

ca. Sir Adrian.
CAD-02209

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24 June, 1992

Ach'd
29.6.92
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Dear Sir,

I am writing in response to the invitation of your Committee to comment on their draft report. The undernoted paragraphs are referenced to the relevant paragraphs in the report and are in sequence, not in order of importance.

- 1.8 It is questionable whether companies would more readily rise above a minimum standard if it were to be prescribed by voluntary code of conduct rather than by statute. A statutory code would enable sanctions to be more effectively enforced, albeit in a less timely manner.
- 4.1 The report is addressed, apparently, to listed companies according to paragraph 3.15. The reference to "public" companies is consequently questioned. It may be that much of the report, including the first sentence of 4.1, is applicable to all companies regardless of their status.
- 4.8 & 4.9 Whilst the views of the Committee on the calibre of non-executive directors (NEDs) is accepted, their source is questioned. ProNed considers that almost the only source of non-executives are directors of listed companies. It is questioned whether they have either the time or the expertise to fulfil the role which the report envisages.
- 4.9 & 4.10 It is questioned whether the quality of independence is one for NEDs alone. All directors should be of independent mind, subjugating their interests to those of the company of which they are a director.

4.12 & 4.13 Whilst NEDs may need to seek legal or financial advice, they should, in principle, be nominated for their expertise and, consequently, such advice would rarely be required.

4.20 - last paragraph

The Board should do more than lay down rules to determine materiality for any transaction. Such rules should be encompassed in the far larger field of internal control; the rules for which the Board, as a whole, should be required to approve.

4.25 & 4.26 So far as banks are concerned in a Notice to Authorised Institutions published in 1987, the Bank of England made it a statutory criterion for authorisation under the Banking Act that adequate internal controls are required to be in place.

4.29 It is questioned whether there is any benefit in the Audit Committee reviewing financial statements prior to their submission to the Board. All members of the Board are equally responsible.

If the present source of NEDs, advocated by ProNed, continues, then it is unlikely that the Audit Committee would be qualified, or more competent than the executive directors, or have the necessary time, to carry out the role envisaged for them in relation to the external auditor, particularly if the Finance Director were to be excluded from the discussions as is suggested in the penultimate clause on page 18.

The Chairman of the Audit Committee should not be responsible for answering questions at the AGM. That is the role of the Chairman or the Finance Director.

4.30 The only outsiders who should be invited are the Finance Director, the Chairman, and the internal auditor. Other outsiders "with relevant experience" should not be invited, the Committee should have that experience itself.

4.33 Recommends that service contracts should not exceed three years without shareholders' approval. I would suggest they should never exceed three years, as the state of mind and state of health of any individual is incapable of evaluation in the longer term.

4.38 to 4.40 There must be acceptance that different industries have differing circumstances which warrant different, but appropriate, policies. E.g., FRS1 is quite inappropriate to banks, and the insistence of the ASB that it applies to every

institution, has led S.G. Warburg to include the following footnote which can only bring accounting standards into disrepute:

"Cash and cash equivalents exclude securities trading positions and other liquid assets which fall outside the definition prescribed by Financial Reporting Standard 1. Accordingly, the above statement does not, of itself, provide useful information about the liquidity of the Group."

4.42 & 4.43 Plain English is of great importance. Language should be unambiguous, precise and concise.

4.47i The Finance Director should also be present.

5.8 Removal of alternative accounting treatments - see reference of FRS1 to banks above.

5.11 The 1991 regulations under the Companies Act are inadequate. Disclosure must relate to all non-audit work by auditors of any company within the Group. The regulations appear to apply only to the auditor of the Group accounts.

5.12 Rotation of auditors - a periodic change of audit partners should apply to all companies and not just listed companies referred to in this paragraph.

5.14, 5.31 & 5.32ii

The auditors' role should be to report whether or not financial statements give a true and fair view, regardless of who happens to read them and, consequently, the Caparo Judgement should be reversed. Accounts either show a true and fair view or they do not.

5.16 So far as banks are concerned, no detailed work is necessary; the main criteria have been published by the Bank of England.

5.20ii If directors lack such basic knowledge of accounts, then I suggest that just as representatives are required to take an examination by SFA, then directors should be required to take an examination on company law. I could understand directors of small private companies not appreciating their obligations, but it is quite unacceptable for directors of listed companies to be in the same position.

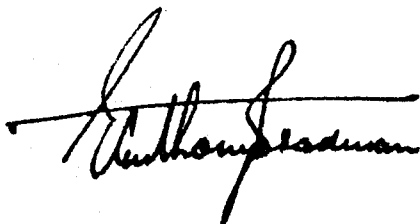
5.23i The statement relating to going concern explicitly displayed, would not be helpful.

5.27 Fraud - the Audit Committee is not the essential safeguard. The essential safeguards are written internal control procedures, applicable to all, and enforced rigorously; these will be the greatest deterrent.

6.5

More shareholders would cast their votes, if they did not have to disclose their interest to the Post Office. The method by which shareholders register votes on postcards, which appears to be used universally by registrars, is a gross infringement of their privacy and requires disclosure of a signature which is almost certainly the same as that used on cheques and credit card vouchers so that it constitutes a security risk (voting for the ICAEW is on a piece of paper, folded three times, so that the contents are not visible to the casual observer). The use of postcards should be proscribed by The Stock Exchange.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'E.A. Bradman'. The signature is written in a cursive style with a long horizontal stroke extending to the left.

E.A. Bradman
(Member of the ICAEW Council 1981-1987)