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Nigel Peace Esq
Secretary
Committee on the Financial Aspects of
Corporate Governance
P O Box 433
Moorgate Place
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5th August, 1992

Dear Sir,

DRAFT REPORT OF THE COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

I have read the draft report of the Committee on the Financial Aspects of Corporate Governance and offer my comments on a number of points covered in the draft report.

1. General reaction

I strongly support the aim of promoting good financial corporate governance and, in broad terms, would agree with many of the recommendations in the draft report.

The successful implementation of many of the recommendations depends crucially on there being a sufficient number of high calibre non-executive directors who are able to devote enough time to discharge their responsibilities effectively. This over-riding assumption underlies many of the recommendations in the draft report, particularly in relation to the Board and Audit Committees. If this assumption is incorrect, the objectives of the report will not be achieved.

The draft report recommends in paragraph 4.8 that the calibre and number of non-executive directors on a board should be such that their views will carry sufficient weight in the board's decisions: this implies that there will be an increase in the total number of non-executive directors in the United Kingdom. It is assumed implicitly that these additional non-executive directors will be of sufficiently high calibre to meet the demands placed on them. I am not convinced that a sufficiently large number of such high calibre people is available to act as non-executive directors. If this proves to be the case some of the key objectives are unlikely to be achieved.

2. The Board

The part of the draft report relating to the Board has attracted criticism, notably by Sir Owen Green in an article in the Financial Times of 9th June, 1992. While I do not agree with all his views, I believe strongly in the principle of a unitary board with both executive and non-executive directors being equally responsible for the board's decisions. Accordingly, I would resist any movement towards a two-tier system. I believe that paragraph 4.3 is unhelpful as the role of the non-executive directors outlined in it appears to conflict with the principle of a unitary board in so far as it implies that the purpose of the non-executive directors is to monitor the performance of the board. In this context, the non-executive directors must be monitoring the performance of the executive members of the board, not the board as a whole. The draft report should be amended to make it clear that the principle of a unitary board is upheld in all respects.

3. Role of internal auditors

While the draft report contains a number of references to the role of internal auditors, as in paragraph 4.31 which acknowledges that 'the existence of effective internal audit arrangements is both an aid to management control and limits the amount of external audit work which is required,' it does not, in my opinion, take sufficient account of the contribution which a properly constituted internal audit function can make to corporate governance. This contribution is particularly relevant in relation to internal control systems. The internal audit function normally has the best overall knowledge of the internal control systems in a company or group, and is well placed to assess their effectiveness. I believe it would be helpful if the proposals in paragraphs 4.26 and 5.16 took into account the contribution which an effective internal audit function could make.

4. Rotation of auditors

I agree with the Committee's conclusion that the compulsory rotation of audit firms would not be desirable whilst accepting the rationale for the recommendation that the accountancy profession should draw up appropriate guidelines for the periodic change of audit partners: any such guidelines adopted must be sufficiently flexible to ensure that the interests of the client company are taken fully into account. I can envisage circumstances where it would not be in shareholders' interests to have a change in audit partners at a particular time (eg. during a substantial reorganisation).

5. The Code of Best Practice

In point 4.7, it should be made clear that the chairman of the audit and remuneration committees would be responsible for answering only those questions which relate to areas within the remit of their committees. (This is specifically stated in paragraphs 4.29 and 4.34).

I hope the above comments on the draft report will be helpful to the Committee and, in conclusion, again confirm my support for the aim of promoting good financial corporate governance.

Yours faithfully,

Corinne Sloan

pp J F O'Mahony
Vice Chairman
Group Financial Director