



12 August 2019

Lodged via corporations.joint@aph.gov.au

**The Chair
Parliamentary Joint Committee on Corporations & Financial Services
c/- Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600**

Dear Chair,

Submission to Parliamentary Joint Committee – Regulation of Auditing in Australia

I note from recent media reports that your Committee has been referenced to inquire into the Big Four auditing firms, including EY re the quality of their audits and potential conflicts of interest.

I am the Chairman of a small Australian Stock Exchange Listed company, London City Equities Limited (LCE), which has suffered tremendous losses due to the “fraud”, “negligence” and “misleading and deceptive conduct” of EY. Those allegations are not made lightly, and are in fact central to our current legal case in the Supreme Court of NSW against EY. They are direct quotes from our Amended Statement of Claim, which is attached

LCE is suing EY following the collapse in 2014 of Penrice Soda Holdings Limited (PSH). EY were the auditors of PSH for many years. LCE became a cornerstone investor in the company, with over \$7.5m invested. Nearly all of LCE’s investment was lost. We have estimated that over \$270 million was lost by all shareholders, the banks and trade creditors in the collapse of PSH.

From documents obtained via our Court action, we believe EY endorsed as auditor falsely revalued inventories over a number of years, thereby resulting in inflated inventory values of at least \$20 million and reported of these inventories as “current assets” when they were not. Unearned profits were also created.

The effect of these accounting practices was that PSH looked much more profitable and financially stable than in reality it was. It is also alleged that EY assisted PSH to mislead LCE when these accounting practices were questioned by LCE. And further, that EY knew that PSH was giving “untrue and false” answers to LCE about these matters.

It is alleged that EY continued to sign off on the PSH accounts as being “true and fair” when they were not, and this “fraudulent concealment” by EY continued over several years.

After a complaint from LCE in 2011, ASIC launched an investigation in 2012 by referring the matter to its Enforcement Division. After ASIC’s intervention, PSH and EY changed the false classification for the 30 June 2012 accounts. ASIC determined that there had been “a clear breach of Accounting Standard AASB 101”.

These are serious matters that strike at the heart of the financial integrity of our auditing system.

We would like to appear before the Committee to ventilate these serious matters. Attached are some of the key documents:

1. Amended Statement of Claim lodged in Supreme Court of NSW
2. Australian Securities Exchange Announcement of 5 August 2019
3. Media Release of 7 August 2019
4. Judgment handed down by Justice E Fullerton on 1 August which saw EY lose a Court bid to prevent further details being included in our extended Statement of Claim
5. Article from the Australian Financial Review 7 August on our matter.

Yours faithfully,


Peter EJ Murray
Chairman of Directors