

From: Jackie Little [mailto:jackie@fortfield.com]
Sent: 02 June 2011 21:06
To: 'JIM SHANNON'
Cc: 'ian.powell@uk.pwc.com'; 'RAE Charles'
Subject: RE: Follow up - Information

Jim / Naomi - No there been no response from Mr Powell at PwC to the seven questions put.

We are including this subject matter now as part of some amendments of Applications to the Tribunal. In this case now adding Applications for Third Party disclosure if these documents are not supplied voluntarily through PinsentMasons LLP with the next several days.

I will follow this up in an email by Sunday pm with Charles Rae, copied to you, and then finalise with Naomi before our surgery appointment on 10 June.

Kind regards

Brian

From: JIM SHANNON [mailto:jim.shannon1@btopenworld.com]
Sent: 02 June 2011 17:07
To: Brian Little; jackie@fortfield.com
Cc: ian.powell@uk.pwc.com
Subject: FW: Follow up - Information

Jackie / Brian

Further to your email on 22 May 2011 below did you receive a reply to the seven questions you put to Mr Powell by the 31 May 2011?

If you have can you please copy for Jim's review tomorrow

Thanks

Naomi

Naomi Armstrong-Cotter

Parliamentary Aide to Jim Shannon, MP for Strangford

Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN

Mob - 07792805356

--- On Tue, 31/5/11, JIM SHANNON <jim.shannon1@btopenworld.com> wrote:

From: JIM SHANNON <jim.shannon1@btopenworld.com>
Subject: FW: Follow up - Information
To: ian.powell@uk.pwc.com
Cc: jackie@fortfield.com, "Brian Little" <brian@fortfield.com>, michael.izza@icaew.com, s.hogg@frc.org.uk
Date: Tuesday, 31 May, 2011, 9:44

Mr Powell

As you can see in my constituents email below, I asked whether he could accompany me

to Westminster on 14 and 15 June 2011.

If you would find it helpful for us to meet with you during one of those days for a maximum 2 hours period then please do let me know and I will endeavour to schedule accordingly. I am suggesting this as I did find that a recent meeting with a regulatory body for some 75 minutes was very helpful for all concerned.

Obviously the sooner you can let me know one way, or the other, would be much appreciated.

Kind regards

Jim Shannon MP
Mob 07721 960285

--- On **Mon, 30/5/11**, **Brian Little** <brian@fortfield.com> wrote:

From: Brian Little <brian@fortfield.com>
Subject: FW: Follow up - Information
To: ian.powell@uk.pwc.com, "JIM SHANNON" <jim.shannon1@btopenworld.com>
Cc: richard.g.sexton@uk.pwc.com, Michael.Izza@icaew.com, a.colban@frc-aadb.org.uk, "Rowena Mason" <rowena.mason@telegraph.co.uk>
Date: Monday, 30 May, 2011, 18:37

James

Further to our discussion with Naomi on Friday afternoon at your constituency office. I have co addressed this email to the PwC Chairman Mr Powell as discussed and requested.

Item 1

Naomi was correct – the complete PwC report is not on my website. The Final Draft dated 9 May 2007 is now attached. All of the additions and deletions in the PwC Final Report are identified in the Final Report at doc 3891 which I have attached again for convenience. As you know it is on my website.

This PwC Final Draft Investigation report into areas of Concern raised by Mr Brian Little dated 9 May 2007 was provided under the Employment Tribunal CMD4 Court Order on 20 June 2007. It was produced the day before the Magellan Aerospace Audit Committee/ Board meeting and AGM on 10 May 2007. As James McCreery told you, he accompanied me to that 10 May 2007 AGM and the following day the Q1.2007 MAC financial results were released to the CNW and Toronto Stock Exchange (TSE) with the

comments relating to the PwC investigation.

The PwC Final Report was enclosed with the PwC letter dated 20 June 2007 from John Tracey to Bill Dimma.

“ Further to our engagement letter of 2 February 2007 we enclose our final report into certain areas of concern raised by Mr Brian Little. Certain matters arose in the conduct of our work that we wish to draw to your attention.” “Financial Controletc”

This was shortly after the inclusion of one of the two new Exhibits (Exhibit 9.31) with time-based authenticity in a letter dated 1- 14 June 2007.

This Final Draft report and the amendments (doc 3891) were forwarded to the ICAEW, following their 23 February 2011 letter requesting same, on 25 February 2011. I suggested also on that day that PwC could provide a copy of their PwC Final report to Mr Weatherill. At your request Jackie then provided the same documentation to the AADB/FRC on 30 March 2011 as documents 11 and 17 on their document index/memory stick.

Item 2

The PwC criticisms of Magellan about Airbus A340 on poor Financial Control are points (a), (c) and (d). The final point (d) in particular is specific to the Airbus A340.

Neither of us have received any retraction of the comment , ***“as it did not address the accounting matters which PwC were instructed to review”*** from Mr Powell following his further investigation. Setting aside the explicit comments at pages 24 and 25 in paragraph 2.40

“Financial control within MAC and MALUK in relation to the areas we have examined is poor and needs to be improved; this need is particularly acute given that MAC is a public company. Examples of poor financial control that we identified during our work include:

(a) Accounting adjustments made with insufficient supporting analysis or documentation.;

A340 - Please refer to page 89/90 of the Final Draft Report and paragraph/ table 8.62. The documented Q2.2006 Estimate at Completion (EAC) was subject to management over-ride by the President and CEO Mr Neill and CFO Mr Dekker in the period up to 10 August 2006 and that accounting adjustment was made without any supporting analysis or documentation on volumes, pricing (lower) and increasing costs. Despite the accounting documentation a “break-even” position was reported in the Q2.2006 financial statements.

PwC report at Paragraph 8.62 “The Q2 FY2006 (exhibit 8.3) EAC forecast a net loss for the

programme of USD 5,219,875. The Q4 FY2006 EAC forecast a net profit for the programme of USD 137,132. The two EAC calculations can be compared, as follows: see table on

(a) The increase in revenue and costs incurred in the programme to end of FY2006 is a result of greater volume being realised than had been forecast in Q2 FY2006 (increase of 10 units sold). The increase in costs was greater than the increase in revenue due to 'late penalties', which accounted for approximately USD 580,000 more than had been projected in the Q2 FY2006 EAC.

*(b) The increased revenue for the remainder of the programme was due to **management's assertion** that a higher percentage of future sales will be generated in later years, when MAC can expect to benefit from the impact of compound price escalation. This has the impact of increasing the weighted average future sales price. This also meant that unit sales in the immediate future are projected to be lower. For example, in the Q2 FY2006 EAC, the volume estimates for FY2007 were 144 units and these were subsequently revised downward to 40 units in the Q4 FY2006 EAC. Similarly, unit sales in later years*

were forecasted to increase by an equal amount. The annual price escalation formula increases the sales price by 4.4% to 5.4% per annum from FY2008 to FY2012.

(c) The increased costs for the remainder of the programme result from increased investment in tooling and development initiatives (approximately USD 940,000) aimed at reducing the unit costs of production and from the application of a higher overhead absorption percentage (approximately USD 1,860,000)".

Furthermore when the documented A340 Q4.2006 EAC was presented by MAC for audit with a minimal \$137K profit one would expect that a thorough and competent analysis, which included sufficient supporting analysis and documentation, would be produced and underpinned by the fundamental concept of "professional scepticism" as an absolute minimum in any "forensic investigation".

After all - Professional scepticism is fundamental to what auditors do. It is defined in auditing standards as *"an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."* **It is the job of the auditor, as established by internationally agreed auditing standards, to challenge management's assertions and ensure that they are backed with evidence that is appropriate, supportable and capable of independent verification. It is not the auditor's job to develop alternative views and then try to persuade management to adopt them in preference to theirs.**

PARA 2.40 (c) A lack of awareness of the program accounting requirements under either Canadian GAAP or UK GAAP. The accounting rules and guidelines are complex and our impression is that the principles are not well understood throughout all of the finance community with the MAC Group.

A340 pages 82/84 Paragraphs 8.31 – 8.43 and replicated again on pages 85 – 87 at Paragraphs 8.44 – 8.54 . As you can read the paragraph headings and text clearly shows

Relevant accounting standards under Canadian GAAP ; Accounting treatment within MAC ; Applicable accounting literature

In the final PwC Report only one paragraph was altered. That was the removal of paragraph 8.50

“The EAC calculation therefore requires many estimates by management. PwC’s experience with accounting practices and governance within the aerospace industry is that these estimates and key assumptions should be reviewed on at least a quarterly basis.”

Strikingly for matters which a PwC spokesman asserted “did not address the accounting matters which PwC were instructed to review” ly exactly the same comment remained at Paragraph 8.38 in the final PwC report. Paragraph 8.50 was removed and replicated at (d) in Mr Tracey’s 20 June 2007 letter.

PARA 2.40 (d)

“Poor control over individual projects from an accounting perspective. Project sales volumes, revenues and costs are not reviewed with sufficient frequency or rigour.”

When all of these Paragraph 2.40 comments (doc 605/606) were removed from the Final PwC Report at the request of the Audit committee, as PwC confirmed in the Daily Telegraph quote, (so as to consciously breach the CMD2 Court Order), you will also be able to read in the attached letter (disclosed to me on the evening of the 4 May 2011 Daily Telegraph article), that PwC added to (d) in their letter dated 20 June 2007 “rigour. In particular, EAC calculations require many estimates by management. Our experience with accounting practices and governance in the aerospace industry is that these estimates and key assumptions should be reviewed on at least a quarterly basis.”

The A340 500/600 was Magellan’s largest aerospace program, accounted for on a “program accounting basis (at FY2006 year end – \$38.25m or C\$44.5m)

A340 Page 88 PwC Report Paragraph 8.60 *“The reasonableness of the assumptions reflected*

in the Q4 FY2006 EAC calculations in relation to: volume, revenues, labour, overhead, materials and other costs, are analysed in detail below, with a view to assessing whether the two conditions for a loss contingency have been met. That is, whether any future loss would be considered likely and whether any such loss would be reasonably estimable.

Paragraph 8.61 Brian Little stated in the EY presentation that his concerns regarding the treatment of the A340 NRC were raised following Q2 FY2006. The analysis presented below is on the Q4 FY2006 EAC,

given that this calculation incorporates management's latest assumptions and estimates based on the most recently available information" - see page 89/90..

So, for the avoidance of doubt, these PwC comments about Magellan Aerospace are entirely valid in the context of the "Areas of Concern Raised by Brian Little" – and particularly for (a) , (c) and (d) in the PwC final Draft report and now also in the PwC letter from John Tracey to Mr Dimma dated 20 June 2007 enclosing their Final Report.

Of course I have said more about this on my website and in my two A340 reports.

Mr Powell ought to confirm a retraction of that particular remark "as it did not address the accounting matters which PwC were instructed to review" by the PwC spokesman to the Daily Telegraph.

I hope this meets the requirement we discussed on Friday and my email has also been co-addressed to Mr Powell as requested. I can also confirm that, at present, I could be available if you wish to travel to London on 14 and 15 June 2011.

Many thanks

Brian

--- On Tue, 24/5/11, JIM SHANNON <jim.shannon1@btopenworld.com> wrote:

From: JIM SHANNON <jim.shannon1@btopenworld.com>
Subject: FW: Follow up - Information
To: ian.powell@uk.pwc.com
Cc: a.colban@frc-aadb.org.uk, michael.izza@icaew.com
Date: Tuesday, 24 May, 2011, 9:27

Mr Powell

I read my constituents email with considerable interest yesterday morning.

I look forward to reading your response to each of the seven questions he has put to you. Clearly these are important as you follow through your public pledge in the Financial Times in late September 2010 “ **to create, oversee and imbue their organisations <PwC> with an enlightened culture based on professionalism and integrity**” and your subsequent speeches and PwC publications.

In that regard I would also record that I have heard nothing further from you, yet, following my email dated 9 May 2011 in which I personally asked you to consider and retract a specific part of the public statement made by a “PwC spokesman”. Can I please hear from you on this matter shortly, as it ought not to take more than two weeks for you to personally review and consider carefully if you and PwC intend to stand by it.

For your information I have partially dealt with this in a further letter to the AADB/FRC yesterday in regard to my complaint.

Regards

Jim

Jim Shannon, MP for Strangford

Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN

Mob - 07721960285

--- On Sun, 22/5/11, Brian Little <brian@fortfield.com> wrote:

From: Brian Little <brian@fortfield.com>
Subject: FW: Follow up - Information
To: ian.powell@uk.pwc.com, richard.g.sexton@uk.pwc.com
Cc: "JIM SHANNON" <jim.shannon1@btopenworld.com>, Michael.Izza@icaew.com, a.colban@frc-aadb.org.uk, "RAE Charles" <Charles.Rae@pinsentmasons.com>, "BRISTOLET" <Bristolet@tribunals.gsi.gov.uk>, "Rowena Mason" <rowena.mason@telegraph.co.uk>
Date: Sunday, 22 May, 2011, 15:13

Mr Powell -

Further to Mr Shannon's email below and the disclosure on 4 May 2011 to us of PwC's letter dated 20 June 2007 from Mr John Tracey to Mr Dimma , Chair of the Magellan Aerospace Corporation Audit Committee, by Mr Rae acting for Magellan Aerospace, I wish to make the following points and put seven questions to you and PwC.

Over the last week, we have now established from the 2007 Court Orders and court bundle, that Mr Rae from Magellan's solicitors (PinsentMasons LLP), advised the Employment Tribunal and my former solicitors, in a letter dated 4 September 2007, that **"I understand that the PWC report was finalised on Friday 24 August "**. (doc 3267) whilst at that same time Mr Tracey, the Engagement Partner, was on two weeks holiday from Monday 20th August 2007 to 3 September 2007 (doc 3035).

One must inevitably draw the conclusion that

(a) someone within PwC , probably other than Mr Tracey , reprinted the PwC Final Report changing it solely to reflect an August 2007 date (which can be viewed in the attached documents) at the request of Magellan and/or their Canadian and/or UK solicitors

(b) OR that Mr Tracey authorised the change in the PwC Final Report to date it August 2007 before going on holiday. In which case Mr Rae was wrongly advised of the date when it was finalised by Mr Tracey and which he recorded in his 4 September 2007 letter.

Based on the entire contents of the PwC Final Report there is no concrete evidence of any time-based changes or documents after the inclusion of a new Exhibit 9.31 dated 14 June 2007. That was a regrettable attempt to cover up the Boeing 737 Protected Disclosures raised by me. It is also abundantly clear that all the factual information in the subsequent E&Y letter on the FY2005 MALUK statutory accounts on 11 July 2007 is completely excluded from both PwC "findings of fact" reports (Attachment 3)

Questions now put to Mr Ian Powell (Chairman and Senior Partner of PwC)

(1) Did anyone within Magellan Aerospace or TORYS or PinsentMasons LLP lawyers contact PwC in 2011 requesting a copy of the covering letter to the PwC Final report referred to in the PwC spokesman's quote published in the Daily Telegraph on 4 May 2011 and / or Mr Tracey's letter to Mr Dimma dated 20 June 2007. If so, who?

(2) Who within PwC , if anyone, provided a copy of the PwC letter dated 20 June 2007 to Magellan or its Canadian (TORYS) or UK lawyers (PinsentMasons LLP) on or shortly before the 4 May 2011 article by Ms Mason was published in the Daily Telegraph?

(3) If a copy of this PwC 20 June 2007 letter was provided again in 2011 to Magellan and/or its Canadian lawyers (TORYS) and/or UK lawyers (PinsentMasons LLP) to whom and when was it sent by PwC to them?

(4) Who specifically requested that PwC change and then reprint their PwC Final Report during August 2007 with an August 2007 date (attachments 1 and 2) when the letter from Mr Tracey dated 20 June 2007 clearly states **"Further to our Engagement**

letter of 2 February 2007 we enclose our final report into certain areas of concern raised by Mr Brian Little. Certain matters arose in the conduct of our work that we wish to draw to your attention.”

(5) Who within PwC changed and then provided the electronic and /or paper copies of the August 2007 PwC Final Report version?.

(6) What reasons can justify why a PwC person was prepared to change the date to August 2007 on the cover sheet and each page of the August 2007 report after the submission of their Final Report on 20 June 2007?

(7) To whom, and when was the August 2007 noted PwC Final Report provided to your client Magellan Aerospace and/or their Canadian lawyers (TORYS) and/or UK lawyers (PinsentMasons LLP) by PwC UK?

I would request that you answer these questions in advance of my formal amendment to two January 2011 Applications to the UK Employment Tribunal , the ICAEW and AADB-FRC in early June 2011. Your response by Tuesday 31 May 2011 would be appreciated, and if you wish you can Reply to all.

Yours

Brian Little

From: JIM SHANNON [<mailto:jim.shannon1@btopenworld.com>]
Sent: 13 May 2011 16:46
To: Brian Little; jackie@fortfield.com
Subject: Fw: Follow up

As per your discussion with Mr Shannon this afternoon please find attached an electronic copy of the email that I sent to PWC earlier this week as discussed we will follow this up week commencing 23rd May 2011.

Naomi Armstrong-Cotter

Parliamentary Aide to Jim Shannon, MP for Strangford

Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN

Mob - 07792805356

--- On **Mon, 9/5/11**, JIM SHANNON <jim.shannon1@btopenworld.com> wrote:

From: JIM SHANNON <jim.shannon1@btopenworld.com>
Subject: Follow up
To: ian.powell@uk.pwc.com, richard.sexton@uk.pwc.com
Cc: rowena.mason@telegraph.co.uk
Date: Monday, 9 May, 2011, 16:46

I read with interest the Daily Telegraph article last Wednesday on my referral to the FRC of my constituent's concerns.

<http://www.telegraph.co.uk/finance/newsbysector/supportservices/8490501/PwC-reported-to-accounting-regulator-after-taking-out-criticism-of-client-from-report.html>.

I will wish to make a statement in due course but only after meeting with Mr & Mrs Little at my constituency surgery; now scheduled for this Friday. I have asked my parliamentary aide to prepare a draft with certain information in advance.

In the meantime, **firstly**, to clarify and confirm my 18 March 2011 letter to the FRC Chair and AADB Chairman, Mr Timothy Walker. In addition to lodging complaints about PwC UK as a firm, my letter also sets out specific ICAEW members within PwC UK. They are [Mr John Tracey](#) and you as the [PwC UK leader, Mr Powell](#). As you know Mr Walker, Chairman of the AADB, had previously stated in his 15 November 2010 letter that the matters raised in my 7 October 2010 letter to you were correctly directed to you, Mr Powell in the first instance. My March 2011 letter to the FRC also cites another audit firm, Ernst & Young. I attach one relevant document dated 11 July 2007 from E&Y which is already the subject of public evidence and relevant to a number of aspects in PwC's report and the E&Y complaint.

For completeness the Business Secretary Dr Vince Cable MP, supported by the Attorney General, Mr Dominic Grieve, QC, MP, are in course of concluding arrangements since December 2010 to also properly refer some of these matters to the civil and criminal regulatory authorities in Canada / USA. I am awaiting further input on finalising that activity.

Secondly when I read Ms Mason's DT article on Wednesday morning I was flabbergasted at the quote she had documented from a PwC spokesman "*We refute entirely the suggestion that a change to a PwC report was made in order to render some advantage, or favour, to Magellan or that such was made to the detriment of any individual. The paragraph {referred to} was removed at the request of the Audit Committee, as it did not address the accounting matters which PwC were instructed to review. However the same points were included in PwC's covering letter accompanying the report*"

On Wednesday evening I received a copy of an email from my constituent, which he had just received minutes earlier from Magellan's lawyers, providing a copy of that PwC letter dated 20 June 2007 to Mr Dimma enclosing the PwC Final Report. It is included within both relevant attachments to this email. This was the first time this PwC letter had been disclosed and has serious ramifications at multiple levels which we will now vigorously pursue. Whilst I naturally will have comments on this entire PwC quote I will focus on your spokesman's assertion that "***the letter did not address the accounting matters which PwC were instructed to review***".

When I rang my constituent on Friday evening I asked that he prepare a couple of compilation documents to highlight specifically the subject the Telegraph had

wrote about on Airbus. I have received those documents last night from Mr Little and I attach these two documents to this email. With the inclusion of the PwC letter dated 20 June 2007 the remainder are already in the public domain/court evidence. **The PwC criticisms of Magellan about Airbus A340 on poor Financial Control are points (a), (c) and (d). The final point (d) in particular is specific to the Airbus A340.**

As a result in this email I would invite you, as the PwC UK Chairman and Senior Partner, and your First Head of Reputation at PwC and leader on the [PwC Trust In Video presentation](#), Mr Richard Sexton, **to remove and retract that spokesman's comment "as it did not address the accounting matters which PwC were instructed to review"**. As just one example in the first document look at the heading in the PwC report "Final Draft Investigation Report into Areas of Concern Raised by Mr Brian Little in the Executive Summary setting out paragraphs 2.40 and 2.41 on Poor Financial Control at MAC. Or another example in the second document where the headings are **MAC: Aeronca – Airbus A340 non-recurring costs for Section 8** in both the Final Draft and Final Reports.

PwC in failing to now correct your spokesman's public statement would perpetuate the PwC "deceit". Clearly all the issues raised were directly observed in the C\$3+m review PwC were paid to undertake at MAC and to suggest otherwise is untruthful. This simply adds further to the body of case evidence underpinning the damage to public confidence and trust in the accounting profession in the UK .

Thirdly, for Ms Mason. In your Telegraph article you referred to the specific "editing/removal" element and the scrutiny that PwC are under over its "independent enquiry" into the Royal Bank of Scotland's collapse. Since January 2010 Mr Little's website at www.fortfield.com has at Part G on PwC **PricewaterhouseCoopers – (PwC)** a Court document 3891 which you can download setting out ALL the additions/amendments and removals made between the PwC Final Draft (9 May 2007) and Final Reports (alleged as mid/end August 2007? —20 June 2007) which included the PwC comments on Financial Control in your article.

You will also be able to read his [PwC.Report.A340.Forensic.Deceit](#) which is one of the primary components on which we base my constituent's complaint to the FRC.

It is possible to read the various exchanges of correspondence which I have had with the various UK audit firms on independent forensic investigations by clicking the Regulators button on his website.

Some of those PwC specific emails/letters, which will be familiar to Mr Powell, are at

Mr Shannon MP has since replied and put fifteen supplementary questions in his OPEN LETTER dated 12 January 2011 directly to Mr Ian Powell and

Mr Dennis Nally.

Following my input Mr Shannon MP has also forwarded two further supplementary questions (SQ6A and SQ12A) in his email dated 14 Jan.2011 to Mr Powell and Mr Nally.

In the 14 January 2011 email everyone can read that my constituent and I have both requested detail comments on factual accuracy or omissions in both of his A340 reports. In contrast, as a matter of public record, Mr Little was denied the opportunity to comment on the PwC report even though he asked in June / July 2007 to be invited to do so. To date no comments have been forthcoming from PwC or Magellan from November 2009 for anyone to properly consider.

As I stated at the outset I have scheduled a one hour surgery meeting with Mr & Mrs Little this Friday and I will comment further after those discussions. Perhaps we could even meet at Westminster in the week of 23 May 2011? In the meantime I expect Mr Powell and Mr Sexton will wish to carefully consider the retraction/correction above and a timely response would be genuinely appreciated. Separately you will see I have circulated the attached CICA letter on independent forensic investigation standards in Canada and their willingness to assist the UK accounting firms in future.

Regards

Jim Shannon MP