

AUSTIN MITCHELL MP



HOUSE OF COMMONS

LONDON SW1A 0AA

020 7219 4559 01472 342145

mitchellav@parliament.uk

www.austinmitchell.org

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Dear Ms O'Sullivan,

CONSULTATION ON AUDIT FIRMS PROVIDING NONAUDIT SERVICES TO LISTED COMPANIES THAT THEY AUDIT

I am responding to the FRC's consultation. I have particular concerns about this exercise because the FRC is populated by big auditing firms and so far it has shown little independence from these firms. I fear that in common with the earlier efforts, the FRC will eventually engage in a whitewash.

I did not find the preselected questions in the consultation document very helpful. In fact, they are loaded to solicit a reply to support the status-quo. My view is simple: auditors should not be permitted to sell any consultancy services to audit clients.

The state guaranteed monopoly of external audit was not given to accountants to enable them to use it as a stall for selling other services. Financial auditors have violated every rule of independence. In our society people come across many auditors ranging from health and safety inspectors, factory inspectors, food and hygiene inspectors, tax inspectors and many more. In none of these cases the auditor acts as a consultant to the auditee. That same principle must apply to financial auditors. The sale of other services creates fee dependency and forces auditors to align their interests with those of the audit clients. As a result they lack any backbone and this has been a central issue in many scandals and also in the current banking crisis.

In attempts to support the big firms, the FRC document muddies the waters by referring to audit committees and shareholders. A little bit of awareness would have shown it that shareholders are not the major risk takers in many companies. At Northern Rock, at the time of government support, shareholders only accounted for 14% of its capital. Most of the risks were/are borne by creditors, employees and taxpayers, but their interests are not even considered in the FRC document.

So just to re-emphasise there must be a total ban on the sale of all non-auditing services to audit clients. I do hope that in due course the FRC will look at the broader context of company audits, which cost so much and deliver so little.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Austin Mitchell'.

Austin Mitchell MP