CAD-01159 Sir Adrian

RECORD OF MEETING WITH MR HUGH COLLUM ON 14 JANUARY 1992

Present:

Hugh Collum, 100 Group
Sir Adrian Cadbury
Nigel Peace

Mr Collum said that he was sorry that he would not be able to attend the meeting of the Committee on 20-21 January. He had read the papers that had been circulated for the meeting and had the following comments:

Pension funds

The Committee had to make some comment on pension funds, even if it was only to the effect that the subject needed looking at by someone else. Perhaps the Committee could say something about the role of NEDs in the pension fund context. Every company must have asked itself whether its pension fund controls were adequate in the wake of the Maxwell affair.

Sir Ron Dearing's letter 'Buccaneers and Scandal Makers'

The proposal that a statement should be drawn up of matters that were reserved for the Board was a good one. The discipline would be useful. NEDs could find it difficult to ascertain from the Chairman what his expectations were.

The suggestion that proposals to the Board involving expenditure should carry an endorsement by the finance function was likely to be standard practice in large firms - the Committee should beware of telling companies the obvious.

The proposal that international companies should have a single auditor would be supported by some of the 100 Group but not others. His personal preference was for two auditors. SmithKline Beecham undoubtedly benefitted from the mix of advice it obtained from retaining both Coopers and PW. The company's operations were split between the two on a geographical basis with the two operating as joint auditors at group level. Organisation was certainly needed: clearly there was scope for difficulty if the firms did not get on. BCCI had employed joint auditors in order to ensure that neither had the full picture. In SmithKline Beecham, each auditor had the right to inspect papers in the other's area.

Paper on Role and Responsibilities of Shareholders - CFACG(92)1

Voting: institutional shareholders should vote. It was embarrassing for the company when the US shareholders delivered their votes but the UK ones did not.

Sounding out shareholders before appointing new board members: it was hard to see how this could work. Boards would not know the key people to talk to. Should they go through a broker? Or through the ISC?

Service contracts: three years seemed to be the accepted practice. At SmithKline Beecham they were 'rolling' which meant that they were continually adjusted so that they always had three years to run. Directors would therefore have three years unexpired service if they were sacked. Contracts were open to inspection. The first inspection (by the press) had caused panic but nothing had transpired!

Internal Control - CFACG(91)22

He agreed in principle that the accounts should include a comment on the adequacy of internal control. Any comment in the audit report should be in positive not negative terms (page 33 of the paper, option (b)). FRAG were proposing to set up a working group on the matter and the 100 Group would supply a member. However institutionally he agreed that it would be more appropriate for the APB to take the matter forward. He certainly agreed that the current professional guidance on internal control needed to be revised. It was noteworthy that the work of the Treadway Commission was receiving quite a lot of attention among the finance groups in the US.

Interim Reportin~

The idea of quarterly reports should be dropped. Attention should be focussed on improving the quality of interim reports. Balance sheets should be included. It might be argued that it was hard to produce balance sheet figures as quickly as revenue figures but SmithKline Beecham's experience was that it became quicker with practice. Audit of interim figures was impracticable (that would take too long) so there should simply be a review. However a review should be adequate if it was done competently.

He had sounded out a few members of the 100 Group on Jonathan Charkham's proposal that it should become a matter of regular practice that the chairman should make a public third quarter statement to confirm his previous statements or to shade them in whichever way then seemed desirable. All had spoken against it: if the news was bad, figures would have to be put on it. That would quickly lead to 3rd quarter reporting which in turn would lead to quarterly reporting.

Opinion Shoppin~ - CFACG(92)6

If companies wanted a second opinion, they would obtain one - it would be desperately difficult to stop the practice. The paper's proposals were good in intent, but whether they were workable was questionable - auditors would still bias their opinion to fit the circumstances. Nevertheless it was important to have matters out in the open.

Other Issues - CFACG(92)Z

Directors' remuneration (paragraph 12): openness was the key issue. Contracts were already available for inspection, but they might not contain details of bonus arrangements. If details were to go in the report, they would require a lot of space. The issue was highly sensitive. His judgement was that it was enough to have contracts available for inspection, and to have reasonable disclosure in the accounts, but not to go further than this.

Internal audit: it was not practical for the appointment of the head of internal audit to be approved by the shareholders (paragraph 24.4). Shareholders would have no access to a view about whether the candidate for the post was appropriate other than from management who would naturally say that their choice was a good one. The audit committee should be responsible for considering the appointment.

Recommendations in skeleton draft report - CFACG(92)9

Non-executive directors: given the heavy duties being placed upon them, should the Committee not recommend a specific minimum, so that all the duties could be properly fulfilled?

Audit committees: the recommendation that audit committees should have adequate resources needed to be clarified. (For example, was it referring to financial resources, to bring people in to help it? Or staff resources within the company?) The proposal that the annual report should report any audit committee recommendations not accepted by the board should refer to 'material recommendations'.

General

It was hard to argue against the emerging recommendations, but if it all happened it was going to involve a great deal of extra work and bureaucracy!

NDP
16.1.92