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Lords accuse auditors of deceiving investors

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25 Nov 2010, Mario Christodoulou, Financial Director

Auditors "misled" investors in the lead up to the financial crisis by supplying UK banks with a clean bill of health after being told taxpayers' money would be used to bail them out, a House of Lords Committee has heard.

The Lords' Economic Affairs Committee criticised auditors for signing off on banks' accounts on the basis that the UK government would prop up the financial institutions.

"Your duty is to report to investors the true state of the company. You were giving a statement that was deliberately timed to mislead the company and mislead markets and investors about the true state of those banks and that seems to be a very strange thing for an auditor to do," said Lord Lipsey.

Debate focused on the use of going concern guidance, issued by auditors if they believe a company will survive the next year. Auditors said they did not change their going concern guidance because they were told the government would bail out the banks.

"Going concern [means] that a business can pay its debts as they fall due. You meant something quite different; you meant that the government would dip into its pockets and give the company money and then it can pay it debts and you gave an unqualified report on that basis," Lipsey said.

Lord Lawson said there was a "threat to solvency" for UK banks which was not reflected in the auditors' reports.

"I find that absolutely astonishing. It seems to me that you are saying you noticed they were on very thin ice but you were completely relaxed about it because you knew there would be support . In other words, the taxpayer would support them," he said.

Ian Powell, chairman of PricewaterhouseCoopers UK, which audited Northern Rock, said auditors made the best judgements with the information available to them.

He said, in 2007 no-one predicted the scale of the banking collapse and later, in 2008, auditors were able to sign off on company accounts because they knew the government would provide support.

"We made the realistic and educated assumption about where the market was likely to go... The view that we formed was that there would be adequate liquidity to sign off on the financial institutions," he said.

(Picture shows (from left to right,) Scott Halliday, Ernst & Young; Ian Powell, PriceWaterhouse Coopers; John Griffith-Jones, KPMG; and John Connolly, Deloitte. Parliamentary copyright © 2010-2011)

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UK lawmakers attack auditors over bank statements

2010-11-23 19:12:55 GMT (Reuters)

By Huw Jones

LONDON, Nov 23 (Reuters) - British lawmakers accused top auditors on Tuesday of misleading investors by giving banks a clean bill of health even though some eventually needed taxpayer bailouts to survive.

The economic affairs committee in the upper house questioned how the world's "Big Four" auditors -- Ernst & Young, Deloitte, PwC and KPMG -- *could endorse annual reports of banks as a going concern as* the financial crisis began unfolding from mid-2007.

John Connolly, UK chief executive of Deloitte, which audited RBS, a bank Britain had to part-nationalise, angered some committee *members by saying there had been no failure of audit in the crisis.*

"That seems to me to be extraordinarily self-satisfied in light of what we know to be the case," Nigel Lawson, a former UK finance minister, said.

"You were the auditor of RBS, which went belly up within a few months of giving it a clean bill of health," Lawson added.

Auditors appeared to be signing off on bank statements because they knew the lenders would be supported by the taxpayer and therefore *still meet the going concern rule, Lawson said.*

Auditors are required to state whether a company has the resources to last another year, and the sector is now facing some fallout from the crisis.

Ernst & Young is being probed by Britain's Financial Reporting Council for its role in auditing Lehman Brothers, the U.S. bank that collapsed in September 2008, helping bring the world's financial system to its knees.

THIN ICE

Connolly said independent inspectors generally found that bank audits were of a high quality and in no case has there been a requirement to restate the accounts.

The Big Four met with the Bank of England in late 2008 and early 2009 as the crisis deepened in order to understand the likelihood of government support for banks, the auditors told the committee.

"Had we concluded there was not going to be support, then there would have been a different audit," Connolly said.

Lawson found this to be "absolutely astonishing".

"You noticed they were on very thin ice but you were completely relaxed as you knew they would be supported by the taxpayer," Lawson said.

David Lipsey, another committee member, said the duty of auditors was to report the true state of a bank and not to "mislead markets and investors".

"There is an increasing Alice in Wonderland feel to this discussion," Lipsey said.

The auditors rejected Lipsey's view.

"I disagree with that statement. At the end of 2006 nobody could see the crisis coming," said Ian Powell, chairman of PwC in the UK which audited Northern Rock, a bank that had to be nationalised.

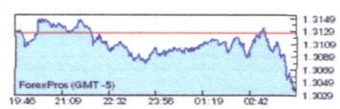
Powell said that after the financial crisis began, auditors assessed if there was going to be enough liquidity to keep a bank going "wherever that liquidity comes from".

John Griffith-Jones, chairman of KPMG in Europe, said the banking industry is built on confidence and that *full disclosure is absolutely fine* in a stable environment.

"Come a crisis, the government of the day and Bank of England of the day may prefer the public not to know... to control events in those *circumstances," Griffith-Jones said.*

The House of Lords committee was taking evidence on concentration in the auditing market and the role of auditors.

Nearly all the world's blue chip companies are audited by the Big Four, creating concerns among policymakers of growing systemic risks,



EUR/USD	1.3043	-0.0083	-0.632%
GBP/USD	1.5527	-0.0046	-0.292%
USD/JPY	84.06	-0.19	-0.227%
AUD/USD	0.9590	-0.0041	-0.426%
USD/CAD	1.0211	+0.0030	+0.300%
US Dollar Index	81.19	+0.32	+0.40%

Central Banks Rates

FED 0.00%-0.25%	ECB 1.00%
BOE 0.50%	SNB 0.25%
RBA 4.75%	BOC 1.00%
RBNZ 3.00%	BOJ 0.10%

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Tuesday, November 23 07:24 pm

REUTERS Huw Jones

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