

CENTRE FOR MANAGEMENT STUDIES

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Secretary
Committee on the Financial Aspects of Corporate Governance
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30 July 1992

Dear Sir,

I would like to make the following comments and observations on the Draft Report and hope they may be of interest/value to the further deliberations of the Committee. Although I am Chairman of the South West Society of Chartered Accountants Technical Advisory Committee, my comments are made in a personal capacity and to some extent as head of Exeter University's Business School where Corporate Governance is a subject of considerable interest.

I regret that the terms of reference (especially No.1.) led the Committee to concentrate on responsibilities of directors towards (directly) financially interested parties: an opportunity has, perhaps, been missed for an authoritative body to issue its views on the wider aspects of accountability e.g. on responsibilities to society as a whole and towards third parties with an indirect interest, such as persons living near potentially hazardous operating plant.

I would suggest that insufficient interest has been placed, in paras. 1.3, 1.4, 1.6, 1.8, 3.1, on the need to ensure standards of good practice in non-listed companies: it is here that minimum statutory requirements may be necessary, while codes of best practice in excess of these minima could be required by the Stock Exchange for listed companies. Further to the immediately preceding point, I would like to encourage the Committee to champion the support of minority/non-director shareholders of private companies who can be even more pressurised by 'demanding boards' (ref. para 2.1) and to assist the thousands of suppliers to small companies who suffer from unethical or fraudulent behaviour of the directors of those small customer companies.

I generally agree with the points made in paras. 3.2 to 3.17 but regret that
- a specific recommendation for a separate statement on Corporate Governance is not made (3.9) with specific content guidelines (3.8)

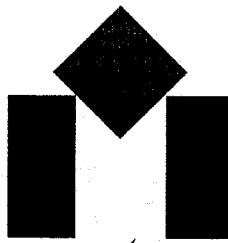
cont.



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- insufficient emphasis was placed on the need to encourage shareholders to be both proactive and reactive concerning statements on Corporate Governance.

I further regret that

- the Committee felt it necessary to state that smaller listed companies may have difficulties initially etc. (3.16): compliance with Company Law and Accounting Standards is the price for being a limited liability company, the much less onerous task of providing a statement on Corporate Governance practices adopted (or otherwise) is a relatively small "price" for being a listed company.

Para 4.4 needs addition at conclusion, i.e. "employees and other connected and interested parties".

I strongly support para 4.6 - indeed the tenor of the whole of Chapter 4.

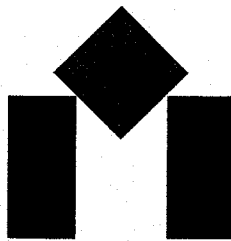
With regard to para 4.14, non-executive directors' "Letters of Appointment" need to be phrased in terms of non-limitation of their rights and duties as well as their main, but not exclusive, responsibilities and duties.

re 4.15 I would suggest that a "continuing Education Log" should be maintained by directors (similar to CPE requirements for other professionals) with meaningful checking systems.

re 4.18 There is a danger in leaving this recommendation as it is in that all directors should ensure that they have an understanding of the importance of finance and its proper monitoring and control in their business, and should have collective responsibility as well as each one some personal responsibility (as recognised in 4.19 and implied in 4.25).

re 4.23 I would have preferred this paragraph to carry a "strong recommendation" for publication.

re 4.26 I regret that a statement concerning the existence (and possibly effectiveness) of checks and controls concerning the operations practices of all aspects of Corporate Governance and other major policies was not included here with that for internal financial control.



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re 4.29 Whereas for many items the finance director should attend audit committee meetings, it would, in my view, be regrettable if firms interpreted this advice in such a way as to preclude normal meetings of the audit committee without the finance director attending so that frank preliminary discussions on possible shortcomings or worse could be discussed.

re 4.36 First word, third line needs to be clarified (time?).

re 4.44 & 4.45 I would have preferred that a recommendation be made in each case.

re 4.49 and 4.50 No mention is made of the desirability of having a statement regarding Corporate Governance and Internal Controls included in the simplified form of report.

re 4.51 Notwithstanding the Select Committee's Report, it was disappointing that your Committee did not set out some of its own major recommendations explicitly.

re 5.13 to 5.15 I believe that there is also an "Expectation Gap" concerning the auditor reporting on how effective a company's management is generally: this gap was not addressed. There is also a growing desire to have "Environmental Audits", "Legal Audits" and other such audits- regretfully the opportunity was missed to address such non-financial audits.

re 5.24 to 5.28 The opportunity was not taken by the Committee to recommend better safeguards for employees who report to competent authorities on fraud or other illegal acts carried out by management.

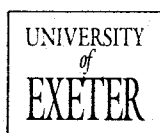
re 6.5 I would particularly support moves to require companies to improve communications with shareholders, including those moves suggested.

re 6.8.1. Summaries of information gathered at these meetings should be made available to all shareholders (helping the problems raised in 6.9 and 6.11).

Finally, re 4.48 - there is need to address guidelines for information to be included in Chairmen's statements and the verification thereof.

Yours sincerely,

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