

From: THE RT HON LORD MACGREGOR OF PULHAM MARKET PC OBE
Chairman of the Economic Affairs Committee



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Norman Lamb MP
Minister for Employment Relations, Consumer and Postal Affairs
Department of Business, Innovation and Skills
1 Victoria Street
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Dear Norman,

I should like first of all to congratulate you on your appointment and welcome you to your wide-ranging portfolio, which I assume will, like your predecessor's, include Ministerial responsibility for audit.

You may recall that last year the Economic Affairs Committee (EAC) of the House of Lords, which I chair, conducted an inquiry into *Auditors: market concentration and their role*, to which your predecessor gave evidence. Our recommendations included an investigation by the Competition Commission of the large firm audit market, now under way. The European Commission has since published its proposals for audit reforms in the EU and the EAC questioned Mr Jonathan Faull of the Commission about them on 7 February.

During our inquiry several witnesses including Mr Tim Bush expressed concerns about accounting standards. They suggested that recent changes, notably the adoption of International Financial Reporting Standards (IFRS) in place of UK GAAP, had in practice weakened the obligation on auditors under company law to give a true and fair picture of audited accounts and led to a rule-compliant, box-ticking approach instead of the exercise of prudent judgment. They argued in particular that IFRS was unsuited to audit of accounts of banks, and failed to capture losses and overstated profits in the run-up to the financial crisis.

Andrew Haldane of the Bank of England seems to agree. In his recent speech he said that "Accounting rules ... appear to have played a role in both over-egging the financial upswing and elongating the financial downswing" and called for "... a distinct accounting regime for banks ... to restore investor faith in bank sector balance sheets ...".

When Ed Davey appeared before the EAC he affirmed that IFRS were in conformity with UK law. He also said that the Financial Reporting Council (FRC) had confirmed that view. Mr Bush disputes this (his letter to me of 1 February and attachments, enclosed) and suggests that the attachments show that it was known within the FRC-ASB several years ago that IFRS were not in conformity with UK company law.

I should be grateful if you would look into the question of the conformity of IFRS with applicable British law and let me know the Government's considered view. I should also welcome your views on the suitability of IFRS for the audit of banks.

It would be helpful to have your response by 1 March in time for the debate on EAC's report on audit, expected to take place in the Lords' Chamber during March.

Many congratulations again,

Yours sincerely

JH

MACGREGOR OF PULHAM MARKET