



Work and Pensions Committee

14 Tothill Street, London SW1H 9NB

Tel 020 7219 5831 Email workpencom@parliament.uk Website www.parliament.uk/workpencom

From the Chair

Stephen Haddrill, Chief Executive
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

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Dear Stephen,

Taveta vs FRC Court judgement

I am very grateful for the cooperation that the FRC have shown to the Work and Pensions Committee over the findings on PwC's audit of BHS and Taveta's subsequent attempts to block publication of the associated report. I was pleased to see that Mr Justice Nicklin rejected this request last Friday and gave permission for the FRC to publish the report. Could I ask how the FRC now intend to proceed on this matter?

During the case the FRC argued that Taveta are not regulated by the FRC and therefore were not the subject of the investigation nor a party to the Settlement Agreement. That is true, yet it highlights a weakness in the FRC's powers that was also exposed as part of the inquiry into Carillion; the FRC has no ability to investigate individuals that are not chartered accountants. So even if the FRC did find fault with the actions of individual directors in the preparation of the accounts, they were powerless to take action against most of them.

The joint committee report into Carillion recommended that the FRC's powers be extended in this area "to ensure that all directors who exert influence over financial statements can be investigated and punished as part of the same investigation, not just those with accounting qualifications."¹ Would the FRC agree that this would be a welcome extension to their powers?

Our understanding is that only one member of the Taveta Group senior management team, Gillian Hague, was a member of a qualifying accountancy body, the ICAEW, at the time of signing the accounts. Could the FRC confirm if she was or is subject to any individual investigation? Would the FRC have opened investigations into other members of senior management if they had the ability to do so?

¹ Business, Energy and Industrial Strategy and Work and Pensions Committees, Second Joint Report of Session 2017-19, [Carillion](#), HC769, para 148

The Court hearing revealed that the FRC's Executive Counsel "concluded that the basis of the going concern was obviously insufficient in the face of a pending sale".² Concerns have been raised over Carillion about the appropriateness of the going concern basis and the FRC are currently investigating that case. There are further instances listed on the FRC's enforcement page online of audit firms failing to properly consider the appropriateness of the going concern basis.³

Clearly, therefore, PwC's failure over BHS is not an isolated incident when it comes to the going concern basis. It feels like once again this is a case of skewed incentives working against the best interests of ordinary stakeholders, such as employees and pensioners. On the one hand you have management teams who have little incentive to openly admit to the risk of their companies collapsing and on the other you have an audit team whose whole audit approach would need to be reassessed if it was felt that the going concern basis was not appropriate. The result appears to be going concerns statements that are rubber-stamped with insufficient levels of challenge from auditors. What more should be done to ensure that auditors are properly challenging the appropriateness of these going concern statements?

Best wishes and I look forward to hearing from you

A handwritten signature in black ink, appearing to read 'Frank Field', written in a cursive style.

Rt Hon Frank Field MP
Chair

² Taveta v Financial Reporting Council, Defendants' Skeleton Argument, para 15

³ FRC, [Enforcement Outcomes](#) [accessed 2 July 2018]