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PwC accused of ignoring conflicts over Staffline audit

Questions raised over links between firm and recruitment group hit by accounting row



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PwC has been accused of ignoring conflicts of interest at a listed audit client that was forced to suspend trading in its shares after it admitted to investigating potential accounting irregularities.

The Big Four accounting firm's relationship with Staffline — one of the UK's largest recruitment firms — has come under scrutiny after it delayed publishing its results in January and admitted to potential accounting irregularities involving “invoicing and payroll practices”.

The Aim-listed company said at the time that these issues could have a material impact on its profitability.

Staffline's finance director, Mike Watts, and the head of its audit committee, Ed Barker, both previously worked at PwC. One of its previous finance directors, Phil Ledgard, was also an alumnus of PwC.

Prem Sikka, an accounting professor recently commissioned by the Labour Party to lead a review of Britain's audit market, said PwC's independence at Staffline was “clearly”

compromised by these relationships. He added that the firm's role as the company's auditor was "inappropriate".

A study last year by the **American Accounting Association** found that auditors were less likely to question the financial practices of a company when the chief financial officer previously worked at the auditor's firm, in what they called the "alumni effect".

PwC said: "We have followed procedures and satisfied ourselves that we are independent. As auditor, PwC is independent. Our work is ongoing on the current audit."

Staffline said it was unable to provide any additional information to the statement it made on January 30 but "continues to work closely with its auditors PwC".

One of the company's biggest shareholders, speaking privately, said it was "surprised" by the admission of accounting irregularities given the company has been "independently audited constantly".

Other investors declined to comment, citing ongoing governance conversations with the company after the January announcement.

A partner at one of PwC's biggest competitors, speaking privately, added that these relationships represented an "awfully big conflict".

Mr Watts was appointed Staffline's finance director in January 2018. He qualified as a chartered accountant with PwC, where he worked until 2002. Mr Barker, a non-executive director at Staffline and chairman of its audit committee — who is separately finance director of retailer Superdry — worked as an audit manager at PwC from 1995 until 2001.

Meanwhile, Mr Ledgard, the company's finance director until 2016, was a PwC qualified accountant.

The close ties between corporate boards and auditors has been increasingly scrutinised in recent years following a series of high profile accounting scandals. These include controversies involving KPMG's audit work for South Africa's Gupta family and PwC's audit work for British retailer BHS.

The Financial Reporting Council, the UK accounting watchdog, said it could not comment on individual companies or investigations, but that it would follow review procedures "if there is evidence to suggest non-compliance or audit failures".