

Sir Adrian

CAD-03115

PROPOSALS ON AUDITORS

A summary of the proposals on auditors, as requested. I might not have picked up every single proposal, but it is fairly comprehensive. Nigel H.

Austin Mitchell

- 1 There should be a single body to regulate accounting and auditing:
 - it should be independent of the accountancy profession - democratic, with a statutory base, and composed of representatives from all the interested parties. Accountants should hold less than half the seats;
 - members should be full-time and must sever connections with their employers. They should serve for a maximum of five years;
 - standards setters should meet in the open and pursue a full sunshine policy. Private meetings should constitute an offence. An annual report should be published. Costs should be met by the licensing fees levied from auditors which currently go to the professional bodies plus an increase in the fees of Companies House.
- 2 Accounts must comply with the legal requirement to show a true and fair view.
- 3 Audit Committees should be encouraged, and be compulsory in larger plcs.
- 4 Auditors should not be allowed to sell non-auditing services to the companies they audit.
- 5 There should be a compulsory change of auditors every five years.
- 6 All plcs should be required to have proper systems of control and supervision, vetted by audit committees.
- 7 All audit reports should be accompanied by a statement stating the matters for which the auditors are responsible.
- 8 Auditors duties should be clarified by statute. Auditors should be required to report any material fraud or irregularity to the appropriate regulators.

9 Auditors should be required to satisfy themselves that a business is a going concern.

10 Action should be taken against offending auditors.

11 Auditors should owe a duty of care to each individual shareholder.

12 Audit firms auditing plcs should be required to publish information comparable to that disclosed by plcs.

13 Auditors should be independently monitored.

14 The auditor's letter of engagement, management letter, and response to the management letter, should be published.

Marjorie Mowlam (as per unpublished speaking notes)

1 It is important to keep up the pressure on the accounting profession to make incremental improvements in both reporting and auditing.

2 There is a case to report publicly on internal control systems. Costs and benefits should be researched.

3 Audit Committees should be compulsory.

4 The APB should be brought within the framework of the FRC.

5 The auditor should have a statutory duty to collect company statistics in a form which is useful to government.

6 The profession should in general disclose far more of its meetings and discussions.

7 Areas which need to be reviewed:

- position of auditors with regard to the discovery or suspicion of fraud;

- liability of auditors in the light of the Caparo decision;
- how to improve the current self-regulatory regime for registering and supervising auditors [anathema to the Institute!];
- 'quarantining' (ie preventing audit firms from selling other advisory services to their clients, or at all);
- audit rotation.

James Leek. Caparo

- 1 Auditors should be made liable for their negligence to accounts users who suffer loss.
- 2 Auditors should have a better form of defence against their increased liability exposure.
- 3 Auditors should be encouraged to use qualified audit reports more frequently.
- 4 Auditors should be encouraged to make available to shareholders a summary of their reports to management.
- 5 There should be a limit on the number of years for which an auditor may be reappointed, and on the amount of fee income from services other than audit and taxation.
- 6 There should be a better mechanism for shareholders' involvement in the appointment and selection of auditors.
- 7 There should be an independent review body to hear cases of auditors' negligence.

internal management controls and in addition on the adequacy of future funding, based on cashflow projections prepared by management.

2 If fraud of a material nature is discovered this should be reported in the first instance to the audit committee. If no action is taken by them it should be referred to the DTI unless there is another regulatory body. Reference should be made to these facts in the audit report.

Brandon Gough

1 There should be a formal statement by the directors that they have reviewed forward financial information, to be satisfied that so far as they can tell the business will remain a going concern for at least one year; and the auditors should report on this statement.

2 Directors should be required to confirm that they are satisfied that adequate internal controls exist, and auditors should be required to report on this statement.

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