

RECORD OF MEETING WITH DR G H SELIM, PRESIDENT OF THE INSTITUTE OF INTERNAL AUDITORS, ON 30 OCTOBER 1991

Present:

- Dr Selim
- Sir Adrian Cadbury
- Nigel Peace

Dr Selim explained that prior to 1990 the Institute of Internal Audit had been a club but entry was now limited to those who passed its examinations. It played a leading role in Europe and internationally. About half its members were in the public sector and half in the private sector. About one third were chartered accountants. He himself was an academic, teaching both internal and external audit.

2 Dr Selim said that internal auditors had a very positive role to play in corporate governance as insiders, but they needed a structure to do so. Properly constituted Audit Committees provided such a structure and the Institute strongly supported them. It was important that they were staffed by high calibre independent directors who had a reputation to protect. The Chief Internal Auditor, although he should continue to report to the Finance Director for pay and rations, should also have a reporting line to the Audit Committee.

3 Only a very small percentage of companies had proper internal audit departments. The Institute was far from satisfied on this score.

4 In all good companies there was a positive relationship between internal and external auditors. Internal auditors wanted to be evaluated by, and to work together with, their external counterparts so that the overall audit function provided good value for money for the company.

5 Dr Selim said that he would certainly support a requirement for directors to report on whether they had adequate systems of internal control, although he questioned whether this would give rise to liability worries on the part of directors. As for the form of auditors' opinion on such a report (whether it should be by the chief internal auditor or the external auditor, and in terms of

positive or negative assurance), he believed that the internal auditor had to be involved. The external auditor would have some knowledge of control systems as they related to the financial statements, but not as they related to the purchasing function, for example.

NDP

31.10.91

International dimension - scientific approach.

Stakeholder concept - corporate governance - { owners.  
customers.  
mkt. place

Ownership, investment < people, mgt.  
plant

Family - cashflow. - shldrs locked in. - tax trading.  
banks. committed.

lock money in. Tie people in.

1.30 - Selim. 30<sup>th</sup> Oct.