Graham Milne

From: Graham Milne [grahammilne001@btinternet.com]
Sent: 08 April 2011 15:07
To: 'psocomp@icaew.com'
Subject: Complaint against PricewaterhouseCoopers

I will be grateful for a response to my complaint below. In this context I would refer you to:

https://lloydsactionnow.com/newsletters/i%20-%20draft%20particulars%20of%20claim%20state%20aid%20and%20misrepresentation.pdf

page 27 where it quotes p. 33 of the circular of November 2008 as follows:

'The Lloyds TSB Group expects that the Enlarged Group will substantially rely for the foreseeable future on the continued availability of Bank of England liquidity facilities as well as HM Treasury's guarantee scheme for short and medium-term debt issuance. If the Bank of England liquidity facility, HM Treasury's guarantee scheme or other sources of short-term 28 funding are not available after that period, the Lloyds TSB Group, or the Enlarged Group, could face serious liquidity constraints, which could have a material adverse impact on its solvency.'

This risk of serious liquidity constraints was not properly disclosed in the 2008 accounts and PwC should have qualified those accounts accordingly. See:

http://www.lloydsbankinggroup.com/media/pdfs/investors/2008/2008_LBG_R&A.pdf

I look forward to hearing from you.

Graham Senior-Milne

E-Mail dated: 22/12/2010
To: Professional Conduct Directorate (psocomp@icaew.com)

Dear Sir/Madam,

I wish to make a formal complaint against PricewaterhouseCoopers (PwC) and any relevant partners or staff of that firm, on the following basis:

1. I am a shareholder of Lloyds TSB;
2. PwC acted as auditors of Lloyds TSB for the year ended 31 Dec 2008;
3. PwC failed to qualify the accounts of Lloyds TSB for that year on a going concern basis and/or failed to ensure that adequate disclosure was made of the fact that the continued existence of the bank as a going concern was or was likely to be dependent on government support.
4. PwC therefore failed in its duty to shareholders.

I would refer you in this context to the following article at:

http://retheauditors.com/2010/11/28/big-4-bombshell-we-didnt-fail-banks-because-they-were-getting-a-bailout/

which, in my view, indicates that PwC may be liable to disciplinary action.

Big 4 Bombshell: “We Didn’t Fail Banks Because They Were Getting A Bailout”

'Leaders of the four largest global accounting firms – Ian Powell, chairman of PwC UK, John Connolly, Senior Partner and Chief Executive of Deloitte’s UK firm and Global MD of

its international firm, John Griffith-Jones, Chairman of KPMG's Europe, Middle East and Africa region and Chairman of KPMG UK, and Scott Halliday, UK & Ireland Managing Partner for Ernst & Young – appeared before the UK's House of Lords Economic Affairs Committee yesterday to discuss competition and their role in the financial crisis.

The discussion moved past the topic of competition when the same old recommendations were raised and the same old excuses for the status quo were given.

Reuters, November 23, 2010: 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, particularly if one of them fails.

"I don't see that is on the horizon at all," Connolly said.

The European Union's executive European Commission has also opened a public consultation into ways to boost competition in the sector, such as by having smaller firms working jointly with one of the Big Four so there is a "substitute on the bench."

"Having a single auditor results in the best communication with the board and with management and results in the highest quality audit," said Scott Halliday, an E&Y managing partner.

The Lord's Committee was more interested in questioning the auditors about the issue of "going concern" opinions and, in particular, why there were none for the banks that failed, were bailed out, or were nationalized.

The answer the Lord's received was, in one word, "Astonishing!"

Accountancy Age, November 23, 2010: 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 thing 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, absolutely astonishing. It seems to me that you are saying that 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.

The leadership of the Big 4 audit firms in the UK has admitted that they did not issue "going concern" opinions because they were told by government officials, confidentially, that the banks would be bailed out.

The Herald of Scotland, November 24, 2010: John Connolly, chief executive of Deloitte auditor to Royal Bank of Scotland, said the UK's big four accountancy firms initiated "detailed discussions" with then City minister Lord Paul Myners in late 2008 soon after the collapse of Lehman Brothers prompted money markets to gum up.

Ian Powell, chairman of PricewaterhouseCoopers, said there had been talks the previous year.

Debate centred on whether the banks' accounts could be signed off as "going concerns". All banks got a clean bill of health even though they ended up needing vast amounts of taxpayer support.

Mr. Connolly said: "In the circumstances we were in, it was recognised that the banks would only be 'going concerns' if there was support forthcoming."

"The consequences of reaching the conclusion that a bank was actually going to go belly up were huge." John Connolly, Deloitte

He said that the firms held meetings in December 2008 and January 2009 with Lord Myners, a former director of NatWest who was appointed Financial Services Secretary to the Treasury in October 2008.

I've asked the question many times why there were no "going concern" opinions for the banks and other institutions that were bailed out, failed or essentially nationalized here in the US. I've never received a good answer until now. In fact, I had the impression the auditors were not there. There has been no mention of their presence or their role in any accounts of the crisis. There has been no similar admission that meetings in took place between the auditors and the Federal Reserve or the Treasury leading to Lehman's failure and afterwards. No one has asked them.

How could I been so naive?

If it happened in the UK, why not in the US?

Does Andrew Ross Sorkin have any notes about this that didn't make it to his book?

Will Ted Kaufman call the auditors to account now that he is Chairman of the Congressional Oversight Panel?

Is there still time to call the four US leaders to testify in front of the Financial Crisis Inquiry Commission?

What is the recourse for shareholders and other stakeholders who lost everything if the government was the one who prevented them from hearing any warning?

Certainly the auditors are now more inside the room than outside. I never take them for toadies, just standing in the corner waiting for their orders after the big boys talk, even though others have said I give them too much credit for being strategic. Their complacence is calculated. They are much too tied into the work, and the millions in fees, that have been generated by the aftermath of the crisis. Are the millions in fees for supporting the Treasury and the Fed's cleanup of the crisis their reward for going along? Is this the same acquiescence that doesn't seem to bother their UK colleagues one bit?

Reuters: 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.

And so the government has controlled information about the auditors' role in the US.

No one knows whether similar meetings were held between audit leadership and the Federal Reserve Bank and US Treasury. No one has asked them to testify before a Congressional Committee. When their presence in meetings at Goldman Sachs and AIG, for example, was exposed via emails and correspondence subpoenaed by Congressional investigators, the names were redacted at their request.

Contracts with the Treasury and the New York Federal Reserve Bank are similarly redacted. We can't trace whether the audit firm professionals working for the government now are the

same ones working for their clients who failed. We can't check that those who looked the other way when balance sheets were manipulated and assets valued unrealistically are the same ones now advising how to optimize the value of those same assets for the taxpayer. We are unable to verify if the same partners who failed us at the banks, at AIG, at Lehman, and at Bear Stearns are now managing their assets for the taxpayer.'

I look forward to hearing from you.

Yours sincerely,

Graham Senior-Milne
39 Castle St
Norham
Northumberland
TD15 2LQ

Tel: 01289 382415
Fax: 0870 052 4313