to obtain evidence about the "backstage" renormalisation of practice and restoration of credibility. Further studies may lead to a deeper understanding of the nature of a "disturbance", ways in which "sufficient" allies of change emerge and are drawn together, the processes by which certain proposals for change are deemed radical and others become legitimised, the evolution of frameworks and structures of reform, the procedures of renormalisation and their backstage implementation.

Notes

1. At the time of writing the Report had only recently been published. The main recommendation as regards the role of auditors in banking supervision was that "the new framework of banking supervision should provide for bank audit to contribute more to the transparency and stability of the financial system, in particular, through two way dialogue between auditors and supervisors about the financial health of banks" (House of Lords Select Committee on Economic Affairs, 2011, p. 6).
2. Lawson recalled receiving a six o'clock telephone call that morning and being informed by the Permanent Secretary to the Treasury that the Governor and Deputy Governor of the Bank of England "wished to see me about a banking matter", the first time Lawson was informed about the problems at JMB (Lawson, 1992, p. 403).
3. Bank of England and APC, and later the Auditing Practices Board (APB), updated their guidance based on the provisions of the 1987 Act and as a consequence of the European Commission's BCCI Directive and the collapse of Barings (Bank of England, 1994, 1996; APB, 1994a, b).
4. Fowle (1985, p. 31) identified an additional route which was "to swallow their doubts and issue an 'unqualified' report and then resign", but argued that this was "a denial of professionalism".

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