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3 pages

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

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9 Jan

To :- GINA COLE, CORPORATE GOVERNANCE STOCK EXCHANGE
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From :- ADRIAN CADBURY 0564 771130.

There is an irritating and incorrect piece by Jeremy Warner in the Independent on Sunday. I have drafted a response, which is too long for publication as a letter, but is aimed at drawing attention to the factual errors in his extremely unhelpful attack on the draft on internal control. We may or may not get a more moderate response next week. I will, however, be necessary to clear this with someone at ICAEW. He does, however, make a personal statement about me which is quite untrue and so I must reply!

Adrian



Jeremy Warner

City & Business

tions stocks, but how long can it last and isn't the multimedia revolution going to be more dream than reality? The shelf life of most glamour sectors is short; disillusionment soon sets in. Only two years ago, pharmaceutical stocks were everyone's favourite; just look at them now. Will media go the same way? Sooner or later the scales inevitably fall from investors' eyes, but the honeymoon is not over yet. Eventually investors will come to realise that the merger boom isn't going to yield the high level of benefit claimed. New markets and new ideas always offer a spectacular opportunity to make hay for the early bird, but it never lasts. Others arrive and with them in time come recklessness

and overcapacity. But that's all a long way off. There are bound to be investment disasters and casualties aplenty along the way, but for the time being, the only way to go is up.

Cadbury's mouthful

PUBLIC companies are often forced to comply with some pretty daft regulations and directives, but the latest outpouring from the Cadbury Committee - you remember, that's the body which is meant to be setting standards of corporate governance so the big fraudulent collapses of the past five years don't happen again - really does take the biscuit.

This is 67 pages of mind-boggling draft (or is it daft) guidance on how to set up adequate systems for "internal control and financial reporting". To comply with the recommendations of the Cadbury Committee, directors will from this year have to sign off their accounts with a statement that guarantees adequate internal controls. The document tells them how to do it. This, however, is not a guidance booklet, it's a book.

If its purpose is to stop the Maxwells, Polly Pecks and Brent Walkers of this world, you can be pretty sure it's going to fail; most of it is accounting mumbo-jumbo

with little if any relevance to the business of preventing or arresting financial malpractice.

For extremely large and far-flung multinational companies, it may have some relevance; most of them will already have similar checks and controls in place. But for small to medium-sized public companies the document is wholly inappropriate - a bureaucratic nightmare.

If you had sat 20 auditors down in a room and asked them to write a dream ticket for billing their clients, they could hardly have come up with a better package. Sir Adrian Cadbury, chairman of the committee knows it. He's been apologising privately for this horribly misguided piece of auditor's witchcraft to virtually every finance director he's had to confront.

Singular standards

TIME was when it was as easy for companies to manipulate their accounts as to walk down the street. All that's changing with the implementation of a series of new rules from the Accounting Standards Board designed to enforce greater disclosure of a company's financial affairs.

No doubt determined managements will always find new ways of dressing up their figures, but the

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Jeremy Warner
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Dear Mr Warner.

I was most surprised to read your piece headed "Cadbury's Mouthful" which is not only factually incorrect but does a considerable disservice to an important aspect of the governance debate.

To start with, the document to which you refer is not "an outpouring" of the Committee on the Financial Aspects of Corporate Governance, nor are the recommendations contained in it those "of the Cadbury Committee". They are draft proposals issued by the Working Group on Internal Control whose membership is drawn from the accountancy profession and representatives of the preparers of accounts.

If you had read the first page of the draft guidance, you would have seen that this Committee recommended that:

"..the accountancy profession, in conjunction with representatives of preparers of accounts, should take the lead in:

- a) developing a set of criteria for assessing effectiveness;
- b) developing guidance for companies on the form in which directors should report."

The debate is over how best to achieve those aims. You would also have seen that the Working Group included practising finance directors, so it was not drawn up by auditors writing "a dream ticket".

The unforgivable error, given that you know that the document is a draft, is your allegation that companies are going to be made to implement it - "public companies are often forced to comply with some pretty daft regulations and directives but this.....really does take the biscuit." The Working Group have opened up the debate, which will be between the preparers and users of accounts. There will be nothing to comply with until that debate has reached a conclusion.

What is clear is that the issues involved are complex and difficult. In drafting its final Report, the Committee was well aware of the potential difficulties facing smaller and medium sized companies. However, the Committee considered

that such companies had the same duty of accountability to shareholders as larger companies.

You will find Gerry Acher's recent article in the Times helpful in gaining a better understanding of what is at stake. He is critical of the current approach, but in a constructive way which will advance the debate. The debate is important, unfortunately your erroneous and unhelpful comments will only serve to confuse it.

Finally, I must formally make the point that I have nothing to apologise to anyone for, as this letter will have made clear. I have not had discussions with finance directors in private, as you allege, and I would be grateful if you would let me know how you came to make this assertion.

I would be ready to meet you to discuss this matter further, in the meantime I would ask you either to put the record straight yourself or to publish my letter.

Yours sincerely
Adrian Cadbury.

cc Ian Jack, Editor