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With Compliments

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Dear Mr. Peace,
COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE
GOVERNANCE.

I am supportive of the broad trend of the report, although I believe that the report would benefit from more statutory and regulatory backing. I have some specific comments:

- (1) Apart from a passing reference to material misstatement in paragraph 5.14, nothing is said on the wide and generally unstated variations in materiality levels used by audit firms. The unscrupulous company simply hunts around for the highest materiality level so as to avoid matters coming into the audit scope. Alternatively the matter may appear in the management letter, rather than as a mainstream item, and this removes it from the public domain. There should be a legal requirement for company auditors to state the various materiality levels they have been working to, and the size of these in absolute terms, as well as as a percentage of turnover and other measures. This openness might evoke some discussion at AGMs. The profession could also do more to standardise on such levels.
- (2) Insufficient is said about the role and potential of internal audit for the reader to make sense of the references to it. The terms of reference do not specify external audit only, and since internal audit is the internal control mechanism par excellence one would expect to hear more of it, and a recommendation of its advantages in the same way that audit committees are recommended.
- (3) Given current and continuing interest in environmental auditing, mention of it as an example of "other illegal acts" would not go amiss.
- (4) I am in complete agreement about board appointments being on merit, rather on patronage. I would look for a stronger statement, since this recommendation is likely to be widely ignored. I am told by Pro Ned that candidates outside the traditional network, and the old boys' network, are unlikely to receive any support. In the US it is more common to select consumer representatives, academics, women, and local community leaders. By having non-clones, there is value-added, and an enhancement of independence.
- (5) There is a desperate need for accurate research into the politics of the external audit relationship. There is anecdotal evidence that gives rise to concern, but it is difficult to make policy decisions amidst ignorance.
- (6) On paragraph 5.28 I believe that a statutory duty to report fraud is of benefit. There is too much self-justification of not doing so under professional guidance. I also consider that you should recommend a level of "whistleblower" protection for any employee, since there is a need to widen the defence mechanism for corporate wrongdoing.
- (7) Reference to current US developments on federal sentencing and corporate probation are worth considering.

(8) Private shareholders' rights need more attention. One cannot expect such shareholders to travel hundreds of miles during worktime to attend AGMs. Minority shareholder rights under the Companies Act are impracticable and expensive for the individuals involved.

I certainly wish Sir Adrian and his committee well in this important venture.

Yours sincerely,

Gerald Vinten

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