



Work and Pensions Committee
Business, Energy and Industrial Strategy Committee
Treasury Committee

House of Commons, London SW1A 0AA

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From the Chairs

Sam Woods, Chief Executive
Prudential Regulation Authority
20 Moorgate
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12 July 2018

Dear Sam,

Audit of Goldman Sachs

The Times published an article on 10 July 2018 suggesting that the Prudential Regulation Authority were querying the potential appointment of Grant Thornton as the statutory auditor of Goldman Sachs, due to concerns that they might not have the “required skill, resources and experience to perform its function under the regulatory system”¹. When giving evidence to the Treasury Committee on 11 July, Sarah Breeden, your Executive Director for International Banks Supervision, told members that there was a dialogue ongoing with Grant Thornton where they were being asked to demonstrate that they possessed these qualities.

We understand and share the desire to see high quality auditing of global investment banks. The financial crisis underlined how our society suffers if these banks do not have their financial statements adequately scrutinised. It is the case though, that nearly all the banks that failed back then were being audited by members of the Big Four. Given their failings then, and the subsequent failings we have seen in audit such as BHS and Carillion, we would question whether any of the Big Four have sufficiently demonstrated the “required skills, resources and experience” to undertake these audits. We would be grateful if you could elaborate on the skills, resources and experience that are necessary to audit banks such as Goldman Sachs.

In evidence to the Treasury Committee, you recognised the problems associated with concentration in the audit market. This echoes the findings of the Work and Pensions and Business, Energy and Industrial Strategy Committees’ recent report into Carillion which highlighted the shocking lack of competition in the audit market, with 99% of the FTSE 100 and 97% of the FTSE 350 audited by one of the Big Four accountancy firms². Grant Thornton announced during the Carillion inquiry that they planned to

¹ The Times, [Bank queries appointment of Grant Thornton as Goldman auditor](#) [accessed: 11 July 2018]

² Business, Energy and Industrial Strategy and Work and Pensions Committee, Second Joint report of Session 2017-19, [Carillion](#), HC 769

withdraw from bidding for FTSE 350 audits as they felt the structures in the market made it impossible for them to succeed³. It would be most unfortunate if auditors like Grant Thornton now find that not only is the market working against them, but so too is the financial services regulator.

Goldman Sachs' situation highlights another concern raised in the Work and Pensions and Business, Energy and Industrial Strategy Committees' report into Carillion t; such is the range of non-audit services that the Big Four offer that it is commonplace that the choice is narrowed from four down to one. EY, KPMG and Deloitte are all said to be providing services to Goldman that mean they would be too conflicted to act as their auditor. With PwC as the incumbent auditor, and with new EU regulations requiring Goldman to remove them by 2022, where else should Goldman Sachs turn if Grant Thornton are not suitably qualified? Is the PRA doing any work to try and ensure there is a greater range of bank auditors that you would find suitable?

A further EU regulation introduced in 2014 was the banning of 'Big Four only' clauses that were used by some investors and lenders to stipulate the use of one of the Big Four as a precondition for providing finance. This was a welcome change and yet if the PRA were to block Goldman Sachs from appointing Grant Thornton then you are introducing your own form of Big Four only clauses. We would very much welcome confirmation from the PRA that this is not your intention.

Best wishes and we look forward to hearing from you,



Rt Hon Frank Field MP
Chair, Work and Pensions Committee



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



Rt Hon Nicky Morgan MP
Chair, Treasury Committee

³ [Grant Thornton exits audit market for big UK companies](#), Financial Times, 29 March 2018