

RECORD OF MEETING WITH MR BILL MORRISON, CHAIRMAN OF THE AUDITING PRACTICES BOARD, ON 4 DECEMBER 1991

Present:

- Bill Morrison
- Sir Adrian Cadbury
- Nigel Peace

Mr Morrison said that there had been nearly 100 responses to the APB's discussion paper on an expanded audit report. There had been clear support in principle for the proposals from the preparers and users of accounts, and the Board was unanimous that it had a mandate to continue with the project. The Board also proposed to release a statement of its aims and objectives, and a work programme (draft at Annex).

2 So far as the positioning of the statement of directors' responsibilities was concerned, the Board was likely to proceed with drafting on the basis that it was included in the auditors' report, as it did not have the power to make it go elsewhere. However consultees (including the CBI, who favoured an expanded report) had said they would prefer it to go elsewhere and the Board would say that it hoped this would be possible.

3 The Board recognised that there was no possibility of legislation in this area, and that the Stock Exchange was extremely unwilling to tinker with its listing requirements. The ASB did not regard it as an accounting matter, which left the Cadbury Committee as the 'best bet'.

4 The Board would be considering the responses in detail and was unlikely to produce revised proposals before Easter 1992, when it would bring forward a complete package.

5 Turning to the Cadbury Committee, Mr Morrison recommended that it should concentrate on producing a handful of unequivocal bullet points. The Jenkins report on Company Law had been excellent but had not been implemented because it had produced 34 recommendations. The Committee should not dilute a code of practice with detailed points about audit. Areas in which the Committee could be supportive of the APB included

- statement of directors' responsibilities;

- Going Concern (where he sensed a fair acceptance);
- recognising that responsibility for irregularities and non-compliance lay with directors;
- stating that responsibility for internal control lay with the directors, and encouraging them to have proper systems.

It would be helpful for the Committee to say that these were areas the profession needed to sort out. Anything more esoteric would be too slippery and dilute the Committee's impact. Subjects which the Committee might feel it could get across (and could be legislated for) were Audit Committees, Remuneration Committees, and having a minimum number of non-executive directors. It should not waste its ammunition with detailed recommendations on topics like expanded audit reports, or illegal acts. (On the latter topic, the basic need was for a system whereby companies identified the main legal requirements they faced, and auditors then checked against the list.)

6 Sir Adrian commented that the Committee might come to the view that there were areas that should not be dealt with in a code of practice but where it strongly supported action in principle and gave strong encouragement to the APB. He was however wary of problems being 'parked' with the Committee.

7 Other points made by Mr Morrison were as follows:

- i) it was very important that the Committee should not be seen as a back-door lever for the auditors;
- ii) the Committee should avoid the phrase 'expectations gap';
- iii) on Opinion Shopping, the APB took the view that the ethical points should be exposed in a discussion paper before it made any pronouncement. He would be pursuing matters further with the chairman of the Joint Ethics Committee (Jock Worsley) [and would report back to me about a paper for the Committee's January meeting].

iv) he believed that Austin Mitchell's case for an external regulator fell in essence because no regulator could tackle the judgemental areas of accounting.

NDP

10 December 1991

DRAFT APB WORK PROGRAMME

Priority

The nature of the audit assurance  
The framework for audit and related services  
Illegal acts and fraud  
Going concern  
Audit report  
IT and the audit  
Explanatory foreward

Active

Opinion shopping  
Financial services  
Prospective financial information  
Auditors' report on revised accounts and directors' report  
Internal control  
    - as part of financial statement audit  
    - as separate report  
Revision of existing standards and guidelines  
Interim reports (and other financial information)

Preliminary report stage

Reports on management discussion and analysis