



Department for
Business, Energy
& Industrial Strategy

Rachel Reeves MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

The Rt Hon Frank Field MP
Chair, Work and Pensions Committee
House of Commons
London
SW1A 0AA

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

T +44 (0) 20 7215 5000
E enquiries@beis.gov.uk
W www.gov.uk

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From Rachel and Frank

Thank you for inviting me to give evidence to your Carillion joint enquiry. During the session I agreed to provide you with further information on some of the issues we discussed. I have set this out below.

You asked for details on contacts between the Government and Carillion in the absence of the Crown Representative. The Cabinet Office has provided information for me on that issue. The role of Crown Representative for Carillion was vacant for three months between August and November 2017 following the retirement of the previous post holder. There was a longer-than-usual delay in replacing the post holder because, in the wake of Carillion's first profit warning in July last year, a decision was taken to find someone who was experienced in the restructuring of corporations rather than a Crown Representative who was experienced in finance. While the position was vacant, the Crown Representative responsibilities were covered by the Government's Chief Commercial Officer and the Cabinet Office Director of Markets and Suppliers. In this period there were seven meetings between Cabinet Office officials and Carillion executives.

You also asked for details of the Government's payment performance which again I can answer based on information provided by the Cabinet Office. In March 2015 the Government restated its longstanding policy commitment to pay 80% of undisputed and valid invoices within five days with the remainder paid within 30 days. Central government departments are required to publish their payment performance against these targets annually under their transparency data on GOV.UK. Departments have published performance data for 2016/17, however this information is not collated centrally. Data which was collated for 2015/16 showed that, by the final quarter, all departments apart from one, were meeting the 5 day target and all departments were

paying at least 96% of their invoices within the 30 day target, with several departments achieving 100%.

To further support SMEs and as part of this Government's determination to increase the visibility of supply chain opportunities, on 10th April the Cabinet Office issued a Procurement Policy Note No.01/18 (available at <https://www.gov.uk/government/publications/procurement-policy-note-0118-supply-chain-visibility>). This requires all central government departments, their executive agencies and non-departmental public bodies who issue contracts for more than £5m to require that sub-contracts worth more than £25,000 are advertised on Contracts Finder, the Government's portal for public sector opportunities, while also reporting on the amount and number of contracts that go to SMEs and voluntary, community or social enterprises.

You also raised questions related to audit and accounting practices and the related markets for those services. The Committee highlighted that the four largest audit firms deliver the vast majority of audits of FTSE 350 companies. I agree that increasing capacity in the FTSE 350 audit market would clearly be beneficial, and the CMA is looking again at this issue and considering next steps.

One complicating factor is that many FTSE 350 companies are multi-national, and will be looking for a single audit firm with a sufficiently skilled and resourced international network to audit all its global operations, which tends to narrow the field. As a result, many other countries share this issue. We are not aware that any of them have managed to resolve it, but will be reviewing international best practice to see what lessons we can learn. We also believe that companies could do much more to enable a wider range of firms to be eligible to tender to provide audit services by setting out a clearer strategy for the procurement process. So we will be looking to improve competition in this sector through a variety of means.

You also raised a question relating to potential conflicts of interest in the audit market, particularly the levels of non-audit services provided by KPMG to Carillion alongside the audit, and whether this created a risk of conflict of interest. There are numerous restrictions in Audit Regulation that prevent firms providing audit services from providing other services where it might cause a conflict of interest. However, these restrictions also limit options for companies seeking to change auditor, by ruling out firms who already provide certain other services to them.

The EU implemented reforms in 2016 where many non-audit services became "blacklisted" for auditors of listed companies, banks, building societies and insurers. It will be supplemented from next year with a cap of no more than 70 per cent of the value of statutory audit on the value of non-audit services the auditor can provide. Financial Reporting Council (FRC) data shows that in addition to these reforms, remedies introduced by my Department and the CMA in 2015 to require retendering of auditor appointments at least once every 10 years and regulations to ensure the same firm cannot be reappointed for a total period of more than 20 years have already led to measurable improvements in the number of audit contracts tendered and switched.

I think that both of these issues highlight the need to consider competition in the audit market again. The Competition and Markets Authority is the UK's independent competition authority and I know they are actively considering what more could be done in this field, building on their 2013 review.

Your committees have also previously discussed two issues relating to accounting practices. The first is the treatment of goodwill on the Carillion balance sheet, which the FRC has stated is the subject of investigation. We therefore need to await the conclusion of the FRC's investigation before taking a view on whether there are issues with the underlying accounting standards on goodwill or lessons we can learn from Carillion's accounting practice. The treatment of goodwill has been connected to the second distinct issue, of whether dividends were paid out of accounting profits that were not realised profits.

As the committees will be aware, my Department recently published a consultation on insolvency and corporate governance to gather evidence and views on the legal and technical framework governing distributions of profits. This includes whether companies ought to provide for company pension liabilities, before distributing profits. This is an important issue and I am keen to see responses to the consultation. I am keen to explore appropriate safeguards to protect the sustainability of companies, their employees and investors.

I hope I have covered your questions in sufficient detail. I look forward to reading the Committees' joint report and recommendations which, as I said in the evidence hearing, will helpfully supplement the investigations and reviews currently underway by regulators and Government.

Yours ever
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THE RT HON GREG CLARK MP
Secretary of State for Business, Energy & Industrial Strategy

