CAD-01219

RECORD OF MEETING WITH MR BRANDON GOUGH, SENIOR PARTNER OF COOPERS & LYBRAND DELOITTE, ON 15 JULY 1991

Present:

Brandon Gough
Sir Adrian Cadbury
Nigel Peace

1 Mr Gough said that in autumn 1990 he had become concerned, as an auditor, about the degree of criticism that was being directed against auditors. The last time it had been as bad was in 1975. Some of the criticisms he accepted as fair, others not. He had felt that auditors could not fight their way out of the criticisms on their own, given the inter-relationships with boards and shareholders. He had met Sir Peter Gregson for lunch at about this time, and had followed this up with a paper about his concerns. It transpired that Sir Ron Dearing and Andrew Hugh Smith had also been concerned, and the result had been the setting up of Sir Adrian's committee.

2 Mr Gough continued that despite all the paper that was around, there was a lack of clarity about who was responsible for what, and about what was a reasonable level of expectation of the audit. A definitive statement would be of great help.

3 Asked what he had intended should be looked at under 'illegal acts' in the terms of reference, Mr Gough said that he had had in mind corporate conduct issues such as the company's policy on payment of commissions. Companies such as Unilever had a code which established the mark which employees should not overstep. External auditors would report any transgression they came across, but it was really the responsibility of internal auditors to cross-check on management and he would not want to spotlight the subject unduly.

4 Mr Gough said that corporate conduct was the other side of the internal control coin. Appropriate internal controls were essential if financial data was to be reliable. He believed that they were a fundamental management responsibility, and thus for the Chief Executive, not the Audit Committee. He had been concerned at a recent Audit Committee meeting where the Audit

Committee, not senior management, had been installing an internal control system.

5 On the appointment of auditors, Mr Gough said that he found the present situation a little unsatisfactory. Non-Executive directors were not 'the auditor's friend' and were inclined to seek a change in order to get a fee reduction. He believed that there should be greater concentration on getting the job done properly.

6 Sir Adrian said that as company chairman, his prime concern had been that the audit should be effective: any bending of the rules in one year would rebound the following year. Mr Gough commented that times had changed. With Henry Benson there would have been no argument about what accounting practice the company should follow. Now accounting standards allowed too much leeway. Polly Peck for instance had kept within the standard in its treatment of currency transactions, but the treatment had simply not made sense in the context of a high inflation country. Sir Adrian said it came down to the need for a tougher duty on boards to produce accounts that took account of the need to <u>continue</u> to provide shareholder value.

7 Sir Adrian asked if a longer form of standard audit report, or more frequent qualification of the accounts, would be burdensome for auditors. Mr Gough said not. The profession has suggested an extension of reporting practice. One of the things his firm tried to do in the internal control area was to give the board an overall assessment. This was one way in which the results of the audit examination could be made available to a small extent to shareholders. He felt that the accountancy firms generally were fairly open-minded about a broadening of responsibilities. His own firm had made mistakes once or twice when reporting on internal controls and had had to extricate themselves from the situation, but when things went wrong the auditors faced criticism anyway.

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