

ARTICLE FOR FINANCE DIRECTORS BULLETIN, JANUARY 1993 EDITION

THE ROLE OF THE FINANCE DIRECTOR IN CORPORATE GOVERNANCE

**by Sir Adrian Cadbury, Chairman, Committee on the Financial Aspects
of Corporate Governance**

As the Committee which I chaired takes great pains to emphasise in its recent report, corporate governance is the responsibility of the board as a whole. In law, all directors are responsible for the stewardship of the company's assets. All directors, therefore, whether or not they have executive responsibilities, and whatever their job title, have a monitoring role and are responsible for ensuring that the necessary controls over the activities of their companies are in place, and working.

However, whilst it is the board collectively that is the final authority, individual directors will contribute in different ways to its work. Finance directors have an obviously important role because they head the finance function which prepares the financial statements through which the board reports to the shareholders on its stewardship. They also oversee the annual audit, and the relationship which they establish with the auditors is extremely significant for the company's governance. Practicality demands that auditors work with and not against management, but at the same time auditors must apply their professional skills impartially and objectively, and retain a critical detachment and a consciousness of their accountability to the shareholders who formally appoint them. Finance directors, whose own professional training on the one hand and membership of the board on the other enables them to see matters from the perspective of both the auditors and the board, have a pivotal role to play in ensuring that the board's relationship with the auditors remains objective and professional.

The Committee's report lays particular stress on the establishment of a properly constituted audit committee of non-executive directors. Audit committees do not take away the board's ultimate responsibility for reviewing and approving the annual report and accounts and the half-year report, but they provide an important assurance to shareholders that a key area of the board's duties will be rigorously discharged. Audit

committees can be helpful to finance directors by providing a forum in which they can raise issues of concern, and which they can use to get things done which might otherwise be difficult. Finance directors concerned to keep relations with the auditors on a sound footing can also take comfort that an audit committee provides the auditors with a forum in which to make their views known, if differences of opinion do arise.

Audit committees have another important role to play in ensuring the independence of the internal audit function. It is good practice for companies to establish an internal audit function to undertake regular monitoring of key controls and functions. Such regular monitoring should be an integral part of a company's system of internal control and will help to ensure its effectiveness. In companies which are large enough to support an internal audit function it is essential that the head of the function should have unrestricted access to the chairman of the audit committee, so that his or her reporting line is not confined to the finance director, chief executive, or other single member of top management.

Given the pivotal role of finance directors in corporate governance, I have read with considerable interest the results of the "plcUK" surveys of finance directors published by 3i plc. In the last-but-one survey which sought views on the UK's system of corporate governance, over half of respondents said that the comment "There are flaws in the system that need to be remedied if the UK's economic performance is to improve" was closest to their view. In the survey which followed, 75% of finance directors agreed that there should be a code of practice for corporate governance. These findings are part of the evidence that has convinced me that there is a climate of opinion which accepts that changes are needed and which is expecting the Committee to give the necessary lead.

The Hundred Group of Finance Directors has contributed very constructively to the Committee's work so far and I look forward to our close relationship continuing. Two areas where the contribution of finance directors will be vital will be in the development of guidance for companies on going concern, and internal control. The Committee's Code of Best Practice recommends that the directors should report on the company's system of internal control, and that they should report that the business is a going concern, with supporting assumptions or

qualifications as necessary. These provisions of the Code cannot be implemented until the supporting guidance for companies and auditors is in place. I do not underestimate the difficulty of reaching agreement on either subject but I am confident that with the Hundred Group's support it will be possible to complete both projects on schedule by the end of summer 1993.

(783 words)

15.12.92

FINANCE DIRECTORS BULLETIN

Nigel Peace
The Committee on the Financial
Aspects of Corporate Governance
PO Box 433
Moorgate Place
London EC2P 2BJ

30 November 1992

Dear Mr Peace

Further to our correspondence in September of this year, I am writing to inform you that we have decided to postpone the launch of *Finance Directors Bulletin* to January 1993.

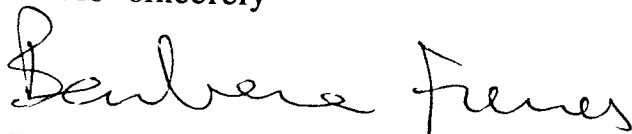
In reference to your letter of 28 September (attached), I hope that it may be possible to include an article by Sir Adrian Cadbury on the Committee's final report. In terms of our target audience, the country's top 4,000 Finance Directors, *Finance Directors Bulletin* is without doubt a highly appropriate medium for Sir Adrian's comments.

We will also be publishing articles by Sir David Tweedie, Chairman of the Accounting Standards Board, and Sir Andrew Hugh-Smith, Chairman of the London Stock Exchange in the January issue. The copy deadline for January is Monday, 21 December.

I look forward to hearing from you.

Kind regards

Yours sincerely



Barbara Frenes
Editor

Finance Directors Bulletin
Editorial Statement

Finance directors are coming under greater pressure than ever before in the complex business environment of the 1990s. The current depressed economic climate, the development of new and highly technical regulations and an ever increasing quantity of specialised information are imposing severe demands on their time.

Finance Directors Bulletin is designed to help them meet these challenges. It aims to offer senior finance executives a succinct but comprehensive briefing on the major issues they face, and do much of their reading for them, flagging new developments, summarising important concerns and highlighting issues they are likely to face in the future, including:

- investor relations
- accounting
- law
- EC issues
- auditing
- treasury management
- tax
- corporate finance
- financial planning
- commercial banking

Finance Directors Bulletin is being launched by WLP Magazines Ltd, organiser of the popular annual London Finance Directors Conference, and publisher of a number of highly-regarded specialist newsletters including *European Accounting Focus* and the market leading *Trademark World*.

Authority is the name of the game. We are asking leading professionals within the fields of law, finance, economics and taxation to contribute articles. Our aim is not to cover topics in great technical depth but to report professionally on relevant topics in about 1500 words, leaving the reader to follow up on the subject in more detail — should he or she so wish.

Editorial Team:

Commissioning Editor: Andrew Jack, Financial Times, Accountancy Editor
Editor: Barbara Frenes
Assistant Editor: Clare Nickson