Audit failure and corporate corruption

Why Mediterranean patron-client relations are relevant for understanding the work of international accountancy firms

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Abstract: Patron-clientelism and corruption were traditionally viewed as problems endemic to underdeveloped marginal countries with weak states, powerful self-serving elites, and widespread civic disengagement. However, recent decades have seen a dramatic increase in corruption scandals in the Global North, particularly its more developed banking and financial sectors. Paradoxically, this has occurred despite a massive expansion in auditing by international accountancy firms (KPMG, PwC, Deloitte, EY) who often portray themselves as warriors of integrity, transparency, and ethical conduct. How are these trends connected? Drawing on anthropological studies of Mediterranean patron-clientelism, I illustrate how collusive relations between accountancy firms and their clients create ideal conditions for corruption to flourish. Finally, I ask how can these accountancy scandals help us rethink patron-clientelism in an age of "audit culture"?

Keywords: accountancy scandals, audit culture, Big Four, fraud and corruption, Mediterranean anthropology, patron-client relations.

This article starts from a puzzle. Patron-clientelism and corruption were traditionally identified by academics and policy makers as problems endemic to marginal, underdeveloped or developing countries characterized by weak states, powerful self-serving elites, civic disengagement, and a pervasive ethos of interfamily hostility and mistrust—what Edward Banfield (1967) famously termed "amoral familism." Narratives about patronage and corruption typically pitted the backwardness of "transitional" economies in the semi-peripheries and Global South against the more enlightened values of fairness, openness, and transparency found in the more industrialized and modernized societies of the West (Gellner and Waterbury 1977; Rose-Ackerman and Palifka 2016; Shore and Haller 2005; Silverman 1965). Yet recent decades have seen dramatic increases in fraud and corruption scandals in the Global North, particularly in its more developed commercial, banking, and financial sectors. Since the 2008 global financial crisis, an event triggered by corporate greed, poor governance, complacent regulators,

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and reckless risk-taking by the banks (which had to be bailed out by massive public funds[1]), there has been a continuous spate of high-profile fraud and corruption scandals. These include cartelization, insider trading, money laundering, sanction-busting, the fixing of the London Interbank Offered Rate (LIBOR), and intricate tax-avoidance schemes for the super-rich revealed in the 2015 leaked Panama Papers (Tombs 2015) and the 2017 Paradise Papers. As David Whyte argues (2015: 5), we seem to have entered an "era of 'turbo corruption'" in which fraud and corruption have become normalized routine practices for maintaining the power of corporations, governments, and public institutions.

Paradoxically, these developments have occurred during a period of massive expansion in company auditing by accredited professional accountancy firms whose job is to regulate company finances in order to prevent fraud and give investors confidence that the companies are not involved in chicanery. This growth in accountancy is particularly striking in the UK. Prem Sikka, writing a decade ago, noted that while the number of family doctors in the UK was 50,000, there were over 280,000 professional accountants, "more than the rest of the European Union put together" and "almost the highest number of accountants per capita in the world" (Sikka 2009). By 2018, that number had grown to over 360,000, plus an additional 168,000 accountancy students (Financial Reporting Council 2018: 4–5). Yet this dramatic expansion in auditing seems to have done little to prevent corporate corruption or stem audit failure. The global auditing market is dominated by four international accountancy firms known collectively as the "Big Four": Ernst and Young (EY), PricewaterhouseCoopers (PwC), Deloitte, and KPMG (based on the names of the founders Klynveld Peat Marwick Goerdeler). Each of these firms has been embroiled in serious fraud and professional misconduct resulting in fines and even prison sentences for some partners. These controversies raise four key questions about the relationship between corruption, accounting, and society that I seek to examine: (1) what is the link between the growth of accounting and rising levels of corruption?, (2) Why have these financial watchdogs repeatedly failed to detect fraud and what do these regulatory failures reveal about the nature of contemporary corruption?, (3) How are perceptions of rising levels of corporate corruption linked to the neoliberalization of economy and society?, and (4) what insight does the legacy of Mediterranean anthropology offer for understanding contemporary patronage and corruption beyond the Mediterranean, particularly in the heartlands of financial capitalism? To answer these questions, I begin by outlining the methodological contribution of Mediterranean anthropology to the study of patronage and corruption before turning to examine the activities of the Big Four accountancy firms and the questions these raise concerning fraud and corruption. In bringing together these themes, I hope to demonstrate why anthropological debates on patron-clientelism can help us understand corruption scandals involving the Big Four accountancy firms. What we see here are new forms of collusion borne of clientelistic relationships between accountancy firms and the companies they audit, and often involving the government bodies that are supposed to regulate the auditors. I ask: to what extent does the belief that the financial sector can regulate itself or that these firms are "too big to fail" reflect a similar bracketing of the powerful as symbolically "outside" the boundaries of the moral community? Does their dominant market position render these firms immune from the norms and rules that apply elsewhere, in much the same way as the traditional elites who featured in early Mediterranean ethnography were often situated "above" the normative frameworks governing everyday life at the local level?

Patron-client relations in the anthropology of the Mediterranean

The themes of patronage and clientelism had a particular salience in the anthropology of the

Mediterranean (Davis 1977; Gilmore 1982). Early ethnographic accounts of Mediterranean societies, prompted by a methodological shift away from structural-functionalism toward more actor-centered approaches, highlighted the importance of studying middlemen, brokers, entrepreneurs, networks, parties, cliques, and factions rather than the traditional anthropological focus on corporate lineage groups (Bailey 1971; Blok 1975; Boissevain 1974). They also emphasized the importance of studying social institutions such as patronage, spiritual kinship and friendship, and forms of association based on neighborhoods and voluntary interest groups. The patron-client relationship was identified as a key feature of traditional Mediterranean and peasant societies and what Eric Wolf (1966) famously termed the "interstitial, complementary and parallel structures of complex society." Sydel Silverman best captured the defining elements of that relationship: Patronage, she wrote,

> may be defined as an informal contractual relationship between persons of unequal status and power, which imposes reciprocal obligations of a different kind on each of the parties. As a minimum, what is owed is protections and favour on the one hand and loyalty on the other. The relationship is on a personal, face-to-face basis, and it is a continuing one. (Silverman 1965: 176)

What interested the pioneers of Mediterranean anthropology was precisely the moral quality of these personal contractual relationships (Campbell 1966; Kenny 1968; Pitt-Rivers 1961). This typically entailed villagers, peasants, shepherds, and other lower-status or subordinate groups giving services and political support to their higher-status patrons (who included local mayors, landlords, priests, merchants, doctors, and other members of the local elite) in return for small favors, political protection, and support in dealing with the world beyond the village or local community. Although these relationships were clearly unequal and hierarchical, they were also seen as moral, multi-stranded, and framed in terms of idioms of kinship or friendship. It was this ethical and "multiplex" (Bailey 1971) character of the patron-client relationship that became the focus of anthropological interest. As many ethnographies noted, it was usually the peasant or supplicant—not the powerful landlord or mayor—who would seek to create the patron-client bond. Drawing a powerful magnate into a more personal relationship was a "weapon of the weak" (Scott 1985) and an investment strategy; it was a way of controlling the "autocracy of local magnates" (Davis 1977: 135) and creating more binding moral ties the subaltern partner could exploit for strategic familial advantage.

Most patronage relationships involved individuals rather than groups. Typically, men would be clients to those above them, while simultaneously patronizing their social inferiors. What these early anthropologists saw, therefore, were a series of interpersonal ties (or "dyadic" bonds), which, when seen as a whole, formed chains or networks linking the rural hinterland to the metropolitan centers. From this perspective, local patrons came to be defined by Silverman (1965) and others as "community-nation mediators." Patrons were "middlemen" or cultural brokers who straddled the urban-rural divide: individuals who supposedly helped to "bridge the gap" between core and periphery, or what Robert Redfield (1956) called the "Great" and "Little Traditions"—so that isolated rural communities might gain access to the benefits and resources of the state.

Mediterranean rural societies were also portrayed as being marked by a strong ethos of egalitarianism, a gender-inflected ideology sometimes captured in local sayings such as "all men are equal here," or the Kabyle male maxim, "I also have a moustache" (Peristiany 1965: 9). When asked about these patronage relations, Mediterranean countrymen typically described them as an extension of "friendship" and "kinship," or as a spiritual relationship, describing the patron as "my friend," or "godfather" (*padrino*, *compadre*, *Koumbaros*) to our child. Taking their cue from their informants, many anthropologists used similar interpretations in their ethnographies. "Lop-sided friendship" and "reciprocal but unequal" was how Julian Pitt-Rivers (1961: 140) famously portrayed the patron-client relationship in his pioneering ethnography of a small Spanish town. The chains created by these patronage ties were variously described as "informal groups," "action sets," "friends of friends," "kinship networks," and "amigocracies" (Boissevain 1974).

I cite these examples because they illustrate some of the wider themes of Mediteranneanist anthropology and their relevance to the study of contemporary corruption, particularly arguments about ideology and the limits of ethnography and why anthropological analysis needs to go beyond ethnographic description and accounts of the folk model. Early Mediterraneanist anthropologists, particularly those working in the structural-functionalist approach with its characteristically ahistorical and consensus model of society, often failed to do this. Their analytical shortcoming arose not so much from ethnocentrism, but from displaced or "secondary ethnocentrism." This happens when anthropologists—whose disciplinary formation already inclines them toward empiricism, humanism, and cultural relativism—uncritically adopt the point of view of their informants, and to such a degree that local explanations of reality are regarded as somehow less biased and closer to the anthropological "truth." In the case of Mediterranean patronage, this made it difficult for some ethnographers to see that what they were looking at was not just so many individual ties or "dyadic bonds" linked together in a loose chain, but unequal power relations of an historical and structural nature. It was only when looked at from a materialist or political economy perspective that it became possible to diagnose these relationships as class relationships and to see that ties of "spiritual kinship" and "friendship" were simply idioms of stratification used to disguise or ameliorate what were, in effect, relationships of domination and subordination (Colclough 1971; Davis 1977: 132; Li Causi 1975).

The point here is that the discourse of "honor," "friendship," and "interpersonal ties" around which patronage-clientelism was framed, worked to conceal rather than illuminate the class nature of these relationships. Yet most anthropologists, blinded by what they saw as the voluntary, contractual, and moral quality of a patron-client relation, failed to see it as a form of class domination.

Understanding contemporary corruption: Insights from Mediterraneanist anthropology

There are at least four points of wider anthropological and analytical significance to be gleaned from this brief account of competing interpretations of Mediterranean patronage:

1. **Morality:** patron-clientelism entailed a form of complicity and collusion between the two parties that had its own morality, at least from an insider or emic perspective. The relationship was informal, contractual and personal: an exchange of loyalty, favors, and service for protection.
2. **Political Economy:** The patron-client tie formed part of a wider political economy of clientelism based on historical relations of production, a set of values, and an ideology of paternalism and patriarchy that connected with local notions of honor, family, and patronage.
3. **Class Power:** Viewed from a political economy perspective, patronage-clientelism constituted a system of stratification and a form of class power; a hierarchical order of domination and subordination that served to maintain the economic interests and social exclusivity of a dominant elite.
4. **Scalar Dimensions:** The patron-client system was based on vertical rather than horizontal bonds that straddled different

> geographical locations; patrons were often situated beyond the village or neighborhood community and therefore not bound by the same moral codes and standards. A form of complicity and collusion operated that further reinforced the exclusivity of an elite that saw itself as part of an honored society and exempt from normal rules—an elite that was also highly successful in naturalizing a sense of distinction and deserved privilege. One of the important lessons from Mediterranean ethnography was that social relations can be both intimate and personal and at the same time exploitative and hierarchical. How we define relationships therefore shapes how we understand and theorize them. This may seem an obvious epistemological point, but it is worth reiterating: definitions open up ways of seeing, but also ways of not seeing; of concealment and mis-recognition.

As I illustrate below, these four themes of morality, political economy, class power and scalar relations provide a particularly useful lens for exploring contemporary forms of patron clientelism and corruption in the world of financial accounting.

Defining corruption: Beyond "abuse of public office"

The first point to emphasize is that the standard definition of corruption is partial and problematic. According to the World Bank and other international organizations, corruption (which includes nepotism, clientelism, and bribery) is "the abuse of public office for private gain" (World Bank 1997: 8).[2] The problem with this definition is that it limits corruption proper to the public sector. Typically, corruption was thought to arise from a combination of weak governance and greedy individuals, the result of institutional capture or rent-seeking, which occurs when shady officials divert public funding programs from their intended recipients. This conception reinforced the idea that the solution to corruption is privatization and the introduction of competition through outsourcing and internal markets. The assumption was that a functioning, competitive economy based on free-market principles rules out the possibility of corruption. The result was a series of counter-corruption policies led by the International Monetary Fund, World Bank, and United Nations Development Programme based on structural adjustment policies that encouraged market reforms and a retreat from state regulation. As Naomi Klein (2007) observed in *The Shock Doctrine*, one of the clearest illustrations of how these ideas were translated into policy and practice was the reconstruction that took place in Iraq following the 2003 Gulf War (see also Harvey 2007: 6–7). As with similar shock therapy experiments in Chile and Indonesia, opening the public sector to predatory finance capitalism not only worked to massively transfer wealth from the populace to corporate elites financing the reconstruction programs, it also increased the scope and opportunities for corruption in the emerging risk, insurance, financial advisory, and futures markets. This is arguably one of the defining features of patronage in the corporate world; its close association with the "new economy" of contemporary finance capitalism (Gledhill 2003; J. Schneider and P. Schneider 2003b). Like patron-client relations in traditional Mediterranean societies, the corporate world has naturalized its own system of privilege, hierarchy, and power.

One consequence of the World Bank and OECD's extensive 1980s privatization programs was an increasing blurring of the boundaries between the public and the private spheres. This has major implications for the rules and ethics governing public officials (more on this and "revolving-door" appointments later). Neoliberal policies have actively encouraged the incursion of private wealth accumulation into the public sphere and weakened government regulation of the financial sector. In the United States and the UK, these reforms have produced a complex web of relationships that have enabled corporate and financial power to merge into the state. As David Whyte (2015: 11) notes, "understanding contemporary corruption must therefore start with an understanding of what has changed in the relationship between the 'public' and 'private.'"

Two things in particular changed following the post-1980s neoliberal policy reforms. The first was the massive opening up of the public sector to the predatory practices of corporate finance capital. This happened in several ways, including deregulation, competitive tendering, compulsory outsourcing, and introduction of various new Private Finance Initiatives (PFIs) and Public-Private Partnerships (PPPs), which fiscally conservative governments then used to fund major public building programs such as hospitals, prisons, bridges, and roads without the costs appearing on their balance sheets (Monbiot 2000). The second was the introduction of legislation in the UK and elsewhere to make compulsory auditing of all private and public-sector companies, including schools, hospitals, housing associations, universities, charities, and other entities, created a vast state-guaranteed market for professional auditing services, which greatly helped the Big Four accountancy firms grow (Sikka 2004).

Evolution of the Big Four: From audit firms to financial services agencies

It is against this background that the Big Four accountancy firms have risen to their position of global prominence. For much of the twentieth century the international accountancy industry was dominated by a group of firms known as the Big Eight, which included Arthur Anderson, Arthur Young & Co., Coopers & Lybrand, Deloitte Haskins & Sells, Ernst & Whinney, Peat Marwick Mitchell, Price Waterhouse, and Touche Ross. However, through a series acquisitions and mergers during the 1980s, the Big Eight were reduced to the Big Five and following the Enron scandal and the break-up of Arthur Andersen became the Big Four. These firms dominate the market in company auditing and have become indispensable to that market as they are the only firms equipped to audit large multinational companies. Between them, the Big Four operate across 150 countries, employ well over a million staff worldwide (Statista 2019a), and in 2014 alone, generated US$113.7 billion in global revenues (Doherty 2014). Their combined revenues have risen annually since 2014: from US$128 billion in 2016 and US$134.28 billion in 2017 to US$154.75 billion in 2019 (Statista 2018a; 2018b; 2019b). Even the smallest of the Big Four, KPMG, is larger than the next four accounting firms combined (*Economist* 2014). Since the 2008 global financial crisis, they have steadily increased their grip over the global accounting, tax preparation, bookkeeping, and payroll services industry. In 2011, they audited over 80 percent of all public companies in Japan and 97 percent of all US public companies with sales between US$250 million and US$5 billion (Pai and Tolleson 2012: 85). In 2015, Deloitte, EY, PwC and KPMG collectively audited 79 percent of all UK main market-listed companies, more than 96 percent of the FTSE 250 companies, and 99 percent of the FTSE 100, the UK's 100 largest public companies (Sikka 2015: 160). This rose to 100 percent of the FTSE by 2019, cementing the Big Four's control over the UK's auditing market against a background of growing calls for radical reform of the industry (Kinder 2019).

In their promotional literature, the Big Four often portray themselves as ethical organizations dedicated to transparency and honesty; "integrity warriors" (Sampson 2005: 105) engaged in the global fight against fraud and corruption. They are widely seen as "watchdogs of the corporate world" (Marriage 2019). But they also have a strong interest in creating and exploiting the market for the kinds of financial services they provide. As Sikka (2015: 157) observes, they have been "key players in establishing the post-1970s hegemony and major beneficiaries of the financialisation of the economy; they have also become adept at bending the rules to advance their economic interests."

While the Big Four built their reputations as professional auditors, they have expanded their operations far beyond auditing. Their fastest growing and most profitable divisions are now in non-audit services including tax policy compliance and business advising. For example, in 2014, the Big Four collectively generated GB£8.25 billion in profit in the UK market, of which GB£6.42 billion came from consultancy services (Sikka 2015: 157). By 2015, over 60 percent of their total global revenues came from non-audit work, compared to less than half in 2004 (Agnew 2015). This non-audit work involved a raft of legal and financial services from risk management, compliance, business consulting, and financial planning, to management and tax advice. It also included the sale of both anti-corruption advice and tax avoidance schemes.

As a result of this expansion, the Big Four claim to be pioneering a new kind of organizational form that is neither multinational corporation, global partnership, or single firm, but rather a coordinating entity for a network of global affiliates united around shared "values," "ethics" and "brand" and a common code of conduct (KPMG 2015; Shore and Wright 2018). This new business model was designed to make these firms more flexible and more responsive to their globalizing clients and better able to capture new markets. It has also made them more unaccountable and prone to risk-taking and fraud. For example, one part of the company may audit a company's books while another part advises the same client on strategies to avoid tax liabilities. Despite protestations to the contrary, this situation inevitably creates conflicts of interest. In 2014, PwC was fined US$25 million and banned for two years from consulting work to settle allegations that it had watered down an anti-money laundering report for the Bank of Tokyo-Mitsubishi, while in 2013, Deloitte agreed to a one-year suspension to consulting for New York-regulated banks and paid US$10 million to settle allegations that the firm mishandled its anti-money laundering work for Standard Chartered (Agnew 2015).

Similar conflicts of interest were evident in the 2001 Enron scandal, a company whose accounts had been signed off shortly before its collapse by Arthur Andersen—which was also receiving fees from Enron for its consulting business. In this case, collusion between the company and its auditors extended to Anderson "knowingly, intentionally and corruptly" inducing employees to shred documents in order to obstruct the investigators (Gledhill 2003: 130). In 2002, the Sarbanes-Oxley Act was introduced to prevent such conflicts of interest arising again by restricting auditors from providing consultancy services to their audit clients. Three of the Big Four responded by disposing of their consulting arms. Deloitte chose not to. However, by the mid-2000s these agreements had expired, paving the way for the firms to "rebuild their consulting—under the guise of 'advisory' work—through a series of acquisitions" (Agnew 2015). Rebranding themselves as professional services firms has enabled the Big Four to take on the work traditionally carried out by management consultants like McKinsey and Boston Consulting Group, targeting companies they do not audit, or focusing their efforts outside the United States where the Sarbanes-Oxley Act does not apply.

Consultancy, collusion, and fraud: The Big Four as brokers

Instead of acting as watchdogs guarding against corruption and ensuring high standards of ethical and financial probity, the Big Four have increasingly become entangled in collusive relations and corruption of their own. Again, Mediterraneanist anthropology provides useful parallels. In rural Sicily during the turbulent years before the unification of Italy, in order to protect their great estates from bandits and militant peasants, wealthy landlords increasingly delegated power to local foremen and armed bodyguards called *gabelloti* (Blok 1975: 32). These entrepreneurial brokers occupied a key role mediating between Sicily's antagonistic interest groups—an ideal position from which to cultivate a market in protection and favors. As Anton Blok (1975: 94) noted, what was later called the Mafia coincided with these associations of armed retainers. Like the first privately-recruited "Companies at Arms" tasked with policing the countryside, these *gabelloti* "extorted protection money much like any other gang, and acted in collusion with criminals" (Mack-Smith 1968: 368–369). The success of these *mafiosi* lay in their ability to operate as both poachers and gamekeepers.

In the case of the Big Four, the mediating position of these firms as auditors, brokers, and tax advisors also creates conflicts of interest and produces spaces for collusion and corruption. Much of this has arisen from their development and marketing of aggressive tax avoidance schemes. In 2005, a study by Her Majesty's Revenue and Customs (HMRC) concluded that the Big Four accounting firms were behind almost half of all known tax avoidance schemes in the UK (Sikka 2015: 158). These firms have all been mired in high profile fraud and corruption scandals. For example, in 2002, Ernst and Young (EY) was ordered to pay the United States Securities and Exchange Commission US$8.5 million for its role in perpetuating a cover up of illegal practices for the exercise company Bally Total Fitness (Norris 2009). In 2010, the Valukas investigation into the Lehman Brothers scandal found EY guilty of professional negligence and malpractice in the way it had audited the bank's accounts. EY was forced to pay a US$99 million settlement for its part in the bank's demise. However, shortly before Lehman Brothers collapsed in 2008, EY had received US$31 million in fees (Sikka 2015: 161). Indeed, just before the banking crash of 2007–2008, all of the distressed banks had been given a clean bill of health from their auditors. In 2012, Japanese regulators criticized both EY and KPMG for allowing Olympus to operate without proper operational controls, enabling the company to carry out a US$1.7 billion accounting fraud—the largest corruption scandal in Japanese corporate history.

Deloitte has also been immersed in similar controversies. In one notorious case in 2010 it designed a scheme for Deutsche Bank in London to enable its staff to avoid income tax and national insurance contributions on bonuses amounting to over GB£92 million (US$120.35 million). It also designed a tax avoidance scheme that used a series of transactions in company shares, futures and derivatives contracts to generate an artificial loss and make a client's tax liability vanish (Sikka 2015: 158). In another example, the New York State Department of Financial Services in 2012 claimed that Deloitte has also been complicit in aiding Standard Chartered avert the Iranian Sanctions through its deliberate failure to report misconduct.

KPMG has an equally checkered history of involvement in corruption scandals. In 2009, it was sued by the liquidators of New Century Financial, the collapsed sub-prime mortgage lender, and settled with multiple other organizations including Fannie Mae (Hughes 2009). In an earlier case, a 2004 US Senate investigation found that "KPMG had engaged in rigorous and extensive efforts to create and sell dozens of tax shelters from the mid-1990s until 2003," and had even created "a cold-call centre in Fort Wayne, Indiana, for the purposes of aggressively selling its tax shelters" (Pai and Tolleson 2012: 89). In 2005, a US Senate committee found that KPMG, PwC, and Ernst and Young had all sold fraudulent and illegal tax shelters, but KPMG's admissions of "criminal wrongdoing" were particularly egregious. As the US Department of Justice (2005) declared:

> In the largest criminal tax case ever filed, KPMG has admitted that it engaged in a fraud that generated at least $11 billion dollars in phony tax losses . . . cost the United States at least $2.5 billion dollars in evaded taxes. . . . KPMG also admitted that its personnel took specific deliberate steps to conceal the existence of the shelters from the IRS.

In 2008, KPMG was forced to pay Xerox shareholders US$80 million for its role in manipulating the company's accounts. Yet as a US

Senate investigation noted, one senior KPMG professional had encouraged Xerox to ignore IRS rules on registering tax shelters and had "coldly calculated" that the penalties for violating the law would be no greater than $14,000 per $100,000 in fees that KPMG would collect. "For example," he wrote, "our average . . . deal would result in KPMG fees of $360,000 with a maximum penalty exposure of only $31,000" (Hudson et al. 2014).

If such "cold calculation" is symptomatic of the instrumental rationality that drives the behavior of these accountancy firms, it also illustrates the problem of "moral hazard" behavior that domination of the auditing market by the Big Four produces (Coffee 2005; Pai and Tolleson 2012). That is, senior accounting professionals are incentivized to take ever-greater risks in search of huge fees and higher returns in the knowledge that the risk of failure will be borne not by the partners but by shareholders or taxpayers. According to Joel Benjamin (2016), the increasing use of Deferred Prosecution Agreements (DPEs) that allow firms to settle out of court by paying a fine has compounded this problem by reducing incentives for improving accounting practices. These factors combined with the absence of competition in the market for auditing large corporations helps explain why, despite government efforts to police such behaviors and regulate these firms, the fraud and corruption scandals have continued. As with Mediterranean patron-clientelism, the behavior of auditors is shaped by moral codes that are ambiguous and sometimes contradictory.

Collusive practices: The "revolving-door" phenomenon

Another factor exacerbating problems of corruption and state capture by corporate and financial interests is the increase in "revolving-door appointments." This term has long been used in US politics to describe the way senior government officials move from the public to the private sector—and vice versa. It is a process closely associated with concerns about the collusive relationships that have formed between the US government and business, particularly in areas like food regulation and defense contracting (Wilks-Heeg 2015: 135). In France, the tradition of retiring senior government officials taking up lucrative positions in private companies is referred to as *pantouflage* (literally, putting on slippers), while in Japan a similar phenomenon is termed *amakundari* (descent from heaven). In the UK, this phenomenon was less common as convention held that civil servants taking up lucrative appointments in the private sector breached public service ethics.

It was under the Conservative governments of the 1980s that all this changed and the revolving-door phenomenon became normalized. This began with Mrs. Thatcher's program to bring the state and business closer together and was extended under Tony Blair's New Labour government. Since 2008, dozens of former ministers and senior civil servants have left government posts for jobs with the Big Four. Diplomats seem to be in particular demand and Tony Blair himself, upon retirement as prime minister, combined being "Middle East envoy" with a GB£2.5 million per year (US$3.27 million) advisory role with JPMorgan Chase (Gapper 2013).

The story of Dave Hartnett, former head of tax at Her Majesty's Revenue and Customs (HMRC), is illustrative of the revolving-door phenomenon in the UK. Under Hartnett's leadership, HMRC struck several highly controversial deals that allowed Starbucks and Vodafone to avoid paying billions in owed corporation tax. Deloitte was heavily involved in Vodafone's acquisition of the German telecoms operator Mannesman. Between 2006 and 2010, Hartnett held at least 47 meetings with Deloitte's UK Chairman, David Cruikshank, to resolve Vodafone's dispute with HMRC, which resulted in a lump sum settlement payment of just GB£800,000 (US$1,046,536) and a further GB£450,000 (US$588,676) spread over five years. A year after his retirement in 2013, Hartnett joined Deloitte as a specialist advisor

(Sikka 2015: 158–159). Similarly, Hector Sant, head of the Financial Services Authority (FSA) and responsible for regulating banks until 2012, joined Barclays six months after retiring. In the same year, Margaret Cole, ex-head of enforcement of the FSA, became General Council of PwC. But this pales in comparison with the movement of former government ministers into lucrative positions with the health, defense, or building companies they dealt with while in office (Brooks and Hughes 2016). As in rural Sicily, a new class of gamekeeper-turned-poachers has colonized the opportunity spaces created by these new and emerging markets in management consultancy.

It is not only after retirement that such collusive relationships develop either; the revolving door between private accountancy firms and the state is expanding in other ways too, as the story of Brian Sweet illustrates. Sweet was an Associate Director at the Public Company Accounting Oversight Board (PCAOB), a US regulatory agency in charge of examining accounting firms for deficiencies in their audits. In 2014, a PCAOB report on its inspections of KPMG audits showed that 23 out of 50 audits (or 46 percent) were deficient. One of KPMGs measures to improve its results was to hire Sweet—previously responsible for conducting internal inspections of KPMG audits—as a partner in its Department of Professional Practice Group. Before joining KPMG, Sweet allegedly "copied from an internal PCAOB database to his office computer various confidential inspection-related materials he believed might help him at KPMG" (Levine 2018). This included the confidential list of KPMG audits the PCAOB were planning to inspect in 2015.

Big Four advisors are often seconded to the UK Treasury or HMRC to work on tax legislation and then use that experience to develop ways to help their corporate clients avoid paying taxes (Sikka 2015). A 2013 House of Commons Public Accounts Committee (PAC) enquiry into tax avoidance highlights this problem. Giving evidence to the committee, one former senior PwC employee admitted that it was PwC policy to sell tax avoidance schemes that had "as little as a 50 percent chance of succeeding if challenged in court" (HoC 2013: 3). In short, schemes that PwC knew had a high probability of being deemed unlawful. The enquiry concluded that the government was "fighting a battle it cannot win" against tax avoidance (HoC 2013: 3). Companies can devote huge resources to minimize their tax liability and the Big Four, who earned over GB£15 billion in UK income alone in 2018, had 250 transfer pricing specialists between them, whereas HMRC had only 65 (Financial Director 2018). Launching the report, Chairperson Margaret Hodge (2013) summed up the problem:

> The large accountancy firms are in a powerful position in the tax world and have an unhealthily cosy relationship with government. They second staff to the Treasury to advise on formulating tax legislation.
>
> When those staff return to their firms, they have the very inside knowledge and insight to be able to identify loopholes in the new legislation and advise their clients on how to take advantage of them. The poacher, turned gamekeeper for a time, returns to poaching.
>
> This is a ridiculous conflict of interest which should be banned in a code of conduct for tax advisers, as we have recommended to the Treasury and HMRC.

Yet this revolving door phenomenon is not corruption per se, despite the fact it clearly involves the (ab)use of public office for private gain. Weakening public-sector controls and blurring the public-private boundary undoubtedly increases the likelihood of corruption and the risk that private interests may colonize key areas of public life. Some MPs lament that the Big Four are now "more powerful than government" (Hudson et al. 2014). Evidence suggests this pattern of state-sponsored revolving doors is rife in other areas of government resulting in widespread regulatory capture (Pai and Tolleson

2012). Again, useful insights can be gleaned from Mediterranean patron-clientelism, particularly anthropological studies of the Sicilian mafia (*cosa nostra*), an organization adept at state capture, bridging class divides, and mobilizing patrons to maximize private gain (J. Schneider and P. Schneider 2003b). Regulatory capture, whether in Sicily or London, poses a serious threat to democracy.

Conclusion: Big Four, moral hazard, and the political economy of financial corruption

What do these examples illustrate about the nature of contemporary corruption as an anthropological phenomenon? Returning to the questions posed at the outset, the spread of corruption in the Global North, particularly in its more developed financial sectors, has undoubtedly been exacerbated by policies of deregulation, outsourcing, and marketization. As James Ferguson (2010: 172) argues, neoliberalism "puts governmental mechanisms developed in the private sphere to work within the state itself, so that even core functions of the state are either subcontracted out to private providers, or run (as the saying has it) 'like a business.'" However, business ethics and public service norms are often incompatible. Far from reducing corruption, the growth of audit culture appears to increase the conditions for its existence, undermining the state's regulatory role and producing new opportunities for the predatory interests of finance capital. The oligopolistic nature of the auditing services market creates a situation whereby government regulators, particularly since Arthur Anderson collapsed, are reluctant to indict any of the Big Four for criminal actions for fear that another collapse would simply result in further concentration of power in the remaining "Big Three." The argument that these firms are "too big to fail" and "too concentrated to indict" exacerbates moral hazard behavior and gives the Big Four a curious kind of legal immunity (Pai and Tolleson 2012: 89).

As with Mediterranean patron-clientelism and corruption, the rise in accountancy scandals reflects a new political economy of corruption, one that involves the major financial industry actors—including banks, credit rating agencies and auditing firms—colluding with government officials and political elites. New kinds of "flexible networks" and forms of "dirty togetherness" (Wedel 2009) emerge as accountancy experts and officials move along the revolving doors between private business and their public regulators. What, therefore, is different about contemporary corporate corruption and its seemingly more traditional Mediterranean counterpart? Both entail an "unhealthily close relationship" between government and powerful, strategically placed individuals, and both reflect forms of domination that are rarely perceived in terms of class power. The similarities are instructive. As Jane and Peter Schneider (2003b) noted, there were significant overlaps between the "business subcultures" of Enron and the Sicilian mafia. Mafia's membership was through "selective recruitment and integration into the 'fraternity' through initiation rites and sponsorship by an older, often charismatic 'boss.'" It also entailed

> the systematic "conditioning" of well-placed persons in important institutions, especially the state, through gratuitous hospitality and favor-granting; and generous provision of clients throughout society. This cluster of practices goes hand in hand with the mafia's representation of itself as an honored society, a self-anointed elite, superior to normal people and exempt from normal rules. (Schneider and Schneider 2003b: 137)

Flouting the rules and a pervasive sense of being part of a superior elite are also key elements in the business subculture of leading banks and financial institutions, as anthropologist and *Financial Times* columnist Gillian Tett (2009) has shown. Yet while comparisons with patron-client relations are instructive, they are perhaps less useful for understanding class relations at institutional levels. For example, when employing accountancy firms, government appears as neither fully "client" nor fully "patron." This is also true for the Big Four. The consultants, politicians, and businesspeople who populate the world of accountancy are part of an elite group, but relationships between them are not necessarily voluntaristic, face-to-face or moral. Senior accountants are also unlikely to have intimate relationships with their poorer clients, especially where years of state underfunding and austerity have enlarged the social distance between them. That said, the revolving door phenomenon does effectively remove the tension between the private sector and the state that is supposed to treat it objectively, creating shared interests if not shared identity. As Richard Brooks and Solomon Hughes state:

> Both sectors end up employing the same people and they think the same way. No part of government now questions the market in public services. . . . Perhaps more even than lobbying and hospitality, the revolving door creates the uniformity of thinking between gamekeeper and poacher, purchaser and provider or even regulator and the regulated, that invariably ends in disasters, up to and including the financial crisis. (2016: 6)

What we may be witnessing here is also the emergence of a new kind of class formation. Similar processes of political economy that created the conditions for the expansion of professional auditing companies—including their excessive risk-taking behavior, the aggressive pursuit of new markets and the expansion of new technologies of measurement to improve efficiency and returns on investment—have also fueled the rise of audit culture (Shore and Wright 2015). The Big Four are both cause and effect of this growth. Contrary to their image as integrity warriors dedicated to ensuring probity and trust, commercial interest and financial calculation are central to the way they operate. In this respect, the Big Four and the auditing industry itself may be part of the problem for which they claim to be the solution.

This raises another link with Mediterraneanist anthropology. The claim traditionally made in defense of patron-clientelism was that it helped "bridge the gap" between peripheral communities and the urban centers. Patrons were "community-nation mediators" (Silverman 1965) who interceded on behalf of their clients to help them access resources. Yet far from closing that gap, it was in the material interests of these brokers to maintain it. In a similar vein, the Big Four have created an extraordinarily powerful niche for themselves as brokers and mediators between private companies, the state, and the world of finance. Accountants do a valuable job, but as Sikka argues, "excessive reliance on accounting has not given us freedom from fraud or produced ethical and responsible corporate conduct. If anything, accounting firms have undermined national tax revenues and used their expertise to excel at money laundering, bribery, corruption and other antisocial practices" (2009).

These comments invite further comparisons with the mafia, an organization that excelled in money laundering, bribery, and corruption; mobilized their cultural and entrepreneurial resources to promote themselves; and championed a particular kind of business ethic that was often cast in the idiom of public service (Arlacchi 1986; Schneider and Schneider 2003a). They also carved out a successful niche in the spaces between private enterprise and the public sphere. Jane and Peter Schneider (2003b: 140) pose the question of "whether organised crime, extortion and illegal trafficking are not full-fledged elements of the workings of capitalism, as such." This seems to be the case. If the Sicilian mafia offers useful points of comparison, it also helps us to recognize that while these collusive networks, regulatory capture, and instrumental logics of accountancy may constitute a new type of class formation and power elite, these processes nevertheless have significant and well-documented historical precedents.

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Notes

1. In the UK, government support for the banks between 2007 and 2010 was GB£1,162 billion (National Audit Office 2017).
2. Since the Enron scandal in 2001, however, some organizations such as Transparency International have broadened their definition of corruption to the "abuse of entrusted power."

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