

'Bad tarnish the good' Accountants fail in basic duties: Fell

By IAN ELLIOTT SHIRCORE

Accountants who "failed in their basic duties" were partly to blame for the recent series of dramatic failures of commodity broking firms and could also be implicated in a number of larger corporate crises, the Commissioner for Securities and Commodities Trading, Mr Robert Fell, said yesterday.

"Last year we had a series of commodity broking firms whose licences I revoked," he said.

"In many cases, in my view, the auditors had simply failed in their basic duties. But he warned that the problem was not confined only to commodities companies.

"A similar point is emerg-



Mr Fell

ing in more recent and potentially more damaging failures," he said. "And one wonders what the position is in even larger cases."

Mr Fell announced that he would be holding urgent talks with the Hongkong Society of Accountants in order to "draw the necessary conclusions" from recent cases in which auditors had apparent-

ly failed to do their job properly.

The commissioner said many of the business failures of the past few months were the result of the actions of both directors and auditors.

"Individuals have used public companies as if they were their own property, and boards, officers of companies and, in some cases, auditors, have gone along with these individuals because their actions seemed to be bringing in high returns," he said.

"This has been compounded when, in some cases, the company has the special privilege of being able to take money direct from the public.

"There will be legal lessons for us to learn from the events of the past few months. There will be new signposts to be erected and a great deal of action to be taken," he said.

Mr Fell told a Hongkong Island East Rotary Club lunch meeting that his fierce criticisms were not directed wholesale at Hongkong companies generally.

"But the bad tarnish the good," he said.

In his discussions with the Society of Accountants, he will present evidence drawn from several recent cases and try to work out ways of encouraging a rapid tightening of auditing standards.

"We must not delay in seeking improvement — the search for perfection should not hold up more immediate workmanlike solutions," he said.

Mr Fell said the fact that dynamic, charismatic business leaders are often idolised is another factor in recent corporate failures.

"Flair is crucial to the

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'Auditors failed'

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vitality of any organisation," he said.

"But when power becomes a matter of whim or hunch and when directors allow themselves to become hangers-on to a chief executive's coat-tails, rather than men responsible to the generality of shareholders and responsible for the generality of a company's commercial relations, then we have a problem.

"We have had too much evidence of this syndrome in the past few months," he said.

Speaking to reporters after the meeting, Mr Fell said his team was already studying a detailed report on the collapse of Dollar Credit.

But he said the inspector's findings would not be made public until the Government had decided what action, if

any, it should take. "If we publish the report too soon, it could prejudice our future actions," he said.

Mr Fell also commented on the long-running question of new rules about the disclosure of shareholdings in listed companies, an issue which he said two months ago was "on the back burner."

"I suspect it is now coming towards the front," he said.

But he stressed that encouraging a regular and generous flow of information to investors about the commercial positions and activities of companies was even more important.

"Boards should be much more open. It is very much in the public interest that shareholders should have more information about things like the amount of a company's stock that is pledged to the banks, for example."