

internal control,
from legal obligation
to management necessity

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process

1. where does it come from?
2. reactions
3. characteristics of a “good” internal control system
4. what we do at FT

1. where does it come from?

company's mission statement

- develop, remunerate shareholders and stakeholders, build its long-term survival capacity

→ **INVEST**

- investing in business operations means attracting external **investors**, then make them feel “**reassured**”

who is in charge?

- **rating** agencies: financial creditors and probability of default
- external **auditors**: quality of accounting information (fairly presented)
- financial **analysts**: analysis of business and accounts
 - ➔ opinion, recommendation

what makes the investor anxious?

- what **should** remain inside: detailed information and almost everything related to the future (uncertainty and / or confidentiality)
→ financial communication
- the feeling (justified or not) that processes are not **controlled**: funds flows and any decision which impacts company's value and survival

today more than yesterday

- business is more complex: “new” vs. “old” economy
- stretching objectives
- future is more uncertain
- some accidents are the consequence of deviating behaviour raised up and favoured by the environment:
 - Enron
 - Worldcom

Enron

- sales = \$139bn!
- from classical business to derivatives
- 3,000 offshore subsidiaries
- dissimulation of contracts (fraud) and financial debt (considerable)
- information?
- bankruptcy: pensions? employees?

Worldcom

- overestimation of sales by around \$11bn in 18 months (end 2000 – mid 2002)
- bankruptcy
- stock price: from \$64 to \$0.09
- more than 17,000 people lost their job: controlling the company, it's protecting its stakeholders

anxiety is transformed into...

- market nervousness:
volatility = residual shareholders' remuneration combined with systemic risk
- downgraded rating: interest rate, liquidity risk and debt renewal
- cost of capital is higher, company's value is lower
- no safety, no transaction (Akerlof)

Akerlof and information asymmetry

- “market for lemons” (1970): from used car market to economic theory
- no safety, no transaction because of buyer’s anxiety
- multiple applications and a Nobel Prize
- information asymmetry and control

thank you

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