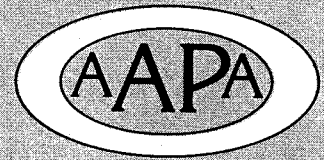


The Association of Authorised Public Accountants

A Recognised Supervisory Body under the Provisions of the Companies Act 1989

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Executive Secretary: S. A. Coxhead

Our ref: SAC/RC

14 August 1992

Sir Adrian Cadbury
Chairman
c/o Nigel Peace
Secretary
Committee on the Financial
Aspects of Corporate Governance
PO Box 433
Moorgate Place
LONDON EC2P 2BJ

Dear Sir

COMMITTEE ON THE FINANCIAL ASPECT OF CORPORATE GOVERNANCE

I am sorry that my Technical Committee have not been able to meet your deadline of 31 July 1992 due to the holiday season, however, I am pleased to enclose herewith the conclusions of the Technical Committee which I hope will nevertheless be of some assistance to your Committee.

Should you require any further clarification on our comments please do not hesitate to contact the undersigned who will be pleased to give you every assistance possible.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'S. A. Coxhead', written over a horizontal line.

S A COXHEAD
Executive Secretary

Enc:

The Association of Authorised Public Accountants

COMMENTS OF THE TECHNICAL COMMITTEE ON THE DRAFT REPORT OF THE COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

(THE CADBURY COMMITTEE)

GENERAL COMMENTS

The Association welcomes the draft report dated 27 May 1992 and in particular congratulates the Committee on the style and lucidity of its written suggestions.

We have elected to make our comments based on the structure and contents of the Summary of Recommendations on pages 39 to 41 together with ancillary comments. Where no comment is offered on any particular paragraph therein, this should be construed as approval of its contents without the need for detailed remarks.

1. THE CODE OF BEST PRACTICE

We support the suggestion that the APB should develop a form of guidance for auditors to endorse the statement of compliance but recognise that there may be difficulties in its implementation in practise.

2. AUDIT COMMITTEES

We strongly agree with the need for effective Audit Committees to be established as suggested in the Report and elsewhere in the literature.

3. AUDIT OBJECTIVITY

We fully support the recent changes in CA regulations which require disclosure of non-audit fees paid to audit firms.

It seemed unfortunate to us that the principle of audit rotation should not have been more thoroughly pursued, either of firms or of responsible partners. We would support rotation of audit partners for those involved with listed companies or companies in the regulated sectors. However, safeguards would need to be permitted for smaller firms.

4. **AUDIT EFFECTIVENESS**

A statement on internal control, as with a Statement on a going concern, would be of value in the context of the Report's objective; however, we foresee problems in the development of such standards by the APB which this Committee has not fully addressed.

5. **INTERIM REPORTING**

We believe that half-yearly balance sheet information included in Interim Reports is important. We will also support the inclusion of certain cash flow information in the Interim Report as part of the review or reappraisal mechanism.

6. **BOARD OF DIRECTORS**

The duties and responsibilities of company directors, especially of those in the public interest, become evermore onerous and wide reaching. The duties of directors incorporate not only responsibilities under the Companies Acts, Insolvency Act, etc. but also health and safety, taxation and indirect taxation compliance, and the list seems endless. We are not at all convinced that initial training for new Board members is sufficient. Those in the profession have obligations to Continuing Professional Development. We would recommend that directors of listed companies also should have commitment to formal training. Such training should incorporate updating of knowledge and skills.

7. **DIRECTORS' SERVICE CONTRACTS**

The recommendation that the Companies Act should be amended to come into line with the requirement of the code, that Directors' Service Contracts should not exceed three years without directors' approval, is strongly supported. This is consistent with the aim of the present rules for the retirement and rotation of directors. Where directors have Service Contracts, a three-year review is, we believe, a logical extension of the present rules. Presumably this would not debar Service Contracts in excess of three years so long as those Service Contracts have shareholders' approval.

8. **CONCLUSION**

We are generally most supportive to the Report but there are two particular areas we would highlight -

- (a) Directors of public listed companies should undergo training on an ongoing basis.
- (b) The critical review and reappraisal of the effectiveness of the Report is fundamental.

7 August 1992.