

**Lessons learnt from the Carillion collapse part 1 :  
selecting a financially sound provider webinar  
Question and Answers  
Thursday 21 February 2019**

Questions	Answers
Did Dunn & Bradstreet predict Carillion's liquidation?	<p>Credit agencies typically provide a range of different indicators within their reports.</p> <p>They would not necessarily give a definite prediction that something will definitely happen, but, they do typically provide caution and warning notes, based on empirical evidence, and some might provide probabilities.</p> <p>Various credit agencies and the investment agencies, did, as we mentioned in the webinar, provide very strong indicators of caution and concern with Carillion.</p> <p>It would not be within our remit to publish what any individual agency such as D&amp;B advised, because that is their commercial information / intellectual property which is for them to sell to their clients.</p>
If a company is wound up through liquidation, and set up as a new company, is the link to the previous company stated in companies house records? If the owners/leadership of the liquidated company set up as a new company, is that link/record of liquidation retained?	<p>This depends on the situation.</p> <p>I would suggest taking a look at the type of information available on the companies house beta website.</p> <p>As well as the company itself, the website also includes details of company directors, and by scanning through and following links you can see what other companies are associated with those directors.</p> <p>If you need further information or assistance, the companies house team may be able to offer further advice on how to search for companies using other information fields.</p>
What are adjustments in operating profit?	<p>These are changes made to reflect transactions which have not immediately been included in the accounts calculations. There can be various reasons that adjustments are made.</p>

<p>Would the PQQs that Carillion submitted to MOD not highlight the issues Jon articulated to raise a flag to MOD that they were a risk?</p>	<p>As we identified in the webinar, it is for each commercial organisation to set their own criteria and thresholds for their own financial due diligence.</p> <p>We are not privy to the information individual client organisations may have included in their due diligence requirements.</p> <p>In the case of public organisations, they would need to ensure that whatever due diligence was undertaken on the financial health of a company was in accordance with the Public Contract Regulations (PCR), and any other government or cabinet office guidance applicable to that sector. If PCR applied, then there are certain rules and processes which must be followed, including clearly identifying any selection criteria in the procurement documents as the basis for award.</p> <p>The PCR does currently afford less flexibility to act on financial due diligence information than is available to a private organisation.</p> <p>Once any due diligence is received it is then a matter for that organisation to determine how to act upon it, and to decide if the information presented meets their commercial risk appetite criteria.</p>
<p>How do the Carillion figures compare to others in the same sector? The construction industry is competitive and margins can be tight.</p>	<p>Yes, many sectors can present challenging trading conditions, and you are right to highlight the construction industry as one where margins can be very tight.</p> <p>This is partly why we identified in the webinar that the thresholds and types of ratios you might apply to analysing the financial health of companies in different sectors would be different. It is for example, common in a sector like construction which relies on cash flow, for current asset and quick asset ratios to be tight.</p> <p>As such when undertaking any due diligence, it is important to consider the results in the context of the wider industry averages. It is not uncommon that many competitors providing the same trade might all have similar balance sheets or in some cases many companies on your tender list may cause you concern. So, the buying organisation then needs to look to how they choose between these. If you want to proceed with the project, then you have to make a choice, and importantly, it is wise to monitor the suppliers on an ongoing basis, and keep communication channels open, after you have placed contract awards.</p>
<p>Many projects are several years in duration. How do we best manage our projects when it is clear a main contractor's financial situation has radically deteriorated?</p>	<p>This will be covered in the second and third webinars of the series.</p> <p>There are important legal and contractual considerations, so you should discuss your contract with your legal advisors in the first instance to understand any parameters you need to work within.</p>

<p>Which were the reputable providers/agencies of credit reports, please? Could you provide some agency names in writing.</p>	<p>There are a number of credit agencies available. Your accounting department or your bank should also be able to advise you as to appropriate credit agencies relevant to your sector. It is not appropriate for the APM to be recommending any particular organisations.</p>
<p>How can we access visual indicators such as the ones you showed for 2016 C's accounts?</p>	<p>These can either be obtained via companies like the ones highlighted in the slides, or, via Credit Agencies who can often provide detailed graphs and charts identifying trends and other indicators.</p>
<p>How come the directors of Carillion are not in Jail already?</p>	<p>If there are any aspects of wrong doing then that would be for the police / ombudsman / watchdogs to investigate.</p>
<p>What happened to the accounting firm that provided services to Carillion?</p>	<p>If there are any aspects of wrong doing then that would be for the police / ombudsman / watchdogs to investigate.</p>
<p>Short selling is making a bet that the stock is going to go down because the fundamentals (in these cases shown) indicate that. It is a bet that at a certain price you will be paid back for a share of stock - which is worth more than the company is worth.</p>	<p>Our basic understanding is that short selling is effectively; betting on a stock to fall. There are potential ethical connotations to the practice of short selling which are beyond the scope of either us or APM to comment on.</p>
<p>Wouldn't a risk factor be a change in the tax basis? If the company is facing heavy taxes in the near future?</p>	<p>You are correct to identify that there are many potential financial risk factors to look at. This is partly why we identified during the webinar that financial due diligence can sometime be more of an art than a science, and often requires a more broader understanding of the wider sector or the status / circumstances of the business itself. It is for this reason that we would advocate, where feasible and proportional to your resources, to monitor your supply chains on an ongoing basis, and to consider your choices over business, project and procurement strategies accordingly.</p>
<p>Why wasn't the media talking about this years before the company went down?</p>	<p>This depends upon which part of the media you mean. Only the individual parts of the media can decide what they report on, and then the public choose what they take an interest in what they read, listen to or watch. Financial performance of different sectors is widely reported in industry and trade press, and, where publicly listed companies are concerned, in the financial pages.  For anyone interested, there are many sources of information about any organisation if you go looking for it. The organisation has to make a choice as to how much time and resource it allocates to sector and supplier awareness.</p>

What could be done to stop other companies going the Carillion?

This question has many aspects to it.

It can be seen as a healthy part of a commercial environment that new companies emerge and other companies decline, as they get more or less competitive. Just compare the names of the companies in the FTSE100 today and 30 years ago, for example.

What I suspect you mean though, is the wider impacts that the Carillion insolvency had.

There are both macro and micro factors which are beyond the scope of this webinar, including policy choices, trends in project procurement strategies, government strategies, regulations, and many others.

At a P3 level we need to ensure we focus on what we can control, within the parameters and regulations we work within.

For example:

- Carefully consider if your project procurement and packaging strategy increases or decreases your exposure to risk.
- Consider financial exposure risks, and consider commercial and procurement insight as early as you can when planning your project.
- Put in place governance and controls, and apply them.
- Plan your procurement and tendering approaches and be flexible in how you apply these.
- Prioritise your resources.
- Choose appropriate levels of due diligence, and if appropriate, seek specialist advice or assistance.
- Contract accordingly, and take time to set contract terms to offer a level of protection
- Know your supply chain (or your customers)
- If there are warning signs, don't ignore them and just hope for the best; do something about them.
- Sign up for the second and third webinars in the series.