



Work and Pensions Committee

House of Commons | London | SW1A 0AA

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Stephen Haddrill, Chief Executive
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Dear Stephen,

BHS and Taveta

I am writing in my capacity as the former co-Chair of the joint select committee inquiry into BHS. The FRC's levying of unprecedented fines on PwC and Steve Denison for their 2014 audits of BHS and Taveta accounts is welcome.

In the absence of any published explanation other than "misconduct" for why the fines were levied, it is difficult to establish whether they were appropriate. In the joint select committee report on BHS, we expressed concern that the 2014 accounts, published outside the company's usual May reporting schedule, declared BHS to be a going concern just six days before it was sold to Retail Acquisitions Ltd for £1. The final deal and the financial support to be provided by selling parties were still at that stage the subject of considerable negotiation. Of course, an accurate assessment of whether a company is a going concern is primarily a matter for company directors subject to challenge by the auditors.

- 1. What was the nature of the misconduct for which (a) PwC and (b) Mr Denison have been fined?**
- 2. Why has the FRC not published a report? Will you be doing so?**
- 3. Was BHS a going concern when its 2014 annual accounts were published? Have you shared your findings with other regulators?**

PwC had a longstanding relationship with Taveta. Between 2004 and 2017, PwC was paid £16.1 million by the Group, including £4.5 million for statutory audit services and £11.5 million for non-audit services (including very substantial pensions advice).

- 4. Does the FRC intend now to investigate previous PwC audits of BHS and Taveta?**

5. Did PwC have conflicts of interest in (a) auditing BHS as well as the Group that was attempting to sell it and (b) in providing other services to Taveta which were substantially more lucrative than its statutory audits? Were any conflicts adequately managed?
6. What avenues of challenge are open to the select committees should we find your answers unsatisfactory?

Best wishes and I look forward to hearing from you,



Rt Hon Frank Field MP
Chair

cc Rachel Reeves MP, Chair, Business, Energy and Industrial Strategy Committee

Appendix: Extracts from BHS report (First Report of Session 2016–17):

PricewaterhouseCoopers

84. BHS Group's 2012–13 and 2013–14 Annual report and accounts made clear that the company was a 'going concern' on the basis of financial support provided by the wider Taveta Group. This alone meant that it could trade without threat of liquidation for at least the next 12 months.¹⁹⁸ The 2013–14 Annual report and accounts were signed off on 6 March 2015, just days before the sale of BHS to RAL and while the key substance of the deal was still being negotiated. This is also notable because the accounts were normally signed off in May of each year. The accounts were audited by PricewaterhouseCoopers (PwC), who have a long-standing relationship with Sir Philip Green and have provided auditing services to Taveta for over a decade. Since 2008, the same PwC partner, Steve Denison, has been responsible for auditing the accounts of Taveta and its subsidiaries.¹⁹⁹

85. Despite being aware that BHS was due to be sold imminently and, in such a situation would lose the ongoing support from Taveta, PwC did not dispute BHS's Directors' assessment that the business remained a going concern. While Mr Denison told us that PwC recognised that BHS would potentially lose the ongoing support of Taveta if it was sold, they also considered "to what extent would such a deal bring additional cash, assets and resources to BHS to allow it to continue to trade in the future".²⁰⁰

86. Given that Grant Thornton's own due diligence of BHS had identified a number of significant risks to BHS meeting its cash flow requirements, we were surprised that PwC did not more deeply question whether BHS was genuinely being sold as a going concern. In light of this, we welcome the Financial Reporting Council (FRC) investigation into the conduct of PwC with regards to its audit of BHS's accounts in the year ending August 2014, and continue to urge them to conclude this as swiftly as possible and to include PwC's work in previous years and on the accounts of other Taveta Group companies. We sincerely hope that the FRC can report significantly quicker than the "two years" in which they currently "aim" to conclude their investigations.²⁰¹