

Carillion plc – An update

by Malcolm Howard

In the September issue of Private Investor, I wrote about the sad case of Carillion plc. The starting point of the story was that the Group Finance Director, Richard Adam, decided to retire on 24th August 2016, giving unconvincing reasons for his decision. The share price was 272p. Since my article was published much has happened:

11th September 2017: The Group Finance Director, Zafah Khan, who had said his priorities were to reduce debt and increase financial reporting transparency, left the company, presumably sacked. The share price was 43.16p.

29th September 2017: The company issues its half-year report to 30th June 2017. It declared half-year losses of £1.1236 billion, which included an additional £200 million provision for support services contracts, pointing out that this provision would have minimal impact on cash. However, it said that lessons had been learnt; there had been too much short-term focus, too much complexity, insufficient transparency and too much data leading to a lack of meaningful information. Importantly, it said that H1 covenants had been compliant **and H2 covenants were forecast compliant**. The market was buoyed by this information the shares shot up to 51.50p.

24th October 2017: The company announced that to preserve cash 'certain pension contributions' would be deferred, possibly until 1st January 2019. The price of the share was relatively unchanged at 46.50p.

17th November 2017: **The company was likely to be in breach of its (banking) covenants** at 31st December 2017 and the banks had agreed to take no punitive action but to review the position again on 31st March 2018. The shares collapsed to 21.50p and are currently just below 20p.

On 21st November 2017, a group from UKSA visited the Financial Reporting Council for a seminar entitled 'Lifting the lid on the FRC'. There can be little doubt that those employed at this organisation are highly qualified and knowledgeable. They are fully aware of the Carillion situation, but they are stymied by our legal system. In serious cases, such as this one, there may be prosecutions and until these are resolved (or are known not to be happening) they cannot do anything, by which time some of the evidence might have disappeared.

Investors need the law to be changed:

- FRC should be allowed to fully examine an audit immediately it is aware of a major problem, even if, for obvious reasons, it has to keep its findings confidential until it is given the all clear to go public; and
- Where an employee is found guilty of an offence, the auditor should be found 'guilty by association', unless there is proof that auditing standards had been met.

Bill Johnston

It is with great regret that we have learnt today that Bill Johnston has passed away. Bill was the editor of The Private Investor until this summer. Our condolences go to his wife Kateřina and all his family and friends.