Glossary of key terms

Auditing Practices Board (APB) A body formed in 1991 by an agreement between the six members of the Consultative Committee of Accountancy Bodies, to be responsible for developing and issuing professional standards for auditors in the United Kingdom and the Republic of Ireland.

audit report An objective verification to shareholders and other users that the financial statements have been prepared properly and in accordance with legislative and regulatory requirements; that they present the information truthfully and fairly and that they conform to the best accounting practice in their treatment of the various measurements and valuations.

Combined Code of Practice The successor to the Cadbury Code, established by the Hampel Committee. The code consists of a set of principles of corporate governance and detailed code provisions embracing the work of the Cadbury, Greenbury and Hampel Committees. Section 1 of the code contains the principles and provisions applicable to UK listed companies, while section 2 contains the principles and provisions applicable to institutional shareholders in their relationships with companies.

director A person elected under the company's articles of association to be responsible for the overall direction of the company's affairs. Directors usually act collectively as a board and carry out such functions as are specified in the articles of association or the Companies Acts, but they may also act individually in an executive capacity.

finance director The finance director of an organisation is actively involved in broad strategic and policy-making activities involving financial considerations. The finance director provides the board of directors with advice on financing, capital expenditure, acquisitions, dividends, the implications of changes in the economic environment, and the financial aspects of legislation. The finance director is responsible for the planning and control functions, the financial systems, financial reporting, and the management of funds.

fraudulent trading An offence committed by persons who are knowingly party to the continuance of a company trading in circumstances where creditors are defrauded or for other fraudulent purposes. Generally, this means that the company incurs more debts at a time when it is known that those debts will not be met. Persons responsible for so acting are personally liable without limitation for the debts of the company. The offence also carries criminal penalties.

Hampel Committee The 1998 report of the Hampel Committee on Corporate Governance was set up to conduct a review of the Cadbury Code and its implications:

- review of the role of directors
- matters arising from the Greenbury Study Group on directors' remuneration
- role of shareholders and auditors
- other relevant matters.

The Hampel Committee was responsible for the corporate governance Combined Code of Practice.

insolvency The inability of a company, partnership or individual to pay creditors' debts in full after realisation of all the assets of the business.

internal audit An independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed (Institute of Internal Auditors – UK).

leave of the court This is where the court will make a decision after hearing all the relevant information.

non-executive director A director who does not have a particular function to perform within the company's management. The usual involvement is to attend board meetings only.

receiver A person appointed by secured creditors or by the court to take control of company property, usually following the failure of the company to pay principal sums or interest due to debenture holders whose debt is secured by fixed or floating charges over the assets of the company. The receiver takes control of the charged assets and may operate the company's business with a view to selling it as a going concern. In practice receivership is closely followed by liquidation.

statement of affairs Details submitted to the Official Receiver during the winding-up of a company identifying the assets and liabilities of the company. The details are prepared by the company directors, or other persons specified by the Official Receiver, and must be submitted within 14 days of the winding-up order or the appointment of a provisional liquidator.

voluntary winding-up A voluntary winding-up of a company occurs where the company passes a resolution that it shall liquidate and the court is not involved in the process. A voluntary winding-up may be made by the members (the shareholders) of the company or by its creditors, if the company has failed to declare its solvency.

wrongful trading Wrongful trading occurs where a director knows or ought to have known before the commencement of winding-up that there was no reasonable prospect of the company avoiding insolvency and he/she does not take every step to minimise loss to creditors. If the court is satisfied of this it may (i) order the director to contribute to the assets of the business, and (ii) disqualify him/her from further involvement in corporate management for a specified period (Insolvency Act 1986).