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DEPARTMENT OF TRANSPORT  
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The Rt Hon Leon Brittan QC MP  
Secretary of State for Trade  
and Industry  
1-19 Victoria Street  
LONDON SW1H 0ET

17 December 1985

NBBN.

Dear Leon

ARTHUR ANDERSEN AND CO

Arthur Andersen's current appointment as LRT's auditors expires at the end of the 1985/86 financial year. Neither I, nor LRT, have any criticism of their performance, and in the normal course of events I should have been prepared to reappoint them for LRT's 1986/87 audit. However, since we have now agreed that the firm's audit appointments should not be renewed unless there are overriding legal or policy reasons for doing so, I have concluded that Andersens should not be reappointed for the LRT audit.

A competition, from which Andersens will be excluded, will therefore be needed to select their successor: Andersens have reluctantly accepted that this is unavoidable. Since a competition for the LRT auditors may well give rise to awkward questions in Parliament or from the media, I thought I should write to you now about how I propose to respond to them.

Andersens intend saying as little as possible, beyond the bare statement that their relationships with existing or potential clients are confidential; given the need to avoid saying anything publicly which might prejudice the Government's court action against the firm, I propose to adopt an equally low key approach to queries as follows:-

- (i) Andersens have been auditing LRT/LTE's accounts for 5 years, and a competition is normal in such circumstances;
- (ii) it is not normal practice to reveal which companies have been invited to tender, or why any particular firm was, or was not, invited to take part in the competition;

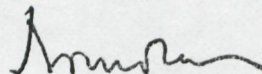
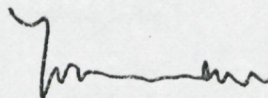
- (iii) the competition is genuine, and no special preference will be given to the existing incumbent.

We had earlier agreed that we should avoid making any public statements about Government policy on Andersens (beyond the minimum suggested in the previous paragraph). On reflection, however, I think it may be difficult in practice to maintain this line, particularly if we were asked a specific question in Parliament about the Government's policy on the appointment of Andersens as auditors of nationalised industries. If circumstances arose in which a straight answer seemed unavoidable, I would propose taking the following line:-

"Unless there are legal or policy reasons for doing so, the Government has decided not to appoint, or reappoint, Arthur Andersen as auditors of nationalised industries while their legal action in respect of the De Lorean company is in progress. This will not affect the position with Arthur Andersen in their role as Management Consultant."

My officials have discussed the position with Andersens, who recognise that it may be necessary to reveal the position publicly in this way, and would be content with a parliamentary answer in these terms if that became necessary. I think we should agree our position before organising the competition for LRT's auditors, and I should therefore be grateful to know whether you, and colleagues, are content with the line I propose taking.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong, and the Head of the Government Accountancy Service.



NICHOLAS RIDLEY



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Secretary of State for Trade and Industry

6 January 1986

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The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

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ARTHUR ANDERSEN & CO

Thank you for your letter of 17 December about your decision not to re-appoint Arthur Andersen as LRT's auditors when their current appointment expires at the end of the 1985/86 financial year.

I am content with your proposed line both on the LRT appointment and on the Government's general attitude toward Arthur Andersen. The firm reluctantly accept that we can do, or say, little else.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

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SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

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The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

14<sup>th</sup> January 1986

NBRM.

Dear Secretary of State

ARTHUR ANDERSEN AND COMPANY

Thank you for copying to me your letter dated 17 December 1985 to Leon Brittan.

I agree with the general line proposed in your letter but I wonder whether, having reached the view that Andersens will not be re-appointed for the LRT/LTE audits, we should present the competition for those audits as "genuine" with "no special preference for the existing incumbent". It might be preferable to restrict the response to any queries to (i) and (ii) of your proposals.

As regards the line of a Parliamentary reply I suggest that the final sentence be amended to read (change underlined);

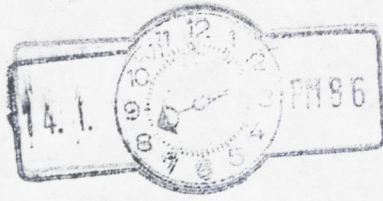
"This will not affect the position of the separate Arthur Andersen consultancy firm".

I am copying this to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong, and the Head of the Government Accountancy Service.

Yours sincerely  
N Edward  
Private Secretary  
for T K

(Approved by the Secretary of State and signed in his absence in Northern Ireland)

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