



Attention all directors.

A Newsletter from Jean Pousson, Board Evaluation Limited Managing Director

[A poem about the Balance Sheet..... Yes, your eyes do not deceive you!](#)

We have audited the balance sheet and here is our report:

The cash is overstated, the cashier being short;
The customers' receivables are very much past due
If there are any good ones there are very, very few;
The inventories are out of date and practically junk,
And the method of their pricing is very largely bunk;
According to our figures this enterprise is wrecked...

But subject to these comments, the balance sheet is correct!

This poem taken from the last page of the Brydon Review is said to originate from the 1930's.

See the full Brydon Report below:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

This, yet again, serves to remind directors and other stakeholders of the frailties of an Annual Report even if audited by highly reputable and professional external auditors.

An external audit is not meant to signify a clean bill of health. Indeed, a senior partner of one of the Big Four accounting firm recently said that "an audit report (if unqualified) confirms a True and Fair position but not THE True and Fair position."

We have said enough times that a clean external audit can indeed provide some false comfort to all stakeholders. So, what is a director to do if he/she cannot even rely on financial professionals? Relying with blind faith on the FD/CFO is also not advisable, so directors need to know what avenues are open to ensure that they meet their legal duties and responsibilities, not to mention to be able to contribute meaningfully to Board meetings.

We provide courses and specialised coaching on the topic, and for purposes of this newsletter, let us share with you a few practical insights that you should find helpful.



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How would you describe the relationship between the FD/CFO and the external auditors? Combative or secretive (show on a selective basis and only when asked) are both worrisome answers. Do all the Board members get to see the correspondence from the external auditors? An auditor resignation is perhaps the biggest red flag that you will encounter. Why would anyone walk away from a guaranteed source of revenue? You get the message.

Accounting Policies. Firstly, as a director, do you fully understand all the accounting policies chosen by your company? Could you explain them to the most junior employee in plain and simple language? More importantly, are there conversations to change existing accounting policies? If so, why?

There are often genuine reasons, eg a change in an accounting standard, but there have been many instances where this was done to purely improve profits. These proposed changes need to be questioned stringently, especially if there has been no major change to the business.

Financial information. In an age of constant technological improvements, there is no excuse for financial information not to be ready, literally at the push of the proverbial button. Sure, adjustments may well have to be made, but never accept a situation where financial information seems to be taking far too long to be published.

Resignation of FD/CFO, or other critical personnel within finance and/or internal audit. These have to be investigated fully particularly if the resignation is sudden and unexpected. These will be the people with up to date and accurate financial information and if they appear to bail for no apparent reason, directors need to react immediately.

Translate please! Technical directors, (and finance would fall in that category), are often not the best communicators. So as a director, you are well within your rights to seek simple explanations.

“Talk to me as if I were a fifteen-year-old” is a line of questioning that I encourage directors to use.

Do not get brushed aside by responses like:

”It is value additive”

”It has tax benefits”

”It will strengthen the Balance Sheet”

“It is an accounting thing”

Again, do seek translation and further explanations if you do not understand. I know I would!

<https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/769.pdf>

This is a must read for directors. It is the House of Commons Parliamentary Report on the collapse of Carillion. Although many facts are now well known, it is nevertheless very instructive.



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One final message on the subject; to avoid conflicts it's always good to talk!!

If you would like more information on this subject and would like to talk to us at Platinum Compliance (Guernsey) Limited, or for us to put you in contact with Jean Pousson, please contact lindsay@platinumcompliance.co.uk or visit our website <https://www.platinumcompliance.co.uk/>

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We focus on what we do best.....
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