CAD-02275

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

PRESS BRIEFING

THURSDAY 17 FEBRUARY 1994

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CADBURY COMMIITTEE
PRESS BRIEFING - 17 FEBRUARY 1994

London Stock Exchange
Committee Room 2
12.45 pm

ATTENDEES

Sir Adrian Cadbury	Committee Chairman
Mike Sandland	Committee Member - Chief Investment Manager, Norwich Union Investment Man.
Gina Cole	Committee Secretary
Nicholas Walters	GCI London Ltd - PR Consultant
Graham Seargant	Times
Charlie Pretzlik	Telegraph
Roger Trapp	Independant
Lisa Buckingham	Guardian
Norma Cohen	Financial Times

CADBURY COMMIITTEE
PRESS BRIEFING - 17 FEBRUARY 1994

London Stock Exchange
Committee Room 2
3.30pm

ATTENDEES

Sir Adrian Cadbury	Committee Chairman
Mike Sandland	Committee Member - Chief Investment Manager, Norwich Union Investment Man.
Gina Cole	Committee Secretary
Nicholas Walters	GCI London Ltd - PR Consultant
Jeremy Warner	Independent on Sunday
Patrick Weever	Sunday Telegraph
Kirsty Hamilton	Sunday Times
Nick Goodway	Observer
Matthew Bishop	The Economist
Bill Gleesom	Accountancy Age
Julia Irvine	Accountancy

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

c/o The London Stock Exchange
London EC2N 1HP
Tel: 071-797 4575
Fax: 071-410 6822

THE COMMITTEE'S MEMBERSHIP

The Committee's members as at 1 February 1994 are as follows:-

Sir Adrian Cadbury (Chairman)

Martin Taylor - *Vice Chairman, Hanson plc*

Jim Butler

Jonathan Charkham

Hugh Collum - *Finance Director, SmithKline Beecham*

Andrew Likierman - *Head of the Government Accountancy Service*

Nigel Macdonald - *President, Institute of Chartered Accountants of Scotland*

Mike Sandland - *Chief Investment Manager, Norwich Union*

Mark Sheldon - *Joint Senior Partner, Linklaters & Paines*

Sir Andrew Hugh Smith - *Chairman, London Stock Exchange*

Sir Dermot de Trafford, Bt

Observer:

Arthur Russell - *Head of Companies Division, DTI*

Secretary:

Gina Cole - *(on secondment from DTI)*

Advisor:

Sir Ron Dearing

CORPORATE GOVERNANCE
- Directors' Responsibilities for Financial Statements

Recommendations of a Working Party established by
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

ANNEX 5

A SUGGESTED FRAMEWORK FOR INTERNAL CONTROL

(referred to in paragraph 8 of Chapter 2)

Paragraph 6 of Chapter 2 referred to a number of components of control. There are various ways in which internal control can be considered but we think it helpful that our recommendations should be accompanied by guidance concerning one framework which would provide the means of achieving the recommended objectives. The basic framework may appear purely theoretical but we consider this is the clearest way to present the suggested components and should enable them to be incorporated into a business's system of internal control as appropriate. It is neither relevant nor necessary for us to attempt to provide a detailed implementation manual and only example procedures are illustrated - see Annex 6.

Inevitably, the needs of each individual entity will shape the way in which a suitable internal control system is developed. Approaches other than our suggested framework exist, such as those used by building societies and banks. Extensive literature is available which may assist some companies to adopt such approaches.

The question of suitable systems is not a new one and the accountancy profession has considerable experience of providing advice to directors on the selection or development of systems relevant to the needs of their business.

Components of control

Our framework identifies eleven components of control, namely: (1) integrity (2) ethical values (3) competence (4) the control environment (5) communication (6) establishing objectives (7) risk assessment (8) information systems (9) managing change (10) control procedures and (11) monitoring.

It may be helpful to group the components under the following headings:

QUALITY AND COMMITMENT OF PERSONNEL AND EFFECTIVE COMMUNICATION

(1) integrity
(2) ethical values
(3) competence
(4) the control environment
(5) communication

CLARITY OF RESPONSIBILITIES AND ISSUES

(6) establishing objectives
(7) information systems

The extent to which categories (8) and (9) are addressed will vary from company to company depending on individual circumstances. This will be needs driven rather than resource driven ie the size of company will not necessarily be a decisive factor in selecting appropriate procedures.

(8) risk assessment
(9) managing change

PROCEDURES

(10) control procedures
(11) monitoring

Noted below are the components we have identified in our framework of internal control, together with the criteria for effective control for each component.

Component		Criteria for effective control
QUALITY AND COMMITMENT OF PERSONNEL AND EFFECTIVE COMMUNICATION		
(1)	Integrity	Calibre of the staff and the effectiveness of the selection process
(2)	Ethical values	Value standards of the organisation
(3)	Competence	Staff are both selected and trained appropriately
(4)	Control environment	Commitment of senior and middle management to a rigorous and disciplined application of the other components
(5)	Communication	There is prompt, effective transmission throughout the business entity of relevant information concerning achievement of appropriate objectives. Also that instances of information channels being blocked are identified quickly and the matter rectified.
CLARITY OF RESPONSIBILITIES AND ISSUES		
(6)	Objectives	There is clarity as to each member of management's authority and responsibility and objectives for the relevant trading period. It follows that there should be clarity as to the interrelationship of each person's roles with others in the organisation.
(7)	Information systems	There is a clear and appropriate definition of information needs at the relevant levels and groups within the business. Information requirements are identified therefrom and systems are put in place to provide the needed information in a timely and accurate way.
(8)	Risk assessment/ opportunities	This has three aspects: - risk from external events which would undermine the business's ability to function eg dependence on one customer or supplier - risk from change in the market place which the company supplies (clearly such changes may also present significant opportunities but it is not the purpose of this paper to address these) - internal risks related to inappropriate handling of transactions and operations such that the company's trading position is significantly affected.

(9) Managing change	Changes affecting the entity's ability to achieve its objectives are identified for management to respond to (keeping the business on the rails). Where management introduces changed objectives or priorities (changing the rails), that these are reflected promptly and effectively within the control environment.
(10) Control procedures	Control procedures are in place to identify non-adherence to policy and to address risks related to achievement of objectives.
(11) Monitoring	All the above aspects of the control environment are kept under regular review and policies and procedures are modified as needed. Where internal audit exists, it will be a powerful tool to assist management in discharging that responsibility.

An example application of the suggested framework for internal control is given in Annex 6.

KWIK SAVE GROUP PLC

Warren Drive, Prestatyn LL19 7HU Tel: 0745-887111

Period end:	28/8/93	29/8/92	Industry grouping:	**Retailers, food**
Publication date:	23/11/93	24/11/92	Line of business:	**Food retailing**
Publication lag (days):	87	87	Listing status:	**Listed**
Turnover (£millions):	2,858	2,498		
Profit before tax (£millions):	126	111		
Number of employees:	22,196	14,843*		
Auditors:	KPMG Peat Marwick, Birmingham			

Key points: Cadbury Code of Best Practice criticised.

Corporate governance:

1993 Statement of compliance with Cadbury Code of Best Practice.

1992 Corporate governance discussed.

In the 1993 accounts the chairman confirms his company's compliance with the Cadbury Code, excepting only that the service contracts of executive directors are extended to five years "where the Board believes that it is in the interests of the shareholders". Like others before it (see Wolseley in "Company Reporting" Issue No 43 page 15), Kwik Save has reservations about the benefits of the Cadbury Code. "While we welcome the principles on which the Code of Best Practice is based", writes the chairman, "we are concerned that the guidelines being considered in relation to 'Internal Controls' and 'Going Concern' may lead to bureaucracy and increased cost rather than shareholder protection".

Depreciation:

1993 Depreciation provided on properties where estimated residual value is less than book value.

1992 Depreciation on properties "would not be material".

17% of companies state that properties are not depreciated because they are maintained to a high standard or because any depreciation would be insignificant. To repeat this statement year after year is not a very specific justification for non-compliance with Sch 4 para 18 of the Companies Act 1985. In its most recent accounts Kwik Save expounds a more precise policy. "Provision for depreciation in respect of freehold buildings is made if, in the opinion of the Directors, the estimated residual value, excluding inflation, will be less than the net book value". At the same time the company refines its other depreciation rates. "Plant, fixtures & equipment 3-10 years" becomes "plant, fixtures and fittings 4-10 years" and "computer and refrigeration equipment 5 years", while "motor vehicles 4-19 years" is amplified to "motor vehicles 4 years" and "commercial vehicles 7-10 years".

Employee information:

1993 Average number of employees stated by actual number and full time equivalent.

* 1992 Average number of employees stated as full time equivalent.

Prior to 1993 Kwik Save responded to the requirements of Sch 4 para 56(1) of the Companies Act 1985 by including the full-time equivalent number of part-time employees in the average weekly figure. In 1993 this disclosure is expanded to both the average number of employees and the average full-time equivalent.

Bass plc *30 September 1993*
Extract from Report of the auditors:

We have audited the financial statements on pages ... to ... , which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets on the basis of the accounting policies set out on pages ... to ... .

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
As described above, the Company's Directors are solely responsible for the preparation of the financial statements including the selection of suitable accounting policies. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1993 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

CORPORATE GOVERNANCE MATTERS
In addition to our audit of the financial statements, we have reviewed the Directors' statement on page ... concerning the Company's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the code which the London Stock Exchange has specified for our review.

The purpose of the Directors' statements is to give readers information which assists them in forming their own views regarding the governance of the Company. In respect of the paragraphs of the Code specified for our consideration, we are required to draw attention to any aspects of the Company's non-compliance with the Code which the Directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the Company's governance procedures.

Through enquiry of certain directors and officers of the Company, and examination of relevant documents, we have satisfied ourselves that the Directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

Ernst & Young
Chartered Accountants
Registered Auditor
London
30 November 1993

Creston plc *30 June 1993*
Extract from Corporate governance:

....

Internal financial control

The directors have satisfied themselves that there is a clearly documented and understood delegation of authority from the board to the executive directors. Defined procedures for seeking and obtaining approval for major transactions and organisation changes are in place along with a system of planning, budgeting and performance monitoring that is designed to identify significant deviations from approved plans. To ensure the effective application of the group's internal controls, the services of suitably qualified personnel have been secured and duties properly allocated among them.

Going concern

The group's accounts have been prepared on the basis that the group is a going concern. In forming this view the directors have reviewed the group's projections for the year to 31st December 1994, (taking account of the likely sensitivities) including capital expenditure plans and cash flow forecasts.

CORPORATE GOVERNANCE

Commentary: Royal Bank of Scotland does not share the reservations, expressed by some companies, with regard to the Cadbury Code of Best Practice (see *Kwik Save* on page 18 of this Issue). Rather it welcomes the Code unreservedly and refines its corporate governance practices to ensure complete accord with it. In addition to its corporate governance statement the bank identifies, elsewhere in its annual report, the members of board sub-committees and the directors' responsibilities in the preparation of the accounts.

The Cadbury Code of Best Practice proposes (and the Stock Exchange Listing rules insist) that companies' statements of compliance with the Code should be reviewed by their auditors. A small but growing number of auditors are publishing their review statement in companies' annual reports. It is a logical development for such reviews to form part of the auditors' report, and Ernst & Young have treated it as such in *Bass*' accounts.

While the majority of companies await guidance on the basis on which conformity with paras 4.5 (internal control) and 4.6 (going concern) of the Code should be reported on, a small number of companies provide an outline of their internal control procedures and explain the reasons why the going concern basis of preparation is considered to be appropriate. *Creston* concludes a comprehensive corporate governance statement with sections on internal control and going concern.

The Royal Bank of Scotland plc *30 September 1993*
Extract from Corporate governance statement:

> Publication of the Cadbury Committee on Financial Aspects of Corporate Governance report in December 1992 produced for the first time a consensus about the way UK listed companies should be run, including a Code of Best Practice.
>
> The Committee recommended that companies reporting on the years ending after 30 June 1993 should include a statement about their compliance with the Code. This is the first statement we have had the opportunity to publish.
>
> We welcomed the publication of the Cadbury Report, and we were pleased that our established practice coincided in almost all respects with the Code of Best Practice. For example:
>
> - There is a clearly accepted division of responsibilities at the head of the company, through the separation of the positions of Chairman and Chief Executive.
> - With twelve non-executive directors of varied backgrounds and experience and independent judgement on a board of twenty-one, their views carry significant weight in the board's decisions and they monitor the company's performance and executive management effectively.
> - The company has presented a balanced and comprehensive view of its position in annual reports.
>
> Having reviewed the position in June 1993, the board decided to change its procedures in three areas, in order to bring the company fully in line with the Code of Best Practice, as presently developed.
>
> **Formal schedule of board business.** Cadbury recommended that matters which must be referred to the board for decision should be formally listed. We already followed the spirit of the recommendation in planning board agendas, but to follow Cadbury's recommendation to the letter, the board decided to bring all these together in a formal Schedule of Matters.
>
> **Independent professional advice.** Directors are now able, if necessary, to take independent professional advice at the company's expense.
>
> **Appointment of non-executive directors.** Cadbury's view was that to facilitate change in the composition of a board, non-executive directors should be appointed for a specific term and reappointment should not be as a matter of course. In future, new non-executive directors will be appointed to our board in this way. We will review the position of current non-executive directors as each director nears the end of his/her term.
>
> All members of the board are involved in the formal selection and appointment of directors. The board is assisted in this process by the Chairman's Advisory Group, composed of senior executive and non-executive directors, which acts as a nomination committee.
>
> **Board committees.** The Remuneration Committee of non-executive directors is responsible for making recommendations to the board about remuneration policies, the remuneration arrangements of the directors and senior executives, and the operation of the company's approved employee share schemes.
>
> The Audit Committee of non-executive directors is primarily responsible for assisting the board to discharge its responsibilities for accounting policies, internal control and financial reporting.
>
> The changes we have made underline our commitment to the principle of sound corporate governance.

Dalgety plc *30 June 1993*
Extract from Corporate governance:

....

The Cadbury report recognised that guidelines would have to be developed to provide a framework for companies to report on their internal control systems and the basis for reporting that the business is a going concern. We comment below on these issues although these guidelines have not yet been developed.

The Directors are satisfied that the Group has an effective system of internal control including clearly documented delegation of authority from the Board to Operating Companies and defined procedures for obtaining approval for major transactions. In addition the Group has established procedures for planning and budgeting and for monitoring the performance of the Group against approved plans.

The Group's accounts have been prepared on the basis that the Group is a going concern. The Directors have formed this view having reviewed the Group's budget for 1993/1994, capital expenditure plans and cash flow forecasts. The Directors have satisfied themselves that the Group is in a sound financial position.

S Lyles plc *30 June 1993*
Extract from Statement by the directors on corporate governance:

On the 1st December 1992, the Cadbury Committee published its report on the financial aspects of corporate governance for UK registered public companies and recommended a Code of Best Practice ("the Code").

At present UK companies are awaiting views from external accounting bodies on certain areas of the Code before they are able to implement it fully. Guidance statements are expected on issues relating to going concern and internal control.

In general, the directors support the principles of openness, integrity and accountability advocated by the Code and have commenced a review of the extent to which the current practice of Lyles conforms to the recommendations.

The following preliminary comments are made on certain specific recommendations of the Code.

Prior to this financial year only one member of the Board was non-executive. It has not hitherto been the practice of Lyles to have either an Audit Committee or a Nomination Committee of the Board. It has, however, had a Remuneration Committee consisting of the Chairman and non-executive director. This situation has now been re-examined. Firstly, the directors are of the opinion that the present size of Lyles justifies no more than two non-executive directors. For the same reason the directors consider that one Committee of the Board, comprised of a majority of non-executive directors, is sufficient to deal with the aforementioned aspects of corporate governance. The Board has, therefore, replaced the Remuneration Committee with a Governance Committee, consisting of the Chairman and the two present non-executive directors and chaired alternately by one of the non-executive directors.

With regard to financial probity, the directors are confident that they, in combination with the external auditors, effectively monitor and report and ensure that the proper procedures of control are in place. The executive directors, including those directors of the operating subsidiary who are not also directors of Lyles, work closely with each other and are very much involved with the day-to day running of the group. They are, therefore, well placed both to supervise and operate the appropriate internal controls to safeguard the assets of the group. Nevertheless, it will be part of the function of the Governance Committee to carry out periodic reviews of the situation with the external auditors and with the appropriate executive directors to ensure not only that the proper procedures of control are in place, but that they are seen to be in place.

The recommendation that when disclosing Board remuneration in the Annual Report there should be differentiation between salary and performance-related pay has been implemented by Lyles for some years. Further details are given in this year's Annual Report to assist shareholders' appreciation of the basis of calculation of profit-related commissions. All the executive directors have service contracts for a term which cannot exceed three years.

The recommendation regarding the separation of the posts of Chairman and Chief Executive is presently under active consideration.

The Code requires statements of directors' and auditors' responsibilities in respect of the preparation of accounts, which are to be found on page ....

A further statement on progress regarding compliance with the Code will be included in the 1994 Annual Report, following completion of the directors' review.

CORPORATE GOVERNANCE

Commentary: In "Company Reporting" Issue No 37 we identified Touche Ross as being the first auditors to report on a company's statement of compliance with the Cadbury Code of Best Practice, as note 14 of the Code proposes that they should do. Five months on, and except for Price Waterhouse reviewing the statement in the accounts of *Logica* (see page 22 of this Issue), Touche Ross remain the only auditors to do so. Their report in the accounts of *Scholes* is more detailed than that seen in previous accounts, as typified on page 24 of "Company Reporting" Issue No 37.

The Cadbury Code of Best Practice acknowledges that directors will not be able to comply with the requirements to report on the effectiveness of the system of internal controls and that the business is a going concern until "the necessary guidance ... has been developed". Most companies are content to remain silent on these subjects until such guidance is forthcoming. A few, like *Dalgety*, enter into the spirit of the Code and address these matters in their corporate governance statements.

Smaller listed companies are being more reticent than their larger counterparts in disclosing and discussing their corporate governance practices. Those which comment on the matter in advance of the 30 June 1993 deadline, tend to report that the matter is under consideration. *Lyles* is among the first of the smaller companies to make specific disclosure of the extent to which it considers adoption to be appropriate to a company of its size.

Scholes Group plc *30 June 1993*
Extract from Corporate governance:

....

Report by the auditors to Scholes Group plc
We have examined the above statement by the company's directors concerning the company's compliance with the Code of Best Practice, insofar as it relates to those matters which we are required to consider by the Continuing Obligations for companies listed on the London Stock Exchange. Those matters are set out in paragraphs 1.4, 1.5, 2.3, 2.4, 3.1, 3.2, 3.3, 4.3 and 4.4 of the Code.

The directors are responsible for preparing the statement of compliance, and for specifying and giving reasons for any non-compliance. It is our responsibility to examine the statement of compliance, insofar as it relates to the specified matters, and to consider whether there is any area of non-compliance which has not been properly disclosed.

Our examination included making enquiries of the chairman of the board of directors, the chairmen of the audit and remuneration committees and the company secretary, and examination of documentation relating to the specified matters.

Based on our examination, in our opinion the directors' statement of compliance has been made with due care.

TOUCHE ROSS & CO.
Chartered Accountants
Manchester
5 October 1993

EXTRACTS

Smiths Industries plc *31 July 1993*
Extract from Financial review:

....

Financial Controls

While the operational control of Smiths Industries is decentralised, our rigorous monitoring of financial performance is centralised, with cash generation being a key indicator. Individual financial executives report to their own operational head, but there is also a firm functional reporting relationship through to the finance director and ultimately to the Audit Committee of the main Board. Smiths Industries' businesses range from relatively straightforward to highly complex operations with long and costly product development times. Our financial controls are simple and effective for these different needs. However, control is an evolutionary process, and we continue to improve our systems geared not only to avoiding difficulties but also to ensuring that we do not miss opportunities.

The Pension Law Review Committee under Professor Goode has recently published its report. We welcome its overall findings and recommendations and we do not expect to have to make any material changes to the Company's pension schemes and funding arrangements.

CORPORATE GOVERNANCE

Commentary: Among the various companies to protest against the Cadbury Code of Best Practice and the Stock Exchange's endorsement of its recommendations, *J Smart* explains that while it intends to continue to operate within the spirit of the Code, it has no intention of complying with its specific terms.

While a few other companies make comforting noises of a general nature regarding their internal control systems, in advance of the "necessary guidance" promised by Cadbury, *Smiths Industries* goes a stage further and describes, in greater detail than has hitherto been seen, the framework of the company's financial control system.

J Smart & Co (Contractors) plc *31 July 1993*
Extract from Report of the directors:

....

CORPORATE GOVERNANCE

The Stock Exchange now requires as a continuing obligation of listing that your Company complies with the Code of Best Practice recommended in the Report of the Committee on The Financial Aspects of Corporate Governance dated 1st December 1992 or gives reasons for not complying.

The Code which is intended to promote openness, integrity and accountability makes a virtue of what is already common practice and procedure among the larger publicly quoted companies. In particular the Code recommends the appointment of a minimum of three non-executive directors to all company boards and the formation of remuneration and audit committees composed wholly or mainly of non-executive directors.

Your Board consists entirely of working Directors who aggregate 176 years service with the Company, 93 of those as Directors. The Board comprises the executive management of the Company and thus maintains full control. Decisions are accordingly taken quickly and effectively following ad hoc consultation among the Directors concerned when any matter arises. Your Board takes the view that this direct but flexible approach is preferable to the more cumbersome procedures prevalent in larger organisations and has made a considerable contribution to your Company's past success. It is your Board's considered opinion, therefore, that while the Code may be appropriate for larger companies much of what it contains is not only inappropriate for a Company of our size and nature but would also be seriously counter productive.

It is apparent that the Company does not comply either in whole or in part with paragraphs 1.2 to 1.4, 2.1 to 2.4, 3.3 and 4.3 of the Code. As required the reasons for non-compliance are listed below.

1.2	The Chairman of your Company is also Managing Director. Bearing in mind the size of the Company the Board sees no value in splitting the roles of Chairman and Managing Director. All Directors express their views and make a valuable contribution to the running of the Company.
1.3 2.1 to 2.4 3.3 & 4.3	Your Board considers that increasing the manning level of the Board by 50% by the appointment of three non-executive Directors will increase costs and impose an additional administrative burden for no discernible benefit and accordingly serve no useful purpose.
1.4	A formal schedule of reserved matters is not required since the Board is the executive management of the Company, takes the decisions on all material matters and thereby exercises full direction and control.

Your Board is committed to the principles of openness, integrity and accountability in dealing with the Company's affairs and believes it has always acted with probity in the best interests of the Company, its employees and shareholders without recourse to guidance or instruction from others and fully intends to continue to do so in the future.

BARRY WEHMILLER INTERNATIONAL PLC

PO Box 95, Atlantic Street, Altrincham WA14 5EW Tel: 061-928 6344

Period end:	31/7/93	31/7/92	Industry grouping:	**Other industrial materials & capital goods**
Publication date:	5/11/93	6/11/92	Line of business:	**Design, manufacture & supply of equipment to pack & process consumer goods**
Publication lag (days):	97	98		
Turnover (£millions):	85	74	Listing status:	**Listed**
Profit before tax (£millions):	7	7		
Number of employees:	1,171	1,222		
Auditors:	Price Waterhouse, Manchester			

Key points: Statement of compliance with Cadbury Code of Best Practice published.

Corporate governance:
1993 Statement of compliance with Cadbury Code of Best Practice. Directors' performance related bonuses quantified.
1992 No reference to corporate governance.

Although observance of the recommendation of the Cadbury Committee, that accounts should incorporate a statement of compliance with the Code of Best Practice, is only mandatory for periods ending after 30 June 1993, for the past few months most newly published accounts have incorporated such a statement. Indeed many of them are quite expansive, discussing the functions of the board and its various subcommittees and most of the other matters addressed by Cadbury. However all the Code requires is that companies should "make a statement in their report and accounts about their compliance with the Code and identify and give reasons for any areas of non-compliance".

BWI does not wallow in detail, but makes a simple, unequivocal statement of compliance in the following terms:

> "During the year the Cadbury Committee put forward its proposals on the financial aspects of Corporate Governance. Having reviewed their proposals and the associated code of best practice the board can confirm that the Group complies with the recommendations".

In addition to the compliance statement, BWI publishes a comprehensive statement of its directors' responsibilities for preparation of the accounts, quantifies directors' performance related bonuses, and makes the partial comment that "incentive compensation is based upon a combination of earnings per share, profitability and cash management" (see also St Ives on page 11 of this Issue).

Auditors' report:
1993 Auditors' responsibilities delineated by directors.
1992 No reference to auditors' reponsibilities.

As companies are falling into line with the Cadbury Code before the date for mandatory adoption, so the great majority of auditors are now adopting SAS 600 "Auditors' report on financial statements" in advance of its effective date of 30 September 1993. One exception is Price Waterhouse who sign off the accounts of BWI with the short report which was standard prior to the advent of SAS 600. However if auditors are not inclined to make the brief responsibility statement suggested by the Standard, BWI's directors do it for them by joining the 4% of companies which spell out the responsibilities of the auditors in terms of the Companies Act 1985 (see also Wolseley on page 14 of this Issue).