

Business, Energy and Industrial Strategy Committee

Oral evidence: Thomas Cook, HC 39

Tuesday 22 October 2019

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Members present: Rachel Reeves (Chair); Vernon Coaker; Drew Hendry; Peter Kyle; Albert Owen; Mark Pawsey; Antoinette Sandbach; Anna Turley.

Questions 210 - 402

Witnesses

[I](#): Christabel Cowling, Head of Regulatory and Public Policy, EY, Paul Cragg, Audit Partner, PwC, Hemione Hudson, Head of Audit, PwC and Richard Wilson, Audit Partner, EY.

[II](#): Manuel Cortes, General Secretary, TSSA, Diana Holland, Assistant General Secretary, Unite, Martin McTague, Policy Director, FSB and Richard Piggan, Head of External Affairs, Which?



Examination of Witnesses

Witnesses: Christabel Cowling, Paul Cragg, Hemione Hudson and Richard Wilson.

Q210 **Chair:** Thank you very much to the four of you for coming to give evidence to our Select Committee this morning in our inquiry into the collapse of Thomas Cook.

May I ask you—perhaps PwC first and then EY—if you can confirm that, in your opinion, in each of the years that you audited Thomas Cook’s accounts those accounts provided a true and fair view? Perhaps Hemione can go first, or Paul Cragg?

Hemione Hudson: I am happy to start. Yes, I can confirm that we have had time to reflect and we stand behind our opinion in each of the years that we signed, up to and including 2016.

Q211 **Chair:** In what years did you audit Thomas Cook, Hemione?

Hemione Hudson: The firm audited Thomas Cook from 2007 to 2016; I personally was not involved.

Q212 **Chair:** In reaching those conclusions, did PwC have any concerns about those accounts?

Hemione Hudson: During the process of each of the audits, there was considerable debate and challenge of the board. A number of issues were raised, and significant risks were drawn to the attention of the audit committee and the board in every one of those years, yes.

Q213 **Chair:** What were the serious concerns?

Hemione Hudson: The significant issues varied, depending on the year, but quite often “a going concern” was raised. Goodwill was—

Q214 **Chair:** In what years was “a going concern” raised?

Hemione Hudson: “A going concern” was raised in a number of years. It was certainly raised in 2011, for example. At that time, it was a significant issue, which in fact delayed the signing of the accounts. The annual report signing was delayed because further evidence was needed to support the financial position of the company, and the board and management needed to enter into further financial arrangements, which they eventually did. After they had done that and we had checked those conditions, we were able to sign.

Q215 **Chair:** Can you give us an example of when PwC had to get Thomas Cook to reassess, record or present something differently before you were able to give the opinion that Thomas Cook’s accounts provided a true and fair view?

Paul Cragg: Perhaps I could answer that. Certainly throughout the four years that I was the audit partner, which was for the financial years ending 2013 to 2016, we objectively challenged management on a number of areas with regard to separately disclosed items in each of those years.

We did require management to restate items out of “separately disclosed” and into the profit before separately disclosed items.

Q216 **Chair:** Why did you stop being the auditor for Thomas Cook in 2016-17?

Paul Cragg: Thomas Cook being a listed entity was obliged to conform with the European regulations adopted by the UK with regard to audit firm tendering and mandatory firm rotation. The board decided in 2016 that they would put their audit out to tender for the 2017 year-end.

Q217 **Chair:** Did you bid for that work?

Paul Cragg: We did. I personally did not lead our re-tender. We did re-tender for that audit, and the audit committee appointed EY to do the audit.

Q218 **Chair:** What was the feedback on why you were not reappointed?

Paul Cragg: I was not part of that discussion with management or the audit committee.

Hemione Hudson: I was not part personally either but, looking at the feedback, it was simply that they thought EY was better positioned to do the audit going forwards.

Q219 **Chair:** You must have asked for feedback on why after 10 years they decided that they did not need your services any more.

Hemione Hudson: Yes, and the mandatory firm rotation would have meant that they would have had to change at some point anyway. The other—

Q220 **Chair:** Yes, but not in that year.

Hemione Hudson: No, not in that year. The other piece of feedback that we had was that they preferred the partner model that EY put forward. We had put forward a two-partner model; EY had put forward a single-partner model, and they preferred it.

Q221 **Chair:** Were you disappointed not to win that work?

Hemione Hudson: Yes, it is disappointing not to win work.

Q222 **Chair:** Christabel, in the years that you audited Thomas Cook’s accounts, in your opinion did those accounts provide a true and fair view?

Christabel Cowling: We audited the accounts in 2016-17 and for the half-year in May 2019, and we do think that the accounts in those years presented a true and fair view, yes.

Q223 **Chair:** In reaching that conclusion, did you have any serious concerns?

Richard Wilson: Perhaps I may intervene on that question. It was 2017 and 2018 we were the auditors. Yes, we did have concerns, in particular in 2018, because 2018 was a difficult year for Thomas Cook in terms of performance. That led us to scrutinise in a lot of detail certain areas, such as separately disclosed items, where we asked through the audit



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committee for significant adjustments to be made to the adjustments that had been originally recorded in the financial statements. On the issue of “a going concern”, we spent a lot of time understanding how the directors were reaching their opinion that the company was a going concern. We also had concerns in relation to goodwill. With the goodwill asset, we looked very hard in particular at the UK tours business, and the impact on revised forecasting that might have on the carrying value of that goodwill. In relation to all of those points, the most significant one in terms of an adjustment that was made by the board of directors was in relation to significantly disclosed items.

Q224 **Chair:** For the separately disclosed items, which we discussed at some length last week with Peter Fankhauser and the rest of the team there, which ones were you, EY, successful in getting reclassified, if any?

Richard Wilson: The totally amount that we asked Thomas Cook to reclassify from separately disclosed items into underlying profit amounted to £35 million.

Q225 **Chair:** That is not a huge amount, is it, in the scheme of things?

Richard Wilson: It is relative to what was disclosed as underlying profit. It was an important element in looking at the dynamics that presented out in terms of the performance of the business. We felt that £35 million was a material adjustment to be made, and had it not been made, we would not have been able to sign off a clean opinion on the accounts.

Q226 **Chair:** What impact did that have on the profits of the business?

Richard Wilson: It reduced the profits to £250 million for the year, and it was actually the prompt for the third profit warning.

Q227 **Chair:** Okay. You mentioned the goodwill, Richard Wilson. When they did eventually write down the goodwill? The goodwill was written down by £1.1 billion. Should that, in hindsight, have been written down sooner?

Richard Wilson: I looked at that during the course of our half-year review and thought about whether any of the issues that had arisen during the course of the writedown considerations at that point were there at 28 November when I signed off the audit opinion, and I felt that actually the decision that was reached at that time, in terms of the carrying value of the goodwill, was still a reasonable opinion to take. We did actually ask the company in their accounts to disclose, as is required by the accounting standard—because the UK goodwill was the most vulnerable to impairment. We asked them to state those matters that, if they arose, could give rise to an impairment; so there was very full disclosure in the accounts about the risks of the UK goodwill.

When we looked at the position at 2019 half year there were three key elements that had affected the impairment. One was the discount rate that needed to be applied to the discounted cashflows, which had risen significantly from the period November through to March, which reflected the credit risk that had been attached to Thomas Cook. One was a revised forecast by management of the performance of the UK tours business. The



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other was that under the accounting standard, because it is an infinite life asset, goodwill is normally tested for impairment once a year at the same time. In testing it at the half year you were looking at a balance sheet for that particular business unit which was different in the way in which the constructs worked, which gave rise to a higher value, which had to be covered.

Q228 **Chair:** Antoinette Sandbach will come on to these issues a little bit later, but it seems unlikely to me that within six months goodwill could be worth £1.1 billion less than it was six months previously. In hindsight, Richard Wilson, do you think you should have been a little bit tougher on Thomas Cook and interrogated the numbers a little bit more? It seems unlikely that a combination of the discount rate, the revised performance and the new tests for impairment meant that within six months the goodwill could be worth £1.1 billion less than it was previously.

Richard Wilson: I can understand why that question is being asked. The basis behind the goodwill on 26 November was the revised plan that the company had prepared very recently, which had already stripped out significant upside in the business unit. They had taken that down considerably in their forecast, which was also used for their discussions with their banks. The discount rate was significantly lower and the movement in discount rate could have an impact of £200 million on the—

Q229 **Chair:** Perhaps I could put it a different way. In hindsight the goodwill could not have been worth £1.1 billion six months earlier, could it?

Richard Wilson: With hindsight, with information that I did not have at the time that I signed off the November accounts, then I think the answer has to be yes, with hindsight.

Q230 **Chair:** As I say, Antoinette will come on and ask a little bit more about those issues. Can I ask again, both PwC and EY, did either of you during your time as auditors of the Thomas Cook Group undertake other work for Thomas Cook Group—for example consultancy or advisory work? Hemione, can I ask you that question first?

Hemione Hudson: Yes, we did.

Q231 **Chair:** And what was the nature of that work?

Hemione Hudson: There were a number of different pieces of work that we did over the years.

Q232 **Chair:** Can you detail those please?

Hemione Hudson: I do not have all of the details to hand, but the large pieces of work were in relation to the transactions that Thomas Cook underwent, and reporting accountant work that we performed in relation to that. There were a variety of other pieces of work as well.

Q233 **Chair:** And how much were you paid for those pieces of work, and in what years did they occur?



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Hemione Hudson: Over the period from 2007 to 2016 when we were the auditors the total amount was £2.1 million; I am sorry—£21 million.

Q234 **Chair:** You are auditors. There is quite a big difference, Hemione. Of that £21 million can you break that down by years and by the types of work?

Hemione Hudson: Yes, I have some of that information here. There was much more of the non-audit services work in the early years. For example, in 2007 the non-audit work was £4.3 million, and in 2008 it was £2.9 million. Obviously, the rules in relation to non-audit services have changed considerably over this time period, and at all times the work that we did was in accordance with the rules that were in place at the time. As the EU regulations came into the UK, there are now considerable restrictions on what non-audit services work can be performed.

Q235 **Chair:** Do you think that those changes to the rules are right? Do you think that they are a good thing?

Hemione Hudson: I think they have definitely followed societal expectations. In the past, where we relied on the processes that we have—and we have strong processes for understanding what the nature of the work is, and whether or not there are any threats to independence and managing any threats—

Q236 **Chair:** But do you think that the rules that are in place now are better for ensuring that there is genuine independence?

Hemione Hudson: I think they are better for giving confidence to people about the independence. I do not think that we were in a position whereby the non-audit services that we provided did impair our independence, but I think the perception of that undermines the trust in audit.

Q237 **Chair:** And had the rules not changed, presumably you would have carried on doing that sort of work.

Hemione Hudson: Well, earlier this year we made a voluntary commitment to stop providing anything other than audit and audit-related services to companies that we audit in the FTSE 350, not because the rules required us to but because we think it is the best thing to do to restore trust in audit.

Q238 **Chair:** There is a difference though, isn't there? You are doing this because you think that it is what society expects, and it is about restoring trust, rather than you actually thinking that it is right thing to do because it might improve the quality of your work.

Hemione Hudson: The reputation of audit and trust in audit is really important to audit. I do not think that doing those non-audit services would have impacted the quality of the audit work, but it is very important that we have a trusted audit profession.

Q239 **Chair:** I guess it is about the difference between treating someone nicely because I think it is the right thing to do or because they might think that I am a better person if I do that. It sounds from your answers, Hemione, that PwC does the right thing because that is what society expects rather



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than because you recognise that it is the right thing to do.

Hemione Hudson: I think we do recognise that it is the right thing to do.

Q240 **Chair:** That is not what your answers to the questions have implied. Your answers to the questions imply that PwC does the right thing because that is what is expected of it, rather than because it recognises that the model that existed previously gave rise to some of those conflicts of interest, which is why the law was changed.

Hemione Hudson: I understand entirely what you are saying. It is also a question of transparency. Within the firm, we have relied on processes and controls that are not obvious to the outside world. That is why we got comfortable, but I recognise that they are not apparent to the outside world and now it is a better thing to do to have the environment that we have.

Q241 **Chair:** Let's move on, with PwC still. You gave me the numbers for 2007 and 2008. Perhaps you could give to the Clerks, so we can publish, the details of what you earned for non-audit services in each of the years that you audited Thomas Cook's accounts, and what that remuneration was for. Is that something that you can do for us today?

Hemione Hudson: Yes, I am happy to do that.

Q242 **Chair:** Thank you. You were Thomas Cook's auditors, as we know, until 2016. It was reported that between 2007 and 2012 PwC earned £4 million providing recruitment and remuneration advice to Thomas Cook. Is that correct?

Hemione Hudson: In 2007 to 2009 we were advisers to the remuneration committee, that is correct.

Q243 **Chair:** What was the advice that you were providing during that period to Thomas Cook?

Hemione Hudson: I am not close to the actual advice that was provided, but it was as advisers to the remuneration committee.

Q244 **Chair:** Yes, you have already said that. Did that advice extend to calculating or advising on how bonuses were devised or paid?

Hemione Hudson: It would not have extended to calculating bonuses, but it would have extended to advising on remuneration policy.

Q245 **Chair:** Did you not think that some detail about this might have been a useful thing to bring to the Committee today?

Hemione Hudson: The detail that we have, I have. Given data retention, we do not have the files.

Chair: You do not have the files.

Hemione Hudson: We do not have audit files that go back to 2007.

Q246 **Chair:** These are not audit files; these are files on the advice. This is not



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audit work, is it? That is the whole point, Hemione Hudson. This is on advisory work that you were doing for a company that you were also auditing. Are you saying that you do not have details of what advice you gave to the business—to the remuneration committee—between 2007 and 2012?

Hemione Hudson: I do not have the details, but I can certainly see what details we do have. We do not have any audit files that would have looked at the assessment of conflicts and independence, because we no longer retain those.

Q247 **Chair:** How long do you have to retain audit files for?

Hemione Hudson: Seven years.

Q248 **Chair:** How long do you have to retain files on advice?

Hemione Hudson: I am not sure.

Q249 **Chair:** *The Financial Times* also reported that Thomas Cook used a controversial accounting policy under which it stripped out exceptional items totalling £1.8 billion over eight years—eight years during which PwC was the auditor—which flattered the company's headline financial results. The resulting underlying operating profit figure was used to calculate bonuses for Thomas Cook. Did you sign off the exceptional items as Thomas Cook's auditors between 2008 and 2016?

Hemione Hudson: Yes, we did. They were part of the financial statements.

Q250 **Chair:** As the auditors, you would have been aware that stripping out the exceptional items flattered the underlying profit figures. As consultants, did you base your advice regarding remuneration and bonuses on those underlying profit figures, regardless of what you knew about the separately disclosed items?

Hemione Hudson: There are a couple of different things there. As the auditors, the presentation of separately disclosed items is to ensure there is transparency about what is from the underlying business and what are the impacts of separate, significant situations.

Q251 **Chair:** In your experience as an auditor, would you say that £1.8 billion of exceptional items over eight years was a large or a small number of such items?

Hemione Hudson: I would say it was a large number, definitely.

Q252 **Chair:** Yet you were advising the remuneration committee to pay bonuses based on some of those costs being taken out of the underlying figures. Is that correct?

Hemione Hudson: Our advice to the remuneration committee was only advice. The policy was always approved by the remuneration committee and also by shareholders, and the policy under which the bonuses were paid changed every year and was approved by shareholders. Our advice to the remuneration committee ceased in 2009.



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Q253 **Chair:** Can you remind us how much PwC was paid for that advice to the remuneration committee?

Hemione Hudson: It was about £1.8 million.

Q254 **Chair:** In what years was that paid?

Hemione Hudson: Some of it was paid in 2007, some in 2008, and some in 2009.

Q255 **Chair:** In its 2009 annual report, Thomas Cook's remuneration committee stated that it "was mindful of the dual role" of PwC as both its advisor and the external auditor of the company. Did they raise any concerns with you, and were you mindful of that dual role, too?

Hemione Hudson: Yes. We were the advisors to the remuneration committee of MyTravel before the merger. At the time of the merger, it was considered by the remuneration committee; it was also considered in conjunction with the audit committee, as to whether they wanted us to continue as advisors, and it was discussed with us. They decided they would like us to continue as advisors for a short period of time to give them some continuity. We then assessed it from a conflict perspective to see whether we felt there was a conflict or an independence issue. We had entirely separate teams, and considered that there was not. It was a permissible service at the time; we considered it was not, therefore, an independence issue.

Q256 **Chair:** Do the audit partners benefit from the profits of the whole of PwC's business, or just from the profits in audit?

Hemione Hudson: Partners benefit from the profits across the whole firm, but their objectives—

Q257 **Chair:** So if you are making a profit on the remuneration work, the auditors who are auditing that company also benefit, in which case, how can you ensure that you really have that separation of interests, Hemione Hudson?

Hemione Hudson: As I said, partners benefit from the profits of the whole firm, but the objectives that each partner is set and against which they are assessed are specific to their own roles. Audit partners are therefore assessed based on the objectives that they are set, including audit quality.

Q258 **Chair:** What were the profits of PwC last year?

Hemione Hudson: The profits for the audit practice were £127 million and the revenue for the whole firm was £3.4 billion.

Q259 **Chair:** What were the profits for the whole firm?

Hemione Hudson: I don't have that number, but we can get that to you.

Q260 **Chair:** What were the total profits?

Hemione Hudson: That's the number that I don't have, which I will get to you.



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Q261 **Chair:** Were they more or less than the profits you made from the audit work?

Hemione Hudson: More.

Chair: By a degree of-?

Hemione Hudson: The audit practice is only 20% or 21% of the firm, so the total profit is obviously—

Q262 **Chair:** I put it to you, Hemione Hudson, that the audit partners will want to ensure the success of the consultancy business because their profits and their remuneration depend on the profits and success of the whole business. Is that right?

Hemione Hudson: We certainly all share in the same profit pool, but the objectives that all partners are set are specific to their role.

Q263 **Chair:** Yes, but the profits and the remuneration are based on the whole business. Do you not understand why some people—including myself and I expect most members of this Committee, if not all of us—think that it is impossible to separate out and get rid of the conflicts of interest when the remuneration of the people doing the audit work depends on the success of the other parts of the business, advising the same firm that they are auditing? You said before that the rules had to be changed to reduce some of those conflicts of interest; can you not see that those conflicts of interest still exist in reality, and certainly in the view of most people?

Hemione Hudson: I do understand how people are concerned about conflicts of interest and incentives of partners when we share in the same profit pool. I also understand the need for us to access skills for high-quality audits across a breadth of skill sets that are not all within the audit practice. If I look at our most complex audits, 15% to 20% of the time spent is by people outside the core audit practice, with skills that we need access to.

Q264 **Chair:** So would you have been accessing people in the remuneration team to do the audit?

Hemione Hudson: No, we had entirely separate teams. Those are part of the processes we have.

Q265 **Chair:** Then if the teams are entirely separate, why not just separate out the two parts of the business? This is a wider issue, but you cannot on one hand say that you relied on the skills of the people in the other part of the business, and then say that they were totally separate. Those two things cannot be true at the same time. That is the problem, and that is where I am afraid your argument and the argument of all your businesses falls down. With hindsight, should you have continued the dual role, and would you do so today?

Hemione Hudson: We certainly would not do so today, because it is not permissible today.

Q266 **Chair:** You certainly would not do so today, so in hindsight, was it the



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wrong thing to do both—to provide advice to the remuneration committee on setting bonuses, and at the same time to audit the business? In hindsight, was that the right or the wrong thing to do?

Hemione Hudson: At the time, it was appropriate given the rules—

Q267 **Chair:** I have asked you a different question, and you know that. My question was whether, in hindsight, that was the right or the wrong thing to do.

Hemione Hudson: I do not believe that it had an impact on our audit quality, but I think that in the current environment we would not do it, and I would not do it again.

Q268 **Chair:** It is a lot more than that. Would you be allowed to do it today, under the current rules?

Hemione Hudson: No.

Q269 **Chair:** No, so it is not just that you would not do it. I put it to you that, if the rules had not changed, PwC would be doing exactly the same thing today that they did in the past, and that the behaviour of your firm and the other big audit firms only changes because the rules change. That is the only thing that actually changes your behaviour.

Hemione Hudson: I think we would not do it today, even if it were permitted by the rules. I do understand people's concerns. I understand that we need to move further than the rules, and we have done so this year, by stopping providing non-audit services to clients in the FTSE 350.

Chair: And that was because of the challenge to PwC, which of course was also implicated in the collapse of Carillion. It is only public pressure and a change in the laws that get your companies to change. Without changes in the laws, you would carry on doing things exactly as they were before, which is why it is so imperative that the Government actually change the law to stop companies like yours doing work on the consultancy side and the audit side.

Q270 **Mark Pawsey:** I want to ask some questions about the principle of a going concern. Mr Cragg, you are an audit partner at PwC. Separately from the Thomas Cook stuff, could you give us an outline of what the going concern provisions of an audit are?

Paul Cragg: The company needs to form a view as to whether it will prepare its accounts on a going concern basis, which means that the directors need to be—

Mark Pawsey: The company needs to form a view, or the auditors?

Paul Cragg: The company first needs to form a view, because they are their accounts, with regard to whether they believe they will be able to meet their liabilities as they fall due for the 12 months from the date of the signing of the accounts. The auditor, and I as audit partner, need to be comfortable and satisfied, based on the audit procedures that I have



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performed, that the assessment made by management is appropriate and that the accounts should be prepared on that going concern basis.

Q271 **Mark Pawsey:** Most directors are going to be pretty optimistic and bullish, aren't they, and they will want their business to continue. In 2011, were you involved in the audit?

Paul Cragg: No, I was not involved in the audit in 2011. I came on to the audit in 2013.

Q272 **Mark Pawsey:** But you will be aware of what happened in 2011, when PwC's management letter to Thomas Cook demonstrated that there were concerns about whether the business was a going concern, and Hemione Hudson told us that earlier. Can you tell us a bit more about those concerns?

Paul Cragg: I was not party to all the discussions—

Q273 **Mark Pawsey:** You inherited looking at the company's accounts only two years later, so you must have known what was happening previously.

Paul Cragg: Between those two years—between 2011 and 2013—the company had had a significant refinancing. In May 2013 it had an equity injection—

Q274 **Mark Pawsey:** Sure, and your colleagues at PwC had done the audit, so you must know fully what the position of the company was only two years before you started personally to get involved.

Paul Cragg: The trading performance of the business had declined, as Hemione said earlier, which had caused impairment of goodwill in that year and a challenge to the going concern opinion. I think it was the year that we delayed the signing of the accounts.

Q275 **Mark Pawsey:** Absolutely. Hemione told us that, so I am asking for a bit more detail about why that was the case.

Paul Cragg: Because in forming the assessment of the going concern, and our audit of that, we were unsatisfied that the company had sufficient financial resources to meet their liabilities as they fell due. As a result, the company had to take additional funding.

Q276 **Mark Pawsey:** What action did the company take to cause PwC to say, "We had some previous concerns about whether this is a going concern. Those have now been resolved"?

Hemione Hudson: The banks provided £200 million of additional financing.

Q277 **Mark Pawsey:** Did the company go out and source that financing because of your concerns about whether they were a going concern?

Hemione Hudson: Yes, that was certainly part of it. There were considerable challenging discussions. They put out a statement saying that they were reconsidering their financing. We delayed the annual report.



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After they had secured the additional financing, and we had checked it, we did sign off the accounts.

Q278 **Mark Pawsey:** Did PwC have any hand in securing the additional £200 million of financing?

Hemione Hudson: No.

Mark Pawsey: It was totally separate and independent.

Hemione Hudson: Yes.

Q279 **Mark Pawsey:** Okay. I turn now to EY. Can you tell us about your concerns about the going concern provisions within the most recent accounts that you prepared?

Richard Wilson: Certainly. When we were looking to complete the 2018 audit, as has been said, we looked at the basis by which the directors had concluded that the accounts could be prepared on a going concern basis. We focused on two areas in detail—

Q280 **Mark Pawsey:** Sorry, accounts could be prepared on a going concern basis—does that mean the same as the auditors approving that the business is a going concern, or is that something different?

Richard Wilson: It is the director's responsibility. The audit profession had to ensure that the directors had valid reason to state that the accounts could be prepared on a going concern basis.

Q281 **Mark Pawsey:** Of course, lots of people were relying on the statement that you approved—the staff who work in the business, and the customers who were spending money with them. You were making a pretty responsible opinion. Are you happy with that?

Richard Wilson: At the time we drew that conclusion, we had done a lot of work in two areas to be satisfied with that statement. One reform that helped considerably to understand the accounts was the extended auditor's report. It set out in a lot of detail—as opposed to previous periods when that report was pretty thin—what we did as the audit firm in relation to going concern. We sought first to establish that Thomas Cook still had the support of its lenders. In December 2017 the group issued a new bond, and it also entered into a new revolving credit facility with its banks. In December '17 there was clear evidence that lenders still supported Thomas Cook. As we approached the year end, in the course of the audit—

Q282 **Mark Pawsey:** Sorry, when was the year end?

Richard Wilson: September 2018 was the year end for Thomas Cook. When we were in the Thomas Cook offices in late October, we were advised by the company that it had been to see its lenders. Attached to the lending facilities were banking covenants, which had to be passed. Thomas Cook had looked at its banking covenants and decided that it needed some relief from the lenders for quarter 1 and quarter 2 of 2019, and for quarter 1 and quarter 2 of 2020—it was a little bit more breathing



space for passing the tests that the lenders had set. The lenders approved those reliefs—again, the lenders continued to support Thomas Cook.

Q283 **Mark Pawsey:** As auditors, were you satisfied with those provisions that meant that Thomas Cook overcame the going concern test?

Richard Wilson: We did a lot of work in that area. The company sensitised its views on the next 12 months. We also added additional sensitivities to test what could be severe but plausible downside scenarios. Under those scenarios, the company passed the covenant test, but we highlighted in our auditor's report that in quarter 3 and quarter 4 of the financial year 2019, those tests were very tight.

Q284 **Mark Pawsey:** In the absence of this new relationship with the lenders, you would not have been able to say that the company was a going concern. Is that a fair statement?

Richard Wilson: Would it be helpful if I moved on to what happened in March and May, to make it a little clearer?

Mark Pawsey: Yes.

Richard Wilson: On 20 March I received a call to visit Thomas Cook. I met the finance director and AlixPartners, which had been brought in to assist Thomas Cook in going back to the banks for further funding. At that point we were considering what was required for the board of Thomas Cook to confirm that on 31 March the organisation remained a going concern.

Based on the numbers that they were showing me, including a pack that they had taken to the banks, and the additional facility of £300 million that they were looking for, in order to sign off on a going concern, I needed the banks to commit to that in writing. It was going to be a short-term facility from 1 October to 30 June 2020, to give the company headroom to make the going concern statement in May 2019. I left that with them.

When we returned to do our half-year review, I brought in some specialists in the area to help me determine where the company had reached. The banks confirmed that they were prepared to issue the £300 million facility, but they attached a condition to that. The company had announced in February a strategic review of the airline. While we were doing the half-year review, we were aware that they had had a number of indicative but non-binding bids for the airline, plus indicative but non-binding bids for other parts of the business, so they had a variety of options available to them. The banks had placed a condition on the new facility that they had to have, by 30 September, a binding commitment to purchase the airline. If that was in place by that point—it did not have to be completed by 30 September—the new facility would be made available to them.

I was asked my view as to whether this caused a material uncertainty in relation to going concern, and I confirmed that, based on what they had advised me, this did cause material uncertainty on going concern, and I felt that the directors should have made that clear in their report.



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Q285 **Mark Pawsey:** And the directors knew that at that time?

Richard Wilson: They did.

Q286 **Mark Pawsey:** So on 31 March, so far as EY was concerned, this business was a going concern. However, it clearly was not, because a going concern needs to be able to trade for the next 12 months, and the business failed. Where did your going concern assessment go wrong?

Richard Wilson: I did not confirm that it was a going concern; I said that there was a material uncertainty over its continuing.

Q287 **Mark Pawsey:** So the business was not a going concern?

Richard Wilson: It would have been had they been able to—

Mark Pawsey: Either it was or it wasn't.

Richard Wilson: It would have been had they had access to the new facility, but there were restrictions on that.

Q288 **Mark Pawsey:** So therefore it was not a going concern on 31 March. Is that what you are telling us, Mr Wilson?

Richard Wilson: If they had access to the facility—

Mark Pawsey: That is an "if".

Richard Wilson: Yes, which is why it was identified as a material uncertainty.

Mark Pawsey: And it therefore was not a going concern at 31 March?

Q289 **Chair:** If they did not have that access?

Richard Wilson: If they didn't have it, no. They would get it if they sold the airline or entered into—

Mark Pawsey: So at that time it was not a going concern. Okay.

Q290 **Antoinette Sandbach:** The evidence that we had from Thomas Cook's board was that the level of debt that they were carrying effectively caused the problems. We were told that they looked at selling the airline but could not do it because it would have led, effectively, to the insolvency of the company. In other words, because they were so highly geared, in terms of carrying debt, there was nothing they could sell to reduce their debt levels without putting the company into liquidity. How on earth, if that was the position the company was in, could you call it a going concern?

Richard Wilson: I was not involved with anything that happened after we issued our report on the half-year review. At the time we issued our report—

Q291 **Antoinette Sandbach:** Sorry, could you just answer the question, as an auditor or accountant? If you are carrying high debt levels and want to write down or reduce some of your debt, one way to do that is by selling assets that you have. As we see from the evidence given to us, the



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company looked at every part of their business and what they could sell to reduce their debt levels, and they concluded that they could not do it—they could not sell anything—because it would have left the rest of the business trading while insolvent, effectively. That situation did not arise over one year, did it?

Richard Wilson: That was not the position when the half-year review was completed. At the time the half-year review was completed, it was the intention to continue to seek buyers for the airline.

Q292 **Antoinette Sandbach:** Did you undertake, as auditor, an assessment of whether, if that happened, the company would still be a going concern?

Richard Wilson: We looked at the indicative prices that had been offered by the potential buyers that were there when we were undertaking our half-year review. A wide range of prices had been offered by a variety of parties.

Q293 **Antoinette Sandbach:** The evidence that we had from the chief executive was that they looked at this but they could not sell the airline, because that would have put the rest of the group into insolvency.

Christabel Cowling: Thomas Cook's management were working after the half-year review, and until the company went into liquidation, to try to restructure the business. They believed that they had a deal that would do that, which did not include selling the airline, at the end of the day. They had a deal with Fosun, in principle, to sell the tour business, and Fosun were going to take a stake in the airline. That would have allowed for the restructuring of the group, which would have prevented the group going into liquidation, if that deal could have been completed.

Q294 **Antoinette Sandbach:** Even though it was in the position, as the evidence given to us shows, where it could not sell any assets, because if it did the rest of the group would be put into liquidation.

Christabel Cowling: The Fosun deal would have—

Antoinette Sandbach: I am not talking about Fosun; it didn't happen. My concern is about a company that is so heavily leveraged—so geared up—and had such a high level of debts. It is the equivalent of the mortgage on your house, where you might look at the car or try to sell off the garage, or whatever. There is nothing that you can sell to pay off the level of debt without reducing income, meaning that the company was insolvent.

Christabel Cowling: The restructuring that they were proposing and working towards in September would have converted the debt into equity in the group. While they were selling assets there, they were also freeing the group from that immediate debt burden.

Q295 **Antoinette Sandbach:** But this was not a situation that they got into overnight. They had refinanced. What was it called? Operation?

Paul Cragg: It was around 2013.

Antoinette Sandbach: Exactly. When you were doing the accounts, they had refinanced to the tune of £1.6 billion, just five years before.

Paul Cragg: A little over £400 million of that was equity. The rest was a replacement, if you like, and extension of bank facilities.

Q296 **Peter Kyle:** The problem is that you are looking at the world from 2018 forwards, but we are looking at it from 2019 backwards. It is palpable when you see it from our perspective, and you listen to the people who were managing the company at the time. Having a £150 million debt servicing burden and seeking to flog the only asset you had—which was the airline business, because everything else was intangible—made it almost impossible to have a decent restructure, because nobody would invest in a company with no assets. It is inconceivable to me that you, with your experience, would think that that kind of future pointed towards a sustainable business—it is inconceivable.

Chair: Richard Wilson, you are nodding.

Richard Wilson: I was just reflecting on that point that the absence of an airline would mean that Thomas Cook couldn't be successful. Thomas Cook had a lot of successful operations across Europe, particularly in the Nordic region and their business in continental Europe. There is no doubt that the UK business unit required some turn around. I think that the sale of the airline was part of the strategy to move Thomas Cook towards a different style of offer, in terms of the strategic direction of the business. However, regarding the decision as to which assets to sell, on 31 March, when we were issuing the review opinion—notwithstanding what the directors have said after that date—the board had announced that they were planning to sell the airline, but that was an important part of securing additional finance from 1 October. If they did not sell the airline, that additional finance would not have been there.

Q297 **Peter Kyle:** The point I am making, which you know well, is that you might find a way of working within existing accounting law and the technical aspects of the law, but it is not common sense. Look at the environment you were operating in last year. If you strip away the only part of the business that has any assets—the airline business—you have a business that doesn't own cruise ships, property abroad or any hotel chains, so it is not getting any income from those.

Therefore, if there is a downturn—we are looking at a world where risk is huge. Brexit is approaching and there are potential recessions in other parts of Europe. Travel patterns were very disrupted by weather and terror. Those were real, living challenges that you faced. If you strip away all the assets, you have an incredibly volatile business. It fails the common-sense test that you would look at that environment, strip away the only bit of the business that has assets and say with your hand on your heart, "This is a business that is still going to be trading in a year's time, or 10 years' time." It doesn't make sense to me. How can you justify that?



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Richard Wilson: The decision around the strategy of the business is the decision of the board of directors. We have only two touchpoints with the shareholders: the annual audit, where we issue a full report; and the half-year review, where we issue a review opinion—it is not an audit as such. When we were issuing our report on the half-year review, we considered the information that was provided to us by the directors at that time. That was the information that we were provided with. They also advised us that they did have other options, but at that point their option was to secure a sale of the airline.

Q298 **Peter Kyle:** So you just take anything they tell you at face value? You don't read a newspaper and say, "It's quite difficult in parts of the world because there's been a terror attack in Tunisia"?

Richard Wilson: This is a business that is vulnerable to that type of issue—there is no question about that—and there has been vulnerability in the past. In 2016 there were terrorist attacks in Egypt, Tunisia and Turkey, which forced a setback. We looked at this as part of our assessment in November. We looked at how the company had responded to these types of events in the past, and in 2016 they had taken a £100 million hit to revenue as a consequence of the terrorist attacks. The company was able to put in mitigation to save cost as a consequence by reducing hotel capacity and reducing airline capacity. There were mitigating factors that the company could bring in. When we looked at the hit position in November 2018, we looked at what could be a reasonable diminution in revenue and at what could be a reasonable form of mitigation by the company, in terms of their ability to reduce costs. We overlaid that with our own assessment of what would happen if all those mitigations that they said could happen couldn't. We did all that testing during the course of our audit.

Q299 **Chair:** Richard Wilson, how much was EY paid by Thomas Cook for the work that you did over the period of two and a half years?

Richard Wilson: We were paid a fee of £3 million for the 2017 audit and £3.8 million for the 2018 audit.

Q300 **Chair:** And the work in 2019?

Richard Wilson: We had been paid £800,000.

Q301 **Chair:** Are you owed any money by Thomas Cook?

Richard Wilson: We are owed money by Thomas Cook.

Q302 **Chair:** How much?

Richard Wilson: We are owed approximately £900,000.

Q303 **Chair:** Is that for the work that you did in 2019 and a bit of 2018?

Richard Wilson: None relating to 2018. In 2019, in addition to the half-year review and our initial planning, the company had also started making plans to have a shareholder vote on the equity transaction that was being planned. Part of the work that is required for that is a document to be sent



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to shareholders. It is generally the auditor that is involved in making sure the information in that document is supportable. We had started work on that document.

Q304 **Chair:** And how much were you supposed to be paid for that?

Richard Wilson: I think the fee we proposed to Thomas Cook was £1.3 million.

Q305 **Chair:** £1.3 million? Gosh! That is a big document. Did EY do any non-audit work for Thomas Cook during the two and a bit years that you audited their accounts?

Richard Wilson: Let me start with 2018. In 2018 the only work we did that was non-audit, in terms of how it is defined in nature, was work that was required attached to a bond issue in December 2017, which I mentioned earlier. Bondholders tend to ask for a firm to provide some assurance around the numbers in the document. We did that.

Q306 **Chair:** How much was that worth?

Richard Wilson: That was about £400,000. We also did the half-year review. Under the Financial Reporting Council's ethical standards, the half-year review undertaken by an auditor is classified as non-audit work; it is an "other assurance"-type activity. That was £284,000.

Q307 **Chair:** Any other?

Richard Wilson: An assortment of others, which were all in themselves quite small. This is, again, attached to our role as auditors. In many jurisdictions, including the UK, to get an ATOL certificate you have to provide certain certificates signed by the auditor. That is true across many European countries. They add up, in total, to quite a large number—about £100,000.

Q308 **Chair:** In total, in the two and a bit years that you audited Thomas Cook, how much did you earn in non-audit fees?

Richard Wilson: It was approximately £800,000 in 2018 and a much smaller amount in 2019—err, 2018. When we took over as auditors—

Q309 **Chair:** Do you know what it was in total?

Richard Wilson: Let me just check that.

Christabel Cowling: I think it was around £300,000 in 2018.

Richard Wilson: Which was predominantly the half-year review.

Q310 **Chair:** You also mentioned the £400,000.

Christabel Cowling: That was in 2017.

Q311 **Chair:** In total, you have given me £1.3 million, £0.4 million and £284,000, which is about £2 million. Is that the total of the non-audit work?



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Richard Wilson: £1.3 million was 2019—that is relating to the current year. The 2018 number was £800,000, and the 2017 number was about £300,000.

Q312 **Chair:** So in total it was about £2.4 million?

Christabel Cowling: Yes.

Richard Wilson: But what we also did when we became the auditors was that all our provision of services, other than the audit, had to be approved by the audit committee. When I looked at the audit committee rules on the provision of non-audit services, they allowed fees of up to £50,000 to be incurred by the auditor without audit committee approval. I recommended that it was changed; that became £5,000.

Christabel Cowling: Just to be clear on those numbers, all the work that we did while we were auditors of Thomas Cook was work required to be done by the auditor. This is not discretionary work or advisory work.

Q313 **Chair:** So under the new rules you would still be able to do this.

Christabel Cowling: Under the proposed new ethical standard, they would still be considered essential non-audit services, yes.

Q314 **Vernon Coaker:** To EY, alongside an audit you can publish management letters. The management letters for 2017 and 2018 show a significant rise in both the number of issues of concern and the levels of concern. How did the company respond to the fact that you recognised, or pointed out, a significant change in your level of concern, and were you satisfied with that? Also, did you qualify your accounts as a result of this increased level of concern in either of the years?

Richard Wilson: I will deal with your second point first, then come back to your first question. No, we didn't qualify—

Vernon Coaker: In either year?

Richard Wilson: No, we didn't qualify on that. The reason is that when an auditor looks at the internal control environment, they are not looking at the environment in terms of reporting on it publicly; it is work that we do to try to frame the way in which we will approach the audit. It is not part of the requirement for an auditor to sign off on the internal control environment. Where it is weak, we would do audit procedures that acknowledge that the control environment is weak and look to audit notwithstanding the problems in the control environment. What we then do is report to the audit committee those areas that have given us the most concern—and management, of course—and make strong recommendations, as you will see in that letter, where we believe improvement should be brought in. This is done, obviously, to make the company better and stronger.

Q315 **Vernon Coaker:** Since they collapsed a year after, did it make them better?



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Richard Wilson: No. You are right; in 2018 the control environment that we reported to the audit committee had weakened from 2017. In my experience, where a company is experiencing difficult times and struggling with the financial performance, it puts a real strain on the control environment and it is inevitable, in some ways, that that control environment comes much more under the microscope, and under strain and stress, than it would do in a company that is performing well.

Q316 **Vernon Coaker:** Let me read you something from the management letter, which goes back to the really important questions that the Chair was asking of PwC right at the beginning. The public will find it astonishing that you did not qualify the accounts, as you have just said, whatever the rules say. On separately disclosed items, you said, "the group accounting policy on SDIs also provides in our view too much scope for interpretation and"—listen to this, Mr Wilson—"potential manipulation". Anybody reading that—if my tax person said, "You have potentially manipulated your tax return"—for goodness' sake! What did you think, as one of the biggest audit companies in the country and probably in Europe, about putting in an account where there was a possibility of "potential manipulation"? Was it just, "Well, we will see how they respond to that."? What on earth did EY mean by that? What happened?

Richard Wilson: It means what it says. What happened was, we audited separately disclosed items in a huge amount of detail. We went in—

Q317 **Vernon Coaker:** Sorry to interrupt. The key question to answer is, why weren't the accounts qualified as a consequence of something as significant as potential manipulation being included in your management letter?

Richard Wilson: They were not qualified because I asked for the company to change the separately disclosed items to the tune of £35 million. On your point about the control environment, what I also did was refer the matter to the audit committee. In the annual report and accounts, the audit committee, in its report on the state of internal control, makes reference to this as a serious deficiency in internal control which is to be remedied.

Q318 **Vernon Coaker:** You have described other things as exceptional. I am not an accountant or an auditor, but I think people seeing this would apply it to their own lives. On "potential manipulation", I am not saying it is criminal, but is it civil? Clearly, as a firm you cannot manipulate something to potentially hide or disguise something so that people cannot properly understand what is going on. EY, one of the biggest names in Europe, and probably globally, puts that in and then does not qualify the account. How does it generate confidence among the public that when big companies are audited, as the Chair said at the beginning, they are being held to account, and that the money invested in them and people's jobs are not being gambled for a quick buck?

Christabel Cowling: We identified that there was potential for misstatement of these SDIs. In our audit work, we did additional procedures



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to ensure that that potential for manipulation had not happened. In our audit work, in 2018, we found a significant quantity of SDIs, as Mr Wilson has said, that we did not think should be SDIs and we insisted that management change that.

Ultimately, where we got to in the 2018 audit was that we were comfortable that the SDIs, as disclosed, were in accordance with the accounting policy, and we ensured that the disclosure in the accounts was right. We were aware that there was an opportunity for manipulation, which was what the management letter said. To address that, we amended our audit procedures so that, when we gave our opinion, we were comfortable that the SDIs had not been manipulated.

Richard Wilson: In our audit report attached to the November 2018 accounts, we did set out the concerns we had over SDIs. You see in the third column of our report our strong recommendations that management improve both the recognition of SDIs and the oversight that should have been provided by the group but that was not provided.

Q319 **Anna Turley:** I will ask briefly about materiality. I am not an auditor or an expert but I understand that the levels of materiality were around £14 million or £15 million, which I understand is relatively high based on a percentage of around 5% of underlying profit. Is that high? If so, why was it so high?

Richard Wilson: It is not high compared with the norm. When we set materiality, what we do is look at similar companies and how materiality is set, not just by EY but by other firms. That is really just a starting point to help us think about how we frame the approach to our audit. It is really around how an informed person might be influenced if there is an error of £14 million in the accounts. We then break that down before we start allocating it across the various component parts of Thomas Cook. Because Thomas Cook was spread over so many entities, we review the risk that lies within each of those entities. In some cases, the materiality we would have used for doing the work in those locations could have been as low as £700,000. It is a starting point; we are not saying that we do everything to that limit. It is just a starting point, to help us frame the approach that we take. That is not uncommon.

The point is also that we take it on underlying profit: we do not include the separate disclosed items. That is because we make a decision at the start. Again, it is identified in our audit report that we are conscious of how underlying profit was used. It is used by shareholders in terms of how they model, it is used by lenders in considering the lending, and it is also used as part of the directors' bonus scheme, so we take that as a serious consideration.

On the areas where we have identified the weaknesses in certain disclosed items, as I said a few minutes ago, we dive down into a lot more detail. In fact, we were auditing numbers as low as £1,000.

Anna Turley: So it was clear that you were concerned about errors



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anyway.

- Q320 **Antoinette Sandbach:** Mr Wilson, in June 2017, the Financial Reporting Council issued its report on KPMG and audit quality inspection. That highlighted concerns around insufficient challenges by auditors of management's assumptions in relation to the impairment of goodwill and other intangibles. Were you aware of that?

Richard Wilson: Yes.

- Q321 **Antoinette Sandbach:** In that case, knowing that goodwill had not been written down since 2013, why did you continue to—I think there was £1.7 billion-worth of goodwill on the UK side of the business alone, which is the one that you assessed as being vulnerable.

Richard Wilson: It was about £1 billion. It was less than that £1.7 billion—the UK bit.

- Q322 **Antoinette Sandbach:** Right, but you were aware that the UK part of the business was struggling.

Richard Wilson: Yes, we were aware that it was struggling. That is correct.

- Q323 **Antoinette Sandbach:** In fact, you had issued a whole load of warnings about your concerns within the group, much of which related to the UK part of the business.

Richard Wilson: Yes.

- Q324 **Antoinette Sandbach:** So why didn't you amortise or do a write-down of goodwill at that time?

Richard Wilson: In relation to your first point about amortisation, international accounting standards say you can't; you have to do the impairment test every year. That is what Thomas Cook did: it did the impairment test.

- Q325 **Antoinette Sandbach:** International accounting rules don't say that you can't. And UK company law puts different requirements on directors, rather than the international accounting rules. In other words, there is the impairment test, as you say, but the reality is that goodwill was impaired, wasn't it, given the problems over leases that you had highlighted in your reports, largely relating to the UK side of the business, and the risks that there were over FX exchanges? All of those were matters that you raised in your letters to the management, which must have had an impairment on goodwill. You were nodding there.

Richard Wilson: I was preparing myself to answer. When we looked at the goodwill impairment test in November—it comes back to the point that listed companies in the UK have to comply with international accounting standards.

- Q326 **Antoinette Sandbach:** They also have to comply with UK company law.

Richard Wilson: They do.



Q327 Antoinette Sandbach: You are accounting in the context of UK company law, which requires the directors to balance their obligations. When you are looking at international accounting rules, you are not only looking at the international accounting figures; you are also looking at UK company law obligations on directors, are you not?

Richard Wilson: Correct. Coming to the goodwill, under international accounting standards this is deemed to be an indefinite-life asset.

Q328 Antoinette Sandbach: That is not strictly true, is it? There are different treatments as to whether or not it is considered to have a life-span of over 20 years or under 20 years, and the impairment test needs to be employed if there is considered to be a goodwill of over 20 years. The acquisition of MyTravel had been over 10 years previously, so you are halfway into that period, and yet there had been only two write-downs of goodwill.

Is it not the fact that audit companies have taken goodwill valuations and rather blithely upheld them, without looking at the obligations of directors in terms of how they have to balance the obligations between shareholders, employees, pension fund liabilities and the other liabilities stated in the Companies Act?

Christabel Cowling: What is required under accounting standards and what is required in the Companies Act is the same, which is the fair presentation of the value of goodwill. The way we do that is to test it for impairment annually.

Q329 Antoinette Sandbach: Let us just take that system. In 2017, you say the goodwill was fine. A year later, you are asking for write-down of £1.1 billion in goodwill—£1.1 billion in 12 months.

Richard Wilson: We identified the UK goodwill in the 2018 audit. When you look at an indefinite-life asset, standard valuation techniques are used to determine the support or otherwise for a goodwill balance on the balance sheet—

Q330 Antoinette Sandbach: Can you just get to the nub of how it was that, having decided you were not going to do any impairment tests in 2017, there is a £1.1 billion write-down of goodwill 12 months later?

Richard Wilson: The company did a reforecast in the early part of 2019, which revised downwards the performance of the UK business again, having already written it down in the plan they prepared in late 2018. That had an influence on it.

Q331 Antoinette Sandbach: That relates to trading.

Richard Wilson: That relates to cash flows.

Q332 Antoinette Sandbach: Yes, but that is not goodwill.

Richard Wilson: It is discounted cash flows that underpin the goodwill value.

Q333 Antoinette Sandbach: So, this is a company that had to refinance a



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number of times—it took on £1.5 billion of debt under the PwC audit in 2013—and you are saying that the goodwill that was reflected in the accounts reflects that. The reason they refinanced was because they were in trouble. They were not getting the cash flow to finance their debts.

Richard Wilson: On the UK tours business goodwill, when you do an impairment test you attach it to the other assets and liabilities within that business unit. You then take the discounted cash flows that you believe that business unit will generate. Because it is an indefinite-life asset, inevitably a large proportion of that value is into perpetuity. It is the fact that in that regard, a lot of the value of the UK tours business was based on the assumption that management would turn around the business and generate the cash flows.

Q334 **Antoinette Sandbach:** Ah—the word in there is “assumption”.

Richard Wilson: Yes.

Q335 **Antoinette Sandbach:** The warning in 2017 to KPMG was that there was insufficient challenge to management assumptions. Given that Carillion collapsed in January 2018 with a reported 35% of its assets being attributed to goodwill, which had not been impaired for a number of years, what was your approach to the collapse? Did it lead you to any change in practices as auditors?

Richard Wilson: It did. In relation to the 2018 goodwill, we received the company’s revised business plan for the whole business, including the UK tours business. This was prepared in late October as a prudent plan, having taken out considerable amounts of income growth from that plan to the previous plan.

Q336 **Antoinette Sandbach:** All of this is around challenge to directors. Peter Kyle has already outlined that this business is uniquely exposed to risk, with terrorist attack and the particular vulnerability over Brexit. There must have been a particular vulnerability to foreign exchange cash flows, because Thomas Cook’s UK business would have been paying in pounds, and we have seen a 20% depreciation in the pound in relation to Brexit uncertainty. What was it that allowed you to ignore those risks?

Christabel Cowling: I do not think we did ignore those risks. When we looked forward and looked at the business plan, we took account of those risks. We sensitised business downward. We did not ignore and were not blind to this being an incredibly judgmental area. We did two things in response to that. We got comfortable at the position at the end of 2018. However, we included details in our audit report of the issues in this and we insisted that management increase their disclosures in the accounts so that anyone reading them could see what changes would lead to an impairment in goodwill.

Q337 **Antoinette Sandbach:** In hindsight, looking at the £1.1 billion of write-down in goodwill, do you think your impairment test was right?



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Richard Wilson: As I said earlier, with hindsight, if I was signing the audit opinion on 19 May 2020, I would have come to a different conclusion. But I wasn't; I was signing the audit opinion on 28 November.

Q338 **Antoinette Sandbach:** Some of us may think the challenge was different, and actually auditors need to challenge the assumptions around goodwill more.

Mr Cragg, during your time as auditors, the group wrote down goodwill in only two years, and I think those were 2011 and 2012. Did you play any part in the group's decision to impair goodwill in those years?

Paul Cragg: I was not the audit partner in 2011 and 2012.

Antoinette Sandbach: That was not the question.

Paul Cragg: As a firm, yes, we clearly did. We reviewed the analysis that management put to support their carrying value of goodwill and we ran downside scenarios to determine what could happen in the business if a more prudent position was taken. On the back of that, goodwill was impaired.

Q339 **Antoinette Sandbach:** I think you said you came in 2013, so you were 2013 to 2016.

Paul Cragg: That is correct.

Antoinette Sandbach: In none of those years was goodwill impaired.

Paul Cragg: That is correct.

Q340 **Antoinette Sandbach:** Did you not question why it was not impaired?

Paul Cragg: Well, each year we reviewed management's assessment of goodwill and the impairment test that they did. We challenged that extensively. We ran—

Antoinette Sandbach: Did you have concerns? You have an ability to raise concerns, don't you?

Paul Cragg: We did. We raised it as a key audit matter in our audit opinion. We raised it and discussed it with the audit committee in each of those years. We satisfied ourselves that, having run scenarios which were much more prudent than management's own estimate of performance, there was sufficient headroom in the carrying value of future cash flows to support the goodwill.

The UK business, which much of the goodwill was attributed to and which was probably the most sensitive during 2013 to 2016, actually improved its performance quite significantly as a result of the turnaround plans that management talked to the Committee about last week.

Q341 **Antoinette Sandbach:** Can I take you to appendix 1 of your accounting summary? The big chunk of goodwill was in the UK business.



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Paul Cragg: In which year was this?

Antoinette Sandbach: This is 2013—the year you came in. Appendix 1, on page 25, shows a decrease of £5 million in operating profits. There are substantial decreases in operating profit, and it was that year that Thomas Cook restructured its debt financing. Rather than being the £400 million that we heard in evidence, in fact, it was £1.5 billion. It was £400 million in equity—

Paul Cragg: Yes, that is what I said.

Antoinette Sandbach: Yes, and the remainder was in borrowings, totalling £1.5 billion. You did raise concerns about the goodwill, but it was not impaired.

Paul Cragg: That appendix shows, had we reduced the level of operating profit from the one utilised by management for the UK segment of £215 million down to just about £100 million, they would not—

Q342 **Antoinette Sandbach:** Are these special items, £224 million?

Paul Cragg: No.

Q343 **Antoinette Sandbach:** No. “Utilised by management.” What—

Paul Cragg: That is the profit they had forecast, and which they had based their goodwill assessment on. We reduced that profit from £215 million to £98 million—a reduction of profitability of more than £115 million in the third year, which is a year that is used to gain in perpetuity—and only at that point would the headroom be removed. That gave us comfort that there was appropriate headroom in the cash-flow forecast that supported goodwill for there to be no impairment.

Q344 **Antoinette Sandbach:** But despite your concerns around goodwill in that year, you did not impair it.

Paul Cragg: No; the appendix shows that the business would have to under-perform by almost half for there to be no headroom in the goodwill assessment.

Q345 **Antoinette Sandbach:** But there was, as I said, no write-down of goodwill at all between 2013 and 2016.

Paul Cragg: No, because the operating performance of the UK business improved during that time. The underlying profits went from £34 million in 2012 to £152 million in 2016. The turnaround plan was effective for the UK operations.

Q346 **Antoinette Sandbach:** So what went wrong between 2016 and 2018?

Richard Wilson: I can take that: 2017 was also a good year for the UK business and 2018 was not.

Q347 **Antoinette Sandbach:** And that was just around a weather event. Is that what you are suggesting?



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Richard Wilson: That did play a part. It was a fact that the customers were not booking their holidays within the same timescale as they had done previously.

Q348 **Chair:** Can I ask specifically about goodwill? Then we will have to wrap up. Would either of you—Richard Wilson and Paul Cragg—do anything differently in the future as auditors when you see on a balance sheet this sort of level of goodwill that is not impaired for a long period of time? You are not going to audit Thomas Cook again because it is now with the liquidators, but you are going to audit other firms. Would you do anything differently based on the knowledge that you have had from this disaster? Richard Wilson first, and then Paul Cragg.

Richard Wilson: In terms of the work we did in November 2018, I think we did the audit procedures that you would expect.

Q349 **Chair:** You have already made that point. I am asking you in the future—based on the lessons and the hindsight that you do now have and that you did not have in November last year—whether you, in the future, when you see on the balance sheet this level of goodwill that has not been impaired for so long, would you do anything different in the future? If the answer is no, that is fine, but I am keen to know.

Richard Wilson: We will continue to challenge. We do it all the time.

Q350 **Chair:** So you will continue to challenge. It is just a continuation of what you have already done.

Richard Wilson: When you are looking at an indefinite life asset—I am sorry to keep coming back to this—you look at the valuation basis that is used to support it. Goodwill is an accounting concept. It arises from a transaction. It has no assets behind it other than—

Q351 **Chair:** Well, I know. That is the problem, isn't it? And the other problem is about this indefinite asset. It would seem to me that the goodwill from a purchase of another company does deteriorate. That brand, those intangible assets, like tangible assets, deteriorate over time. If I buy a house and don't maintain it, it will deteriorate. If I buy a machine for my business or if I buy an aeroplane, it will deteriorate over time. You have to account for that.

The problem with intangible assets is that you choose as accountants to claim they are indefinite. I guess that my and Antoinette's argument is that perhaps they should be treated a little bit more like tangible assets with a rate of depreciation.

Richard Wilson: Perhaps I will just make a comment. As an accountant, I follow what has been set by other accountants. I don't determine that that is appropriate; that is what the standard says.

Q352 **Chair:** Yes, so no learning. Paul Cragg, would you do anything differently?

Paul Cragg: No. I think that in each of the years that I was the audit partner we constructively challenged on the levels of goodwill, and I will continue to do that.

Q353 **Chair:** And you never impaired goodwill, as Antoinette Sandbach has already shown, during your time as the auditor of Thomas Cook. Maybe we can find something we can agree on to end the session today. I received a letter on 15 October from Sir John Kingman, who did the review into regulation of accountancy after another failure. You probably remember it well, PwC, because of course you were also the auditor of Carillion.¹

In his letter to me, John Kingman says: "The final, crucial piece of the jigsaw in terms of reforming the regulation is legislation to put the new regulator on to a proper statutory footing."

He goes on to say: "Given the unequivocal consensus around the need for change, I am concerned about the risks of letting the FRC drift on, half-reformed and lacking the teeth that only legislation can give it...legislation that was not announced in the Queen's Speech last week."

Do you agree with Sir John Kingman that we need to get on and legislate for a tougher new regulator to regulate your industry? I will ask you first, Hemione Hudson.

Hemione Hudson: I certainly think we do need to move forward. All the reviews that are ongoing should come together to do that for a comprehensive—

Q354 **Chair:** Do you think legislation should have been announced in the Queen's Speech to put the replacement of the Financial Reporting Council on a proper statutory footing?

Hemione Hudson: That is important legislation but I understand that Sir Donald Brydon's review will only bring out recommendations—

Q355 **Chair:** But that's not about regulation; that is about the purpose of audits.

Hemione Hudson: I think we ought to bring them together.

Q356 **Chair:** I was hoping to end on a note where we could find some consensus. Do you agree or not with Sir John Kingman that there should have been legislation in the Queen's Speech to put the new regulator on a proper statutory basis? I will ask you again; I need only a yes or no. If you don't know, you can say, "Don't know."

Hemione Hudson: I do agree there should be legislation for it.

Q357 **Chair:** I have given you three options for an answer: yes, no or don't know.

¹ Note from witness: PwC were not the auditors for Carillion.



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Hemione Hudson: I do think it would be better to bring the reviews together and, therefore, I think it should be done when Sir Donald Brydon's review recommendations are also brought out.

Q358 **Chair:** So, you don't agree with Sir John Kingman's letter that that was a missed opportunity in the Queen's Speech.

Hemione Hudson: I think the timing of it would be done better together.

Christabel Cowling: My answer is no, for exactly the reasons Hemione said. The Brydon review is a very important part of the overall reform of both the regulator and auditors. It would be much better served if there is one piece of significant legislation that takes all those recommendations forward.

Q359 **Chair:** I think that the accountancy industry would like another review after Brydon and another review after that. The last thing the accountancy and audit industry want to do is actually to reform. I am afraid I think your answers reflect that today.

We have heard today about conflicts of interest in advising the remuneration committees on bonuses and at the same time doing the audit work; and that the profit-sharing is profit-sharing across the whole business and that there is no separation between the two. So, it seems to me and this Committee, you cannot get rid of those conflicts of interest unless you have a separation of the audit and the non-audit part of the business.

It is also the case that the only time that you stop doing work that could be seen as a conflict of interest is when the law changes. The industry never is proactive; it always waits for legislation rather than doing the right thing to reduce these conflicts of interest.

The issue of the special disclosed items and of goodwill, I'm afraid I find quite extraordinary—that so much can be put down as special disclosed items, and that goodwill can remain on the balance sheet until the company goes into liquidation. It remained on the balance sheet all the way until that point. The last time it was written down was in 2012. You say, Richard Wilson, that with the benefit of hindsight, it would have been written down sooner. I would argue that it would be written down sooner if you had better rules and you had auditors who were willing to challenge a little bit more.

This question is to all four of you: Paul Cragg, Hemione Hudson, Christabel Cowling and Richard Wilson; and to the whole of your profession—not just your two firms, but KPMG and Deloitte as well. I wonder: how many more company failures and how many egregious cases of accounting do we need? We have had BHS, Carillion, Patisserie Valerie and now we have Thomas Cook. How many more do we need before your industry opens its eyes and recognises that you are complicit in all of this, and that you need to reform?

I think the conclusion that policy makers will take from today is that we can't rely on you to do the right thing, and that legislation is needed.



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Legislation is needed to have a tougher regulator; we will be seeing the regulators shortly. We need tougher regulation because your industry is not willing to make the changes needed. Reform is long overdue and the evidence today makes it clear that that moment has got to come and it has got to come soon. Otherwise, we will have more business failures and you will be complicit in those. Thank you very much.

Examination of Witnesses

Witnesses: Martin McTague, Manuel Cortes, Diana Holland and Richard Piggin.

Chair: Thank you very much to the four of you for coming to give evidence this morning. You will have heard the previous session, as well as the evidence that we took last week.

I want us to start by getting a sense of the breadth and the depth of the impact of the collapse of Thomas Cook. Please be mindful of the timings. This is to Manuel Cortes: how many Thomas Cook staff working in retail shops and in the corporate headquarters have lost their jobs?

Manuel Cortes: The total number was well over 3,500 people who lost their jobs, 1,000 of which were in Peterborough itself.

Q360 **Chair:** So 3,500, of which 1,000 were in Peterborough. How many of those, Manuel Cortes, have been offered jobs with Hays Travel or other companies?

Manuel Cortes: I am not aware of the specific number, although I am aware that efforts have been made by Hays and other travel companies to try and find these people work.

Q361 **Chair:** Diana Holland, how many Thomas Cook airline staff have lost their jobs and how many others working in ground handling, cleaning or catering have been affected by the collapse of Thomas Cook?

Diana Holland: In the airline, it is 4,000. Unite represents the cabin crew and the engineers within the airline. On top of that, Aviator has already announced that it has gone into administration—a further 351 jobs, I understand. We have also had redundancy notices within Swissport and Menzies advised to us. We are obviously very, very concerned about the impact on airports and also on all the suppliers to those businesses. The knock-on down the supply chain is growing.

Q362 **Chair:** I wanted to come on to that. What has been the impact—perhaps this is a question to you, Richard Piggin—of the collapse in terms of consumer choice in the travel market and the potential future price increases for package holidays that that may result in?

Richard Piggin: The collapse affected about 150,000 UK holidaymakers abroad and about 800,000 people who had future bookings through Thomas Cook. The impact on those 800,000 people with future bookings depends on the level of protection that they have, and perhaps we will talk about ATOL protection in the future.



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However, in terms of pricing, we have heard about the experiences of people who have had their refunds, or are due refunds, but they have had to rebook their holidays, and due to dynamic pricing algorithms they have seen the price of their holiday go up, and they are faced with a really difficult choice of paying more for their holiday or cancelling their holiday.

Q363 **Chair:** Are there any specific examples you can give of that, Richard Piggin?

Richard Piggin: Yes. We have heard, for example, from someone who was due to go on holiday at the end of October—off to New York. They had their flights and hotel booked through Thomas Cook. The flights were with Virgin and they have continued, so the flights are there, but the hotel accommodation needs to be rebooked.

They will be able to claim their refund back through the CAA portal, so they will get their money back, but they have to rebook their hotel accommodation for the end of October at a much higher price, and they have to pay out additional for a second time for a hotel. So they are faced with a choice: do they accept the flights and continue on the holiday and fork out again in the hope that they can claim back in the future, or do they cancel the holiday and lose the money that they have paid for their flights?

Q364 **Peter Kyle:** Diana and Manuel, from your insight of being involved with the company for so long, what do you think they could have done in the last three, four or five years to save the company? Or was it just not saveable?

Diana Holland: There has been a lot of examination of that and a number of things could have been done, but I would like to bring to this Committee what could have been done to prevent the collapse of the airline, because that was a profitable part of the business. The way in which the collapse was handled has ensured that the jobs have gone, whereas the jobs could have been protected at least for a period of time, or perhaps indefinitely, had the airline been able to be sold at that point. So I would like to make sure that we have on record that the Airline Insolvency Review, which reported this year, laid down examples of how an airline can operate in administration and ways in which it has happened in this country without change to primary legislation, which we believe should have happened in this instance and which would have meant that the aircraft would still be flying, as they are in other parts of Europe, and therefore those jobs would not have been lost.

Also, there was a possibility for those aircraft to be used for the repatriation, therefore saving taxpayers' money and ensuring that the insurance fund was not depleted. Regardless of all the other things that could have been done, there was still a final chance for Governments to work with all the players concerned to at least save a profitable part of the company, and that opportunity was not taken.

Q365 **Peter Kyle:** More than 50% of the airline business came from Thomas Cook as well, though. Could something have been done to save the core



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business of the company at any point?

Manuel Cortes: It is our view that the company should have been saved and that the Government should have intervened. It has now become increasingly clear that there was no contact between Thomas Cook and the Business Secretary. I actually wrote to the Business Secretary in the run-up to the collapse. I eventually made contact with her two days after the collapse. It was, frankly, locking the stable door after the horse had bolted. Clearly, a lot could have been done. When you look at the amount of money that taxpayers will have to pay for the failure of Thomas Cook, it could have been saved. A number of European Governments were prepared to put money into the business.

I think it was Grant Shapps, the Transport Secretary, who described the business as a dinosaur in the data age. Yet that was contradicted by the chief executive of the Association of British Travel Agents, who said that this really masked the true reasons for the collapse of Thomas Cook. Our members feel very strongly that there has been an issue here about corporate governance and corporate finance. There are two obvious questions that need to be answered. First, how was Thomas Cook allowed to borrow so heavily? Secondly, how was a company that was so heavily indebted able to pay such large amounts to its executive?

Q366 **Peter Kyle:** We are going on to that.

Manuel Cortes: Our view is very clear. The Governments of Germany, Spain, Bulgaria and Greece were all willing to intervene to try and save the company at a fraction of the cost that we will now have to pay as taxpayers. The company was looking for £200 million to save its future. The last estimate that I have seen of the bill for the collapse of Thomas Cook is over a billion euros. Our taxpayers will foot a large amount of that.

Q367 **Peter Kyle:** Thank you. Diana, the revised UK corporate governance code includes provisions for the engagement of the workforce. Do you believe it is enough in order to give representation at board level, and do you believe that had that been the case within Thomas Cook, it would have been enough to turn things around?

Diana Holland: Months before, we were in contact with the company because we were aware there was a possibility of the airline being sold and we were aware of restructuring. We wanted to have independent analysis to advise our membership of the problems that may be there and to have our voices heard within that process—the voices of the workforce, who, alongside the passengers, have frankly paid the price for this. Our concern was to make sure that that happened.

We were not given access. The people that we asked independently to work with the company were not given access. On top of that, the weekend before the final collapse, we were trying to get every message we could to Government to say, "Please do not let the airline be forced into insolvency", because once it is grounded—unlike other parts of the business—it cannot be resurrected. It seems to us that the difference between different parts of the business has not been reflected in the way



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this has been considered. We are deeply concerned that due diligence has not been done on the various cost options. In the end, with the public money that is being spent on this—if we include in that the whole issue of redundancy, protective awards and so on—we are into huge amounts of money that need to be taken into account. Those amounts are offset against the possibility of either an orderly wind-down, as was recommended following the Monarch insolvency; or, in the better circumstances that were still possible, that the airline could have been saved and other things on top of that, because we have heard since on the high street that there have been some opportunities there. We did not need to be where we are today.

Q368 **Peter Kyle:** Thank you. Finally, Martin and Richard, it is clear that a massive issue in this is debt and the fact that the debt was allowed to get so out of control. Do you think that the level of debt of a company should be taken into account when decisions about remuneration of a board are taken?

Martin McTague: Yes, I do. One of the pieces of evidence we gave to BEIS as part of their package is that the chair of the audit committee should be in a position in which they are reviewing supply chain performance, which would play a part in any remuneration decisions taking place after that. We saw clear examples of suppliers to Thomas Cook getting paid in 90 days plus, and that they were spending an inordinate amount of time chasing them, but—perhaps unrealistically—they thought that some sort of Government rescue was going to step in and solve the problem. For many of the people we have spoken to, it has been a really close-run thing. They have borderline survived, but in a much weaker state. It is a real area of concern for us.

Q369 **Chair:** Richard, do you want to add anything?

Richard Piggin: No.

Q370 **Mark Pawsey:** I want to explore what could have happened at the last minute. Mr Cortes, you said that there were four Governments willing to come up with the £200 million. I have two questions. First, would that not have just added to the level of debt of a company that was already massively in debt, where debt was the biggest problem? How does adding more debt help? Secondly, if it was that easy, why did it not happen?

Manuel Cortes: There are two things to do with that. First, now—due to the failure of Thomas Cook—the cost to taxpayers in Britain is five times as much.

Mark Pawsey: I understand that.

Manuel Cortes: These are the economics of the madhouse—€1 billion versus £200 million that would have saved the company.

Q371 **Mark Pawsey:** That was not my question. My question was: if it was so easy, why did it not happen?



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Manuel Cortes: It appears that there was no political will on the side of our Government to do anything about it. Andrea Leadsom never met with Thomas Cook.

Q372 **Mark Pawsey:** How would it have made sense to put even more debt into a company where debt was the biggest problem? How is that a long-term solution?

Manuel Cortes: It was very clear that a private investor, Fosun, was prepared to put £450 million in and take a controlling stake.

Q373 **Mark Pawsey:** Why didn't that happen?

Manuel Cortes: The reason, I guess, was to restructure the company. Why else would they take a controlling stake, with £450 million? Going back to what I said earlier about what the chief executive of ABTA said: Thomas Cook must have been doing something right. They sold £9.5 billion worth of holidays in 2018.

Mark Pawsey: They were not making enough money, Mr Cortes.

Manuel Cortes: There was an issue around the debt burden they were carrying, and maybe—this is what I said earlier—around corporate governance. How was Thomas Cook allowed to borrow all that money? That is the real issue that you, as legislators, should be looking at for the future. How are companies allowed to go and borrow all this money when they do not have the assets?

Mark Pawsey: So you are complaining that companies are allowed to borrow so much money, but at the same time you are recommending additional debt as the solution to the problem. That does not make sense.

Manuel Cortes: Because, you see, the real victims here are ordinary working people, our members—

Mark Pawsey: Nobody disagrees with that.

Manuel Cortes: Because of your lack of oversight and not putting laws in place that prevented Thomas Cook from doing what they did, but equally as importantly, by the fact that if the company could have been rescued—

Q374 **Mark Pawsey:** And you do not accept that badly run businesses fail, Mr Cortes?

Manuel Cortes: They do fail. Thomas Cook has failed.

Mark Pawsey: That is what has happened here.

Manuel Cortes: Yes, but—

Diana Holland: Our understanding is that there was a restructuring process that relied on a final, additional piece of support that was not forthcoming from the Government, but other options were looked at. There was both that and—you are shaking your head. What we are saying is that due diligence of all the options could, and should, have taken place.



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We have seen no evidence that that has taken place, certainly in relation to the profitable part of the business, which was the airline. Once it was clear that things were not going to be going forward in the way that was intended, there could have been a managed next step, which did not happen.

Mark Pawsey: I do not know whether you were here for the evidence session earlier, but the Chair drew attention to the fact that if a business only has one asset and then disposes of that asset, there is nothing left to prop it up. That is one of the reasons why the airline was not sold. Anyway, we need to move on, Chair.

Q375 **Antoinette Sandbach:** The Government has set up a national taskforce for Thomas Cook, which has met three times to date. What practical support is the taskforce giving to former employees? Do you think it is sufficient?

Diana Holland: The taskforce is not directly giving support, but it is overseeing the support that is being given by different Departments, at local level and so on. What has been exposed in the discussions we have been having about the task force is that a range of proposals could be made to strengthen and support, in particular, the people who are at the receiving end of this. There are very complicated legal cases that all come back to the same point about how much you earn. That information needs to be supplied from one source, which is those who are overseeing the insolvency. Instead of having to raise all these separate legal cases, we think that should be simplified.

We also think that from day one, there should be protection of the wages that the workers are owed; they should be paid that. Instead, we found that from day one, people had no money. The insolvency happened on 23 September, and they were due to be paid on 30 September. That is something that we have had a lot of sympathy for, both in the working group workstream and in the taskforce.

Q376 **Antoinette Sandbach:** What is the position now? How many of those employees have had at least part of their wages?

Diana Holland: They have had none of their wages, because that goes to the "being a creditor" point. It is absolutely outrageous; it is money they are owed. What has happened, everywhere apart from Northern Ireland where there has been a delay, is that they have received their redundancy payments. That has been speeded up, and we pay tribute to people for doing that; when we raised the alert, that did happen. However, there is still the issue that in Northern Ireland, that has not happened, and also that this is only the starting point. They are still owed money, and from our experience with Monarch, we know that it can take months and months for that money to be released. We do not think that the protective award should be contested legally. It is clear that people have done nothing wrong.

Q377 **Antoinette Sandbach:** I accept that. I have a number of Thomas Cook employees, or former employees, in my constituency. I have offered to



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write on behalf of all of them to their mortgage providers or landlords, to explain some of the difficulties they are facing. Do you think this issue should be taken up more widely, encouraging mortgage providers and, for example, loan companies to give a debt holiday for a certain period of time to employees of companies that collapse in this way?

Diana Holland: There are two sides of the coin. First, get the money that people are owed to them as quickly as possible, and let's remove some of these barriers and some of the caps. People are owed money, and it is capped. It is outrageous, so that should happen, but of course we want people to be treated properly and protected from default mechanisms and all these other things that come into play. It is a terrible time for people.

Antoinette Sandbach: I understand that. We are not suggesting that it is not. Can I just ask you—

Diana Holland: One of the issues that has been covered in the taskforce has been the offer of mental health support. I just wanted to place that on the record, because I think it is very important, but it's terrible that we are in this situation.

Q378 **Antoinette Sandbach:** Of course, but that is the case in relation to any company that goes down.

Manuel Cortes: Sadly, the taskforce is now going to be a substitute for the fact that people have lost their jobs.

Q379 **Antoinette Sandbach:** Exactly, but on 23 September the Secretary of State wrote to UK Finance, asking for consideration of the situation of former Thomas Cook employees with regard to meeting regular payments. In your experience, what impact has the letter had?

Diana Holland: We reported back that, unfortunately, although we had brought that to people's attention, when they went to the various institutions, they did not get the sympathy. We were advised to try to take up individual cases with the Secretary of State. The problem is that it's left to individuals, trying to struggle on their own.

Q380 **Antoinette Sandbach:** Can I therefore ask you to encourage people to approach their local Members of Parliament, who should be able to help them?

Diana Holland: Yes, absolutely; thank you.

Q381 **Anna Turley:** Staying on the subject of the taskforce, could you say a bit more about the support that is there for people? When we had a taskforce to support people who had lost their jobs in the closure of a steelworks, there was an emergency fund for things like rent or mortgage arrears and so on. Has any sort of emergency fund been available for the workers?

Diana Holland: We have been advised that there is a possibility of applying in very stark circumstances. There has also been the possibility, if you are required to travel—obviously, people are trying to get jobs in airports, which are in set places—of some support for travel funds and so



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on. But it is not straightforward: often, you have to pay the money and claim it back, so where the money comes from is still the question. There is also the issue of training. To qualify, you have to redo training when you are an experienced person, but that is part of the industry. There is obviously a specific issue with pilots as well. There is all of that, some of which you can make an application for and some you can't, but again, you are left wondering where the money is going to come from, because you have all your normal outgoings.

Q382 Anna Turley: But a specific fund has not been set aside for retraining and reskilling the workforce?

Diana Holland: No, there are just the discretionary funds.

Manuel Cortes: And from existing budgets.

Q383 Anna Turley: That is very helpful; thank you. I want to move on to customers—consumers. Could you say a bit about your assessment of the advice and information for those who were abroad at the time of the company's collapse? How useful and effective was that?

Richard Piggin: While the efforts in repatriating those holidaymakers should not be underestimated, there could have been more support, information and assistance on the ground for people abroad during this time. We have heard from people who suffered quite a bit of anxiety. Some of them said their holidays had been ruined. They had been threatened by hoteliers to provide payment to cover the costs of Thomas Cook. There had been foreign authorities and, again, hotel management that had not been assured by the CAA, or had not recognised the assurance given by the CAA, that moneys would be covered. So we do feel that more advance support and perhaps better co-ordination between the FCO, DFT and CAA to provide that information and support to holidaymakers abroad would have been better. The saturation coverage in the British media was very good. The awareness in the British media and, actually, the information on the CAA website were very good, but not that much trickled abroad, and particular consideration could have been given to vulnerable consumers or consumers in perhaps less co-operative locations.

Q384 Anna Turley: Also, there has been some coverage about scams that have been undertaken subsequently on customers. Could you say a bit about that? Have any customers raised concerns about scams, including fraudulent texts and emails?

Richard Piggin: This is more to do with the refunding of customers. If you were protected by ATOL and you had not taken your holiday, you were due a refund. There was a delay between the collapse of Thomas Cook and the CAA refund portal going live; it went live, I think, a week later than initially intended. Fraudsters took advantage of that delay—they acted with incredible speed—posing as refund agents, calling people and asking for their bank details and claiming that they would process their refund quickly. A fake Thomas Cook refund website was even set up. We had to report that to the domain hosters, which reported that, and



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eventually it was taken down. So people were confused, because they were expecting refunds, did not know where to go—the CAA portal was not yet live—and were being targeted by fraudsters.

An additional point is that fraudsters were using telephone calls and text messages to target people. A number of banks—with all good intentions—perhaps noticed that transactions had gone from their customers to Thomas Cook and proactively contacted those customers to let them know that they had noticed the payment had gone to Thomas Cook, saying, “Here is how to claim your refund,” and including links to the CAA refund portal. The intention was great, but we had people coming to us asking, “Is this a genuine text message or a fraudulent one?” because they appeared very similar to the text messages that fraudsters were using. There was confusion around that, and the exploitation by fraudsters is something to note.

Q385 Anna Turley: Do you think that the Government and the CAA were too slow to respond to that and set out a clear message to people?

Richard Piggin: UK Finance, for example, was very quick to respond and engage with those banks to talk to them about how they could communicate, accepting their good intentions. On the delay, it is difficult to say how quickly you could set up the portal. Now that it is live, it is very good, and most people who paid for their holiday by direct debit have been automatically refunded. Others will have to make a claim and organisations such as Which? have provided a lot of information about people’s rights and where to go. As I said, the actual information on the CAA website is pretty good.

Q386 Vernon Coaker: Diana and Manuel, on the redundancy process, under UK law the Government must pay employees certain debts owed to them by their insolvent employer. Those include statutory redundancy payments, payment for failure to give statutory notice, and holiday pay for unused holiday and for holidays taken but not paid. How is all that going? What is the speed of process and the experience of the people you seek to represent?

Diana Holland: I would add notice periods and the protective award to that, as well. It is slow, because they are all individual cases that have to be lodged and they all have a separate timeframe. The notice period claim cannot even be lodged until the notice period would have expired. We also have the complication that not everybody was made redundant on the same day—some have been kept on for short periods—so during this month, they are gradually being made redundant.

Q387 Vernon Coaker: Do you know the number?

Diana Holland: About 2,000 were kept on initially. It is a complicated process. Also, those who have been kept on are at the back of the queue for applying for the few jobs out there that use the skills that they have. There are a number of issues there that we feel need to be looked at and simplified. At the moment, they are all separate cases, it is complicated for



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people, and although there is lots of support out there, the whole process could be made more straightforward.

Manuel Cortes: We specifically asked the liquidator to give us an assurance that they would not be fighting protective awards. We have not yet received that.

Vernon Coaker: You have not received that?

Manuel Cortes: Absolutely not.

Diana Holland: That is vital.

Manuel Cortes: Absolutely vital.

Diana Holland: Because that is what slows it down. With Monarch, it has gone on for 18 months, and that is the problem.

Q388 **Vernon Coaker:** So the speeding up of all this, and the answer to the particular question that you asked the liquidator, are crucial?

Manuel Cortes: Yes, absolutely. They should give us an undertaking that they will not fight protective award claims.

Q389 **Mark Pawsey:** Martin McTague, from your members' experience, did Thomas Cook have a good payment record?

Martin McTague: It had a lousy payment record. It was consistently posted as poor and not meeting the late-payment code.

Q390 **Mark Pawsey:** Would that not indicate to your members that it was a company in trouble?

Martin McTague: That is a fair point, but because in the UK there is a culture of late payment and it is widespread that businesses pay slowly, it is very difficult to see whether someone is in trouble or just institutionally failing to pay on time. If this were happening in Germany, for example, and they suddenly started to go from 30 days to 90 days, it would be very clear to anybody that that was an alarm bell—not so in the UK.

Q391 **Mark Pawsey:** But they had consistently taken 90 days, even when they were doing well. Is that what you are saying?

Martin McTague: Yes. They varied between 78 and 90-plus days, so they were never a good payer, but they got consistently worse.

Q392 **Mark Pawsey:** Okay. Do you think enough is being done to deal with the institutional problem of big companies paying small companies late?

Martin McTague: The Government have taken some early steps recently and produced some proposals that we support, but there is a fundamental problem that has to be tackled, in particular by big businesses, which have a culture either of not caring about the issue or of actively trying to delay payment.

Q393 **Albert Owen:** Before I ask you all a question, Mr Cortes, following the



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opening question from the Chair regarding Hays Travel, is it your opinion that some of those employees transferring over will have protection, and will your trade union be involved?

Manuel Cortes: We have contacted Hays Travel, and to date they have not responded. I was seeking an urgent meeting with them to discuss what kind of protection those employees might have, including the fact that although we were the recognised union at Thomas Cook, we have no union recognition within Hays Travel.

Q394 **Albert Owen:** Thank you. To you all, the two-year clawback arrangement in place at Thomas Cook means that the former chief executive officer, Peter Fankhauser, receiving a £558,000 bonus from 2017 depends on the decision of the liquidator. To reclaim these sums before the clawback period, the official receiver has to prove serious misconduct. Would you like to see corporate governance changes, so that CEOs and CFOs have to take accountability for their past actions?

Richard Piggin: To be honest, it is not something that we have looked at. From a consumer perspective, the consumer is most worried about getting their refunds as quickly as possible.

Q395 **Albert Owen:** I get that, but it is about being rewarded for failure, basically, isn't it? Customers will not be very happy with that, so would you like to see corporate governance changes?

Richard Piggin: There are wider questions around corporate governance and changes to how the consumer view is held and considered in decision making across all companies that we would probably like to see, yes.

Q396 **Albert Owen:** From a small business point of view?

Martin McTague: Yes, from small business point of view, we have seen that businesses that have new management who decide that this is an important issue can dramatically change the way that they pay their suppliers. It is a case of people at the top setting the right culture. If that was not happening at Thomas Cook, that should be a serious consideration.

Manuel Cortes: I will give you a straight answer: yes.

Diana Holland: Yes, of course; but I also think that, in this case, we have to also look at the way in which the Government reacted when senior people within the company approached them to tell them what the problems were. It seems as if the concentration was put on arranging repatriation, rather than on steps to prevent our being in the situation that we are in. We really want answers to those questions, alongside the other issues.

There are clear recommendations in the Insolvency and Corporate Governance report and the Airline Insolvency Review for a moratorium or a time to take stock and to look at how either closing down or possibly saving parts of the business can be managed. Nothing of that order happened here, so we feel that those questions are absolutely essential,



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alongside all the other issues—both the changes needed in the law and also a recognition of the tools that already exist.

There are clear examples in this country—BMI and Paramount—where those steps were taken that were not taken here. Under Monarch, the engineering operated in administration. No part of Thomas Cook that could have operated was allowed to continue to operate. There are questions to be answered here. I am aware that this is the BEIS Committee, but it seems to me that the Department for Transport absolutely needs to answer for how it made the decision to not look at these things.

Albert Owen: We, as a Committee, can ask the previous CEOs those questions on behalf of the customers and your employees.

Q397 **Chair:** There was a review when Monarch collapsed. If some of the recommendations of that review had been implemented, would it have changed the way the liquidation or administration of Thomas Cook happened in ways that might have been positive for your members, and perhaps customers as well?

Diana Holland: Absolutely.

Q398 **Chair:** Can you explain in what way?

Diana Holland: First, I should say that one change just needed to be people reading the section of the report that describes how it is possible to continue to arrange a wind-down of an airline, because airlines are very specific businesses. Once they are grounded, the whole situation changes—a collapse of an airline is impossible to retrieve. Therefore, there are very specific proposals around Monarch, saying: “How could it have been in operation in such a way that it could have managed the repatriation, which would therefore not have been a cost?” There are also a whole range of proposals in the Airline Insolvency Review, which require legislative change but would have protected not only passengers and holidaymakers, but the workforce, and we think these points need to be strengthened. In the case of Thomas Cook, currently Condor in Germany is still flying. It is a wholly owned subsidiary of Thomas Cook. Thomas Cook Airlines Balearics is still flying. Thomas Cook in Sweden is still flying. All those businesses are able to fly because of the arrangements they have in their country, which could have applied here. Therefore, we believe we should find out why we did not apply the lessons that we learned from Monarch. That is the big question.

Q399 **Chair:** What would be the key thing that you would want to see in legislation?

Diana Holland: The key thing in insolvencies, when you are actually at that crisis point, is to ensure that there is that period of moratorium when we can take stock, so that the business does not collapse in the way that this did, but is properly reviewed. Jobs could have been saved. On top of that, we need trade unions to be given proper access to some of this information at an earlier stage. As soon as there were crisis talks going on, we should have been consulted and properly involved. I have seen in the

taskforce that we have information that everybody needs. Why didn't they involve us right at the outset?

Q400 Chair: Is there a reason why the Government have not implemented the recommendations after the collapse of Monarch?

Diana Holland: The report was published earlier this year. It could have been brought in as legislation—you were talking earlier about what could have been in the Queen's Speech, and this could have been.

Q401 Chair: Thank you. Finally, to Richard Piggin, on the lessons from Monarch for customers: if lessons had been learned and changes made after the collapse of Monarch along the lines that Diana Holland has spoken about, would that have improved things for customers?

Richard Piggin: In terms of the insolvency protections, the Thomas Cook collapse has highlighted how important it is to have ATOL protection, but there was confusion about ATOL protection, and there is still confusion. We ask travel agents, and travel agents do not get it right. If you booked your flight and hotel through Thomas Cook Tour Operations, you were covered; if you booked your flights directly with Thomas Cook Airlines, you were not covered. People who buy flights only are not covered by ATOL protection, so they do not get refunded or repatriated. There are talks around looking at a flight protection scheme that would operate similarly to repatriate people, but that wider insolvency protection question needs to be looked at, particularly when operators and airlines can sell flights right up until the moment that they go under. Those customers, for example, who have bought tickets for a flight and the airline collapses have very little chance of ever getting their money back.

Manuel Cortes: Just to add to Richard's point, our members were selling holidays on the Friday and Saturday prior to the collapse. People were still buying holidays, so there was no protection there for the consumer, in the same way that there was no protection for our members when they lost their jobs.

Q402 Chair: And, of course, your members were selling those holidays not knowing what was going to happen to the business.

Manuel Cortes: Our members had been told that everything would be all right. They were informed on Friday that everything was going to be okay.

Chair: We are seeing the Insolvency Service tomorrow, and we will certainly ensure that we raise some of the points that you have put, Diana Holland and Manuel Cortes, about ensuring that former staff get the money they are entitled to. Depending on the answers to that, we will potentially follow up with the Secretary of State on some of those specific issues. I am sorry that we have not had all the time we might have liked, but I appreciate your answering so succinctly, and I think we have all the information we need from the session today. Thank you very much for your time. Diana Holland and Manuel Cortes, please relay to the people you represent, and the wider people who work in the industry, some of whom might be here today, how sorry we are about what has happened



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and how determined we are as a Select Committee to get some of the answers that I know they are looking for.