CAO-01147

Need for new Co's Act. Substantial Comm.

Alcy structures / Auditing / effective controls

Have new structure, wait & see.

O/s pressure needed changes.

Audit cttees ineffective, because not elected, not nec. guarantee

Problems are institutional.

Develop audit cttee.

Give backbone to audit, only effective o/s check.

Strengthen indepdce.

Priority - 3 reform.

Auditing reforms lag

Accountability

Regulatory body

Indepdt. / representative / effective

1) Socially desirable social / objective. desirable an
material fraud. legal.
Duty to detect. Reguln plcs.

2) ICAEW & auditing firms no public scrutiny. Audit tenders filed. No audit without publicn'. Pte firms or Commission.

3) Audit independently regulated firms.
Interest group, whose discourse is prioritised

Senatorial elite, small fry.

Debasement audit stds.

< cost, but < value.

Audit Commission.

Cost gtr. when audit / other services, supplied jointly.

Fin. sector reguln shld. be applied widely. Barlow Clowes.

Capping. Dir's. Double charge. Audit reports.

Not override legal stds.

AGM's.

2 repts. Technical / hard data. → more info. for regs.
Social aspects).

KPMG resigns as Manchester Ship auditor

By Andrew Jack

KPMG Peat Marwick, the accountancy firm, has resigned as auditor to the Manchester Ship Canal after it was issued with a writ for more than £1m in damages related to tax advice given to the company.

Both KPMG and MSC stressed yesterday that the resignation was to prevent a conflict of interest as a result of the legal action against the firm's tax department and had nothing to do with its audit.

But the action leaves the company with little time to appoint a replacement firm and complete the audit within the legal time limit at the end of February.

MSC claims that in 1988 KPMG's tax consultants said it was eligible to receive more than £8m in tax relief concurrent with the construction of a building in the Trafford Park enterprise zone in Manchester.

In fact, it could only receive this sum over several years, and it says that the delayed payment has cost it more than £1m.

However, KPMG said last night that it would strongly contest the legal action.

MSC warned KPMG of possible action last April, and issued a writ in October. The firm hinted that it might resign on December 13 to prevent any compromise of the audit, and did so on Christmas Eve.

MSC is one of the few companies constituted under the 1845 Companies Clauses Consolidation Act, rather than the Companies Act. It is obliged to hold its annual general meeting within two months from its year end of December 31, and any change of auditors – who must be appointed individually rather than as a firm – needs to be approved by the shareholders.

The company is convening an extraordinary general meeting of shareholders on January 29 to recommend the appointment of two partners in the Manchester office of Robson Rhodes as replacement auditors.

The annual meeting is already scheduled for February 27, and shareholders must receive the accounts at least two weeks before that date.

F.T 11/12 Jan '92

Manchester Ship sues KPMG Peat Marwick for £1.2

The Guardian

Lisa Buckingham

MANCHESTER Ship Canal has joined the ranks of companies suing their auditors for negligence or breach of contract with a £1.2 million legal action against KPMG Peat Marwick.

The proceedings arise out of a delay in MSC's ability to claim enterprise tax relief on the building of Quaywest in Salford in 1988 and Peat Marwick said it would "strongly contest" the lawsuit. The accountancy firm has resigned as auditor to "maintain its independence". Robson Rhodes is expected to take over. MSC's audited results for 1991 are due in less than six weeks.

It is the latest in a growing wave of negligence claims against auditing groups, the biggest a £550 million suit by Ferranti against Peat Marwick that was settled out of court last summer for £40 million.

In recent months, a £7 [illegible] lion suit has been filed Gomba Holdings agai[nst] Price Waterhouse, dama[ges] have been threatened agai[nst] Stoy Haward over Po[lly] Peck, a £6 million writ [was] served on Price Waterho[use] by three former directors Caledonian Produce a[nd] £70 million is sought [by] America's General Elect[ric] from Bankers Trust a[nd] Arthur Young (now Erns[t &] Young) over the Magn[et] buyout.

The Independent 11-1-92

Court case prompts Peat to quit MSCC

By Peter Rodgers
Financial Editor

PEAT MARWICK has resigned as auditor to Manchester Ship Canal Company because of a conflict of interest over an unprecedented court case the company has launched against it, for negligence and breach of contract.

MSCC is suing the accountancy firm for more than £1m damages over tax advice given in 1988. The dispute, which is not related to the audit, was about an Enterprise Zone tax allowance on an £8m property development in Salford.

The company claims it was advised by Peat that the tax allowances would be available immediately, but instead it found it was faced with a long delay. The claim is for the cost of the delayed relief, calculated in terms of its discounted value. MSCC alleges that £2.5m of relief has been delayed a number of years.

Robert Hough, MSCC chairman, said yesterday, "The deal would have been restructured if we had known the position at the beginning." A spokesman for Peat said the lawsuit would be strongly contested.

MSCC also complained in a statement that, though it first notified its claim last April and issued the writ in October, Peat did not say it saw a conflict of interest until 13 December.

This left it with little time to appoint a new auditor, which is to be Robson Rhodes, for the year to the end of December. MSCC said that as a statutory company it must hold its AGM within two months of the year-end which meant that the new auditor had to complete the job before the second week of February. An extraordinary general meeting is to be held on 29 January to appoint Robson Rhodes as auditor.

MSCC said the sole reason for Peat's resignation was the litigation, and not the company's own policies or conducts.

Times 11 Jan 92

Manchester Ship Canal sues KPMG

BY NEIL BENNETT, BANKING CORRESPONDENT

MANCHESTER Ship Canal is suing KPMG Peat Marwick McLintock, the accountant, for more than £1 million for allegedly giving negligent tax advice.

Hugh Thompson and John Dixon, two of KPMG's partners, resigned as auditors to the company on Christmas Eve, due to the case. Robson Rhodes, already appointed as the ship canal's new auditor, is already working to produce the annual report by the middle of February.

Robert Hough, the company's chairman, said the case relates to advice that KPMG allegedly gave over tax relief on an £8 million construction project. The company expected that it would receive the relief, worth around £2.6 million, almost immediately. Instead it will not be paid for up to four years, and the company is suing for the additional interest charges it will incur. The claim is unlikely to reach court until next year.

Mr Hough stressed that the company had had a good relationship with KPMG in previous years, and that the firm had not resigned for any other reasons. The accountant was first told of the claim in April but waited for eight months before deciding to resign.

A spokesman for KPMG said the lawsuit would be contested strongly.

Peat to contest £1m action

The Daily Telegraph 11.1-

By Karen Cooper

PEAT Marwick McLintock says it will "strongly contest" legal action by former client Manchester Ship Canal Company, which is seeking damages of more than £1m for alleged negligence in relation to tax advice.

Concerned the action "may, or may appear to impair their independence", Peat partners Hubert Thompson and John Dixon resigned as auditors of the northern port operator and its subsidiaries on Christmas Eve.

The company, which is 66 p.c-owned by John Whittaker's property developer Peel Holdings, said their resignation arose solely out of the legal action and was not prompted by "any policy or conduct of the... company itself".

Rival firm Robson Rhodes has been chosen to replace Peat and has begun work on the company's audit. Its appointment will be sought at an extraordinary meeting later this month.

Robert Hough, chairman of Manchester Ship Canal, said the claim against Peat stemmed from 1988 and related to the deferral of tax benefits arising from enterprise zone allowances. "We are satisfied that a loss has been suffered and feel it should be recovered," he said.

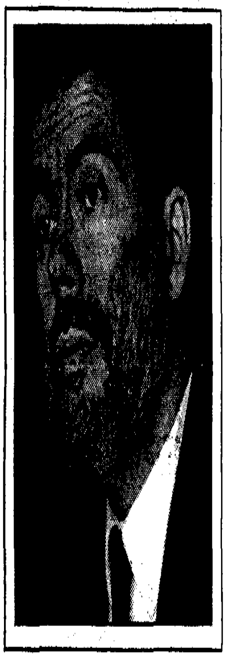
The proceedings against Peat are the latest in an apparently growing trend towards litigation against advisers and auditors advice has allegedly p incorrect. Last August agreed to pay Ferranti in settlement of a £530n ligence claim by the ele ics group over its purch International Sign Control.

Ironically Robson R itself lost an audit last when shareholders in Foster approved the ma ment's decision to chan cheaper firm, despite resistance from Ro Rhodes itself.

THE VIEW FROM THE LABOUR BACK BENCHES

Jim Cousins

A clearer understanding of the auditor's role



The audit report is one of the few regular means of communication between an auditor and shareholders. In the late 1970s, the department of trade and industry inspectors' report drew attention to the confusing nature of audit reports. But they have continued to mislead.

In this context, the auditing practices board's consultative paper on audit reports is not the answer. It is a matter of concern that the working party preparing the consultative paper was led by a partner from an auditing firm which has itself been criticised by the DTI inspectors. The main issue is the lack of auditor independence. But this has not been addressed. The poverty of the major firms' audit standards is all too visible in the DTI reports. But this also has not been addressed. Instead, what we have is an audit report proposal which is good at explaining director responsibilities and has little to say about auditor obligations. As usual, such matters continue to be obfuscated.

To date, no evidence has been provided to show that a standardised audit report is an effective medium of communication. Indeed, the profession's prescription of standardised reports does not enable auditors to report according to the circumstances. As professionals, auditors are encouraged to make judgments, only to find that this is stifled by the insistence on using a standard report.

The proposed report reads like a disclaimer of responsibility designed to protect major firms from litigation. It makes no effort to inform anyone of the make up of the audit team and the time spent on an audit. On the crucial issues of auditor duty for detecting fraud, commenting on the likelihood of bankruptcy and company efficiency, it is strangely silent. No doubt, statutory enactment of these duties would help so that the public would clearly know what the auditor's duties are.

If the APB wishes to go ahead with its proposals, then it should ensure that the readers receive information which is true and fair. The audit report should give details of the auditors' actual and potential conflicts of interest. It should give the amounts which the auditors have first created and then audited, such as tax and other figures. Where the auditors, under the guise of non-auditing services, have supplied creative accounting schemes, off-balance sheet financing schemes, have advised on or set up internal control systems or recruited directors, then that should be stated.

If audit has been used as a loss-leader and/or the firm earned less than 50% of their profits or fees from auditing, then the readers should be told. They must have the necessary information to judge whether a firm who does not regard auditing as its main business, is capable of performing effective audits. If the auditing firm has been criticised within the previous five years by the DTI or the joint disciplinary schemes, then that must also be stated.

Should the consultative document ever become an auditing standard, then all audit reports ought to state that the format was developed by the auditing practices board which is under the control of accountancy trade associations.

The auditing industry is not the victim of an expectations gap. It is responsible for it. In pursuance of its self-interests, it continues to ridicule the public for expecting auditors to be effective watchdogs. In return for huge audit fees, shareholders and the investing public is entitled to expect value for money from auditors. The mere revision of an audit report format is not going to deal with the major problems in auditing. It seeks to deflect attention from the poor standards of major firms and their lack of accountability.

Such issues are clearly not going to be dealt with until we have independent regulation of auditors, with agencies independent of the auditing industry setting, monitoring and enforcing standards. As long as auditing standard setting remains under the control of the accountancy trade association, the value of audits would continue to be eroded. And an essential part of our new wider-owning, investing democracy will be missing.

Jim Cousins is a Labour MP for Newcastle Central and a member of the trade and industry select committee