

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

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To: Sir Adrian Cadbury

Date: 18.9.91

Address:

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From: Nigel Peace

Subject:

I will see you at Pearson's (17 th Floor, Millbank Tower) at 0900 tomorrow morning.

I have tapped out an introductory paper for the next meeting of the Committee – I will need to adjust when I see what the other papers look like but I am copying it to you now as you may find it helpful for the meeting with Mr. Joll. Another helpful document would be the record of our meeting with David Tweedie on 23 July.

We do not know much about Marjorie Mowlam's views but I attach two press cuttings of relevance.

[Hand written] Regards, Nigel.

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THE ROLE AND RESPONSIBILITIES OF THE AUDITORS: THE KEY ISSUES

Note by the Secretary

1 .The purpose of this paper is to set the scene for discussion of the role and responsibilities of auditors by pointing up the key issues and indicating how they will be dealt with in separate papers being prepared on individual topics.

2. The Committee is invited to comment on the views set out in paragraphs 3 to 4, and to agree that the key issues are correctly identified in paragraph 5.

Concerns leading to establishment of the Committee

3. The committee was set up principally because of concern within the accountancy profession about loss of public confidence in the audit role. Papers produced at the beginning of 1991 by those who were instrumental in establishing the committee comment as follows:

Over the past year, public interest in the auditor's responsibility with regard to corporate failure and fraudulent activity has been heightened. Much confusion exists in the public's mind as to the auditor's duties and who should be able to rely on their reports, as a result of the House of Lords decision on Caparo. There is a widespread view that present forms of financial reporting are inadequate in today's environment. This debate has been exacerbated by the controversy of accounting for brands and goodwill. The spectacular cases of Ferranti, British and Commonwealth, and Polly Peck have all raised important questions as to the role of auditors and directors. In recent times the emphasis in the press has been on "Where were the auditors?" Little emphasis has been given to whether there are problems with the governance of companies themselves.' (The then President of the ICAS ... [continued?])