

Graham Milne

From: Graham Milne [grahammilne001@btinternet.com]
Sent: 30 March 2011 14:12
To: 'psocomp@icaew.com'
Subject: Complaint

As a member of the ICAEW I consider it my duty to make a complaint against PricewaterhouseCoopers in relation to its audit of Northern Rock and its failure to qualify the accounts of that company for 2006. My complaint is based on the report of the Economic Affairs Committee of the House of Lords titled 'Auditors: Market concentration and their role' at:

<http://www.publications.parliament.uk/pa/ld201011/ldselect/ldeconaf/119/11902.htm>

and, in particular, para 145 at:

<http://www.publications.parliament.uk/pa/ld201011/ldselect/ldeconaf/119/11909.htm>

which states:

'It could be argued that, until 2006, confidence remained generally high in the British and global economy and financial system. The role of bank audits was not then in question. Even at Northern Rock, when PwC concluded its audit for 2006 in January 2007 the company "had a history of profitable operations and had a track record of ready access to funds ... none of the information available to us indicated anything that would constitute a 'material uncertainty' ... we concluded that in our opinion there were no matters relating to the going concern basis of accounting that were required to be reported to shareholders." [181] We find this complacency disturbing. In 2006 Northern Rock was already operating a dangerously risky business model. The FSA said: "Northern Rock, relative to its peers, [had] a high public target for asset growth (15-25% year-on-year) and for profit growth; a low net interest margin; a low cost:income ratio; and relatively high reliance on wholesale funding and securitisation." [182] As a result of this business model it was able to increase its share of the UK mortgage market at an extraordinary rate. Northern Rock's market share of net residential lending [183] jumped from 11.2% in 2004 to 18.9% in the first half of 2007. [184] We are astonished that PwC appeared not to recognize an amber light that flashed so brightly.'

I look forward to hearing from you.

Best wishes,

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