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Financial Crisis and the Silence of the Auditors

**Prem Sikka
Essex Business School
University of Essex**

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by

**Prem Sikka
University of Essex**

Address for correspondence:

Prem Sikka
Centre for Global Accountability
University of Essex
Colchester, Essex CO4 3SQ, UK.

Email: prems@essex.ac.uk

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Abstract

Against the backdrop of the current financial crisis, this paper seeks to stimulate debates about contemporary auditing practices. It notes that many financial enterprises have sought state support within a short period of receiving unqualified audit opinion. Auditors collected large amounts in audit and non-audit fees. The events raise questions about the value of company audits, auditor independence and quality of audit work, economic incentives for good audits and the knowledge base of auditors.

Introduction

External audit is promoted as a trust engendering technology (Power, 1999) to persuade the public that capitalist corporations and management are not corrupt and that companies and their directors are made accountable. In an uncertain world, corporate audits are expected to produce comfort by reassuring the stakeholders that the technology “provides an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balances required ... Audits are a reassurance to all who have a financial interest in companies” (Committee on the Financial Aspects of Corporate Governance, 1992, p. 36).

Accountants, as auditors, have cemented their status and privileges on the basis of claims that their expertise enables them to mediate uncertainty and construct independent, objective, true and fair accounts of corporate affairs. This expertise, it is claimed, enables markets, investors, employees, citizens and the state to limit and manage risks. Such claims, however, are precarious as measures of revenues, costs, assets, liabilities and profits are contested technically as well as politically and also because capitalist economies are inherently prone to crises (O’Connor, 1987). The claims of expertise are frequently punctured by unexpected corporate collapses, frauds and failures. Such events fuel the suspicions that auditors lack the requisite independence, expertise and incentives to construct the promised ‘true’ and ‘fair’ account of corporate affairs. They also provide an opportunity to reflect and (re)construct the role of auditing in contemporary society.

At the time of writing (December 2008), major western economies are going through a deepening financial crisis, given visibility by banking failures and massive state intervention to rescue ailing financial institutions. Against the backdrop of increasing economic turbulence, this paper seeks to stimulate debates about the quality of auditing by examining the audit reports issued on the financial statements of distressed financial enterprises. It consists of three further sections. The next section contextualises the financial crisis and shows that a large number of enterprises have collapsed within a short period after receiving unqualified audit reports. Auditors also received large amounts of fees from distressed enterprises. The second section offers

reflection on the role of auditors and suggests possible areas of research. The final section briefly summarises the paper.

FINANCIAL CRISIS AND AUDITORS

A salient feature of the current financial crisis is that it has been incubated by the financialisation of western economies, most notably the US economy, which created an abundance of credit and encouraged excessive risk-taking through complex financial instruments (derivatives, credit default swaps) and corporate structures and ineffective regulatory mechanisms (Ferguson, 2008; Morris, 2008; Soros, 2008). Banks, hedge funds and insurance companies have been key actors in the financialisation of the economy and are estimated to have lost around US\$2.8 trillion (Bank of England, 2008).

The social cost of the unfolding crisis is difficult to estimate, but vast amounts of public money are being used to prop-up distressed financial enterprises. For example, in addition to providing huge sums to stimulate banking liquidity, the UK government has set aside £500 billion (about US\$750 billion) to support financial enterprises (The Guardian, 8 October 2008). It has closed London Scottish Bank, nationalised Northern Rock and is taking a stake in a number of other banks. The US government has closed twenty-two banks¹, including Lehman Brothers, Washington Mutual and Indymac. It has rescued Freddie Mac, Fannie Mae, Bear Stearns and created a bailout fund of \$700 billion to purchase stakes in troubled banks (Los Angeles Times, 4 October 2008). Altogether the US government has committed nearly \$8.5 trillion, around 60% of its gross domestic product, to arrest the collapse of its financial system (San Francisco Chronicle², 26 November 2008). The European Central Bank has provided around €467 billion to support banks. Germany has set aside over US\$400 billion to bailout ailing banks (Wall Street Journal, 11 October 2008). So far, Ireland, Iceland, Hungary and Turkey have sought financial assistance from the International

¹ As per information on the Federal Deposit Insurance Corporation (FDIC); <http://www.fdic.gov/index.html> - accessed on 25 November 2008.

² <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/11/26/MNVN14C8QR.DTL>; accessed 26 November 2008.

Monetary Fund (IMF) to manage the crisis (The Guardian, 21 October 2008, 29 October 2008, 20 November 2008).

Regulators and investors have traditionally relied upon corporate financial statements to make sense of bank liabilities, risks and economic exposure, but this has been highly problematic (Stiglitz, 2003). An early estimate suggested that despite a raft of accounting standards, banks had around US\$5,000 billion of assets and liabilities off balance sheet (Financial Times, 3 June 2008) though this figure is being constantly revised. Citigroup alone has some US\$1.23 trillion of assets in entities which are not shown on its balance sheet (Wall Street Journal³, 24 November 2008). Some banks have shown assets, especially subprime mortgages, at highly inflated values and derivatives have long been a “powerful tool for inflating company profits by hiding losses and hence the risks of company operations” (Hildyard, 2008, p. 30). The chief executive of a leading financial advisory business argued that a “big part of the problem is that accounting rules have allowed banks to inflate the value of their assets. Accounting has become a new exercise in creative fiction, with the result that banks are carrying a lot of "sludge" assets clogging up the balance sheet” (Reuters⁴, 30 October 2008).

Attention has focused on auditors because of the belief that “a green light from an auditor means that a company’s accounting practices have passed muster” (New York Times, 13 April 2008⁵). Table 1 shows that distressed financial enterprises, whether in the UK, USA, Germany, Iceland, The Netherlands, France or Switzerland, received unqualified audit opinions on their financial statements published immediately prior to the public declaration of financial difficulties. These opinions were provided by one of the Big Four accounting firms - PricewaterhouseCoopers (PwC), Deloitte & Touche (D&T), Ernst & Young (E&Y) and KPMG.

INSERT TABLE 1 HERE

³ <http://online.wsj.com/article/SB122747680752551447.html>; accessed 24 November 2008.

⁴ <http://www.reuters.com/article/GCA-CreditCrisis/idUSTRE49T77O20081030>; accessed 30 October 2008.

⁵ http://www.nytimes.com/2008/04/13/business/13audit.html?_r=1&oref=slogin

Admittedly, the list in Table 1 is incomplete, but it is useful for highlighting a number of issues. Adverse “key financial ratios” are considered to be an indicator of going concern problems (Auditing Practices Board, 2004a), and major institutions acquired leverage ratios in the range of 11:1 to 83:1 (Gros and Micossi, 2008). Excessive leverage has the potential to increase liquidity risk and jeopardise bank survival. For example, a report by the US Securities and Exchange Commission (SEC) noted that Bear Stearns “was highly leveraged, with a gross leverage ratio of approximately 33 to 1 prior to its collapse” (US Securities Exchange Commission, 2008, p. 19). One expert informed the US House of Representatives Committee on Oversight and Government Reform that Lehman Brothers, the fourth largest investment bank, “had a leverage of more than 30 to 1. With this leverage, a mere 3.3% drop in the value of assets wipes out the entire value of equity and makes the company insolvent⁶”.

The UK auditing standards, closely aligned with international auditing standards, state that the “auditor’s procedures necessarily involve a consideration of the entity’s ability to continue in operational existence for the foreseeable future. In turn that necessitates consideration of both the current and the possible future circumstances of the business and the environment in which it operates” (Auditing Practices Board, 2004a, p.8). Auditing standards also require auditors to “perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified“ (Auditing Practices Board, 2004b, p. 3). How the auditors constructed audits to satisfy themselves that banks were a going concern are open to conjecture, but the financial difficulties of many became publicly evident soon after receiving unqualified audit reports.

For example, Lehman Brothers received an unqualified audit opinion on its annual accounts on 28 January 2008, followed by a clean bill of health on its quarterly accounts on 10 July 2008. However, by early August it was experiencing severe financial problems and filed for bankruptcy on 14 September 2008. Bear Stearns, America's fifth largest investment bank, received an unqualified audit opinion on 28 January 2008. However, by 10 March its financial problems hit the headlines and on

⁶ <http://oversight.house.gov/documents/20081006103223.pdf>; accessed on 14 November 2008.

14 March, with state support, it was sold to JP Morgan Chase (US Securities Exchange Commission, 2008; The Guardian 15 March 2008). Carlyle Capital Corporation received an unqualified audit opinion on 27 February 2008. On 9 March, the company was known to be discussing its precarious financial position with its lenders. On 12 March, the company announced that it “has not been able to reach a mutually beneficial agreement to stabilize its financing” and was placed into liquidation (cited in Sikka, 2008a). Thornburg Mortgage, America's second-largest independent mortgage provider received an unqualified audit opinion on 27 February 2008. On March 7, the company "received a letter, dated March 4 2008, from its independent auditor, KPMG LLP, stating that their audit report, dated February 27 2008, on the company's consolidated financial statements as of December 31 2007, and 2006, and for the two-year period ended December 31 2007, which is included in the company's Annual Report on Form 10-K for 2007, should no longer be relied upon" (cited in Sikka, 2008a).

Table 1 shows that in many cases, auditors provided non-auditing services and this inevitably raises the age-old question about auditor independence. The issues were flagged by the US Senate Committee’s report on the collapse of Enron (US Senate Committee on Governmental Affairs, 2002) and revisited by the UK House of Commons Treasury Committee report on Northern Rock. The Committee stated that “there appears to be a particular conflict of interest between the statutory role of the auditor, and the other work it may undertake for a financial institution” (UK House of Commons Treasury Committee, 2008, p. 115).

Table 1 also shows that auditors received considerable income from their audit clients, which may be very significant for regional offices managing the audit. The fee dependency and related advancement of career can create conflict of interests. The insolvency examiner of New Century Financial Corporation, America’s second largest subprime mortgage lender, stated that the company was “engaged in a number of significant improper and imprudent practices related to its loan originations, operations, accounting and financial reporting processes. ... KPMG engagement team acquiesced in New Century’s departures from prescribed accounting methodologies and often resisted or ignored valid recommendations from specialists within KPMG. At times, the engagement team acted more as advocates for New Century, even when

its practices were questioned by KPMG specialists who had greater knowledge of relevant accounting guidelines and industry practice” (United States Bankruptcy Court for the District Delaware, 2008, p. 2, 6 and 8).

Concerns about auditing practices have been amplified by a number of commentators. A former minister in Ireland has described auditors as a “joke and a waste of time. They are lick-arses for the management of companies, because corporate governance doesn’t work in our society ... the banks are in difficulty because of their auditing”. [Auditors] “are not independent but they are bloody-well paid” (Irish Times⁷, 18 October 2008). One commentator asked “What’s the point of having armies of number crunchers on fancy fees if they cannot spot the difference between a shack in Alabama and a triple-A security?” (The Daily Telegraph⁸, 22 October 2008). Another commentator wondered, “... did the so-called Big Four accountancy firms get paid by the banking industry to make all those sub-prime assets seem like they had value? Who was kicking the tyres and checking the inventories? Surely someone, somewhere with a degree in Adding-Up must have peered into the loan book and questioned its contents?” (The Daily Telegraph⁹, 17 September 2008). However, unlike the previous banking failures (Arnold and Sikka, 2001) auditors have received comparatively light press scrutiny although the US authorities are said to be investigating allegations of fraud (The Daily Telegraph, 24 September 2008). Some have argued that “the crisis may not result in criminal charges against auditors, but it is certain to renew interest in how accountants conducted themselves” (New York Times, 13 April 2008¹⁰).

Some Issues

⁷ “Firms 'have case to answer' on banks crisis”, Irish Times, 18 October 2008 (<http://www.irishtimes.com/newspaper/ireland/2008/1018/1224233216915.html>; accessed on 28 October 2008).

⁸ <http://www.telegraph.co.uk/finance/comment/jeffrandall/3212394/If-anyone-can-find-George-Osborne-tell-him-his-country-needs-him.html>; accessed on 24 October 2008.

⁹ <http://www.telegraph.co.uk/finance/comment/jeffrandall/2972337/Fantasy-finance-cuts-many-of-the-giants-of-global-banking-down-to-size.html>; accessed 28 October 2008.

¹⁰ http://www.nytimes.com/2008/04/13/business/13audit.html?_r=1&oref=slogin

The financial crisis raises some old and new questions about auditing practices. Traditionalists have often claimed that external audit adds credibility to financial statements. Such claims may be based upon the view that auditors have ‘inside’ knowledge and are thus able to curb management enthusiasm and impart superior information. The difficulty with such a hypothesis is that the current financial crisis shows that markets and significant others were not comforted by unqualified audit opinions issued by major auditing firms. For example, the 2006 financial statements of Northern Rock, UK’s fifth largest mortgage provider, carried an unqualified audit opinion. On 25 July 2007, the bank’s interim accounts for six months to 30 June 2007 received a positive report from its reporting accountants. However, this did not prevent a run on the bank during August and September (UK House of Commons Treasury Committee, 2008). Indeed, within days of receiving unqualified audit opinions many banks listed in Table 1 were seeking financial support from the state. Overall, little is known about how credibility to accounts is added and at whose behest, especially as audit evidence is not available to the general public. It would be useful to explore how confidence in auditing is eroded and the circumstances that persuaded significant others to ignore auditor assurances.

The issuing of audit reports is subject to organizational and regulatory politics. Auditors may be reluctant to qualify bank accounts for fear of creating panic or jeopardising their liability position. During previous banking failures legislators argued that auditor silence “caused substantial injury to innocent depositors and customers” (US Senate Committee on Foreign Relations 1992, p.4). To reassure markets and promote confidence in financial institutions, the UK government has enacted the Financial Services and Markets Act 2000. It formalises exchange of information between auditors and regulators. It also requires auditors to inform the regulators if during the course of their audit they become aware of anything that materially affects the regulator’s functions of consumer protection and maintenance of market confidence (Auditing Practices Board, 2007). Within this context, auditors are obliged to inform regulators of their intention to issue a qualified audit report. Whether auditors did so or were dissuaded from issuing qualified opinions is not known. The politics of audit opinion beg questions about the value of an audit. They draw attention to power relations and ideologies that shape regulation of capital. Perhaps, in the coming months parliamentary inquiries will address such matters.

Researchers might also consider mobilising the freedom of information laws to explore the relationship between the state and accounting firms.

Auditors may argue that the financial crisis unfolded suddenly and they were thus ill-prepared to make judgments about the likely financial distress. The difficulty with such an argument is that finance capitalism has been in ascendancy (Ferguson, 2008) and played a leading role in the banking crises in Latin America (Collins and Kincaid, 2003), Sweden, Norway and Japan (Englund, 1999; Basel Committee on Banking Supervision, 2004). The US experienced a Savings & Loan crisis (Lowy, 1991) and Fannie Mae has a history of accounting and auditing problems (US Office of Federal Housing Enterprise Oversight, 2006). The collapse of the UK based Bank of Credit and Commerce International (BCCI) was the biggest banking failure of the twentieth century (Arnold and Sikka, 2001) and the demise of Barings attracted considerable international attention (Zhang, 1995). Previous episodes have highlighted issues about earnings management, income shifting, excessive leverage and failures of conventional auditing technologies. Yet regulators have paid little attention to changes in capitalism and emerging issues (Sikka et al., 2007). It would be useful to explore the lessons that can be learnt from recent scandals and transformations in the nature capitalism.

Auditing firms received considerable income from all distressed banks, which may be significant for local offices responsible for issuing audit opinions. This raises two questions. Firstly, there are long standing questions about auditor provision of non-auditing services and the related impairment of auditor independence (US Senate Committee on Governmental Affairs, 2002; Powers Jr. et al., 2002; UK Department of Trade and Industry, 1976, 1979). As a result of scandals, some restrictions have been placed on the sale of consultancy services to audit clients (for example, Sarbanes-Oxley Act 2002), but the change is always resisted. When, in the aftermath of the nationalisation of Northern Rock, the UK House of Commons Treasury Committee (2008) expressed its concerns about the provision of consultancy services to audit clients, the immediate response from the Auditing Practices Board (APB), UK's auditing standard setter, was that "After Enron we consulted on this question of auditor conflicts of interest and there was no appetite for a blanket ban on non-audit

services” (Accountancy Age¹¹, 7 February 2008). The APB is dominated by the auditing industry (Sikka, 2002). Seemingly, control of regulatory bodies is an important resource in organising unwelcome developments off the political agenda, especially when they have the potential to dilute firm income (Sikka, 1992). It would be useful to examine the politics of regulatory change and particularly the tactics used to resist and dilute auditing reforms.

The second question relates to the basic auditing model and total auditor income. The auditing firms are capitalist enterprises and are dependent upon companies and their directors for income. The fee dependency impairs claims of independence and has the capacity to silence auditors (Powers Jr. et al., 2002; United States Bankruptcy Court for the District Delaware, 2008). It poses fundamental questions about the private sector model of auditing which expects one set of capitalist entrepreneurs (auditors) to regulate another set of capitalist entrepreneurs (company directors). The flaws of such a model persuaded an earlier UK Conservative government to create an independent statutory body for appointment and remuneration of auditors for public bodies (Heseltine, 1987). The auditors, including the Big Four accounting firms, are generally prohibited from selling consultancy services to audit clients. The proponents of such a model hoped to extend it to the private sector, but this was not done. The flaws of the private sector model were also recognised in the US in the 1930s and the draft legislation creating the Securities and Exchange Commission (SEC) proposed that the Commission should be the auditor for public companies¹². However, under the weight of corporate lobbying the proposal was abandoned. The current financial crisis is an opportunity to consider alternative institutional arrangements for auditing. Alternative models need not directly involve accounting firms and audits of banks could be conducted by statutory regulators. This would also improve banking regulators’ knowledge of banks.

Audit reports are the publicly visible evidence of an audit. However, little is known about the processes and organisational values associated with their production of an

¹¹ <http://www.accountancyage.com/accountancyage/analysis/2209088/rock-failure-casts-shadow-3792762>

¹² *Corporate Crime Reporter* 8, February 14, 2007 (<http://www.corporatecrimereporter.com/turner021407.htm>; accessed on 24 November 2008).

audit. Such processes involve management of labour, economic incentives and images of clients, public and regulators. Some prior literature has provided a glimpse of the ingredients used to produce audits. For example, Hanlon (1994) argues that audit staff are inculcated to appease clients and neglect wider social interests. In pursuit of profits, firms exert time budget pressures on audit personnel and some have responded by adopting irregular practices and even resorting to falsification of audit working papers (Willett and Page, 1996). Auditing firms have shown increasing willingness to violate laws, regulations and assist their clients to publish flattering financial statements (Sikka, 2008c). Arguably, a steady stream of auditor liability concessions have also eroded economic incentives to deliver good audits (Sikka, 2008b). In the words of a former senior Vice-President of the World Bank, “there are plenty of carrots encouraging accounting firms to look the other way ... there had been one big stick discouraging them. If things went awry, they could be sued ... In 1995, [US] Congress ... provided substantial [liability] protection for the auditors. But we may have gone too far: insulated from suits, the accountants are now willing to take more “gambles” ... (Stiglitz, 2003, p. 136). The above literature draws attention to inherent contradictions in the design of audits and also offers research opportunities for exploring the production of audits through examination of regulatory reports, court cases, case studies, oral histories and a variety of social science methodologies.

The intensification of finance capitalism poses questions about the knowledge base of auditors. For over a century auditors have utilised methods of an industrial age in which tangible things could be examined, counted and measured and their values could be checked from invoices and vouchers. Such a world has been eclipsed by complex financial instruments (e.g. derivatives) whose value depends on uncertain future events and can be anything from zero to several million dollars/pounds. Derivatives were central to the collapse of financial and non-financial businesses such as Barings (Zhang, 1995), Enron (Powers Jr. et al., 2002; US Senate Committee on Governmental Affairs, 2002) and Parmalat (The Times, 17 March 2004). The US government bailout of Long Term Capital Management (LTCM) showed that even the Nobel Prize winners in economics had difficulties in valuing derivatives (Dunbar, 2000). It is doubtful that auditor knowledge surpasses that of Nobel Prize winners. Seemingly, we have reached the limits of conventional auditing technologies and

ought to be considering alternative forms of accounting, disclosures and accountabilities.

Summary

The deepening financial crisis poses questions about the role and value of external audits. Markets do not seem to have been assured by unqualified audit opinions and many financial institutions either collapsed, or had to be bailed out within a short period of receiving unqualified audit opinions. The events fuel the suspicions that auditors lack the claimed expertise to render an independent and objective account of corporate affairs. The episodes encourage reflection on the role, value and independence of auditors. They also present opportunities for research into regulation, independence, politics, production and knowledge base of auditors.

An independent inquiry into the role of auditing, especially at financial institutions, would help to highlight the shortcomings of the current practices. A UK legislator has accused accounting firms of delivering “dodgy auditing” (Hansard, House of Commons Debates, 13 October 2008. col. 553) and demanded “a full scale inquiry into the conduct of the audit work that signed off the banks’ accounts” (Accountancy Age¹³, 23 October 2008). Unsurprisingly, such calls are resisted by major auditing firms (Accountancy Age¹⁴, 13 November 2008) though they are using the crisis to demand further liability concessions¹⁵ and increase their profits. The auditing regulators have shown little interest in exploring the issues raised in this paper and are content to claim that “auditing has had a good crisis¹⁶”, i.e. it has received little sustained press scrutiny.

¹³ <http://www.accountancyage.com/accountancyage/analysis/2228834/overhaul-auditing-banks-4299027>; accessed 27 November 2008.

¹⁴ <http://www.accountancyage.com/accountancyage/comment/2230322/auditing-profession-review>; accessed 30 November 2008.

¹⁵ <http://www.accountancyage.com/accountancyage/news/2218842/frc-appeals-watchdog-auditor>; accessed 27 November 2008.

¹⁶ Speech by Paul Boyle on 23 October 2008 (<http://www.frc.org.uk/images/uploaded/documents/Mansion%20House%20Speech%20October%202008%20-%20published1.pdf>; Accessed 24 October 2008).

The auditing industry has mediated previous crises by revising auditing standards and codes of ethics (Sikka and Willmott, 1995) and the early signs are that the same strategies will be deployed again. For example, without examining the processes associated with the production of audits, changes in capitalism, or limits of auditing, the US Public Company Accounting Oversight Board (PCAOB¹⁷) has issued seven new draft auditing standards¹⁸. Such myopic policies are unlikely to reinvigorate auditing.

¹⁷ This was part of the post-Enron reforms enshrined in the Sarbanes-Oxley Act 2002.

¹⁸ http://www.pcaobus.org/News_and_Events/News/2008/10-21.aspx; accessed on 22 October 2008.

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TABLE 1

Company	Country	Year End	Auditor	Date of Audit Report	Audit Opinion	Fee (Millions)	
						Audit	Non-Aud
Abbey National	UK	31 Dec 2007	D&T	4 Mar 2008	Unqualified	£2.8	£2.1
Alliance & Leicester	UK	31 Dec 2007	D&T	19 Feb 2008	Unqualified	£0.8	£0.8
Barclays	UK	31 Dec 2007	PwC	7 Mar 2008	Unqualified	£29	£15
Bear Stearns	USA	30 Nov 2007	D&T	28 Jan 2008	Unqualified	\$23.4	\$4.9
Bradford & Bingley	UK	31 Dec 2007	KPMG	12 Feb 2008	Unqualified	£0.6	£0.8
Carlyle Capital Corporation	Guernsey	31 Dec 2007	PwC	27 Feb 2008	Unqualified	N/A	N/A
Citigroup	USA	31 Dec 2007	KPMG	22 Feb 2008	*Unqualified	\$81.7	\$6.4
Dexia	France/ Belgium	31 Dec 2007	PwC + Mazars & Guérard	28 Mar 2008	Unqualified	€10.12	€1.48
Fannie Mae	USA	31 Dec 2007	D&T	26 Feb 2008	Unqualified	\$49.3	---
Fortis	Holland	31 Dec 2007	KPMG +	6 Mar 2008	Unqualified	€20	€17

PwC

Freddie Mac	USA	31 Dec 2007	PwC	27 Feb 2008	*Unqualified	\$73.4	---
Glitnir	Iceland	31 Dec 2007	PwC	31 Jan 2008	Unqualified	ISK146	ISK218
HBOS	UK	31 Dec 2007	KPMG	26 Feb 2008	Unqualified	£9.0	£2.4
Hypo Real Estate	Germany	31 Dec 2007	KPMG	25 Mar 2008	Unqualified	€5.4	€5.7
Indymac	USA	31 Dec 2007	E&Y	28 Feb 2008	*Unqualified	\$5.7	\$0.5
ING	Holland	31 Dec 2007	E&Y	17 Mar 2008	Unqualified	€68	€7
Kaupthing Bank	Iceland	31 Dec 2007	KPMG	30 Jan 2008	Unqualified	ISK421	ISK74
Landsbanki	Iceland	31 Dec 2007	PwC	28 Jan 2008	Unqualified	ISK259	ISK46
Lehman Brothers	USA	30 Nov 2007	E&Y	28 Jan 2008	Unqualified	\$27.8	\$3.5
Lloyds TSB	UK	31 Dec 2007	PwC	21 Feb 2008	Unqualified	£13.1	£1.5
Northern Rock	UK	31 Dec 2006	PwC	27 Feb 2007	Unqualified	£1.3	£0.7
Royal Bank of Scotland	UK	31 Dec 2007	D&T	27 Feb 2008	Unqualified	£17	£14.4
TCF Financial Corp	USA	31 Dec 2007	KPMG	14 Feb 2008	Unqualified	\$0.97	\$0.05
Thornburg Mortgage	USA	31 Dec 2007	KPMG	27 Feb 2008	Unqualified	\$2.1	\$0.4

UBS	Switzerland	31 Dec 2007	E&Y	6 Mar 2008	Unqualified	CHF61.7	CHF13.4
U.S. Bancorp	USA	31 Dec 2007	E&Y	20 Feb 2008	Unqualified	\$7.5	\$9.6
Wachovia	USA	31 Dec 2007	KPMG	25 Feb 2008	Unqualified	\$29.2	\$4.1
Washington Mutual	USA	31 Dec 2007	D&T	28 Feb 2008	Unqualified	\$10.7	\$4.3

Notes: 1) Data as per financial statements and statutory filings shown on the respective company's website.

2) 'Audit fee' also includes 'audit related fees'

3) * Denotes that audit report draws attention to some matters already contained in the notes to financial statements.

