

The Code is divided into four sections. The first, dealing with the board as a whole, contains provisions which are designed to ensure a balanced and effective board, capable of both leading and controlling the business. The Code avoids detailed prescription, concentrating instead on underlying principles. It does not for example require separation of the posts of chairman and chief executive as an absolute rule, but states

'There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognised senior member.'

It continues

'The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decisions.'

The Code also recommends that boards should have a formal schedule of matters reserved to them for decision, to ensure that the direction and control of the company is firmly in their hands; and that there should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense.

The second section of the Code deals with non-executive directors. The key issue is that of independence. The Code states that the majority of non-executive directors

'should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding.'

We make clear that it is for the board to decide in particular cases whether this definition is met. We also recommend (although not as part of the Code) that information about the relevant interests of directors

should be disclosed in the Directors' Report.

The third section of the Code, on executive directors, focuses on the question of remuneration. The fundamental issue here is disclosure. The Code states

'There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained.'

The Code also recommends that executive directors' remuneration should be subject to the recommendations of a remuneration committee.

The final section of the Code is headed reporting and controls. It recommends that

'The board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties.'

We attach considerable importance to the appointment of a properly constituted audit committee. Such a committee enables a board to delegate to a sub-committee a thorough review of audit matters, and it gives the auditors a direct link with the non-executive directors. The ultimate responsibility of the whole board for the financial statements remains undiminished by the appointment of an audit committee, but it provides an important reassurance that this key duty will be rigorously discharged.

The final section of the Code also requires directors to report on the effectiveness of the company's system of internal control, and to report that the business is a going concern, with supporting assumptions or qualifications as necessary. Both provisions will require the development of guidance for companies and auditors before they can be put into effect. The accountancy profession in consultation with business interests has this work in hand, ^{and there will be} ~~but the need to allow a full~~ period of public consultation, ^{before} ~~on these difficult and quite technical~~ ~~issues means that the guidance will not be finalised before the middle~~