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Sir Adrian Cadbury
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My Dear Adrian,

COMMITTEE ON CORPORATE GOVERNANCE

1 If I may say so, you and the Secretary have done a splendid job trying to knock the enquiry into shape and give it a more precise form and better defined aims. Would it be more manageable and productive to go further in the same direction? At Annex A to this letter are redrafted terms of reference with this objective in mind: I am sure we do not want to become enmeshed in management issues or we shall find ourselves writing an encyclopaedia.

2 The next question concerns the end product. As you have noted, we shall be working at a time when numerous others, often experts, are labouring in a vineyard. Are we to ignore them? To try to draft a code of practice requires us to do one of these things in every case. And if we have to secure general agreement there is a possibility of our being forced to accept the LCM - the lowest common multiple.

3 Would it be possible to conceive our task as being directed towards producing a new framework governing the relationships in the informational network? We could then slot in the work being done elsewhere and identify what remains (or where we are not content with what we can see).

4 I have tried my hand at a rough attempt to show the kind of outline report I had in mind [Annex B], but it is very rough and ready. This means that we could elegantly make reference to work being done elsewhere, indicating that we do not need to duplicate it ourselves. Indeed, in some instances others may well be better qualified than we to resolve a difficult technical problem.

5 Do by all means circulate these thoughts now or later after you have amended them to the Committee, if you think them helpful. I take it that we all appear in a personal not a representation capacity. This may have especial significance if in the end some ideas emerge that not all institutions collectively could support.

*With kindest regards
John Ever
Ingram*

- 1 The responsibilities of the board of directors for providing timely and accurate information about the company's performance position and prospects; and the frequency, clarity and form in which this should be provided; and to whom.
- 2 The responsibilities of the board of directors in relation to the internal systems for detecting and reporting all illegal acts; and the responsibilities of the external auditors in the same respect.
- 3 The role of internal audit and the relationship between external and internal auditors and the case for there being an audit committee of the board, its composition and role.
- 4 As suggested.

A FRAMEWORK FOR INFORMATION

SECTION 1

Who is the information for? And for what essential purpose?
(The Caparo Judgment revisited)

SECTION 2

Whose responsibility is it to produce information? The central role of the board. Directors' individual and collective responsibility. Law and ethics. The need to have confidence in the company's internal system. The need to make sure the board gets the right information in time.

The crucial roles of the chairman and the non-executive directors. The problems of accuracy and the roles of the internal auditors and the external auditors.

The role and usefulness of audit committees.

SECTION 3

The Form of Information. The Report and Accounts. Primacy of the word. Clarity. One single statement. Frequency.

Modifications to present practice (take in here the future shape of financial reports). The Jenkins lecture, etc.

Need to change conventions which may be abused.

Informal information. Discussions with shareholders and analysts: keeping the market informed.

SECTION 4

The problems of fraud, for all the parties - board, internal and external auditors, etc.

SECTION 5

The structural implications (draws together sections 1-4).

- The board; its composition and role.
- And the roles of chairman and CEO.
- Audit committees of the board.

- Internal audit; composition; lines of reporting; terms of reference; how to act when the problem lies with top management.

- External audit. Relationship with company and shareholders. Independence must not be compromised. Can it be strengthened? Are annual audits always the correct answer?

SECTION 6

Recommendations

- For action.
- For further research to produce the optimal course in an area where change is clearly desirable.