

CBI PRESIDENT'S RECEPTION

12/11/91.

Grateful oppty. discuss issues before Cttee, get views / advice.  
(well-sgt'd Cttee members).

Thanks to Pres & attenders. Ian Butler ensures appreciate views practising dir's. <sup>Chm /</sup>

(Ian Butler represents professional viewpoint), Jonathan Charkham authoritative writings  
on bids well-known to Jan. (Then in add'n Sir Chris Hogg kindly agreed correspond g. <sup>practical</sup> members)  
help ensure do come up with to print &

Concerned outset <sup>public</sup> expect's Cttee, Times cleanse Angean Stables. Not undertake

labour's Hercules task more to see appropriate cleansing systems installed. Simply make

point have no intent duplicate wk. of others. Expect's now down to earth.

Problems new world. which also = Pte Eye.

3 main sponsors Fin. Regty. C'cil, Stock Exchange (both Chm) & Actg profession

Members from L&S studies + CBI, IOD, Bank, Law Soc, Instl S'holders Cttee, Hundred Gps  
(Imp't)

FTI observer + invaluable help in kind providing Sec Nigel Peace. Without him unable

cope volume papers, submissions, people.

Receiving evidence here to emphasise "fin. aspects" not e.g. itself.

So not involved in alt. govc. structures (2 tier). Fin Asp. limit keeps enquiry

within bounds, concentrate on these issues to do with control & mgmt. of cr's.

Concerned main sponsors.

Set up against backgd. doubts effectiveness/ability etc. In partic.

When established co. unexpectedly collapsed, why apparently no prior warning in a/c's.

(or so coded), What were dirs. doing, where were the auditors? Confusion over precise resp. dirs/auditors. Concern a/cg rules allow too much latitude. Caparo case raised further ?'s over those to whom auditors owed duty of care.

Significant, comparable stirring in US. Radical suggestions about altering acct. structures. o/s are remit but evidence ~~is~~ <sup>geog. breadth</sup> recogn all is not well & action needs to be taken.

Manifestation this unease in Britain has been volume advice/guidelines

from bodies involved. ISC. Role & duties of Directors. ABI Resps of Instit s/ldrs Conservative Lawyers

Bow GP. Fabiane IFMA. Internal Auditors. Govt. reguln. on audit.

Sept. approach problem, deal with one aspect, unclear who will follow up.

Useful role etc. to pull together key recs, where fit, in single ~~set~~ of recs.

In addn. major strengthening of bodies supervising a/cg/audit etc

Fin. Reptg Ccil. A/cg Standards Bd. Fin. Reptg Review Panel, Urgent Issues Task Force

First fruits restructuring in terms of papers, forward programme, unwillingness to

take action. - Expanded Auditors Rept, Fin. Reptg. Standard on Cash Flow,

A/cg. Stds. Bd's First Wk. Prog.

Impke of this backgd. Confirms ° accept. need for action to improve

stds. of fin. info. & systems of fin. control, that is to say we have to catch

& to do so need to be able to in yr. genl supt. for whatever proposals emerge, with.

To whom report? Basically sponsors; hope that all orgns. with members on

Cttee included. Aim draft rept. early March, consult widely, final version Summer.

Form remains open. Possibly mix & -

- Code of best practice - endorsement initiatives by others -
- Specific recs. to various bodies - a/cts, S.Ex, etc.
- pointing up further wk. to fill gaps.

What are some issues on which views welcome?

1) Said that compet. pressures on Crs, to produce results believe mkt. expects & compet. pressure on auditors not to lose customers, ~~means that~~ undermining place on reliance shldrs shld. be able to expect firm co. fin. statements & auditor's endorsement ~~statement attached to them.~~ Wld you share his view, how is it best tackled?

2) Undoubtedly confusion in public/shldr's mind as to respective resp's of dirs/auditors for accuracy of fin. statements, Gap between what auditors do & thought to do, with what shld do? Extended auditor's rept. designed <sup>problem</sup> address (in part - adequate?)

3) Still on auditors. <sup>issue</sup> independence/objectivity raised given clients of mgt. & s/hldrs appt. formal. Old s/hldrs have real link w/ auditors? Proposals include rotation of auditors & guarantining?

4) Agreement audit ctee's role key, if auditors' posn. strengthened & audit usefulness maximised to advzge of s/hldrs. Effective audit ctees require effective o/s dir. How can appt. of both be brought about on reg'd scale.

Legisln? Listip report? Pressure of best practice?

Along w/ audit ctees, <sup>support information</sup> (nomination remuneration ctees controlled by o/s dir)

also advocated.

5) How can co. repts/acc be made more useful to those to whom directed & those who make use of them. Wld. more facts. Mgt. Disc'n & Analysis sec. in Rept. make sense? Would rept. on availability of resources to carry out bid's first plans ~~to~~ & (septe. pt.) statement on revenue investment be helpful innovations?

These are some of the issues. Views/guidance on these & related subjects <sup>valuable advice</sup>

(fin aspects always in mind) most welcome. Espec. [addressed to way in which we as Ctee can be most helpful.

- 1) Role of Auditors - Ltd's.
- 2) Fee.
- 3) Retention | competitive advantage |
- 4) Pw. audit not cut off
- 5) Reeps. disc acts.
- 6) Best practice | legisln | judgmental. | audit ctees. | Allen.  
Prejudiced in favour best practice.  
a). quality b). legisln avoid. c) movement
- 7) Cash flow
- 8) Worthy reveal - fees. Disclosure.  
Pressure <sup>with</sup> conventional, Auditors revealing
- 9) Describe.
- 10) Governance. - clearer cash flow -
- 11) AGM. Q's major s/hldrs.
- 12) Competence of auditors / dirs. | Deliberate concealment.  
| Inadequate controls.  
Uncertainty involved in a/cs. Info. / better understanding.  
Sensitivities "MD&A"
- 13) Go how some processes as rights issue.
- 14) C/ma - auditors - audit ctee - board. Failure of structure.
- 15) Look for checks & balances among execs.
- 16) Materiality not just for whole, but also for unit.
- 17) Regular growth / year in/out.  
Tough on a/cg. stats. provisions  
extra. items, goodwill.
- 18) Sanctions..
- 19) Pay/contracts.
- 20) Effect of Europe. Banned pictures,  
moral attraction dis. / Wkman.