



Business, Energy and Industrial Strategy Committee

House of Commons, London SW1A 0AA

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The Rt Hon Andrea Leadsom MP
Secretary of State for Business, Energy & Industrial Strategy
1 Victoria Street
London SW1H 0ET

26 September 2019

Dear Andrea,

I am writing on behalf of the Business, Energy and Industrial Strategy Committee concerning the collapse of Thomas Cook Group Plc and the issues it raises. The Committee welcomes your letter to the Financial Reporting Council (FRC) in which you called upon the FRC to consider an investigation into the company's collapse as a matter of priority, and which should examine not only the conduct of its directors, past and present, in the preparation of the accounts, but also the conduct and practice of the auditors of those accounts. We also welcome your letters to the Insolvency Service, UK Finance, the Association of British Insurers and the Association of British Travel Agents.

The collapse of Thomas Cook is of particular interest to the Committee because of our inquiries and ongoing interest in the audit industry, corporate governance, the issue of late payments, especially to small companies, and previous collapses such as Carillion, BHS and Patisserie Valerie which highlighted many of these issues.

On the question of the role of auditors, the Committee has noted with concern various press reports surrounding the collapse of Thomas Cook and the role of its auditors PwC and EY. The Times reported yesterday that the company's former Chief Executive revealed that the Group had a balance sheet deficit in excess of £3.1bn, including £1.9bn of debt and guarantees. Despite this, the Daily Telegraph reported that Thomas Cook executives had awarded themselves more than £20m in bonuses over the past five years. The Times further reported that the company had used "aggressive accounting methods to flatter its financial performance". The Financial Times has drawn particular attention to the use of 'separately disclosed items' and 'exceptional one-offs' in its balance sheets and its treatment of goodwill. EY in its 2018 audit of Thomas Cook's accounts noted that: "Separately disclosed items are not defined by IFRS and therefore considerable judgement is required in determining the appropriateness of such classification".

The Committee is dismayed that similar issues that we identified in the collapse of Carillion and BHS may have occurred at Thomas Cook, including the role of auditors in identifying and addressing problems. This latest collapse reinforces the need for urgent and meaningful reform of the audit industry, as we argued for in our report on the Future of Audit. Please could you update the Committee on the following points:

- When will the Government publish its response to the initial consultation on the Competition and Markets Authority recommendations, which closed on 13 September?
- When will the Government bring forward legislation to implement reforms related to the CMA's recommendations?
- When will the Government implement Sir John Kingman's remaining recommendations for reforming the FRC, including any that require legislation?
- More specifically, when will the Government implement Sir John's proposals to hold company directors to account for their duties to prepare and approve true and fair accounts and compliant corporate reports, and to deal openly and honestly with auditors?
- Will you ask the Insolvency Service to consider disqualifying Thomas Cook's former directors and whether their bonus payments can be recovered if their conduct is considered to have caused detriment to creditors or to the company's pension schemes?
- What preparations has the Government made for responding swiftly to Sir Donald Brydon's review of audit, which is due to report at the end of the year?

The Times reported that Thomas Cook's cash liabilities include £388mn due to hotel partners and £272mn to other external suppliers. The Committee is very concerned that suppliers, especially SMEs, do not lose out or go bust because of unpaid monies, as was the case for many suppliers when Carillion collapsed. We drew attention to Thomas Cook's long payment terms in our report on Small Business and Productivity published in December 2018, and to the devastating impact late payments more generally can have on small businesses. We recommended a statutory limit of paying within 30 days. I would be grateful if you can confirm whether support will be given to suppliers affected by the collapse of Thomas Cook and whether you will reconsider introducing a statutory limit for payments or similar measures which would reduce the damage done to small companies when late paying companies go bust.

We also recommended in our report on the Future of Audit, published in April, that auditors should widen the scope of audits, including the examination of the payment practices of the companies they audit. This could help identify underlying problems with a company's finances and allow earlier interventions to address them. When considering your response to Sir Donald Brydon's review of audit, which is due to report by the end of the year, can you reassure the Committee that you will consider the issue of late payments as part of the wider remit of audit going forward?

It would be helpful to have this information by 7 October.



Rachel Reeves MP

Chair of the Business, Energy and Industrial Strategy Committee