

## **"KEEPING THE SHIP AFLOAT": A VIEW OF THE ACCOUNTING PRACTICES DEPLOYED BY BRITISH NUCLEAR FUELS PLC**

by

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British Nuclear Fuels plc ("BNFL") has a poor trading record, now having arrived at a point, after spending some £8,000M on capital projects, where any further difficulty arising will push the organisation into negative equity.

Whilst the ship has been sinking steadily over a prolonged period, to create the impression of normality BNFL have been lifting the plimsoll line on an annual basis. At some stage inundation will occur.

Among the accounting stratagems appearing to have been deployed in the said process has been:

- Capitalisation of general costs, standing plant losses and probably plant maintenance;
- Flexibility of depreciation levels applied to both new and existing plant - out-of-line with the potential life of the said plants;
- Flexibility of provisions relative to long-term nuclear liabilities;
- Flexibility of the New Accounting Standard FRS 12
- Long-term potential income shown above the line, whilst the liabilities relative to the same are shown below the line, as a cosmetic;
- Pensions holiday adding to profits.

All the above factors have resulted in enhancements to both profitability and nett worth. In addition, aimed at bolstering the impression of well-being, BNFL can be accused of a marked degree of misrepresentation, by talking-up their order-books and market-share of potential work, etc., the same effected by their over-large public relations department.

Naturally, BNFL's accounts are fully audited in accordance with the requirements of the Companies Act 1985 and the Company are at great pains to demonstrate that they have fully incorporated the plethora of codes and standards relative to corporate governance into their construction. Nonetheless, there exists issues, relative to the construction of the said accounts, which will require resolution in due course.

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Since incorporation, in 1971, BNFL has availed itself of the services of two firms to carry-out their annual Statutory Audit: until the late 1980s it was Coopers & Lybrand, thereafter replaced with Ernst & Young. That substitution was subsequent to the author's direct dealings, with BNFL, regarding deficiencies which were apparent in both the Company's internal audit operation, and, the security of its treasury management systems. Other, Board and executive, changes were also effected consequent thereon. In recent years, the internal audit function has been outsourced to KPMG in the UK and PwC in the US.

In the past, and as recently as the mid 1990s, both the Public Accounts Committee ("PAC") and the National Audit Office ("NAO") have recommended that Government organisations should change their auditors on a five-yearly basis. Jointly to The Lord Nolan Committee on Standards in Public Life they, in addition, complained regarding the large number of organisations, within or allied to Government, which

are not subject to proper Parliamentary scrutiny and verification as to their financial affairs.

The PAC are "severely circumscribed" as to their powers in dealing with matters BNFL related. The NAO, on the other hand, is debarred, by statute from access to the books of BNFL, which facility has been specifically denied to them, by both BNFL and their sponsoring Department Mandarin, when it had been suggested that they might allow the embargo to be waived. Reliable information, only recently to hand, indicates that BNFL are blocking auditors, who represent their reprocessing Clients, from access to their books, necessary to verify the costs, and basis thereof, with which those Clients are being invoiced.

Apart from the length-of-tenure of the auditors, there also arises the old problem of loss-lead audit fees dwarfed by charges for non-audit advice/work. Since 1996, BNFL Company audit fees have reached an aggregate £1.215M, with that of subsidiaries and consolidation at £2.127M, being £3.342M in total. During the same period Ernst & Young non-audit charges were £18.411M. Since incorporation the figures have fallen: £2.795M; £2.403M and £5.198M respectively. Non-audit work since incorporation has generated £22.069M in charges, mainly since 1992, and peaking at £6.782M for 1997.

It was found necessary for it to be stated in the last BNFL accounts (31 March 2000) that they had been prepared on a going concern basis indicating that a question does exist over the financial viability of the Company. A ten-year horizon was acknowledged, but unstated that the same was subject to many factors. The auditors raised one important issue, but sought not to classify it as a qualification and did not amplify the same, even though the matter has an immediate direct bearing on the solvency, or otherwise, of BNFL.

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That issue concerned the current farrago regarding the Sellafield MOX Plant ("SMP") which has been built speculatively, contrary to earlier undertakings given by BNFL, from monies which should have been deposited in their nuclear liabilities portfolio of securities. The theory behind that utilisation of funds than a greater return will be obtained than from Gilts. If final approval to operate SMP is not forthcoming, the plant will have to be written-off thereby pushing BNFL into negative equity.

The SMP issue is particularly demonstrative of BNFL's convoluted economic thinking: the business plan which has been published to underwrite their case for the operation of SMP excludes, from the relevant financial equations, the capital cost of the plant, treating the same as a "sunk cost"; BNFL, on the other hand, cannot write-off the said cost in the balance sheet ("BS") - for the reasons given above; against BNFL's most optimistic SMP income forecast, the return-on-capital will be only 0.30% and that only after adjustment for income/margin inflation/betterment at 4% per annum compound. The very likelihood will be that BNFL will never recover the cost of the plant, that will, in any event, run at a loss, and, that a write-off will have to take-place at some point in time.

There appear to exist political reasons for the operation of SMP, but the same appear not to be compatible with the commercial strictures and exigencies which currently prevail on and within BNFL and sound accounting practice. something will have to give. It is worthy of note that the Energy Select Committee (Session 1988-89) were highly sceptical regarding the financial logic of SMP and quality of evidence before them. Not only has SMP been built, but it has a capacity of 120 tonnes as opposed to the 50 tonnes when first approved, with the cost having risen from £50M to £462M, and, the order order-book for the product still uncertain. Built by stealth, Government are faced with the apparent choice of either approval or write-off.

The issue of BNFL's solvency, the matter of long-term nuclear liabilities apart, has, outside the portals of BNFL, been raised by only four parties: a now deceased lecturer at the South London Polytechnic; BZW in a memo to the Department of Trade & Industry ("DTI"); an unnamed American analyst quoted in "Nuclear Engineering"; and, the author. In fact BNFL may have been trading with negative equity from the mid-1980s. This can only be the opinion of the author as, as has been stated, the accounts of BNFL have been fully and properly audited in accordance with the Companies Act 1985.

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The validity, or otherwise, of the equity retained within the BNFL BS will rest upon two main questions: what is an appropriate on-cost level to capitalise in respect of capital works investments; and, what is an appropriate level and method of depreciation to apply to capital plant, which, possessing a relatively short pre-determined life-span.

The root cause of BNFL's problems lays in the cost-escalation of capital projects whilst still on the drawing-board. However, approval to proceed will have been given at a much earlier stage, in respect of THORP after a prolonged public inquiry some five years earlier, with the process then thought to be unstoppable and the contracts irrevocable. The latter felt, by BNFL, to be of little importance as the same were, in the main, on a cost-plus fixed fee basis.

In the case of THORP, in the same money terms, the increase in capital cost was of the order of 300% - prior to commencement of construction, Coupled to this underestimation of capital cost is an overestimation of order-book levels, the end result - accounting stress and chaos. A further element might well relate to an underestimation of operational costs, but with the prevailing cost plus mentality, that would also appear to have been of small import.

BNFL Chairman, Hugh Collum, has given recognition to the problem, but has put it down to management failure. However, there is more than a scintilla of suspicion that in fact it has been the deployment of a deliberate strategy aimed at facilitating an easy passage to obtaining initial approval. For such to have been the case, there must have been Departmental complicity, negligence being the alternative. To this problem must also be added the inevitable escalation in actual construction costs, making the whole situation untenable. The same ethos, relative to the overoptimistic of positive and underestimation of negatives, has prevailed since the earliest days of the nuclear industry. Sir Kelvin Spencer, a high-ranking civil servant at the time intimately involved, confessed that the financial projections were known to be spurious. When the initial, 300% hike, in THORP projected costs surfaced, up from £300M to £1,200M, Parliamentary interest, as opposed to that of Government, was excited, only to be placated with assurances of riches beyond avarice to accrue from BNFL's endeavours. Simple mathematics indicated otherwise.

BNFL's blandishments were, in effect, saying that they were going to execute a total development programme worth some £5,000M (currently £8,000M and rising) on a capital base of £33M (only part liquid), pay an annual dividend, and where appropriate, taxation, yet, on average, only 42% of their capital plant would be operational prior to THORP coming on-stream. The issue of dividends was encapsulated in a formal agreement between the Department of Energy ("D.Eny"), Treasury and BNFL.

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With the ink barely dry on the said tri-partite agreement, BNFL were to run into losses. Clearly, dividends paid-out devoid of cover would be noticed by even the most somnolent of MPs and analysts, therefore a solution had to be found.

The solution adopted was the capitalisation of general costs, thereby converting losses into profits and enhancing the BSs at one and the same time. The availability of mega-levels of advance payments from Foreign Clients, together with borrowings, facilitated continuing payment of the dividends. Having taken that step, there was no going back and to-date the amount so capitalised stands at a massive £2,837M, which figure representing a 50% on cost applied to the capital cost of new BNFL plant - THORP, et al.

If the said capitalisation of general costs has been depreciated annually, in line with the apparent levels applied by BNFL, then some £1,500M will remain in the BS. If a substantial element remains aggregated within the undepreciated Assets in Construction ("AIC") category, currently standing at £1,729M, the likely on cost figure still within the BS will be in excess of £2,000M and certainly intangible in nature.

One has to take a view as to what would constitute a reasonable level of on cost, if any at all, in order to arrive at any likely level of overstatements within the BNFL accounts. Presumably, both BNFL's auditors and their Board Audit Committee, of non-executive directors, are so persuaded that 50% is indeed an

appropriate level of on cost to capitalise.

Notwithstanding that £2,837M of general cost capitalisation, which has taken place, BNFL has still been posting losses at trading level. These losses would have been even greater were it not for the adoption of a further accounting manoeuvre, this time relative to the manipulation of depreciation levels being applied to both existing and new plant. The benefit arising to the profit & loss account ("PLA"), therefrom, appears to be of the order of £200M per annum, together with an element of BS enhancement. But BNFL continued to make losses at trading level, to avoid that embarrassment, monies were transferred from interest received to turnover.

The issues surrounding depreciation are complicated by the nature of the contracts relative to THORP reprocessing. Therein the capital cost of the plant is allegedly recoverable from Clients against a base-load order-book, of 7,000 tonnes, over ten years. Foreign Clients provided their share of the capital cost up-front, with, apparently, UK Clients incorporating their said contribution within the reprocessing charges, payable in advance in any event.

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There exist contradictions between the various BNFL published statements with regard to THORP. However, it is clear that BNFL substantially represented that the capital costs would be recovered over ten years and it being understood the plant being written-off over the same period. (There has lately arisen an issue as to that which constitutes the said capital cost available for recovery.) The benefit of the ten-year write-off being that post-base-load work would bring in higher levels of profit, unfortunately, there seems to be relatively little of such work. It also appears that, de facto, BNFL are depreciating THORP over forty-years.

Faced with relative reality, upon the start-up of THORP, BNFL adjusted their depreciation policy, both in the specific, to THORP, and in the overall, against historic trends. Upon transferring the THORP assets from AIC, BNFL placed the bulk of such under land & buildings ("L&B") as opposed to plant & machinery ("P&M") which had been the prevailing policy dating back to incorporation. The historic average split had been 22% to the former category and 78% to the latter category. The THORP split was 82% L&B and 18% P&M. In a scraping-the-barrel exercise, such a move was not insignificant.

Further, whereas between 1984 and 1993 depreciation had been taken at circa 10% reducing balance ("RB") on L&B, thereafter the level fell to 6% RB. In respect of P&M, the respective figures are 12.16% RB and 11.30% RB. The combined effect of the two changes is a fall from 12% RB to 7.5% RB. (n.b. 1994 is excluded from the figures to avoid distortion.)

The final complication, in the matter, relates to the life-time which might be attributable to the operation of THORP. Lately such was independently assessed by the Radioactive Waste Management Advisory Committee ("RAWMAC") as ceasing in 2010, giving a sixteen year life. However, THORP continues to encounter both operating and logistical problems and that date, upon the very latest data, may well be overran. Such a position can only give rise to yet further losses, unless the same can be palmed-off to their Clients.

Subsequent to the issue of depreciation being raised, BNFL made an escalating provision within the BS, commencing at £269M and currently standing at £403M. This appears to represent BNFL's calculation as to the difference between the depreciation taken and the funds, relative to THORP cost-recovery, having come-in from Clients. The strategy has allowed and may be continuing to allow an overstatement in the PLA. Prior to the said provision the BSs were also overstated as to nett assets and may well be continuing to be so in that specific respect.

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Capitalisation of general costs and manipulation of depreciation provided insufficient balances to counter the shortfalls foreseen to arise from THORP coming on-stream. Only recently have the figures for THORP physical output and income been considered together, the same indicating that there has been substantial over billing, by BNFL, of its THORP reprocessing Clients, with such taken into the PLA as

turnover.

Depending upon how these issues are resolved, BNFL's PLA overstatements, in this specific respect alone, will fall in the range £600M to £900M for the three-years 1994-95 to 1996-97. As at 31 March 2000, the amortised balance of overstatement may fall in the range zero to £430M, it being assumed that incoming Chairman, Hugh Collum, has intervened in an attempt to regularise the position.

There is a crucial point of principle concerning this issue. To bring in monies in excess of production, during the start-up stages of a plant - and amortise the same down over a given period is not improper, nor unusual. Not to reserve that income, by way of classification as advance payment, but to include the same in the turnover figures can be construed as creating a false transaction - with a view to misrepresent the true state-of-affairs within BNFL. It is clear that the inclusion of the excess monies in turnover was a deliberate act. It should be noted that the DTI have sponsored prosecutions relative to such practices.

In the light of the burgeoning problems on the THORP horizon, BNFL sought diversification as a means of mitigating the approaching nemesis. True-to-form, they talked in telephone-numbers as to the sizes of contracts obtained and on the horizon, profits and potential - none of which materialising. They have however acquired some £850M of debt and liability in the process, classified now as goodwill.

The next step was what might be termed the Whitehall solution, a deal cooked-up between the DTI, Treasury and former BNFL Chairman and ex-mandarin, John Guinness. The idea being, from which all three would benefit, was to merge Magnox Electric plc into BNFL for a nil consideration. BNFL are now screaming foul and we have been sold a pup. The blind leading the blind, advised by fee chasers.

The Magnox Electric deal was an horse trade aimed at solving everyone's problems, but based upon woolly thinking. The DTI were to get all their commercial nuclear problems under one roof and hoped, in turn, to pass them on by way of partial privatisation. The Treasury were actually facilitated the cancellation of some £581M, plus rolling interest, of financial obligation to Magnox Electric.

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BNFL, for their part, had great expectations, they were to benefit from: extending the lives of the already written-down Magnox Electric reactors; the cash flows from the sales of electricity; reductions in Magnox Electric overhead costs; the effective cancellation of £1,200M plus of advance payment liability; a non-dilution of BNFL nett asset value by virtue of the deal; and, last but far from least, access to Magnox Electric's £3,000M of cash reserves. In addition, they were allowed to take a pensions holiday on their own contributions of £300M at circa £20M per annum - this was, presumably, some form of quid pro quo for their co-operation.

Apart from grabbing the cash reserves and the pensions holiday, it has all ended in tears, with recriminations all round. There also exist questions-of-principle relative to BNFL's treatment of Magnox Electric, as the latter is entitled to protection, under the Companies Act 1985, from the former. If this had been in the private sector, the DTI might well have intervened. Also BNFL's treatment of Magnox Electric is contrary to assurances given, by them, to Select Committees.

In taking-on Magnox Electric, BNFL were acquiring a major customer for both fuel supply and reprocessing services, with that trade becoming an internal transaction. As a result much is lost within the accounts, being eliminated upon consolidation. The total BNFL/Magnox Electric internal trade constitutes circa 19% of BNFL activity, whilst consolidation further obliterates the fact that Magnox Electric is operating with negative equity of £1,939M. The figure within the BS is shown as only marginally greater than £120M of negative equity, subject to the value placed upon the balance of the business group within which it is included.

BNFL, for reasons of Departmental politics, appears to be boosting its own performance at Company level to the detriment of that of Magnox Electric. The same being achieved by lifting its reprocessing charges, to Magnox Electric, by 150%, which excess can be creamed-off, in addition, within the amortisation of the circa £3,000M loan they have extracted from them.

Magnox Electric plc is the rump of the old Central Electricity Generating Board ("CEGB"), the balance, both thermal and nuclear, having already been privatised. In order to retain an element of solvency, in the rump business, there was inserted into the BS a form of promissory note ("Note") whereby the Treasury would stump-up sufficient funds to cover the firms discounted long-term nuclear liabilities obligations. The face value of the Note, first issued in 1995-96, was £3,700M with an inflation related escalator, the whole to be redeemed in annual tranches between 2008 and 2016. By the time of the BNFL acquisition, the escalator stood at £581M and, as stated, was cancelled as part of the deal. The currently anticipated amount for eventual discharge, by 2016, is of the order of £9,000M.

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The escalator, £273M in the last accounts, is taken above the line and treated, in the same, as current income. In the 1995-96 Magnox Electric accounts that Company was showing equity of a negative disposition at £1,486M, but for the Note the negative equity level would have been some £5,210M. But for the Note, Magnox Electric's negative equity level would now be of the order of £6,161M. The value of the Note, as at 31 March 2000, was £4,222M, which figure carried through into the BNFL Group BS.

Another weapon in the armoury of keeping the BNFL BS nominally solvent relates to the interface treatment between economics and accountancy, the two not necessarily compatible. BNFL recently conducted an audit of their long-term nuclear liabilities provisions, the same giving rise to an increase on the gross side of circa £7,000M. However, by the time there has been brought-into-play a discounting of the same, that increase has been reduced to a mere £1,300M carried into the BS. In one instance, waste management, an increase on the gross side resulted in a £1,127M reduction in the discounted liabilities carried into the BS. This sleight of hand was facilitated by a postponement of certain works, thereby demonstrating that it is possible to discount liabilities almost out of existence. BNFL admit the figures are little better than educated guesses, but in one instance, the author has been able to substantially challenge the quantum of certain of the gross liabilities figures.

In respect of decommissioning liabilities, the figures appear to have been varied according to the extent of exigency prevailing at a particular time. The discounted levels of liability taken into the BS have ranged between 36% and 50% of the gross liability figure, with a current level of 40%. In respect of reprocessing, a relatively short-term liability surprisingly discounted, there appears to have been a reduction from 90% to 73% in the discounted relative to the gross liability figure. With BNFL NAV on a knife-edge, the calculation of discounted levels of liability are open to manipulation, as one factor, in avoiding a slippage into negative equity.

FRS 12 is a recent new Accounting Standard which would appear to provide scope for yet further obfuscation of the figures. At Group level the BNFL BS carries £527M (plus £300M arising post-BS) of goodwill and £1,692M of FRS 12 money, without which the group would be in deficit to the tune of £1,907M. At Company level, the FRS 12 element is a whopping £2,932M, without which the deficit would be £2,719M. The increase in FRS 12 levels for the financial year 1999-00 are: Group £628M and Company circa £1,050M. The FRS 12 monies have to be amortised against future income streams. The new Standard would appear to be the saving of BNFL, at least for the time being, but is that what the Accounting Standards Board had in mind when inventing the same.

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It is interesting to consider the issue of Government financial input and take-out, relative to BNFL, against the background described hereinbefore. Including the original assets, additional share issues and grants, the total input has been of the order of £240M. On the other hand, the take-out has been between £1,000M and £1,450M, depending upon the actual taxation paid. The difference between the two figures arises for the differing sources of data, headline taxation and source-and-use of funds. In addition, there also exists a full provision for the Treasury to extract some £684M in deferred taxation. Within the above figures, regardless of the underlying position of the Company, BNFL have paid circa £673M dividends into the Consolidated Fund.

There has been much discussion, over a prolonged period, for the creation of a segregated fund relative to

the nuclear liabilities. As such would likely expose the true position at BNFL, both as to its trading assets and adequacy of the apparent provisions, it is unlikely to come about.

An example of BNFL's position might be gleaned from an analysis of their 1999-2000 trading. The gross value of the same being £2,739M of which £675M is an internal trade, 25% of the total, and being non-cash-generative. Under the same heading might be placed circa £320M of amortisation of advance payments received, therefore, a total of 36% of physical activity is either a non-cash, or, non-new-cash operation. There is also £273M of escalator non-cash taken as income and circa £490M outflow to capital plant expenditure, giving an overall adverse flow of cash at £1,785M. It is necessary to add thereto circa £1,400M of nett operating costs, giving a grand total of £3,185M. The position requires no further clarification.

As at 31 March 2000,, BNFL Company carried a liability for £5,655M in respect of advance payments received, having risen steadily from £3,970M in 1995 - post the start-up of THORP. Throughout the years and certainly since 1982 the availability of these monies has engendered, within BNFL, a *laissez faire* attitude to a whole range of matters. There appears to have been a lack of comprehension that the said monies had to be redeemed, largely against future operations, which would generate a very much reduced level of new cash income. It would appear that the shortfalls arising were made-up with yet further advance payments. The existence of the said monies has kept BNFL from facing up to reality, but at some stage that comfort cushion of advance payments will cease to exist with dire consequences for the Company and Treasury. BNFL's accounts are now so convoluted, not to say byzantine, in their make-up, that the only ready measure of financial performance and well-being is by way of reference to movement in the cash and free cash position.

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Whilst BNFL holds very substantial tranches of cash and near-cash assets these are swamped by both long-term and operational obligations. At Group level cash and securities held, as at 31 March 2000, stood at £6,532M, shorn of liabilities that figure is converted into a negative £1,710M - an increase of £2,615M since the acquisition of Magnox Electric in 1998. Prior to that date the negative position was just under £3,000M, perhaps demonstrating the necessity for the Magnox Electric acquisition. At Company level cash and securities held stood at £5,315M, however, that is converted into a negative £4,377M when the obligations are taken into account - to which figure might be added a nett £2,754M of debt to Magnox Electric (loan), producing a gross negative position of £7,131M. The total Magnox Electric cash and advance payments held by BNFL is of the order of £4,300M.

Some minor issues might be of interest among which is the anomalous position of UK NIREX Ltd in which BNFL have a, direct and indirect, 74.5% shareholding, but which they avoid the consolidation of the same, treating it as a joint venture. NIREX has intangible assets in the range £800M to £900M, with a related nett worth of £223,000 (not a typing error), if that, and its only real assets, some very arcane intellectual property.

During the period 1988 to 1994 BNFL were paying bank "commissions", possibly relating to fund management services, in the range £46,500 to £66,750 per day per 365 day year. Upon the matter being raised, that data was eased out of the accounts.

From 1982 to 1994 the BNFL accounts contained a secreted note, a la Terry Smith's back of the annual report theory, which indicated a deteriorating working capital position. From a positive £4.5M at the outset to a negative £2,243M in the last accounts prior to the data being removed therefrom. Again, this was coincidental to the issue being raised.

In raising several and various matters of concern relative to BNFL, sundry Departmental officials and even auditors therein, adopted the Whitehall equivalent of the not me governor stance. Lately, former Minister of State at the DTI, Helen Liddell, and her advisers, has refused to confront the issues, but did express the wish that the author cosy-up to BNFL to resolve matters. BNFL refuse to comment upon the figures and the conclusions drawn from the various analyses. The Trade & Industry Committee ("TISC") have taken evasive action and effectively side-lined the matter, by reference of the same to the NAO -

who they knew had no powers whatsoever to even consider the issues. Government, in all its facets, hides behind a reliance on the Statutory Audit to justify their stance. Thereby, de facto, having created, and continuing to protect, an organisation, in BNFL, which appears to be responsible only to itself.

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The issue of the quality of BNFL's accounts has been on-the-boil since the mid-1990s, to-date, no one has been prepared to dispute the substance of the several volumes of analyses submitted. No one from Government, or Parliament apparently, is prepared to engage in a proper consideration of the serious questions involved in the matter. The foregoing review reflects the contents and substance thereof and no writs for libel have been issued, or even threatened - they hope it will go away.

One Secretary of State, Michael Heseltine, referred the author to the "appropriate authority", without stating who that might be, but he being The Shareholder and a Shadow Director in the Company. An earlier incumbent, on the issue of the adequacy of internal controls, asserted it was none of his business, whilst the immediate past incumbent kept his head down, saying nothing at all. The shares in British Nuclear Fuels plc are not vested in the personages of Ministers of State, but in that of Secretaries of State - they are responsible for both the Company and the mess it is in. Two Secretaries of State were admirably qualified to give consideration to the matters in question: Heseltine as an entrepreneur business man of some means; and, Wakeham as an accountant and plc director. Neither would require specialist officials to interpret upon the issues raised, nor would Jeremy Hanley, ex Minister and former Chairman of the Conservative Party and lecturer in accountancy, who had also had sight of the papers - after which BNFL substantially modified their accounts.

Auditors have earned some £22M at BNFL, other advisers an unquantified amount, could they not have cautioned, the Company, that the several and various steps initiated, to deal with the problems arising, would not resolve those problems in the medium to long term, but were only short term palliatives. Could the auditors not have obtained a more realistic approach, through the threat of use of their powers of qualification of the accounts. Apparently they were not so disposed.