

From Sir Colin Corness  
Chairman

CAD - 02129  
a Sir Ashid

# Redland PLC

Redland House, Reigate, Surrey RH2 0SJ  
Telephone: (0737) 242488 Fax: (0737) 221938 Telex: 28626

CRC/di

15 July 1992

Nigel Peace Esq  
Secretary  
Committee on the Financial Aspects  
of Corporate Governance  
P O Box 433  
Moorgate Place  
London EC2P 2BJ

Ashid

(I confirmed that the  
would be re-considering the  
tone of the report very  
carefully, and (2) that  
Sir A had been misrepresented.)

Dear Mr. Peace,

I am writing in response to your committee's invitation for comments on its draft Report dated 27th May 1992.

Generally, I feel the committee has successfully addressed the issues of public concern and propounded a Code of Best Practice with which most public companies ought to be able to comply or, where not, then otherwise be able to explain their reasons for non-compliance. I am, therefore, supportive of this initiative. I do, however, wish to make the following comments on certain aspects.

1. The overall thrust of the report seems to me to reflect (somewhat unfairly) the view that public companies have a tendency towards wrongdoing whereas auditors need to be protected. This is both undermining of the integrity which, I believe, characterises the vast majority of company boards and overly defensive of the role of auditors. The accord which the committee gives to the Caparo judgement is unfortunate. If auditors' responsibility is to be limited solely to the company and the collective body of its shareholders, they do not deserve to be so well remunerated nor is their role so significant, as is commonly supposed. I believe the Caparo judgement should be reviewed, such that auditors should remain accountable to any person who relies upon their work, wherever negligence is proven.
2. It is regrettable that the committee sees the Board as comprising two, potentially confrontational, groups of executive and non-executive directors. We operate on a unitary Board system and it is highly desirable for the board to act unitedly, save in exceptional circumstances. Accordingly I do not subscribe to the notion of the non-executive directors appointing a leader, save on an ad hoc basis in those exceptional circumstances.

To:

- 2 -

3. It has been reported in the press (wrongly, I understand) that directors should hold only one non-executive post. This is clearly impracticable and undesirable. Within reasonable limits (say three or four such posts) multi-directorships provide useful cross-fertilisation of ideas and experience.
4. Where the Code of Best Practice 3.1 recommends that Executive Directors' service contracts should not exceed three years without shareholders' approval, there appears to be some misunderstanding of usual practice. Like any other director, an Executive Director requires to submit himself to the shareholders for re-election under the Companies Acts every three years by rotation. However, his service agreement is normally related to his employment as an executive not as a director. In any case, the recommendation is unclear in that it does not specify whether the period should be three years' fixed term or three years' rolling (as is often the case in practice).
5. Code of Practice 4.2 recommends that "Directors should report on the effectiveness of their system of internal financial control". Surely it should read "the Company's system of financial control"?
6. In like vein, recommendations 4.4, 4.5 and most especially 4.7 of the Code of Practice appear to shift responsibility away from the Financial Director to the Board and/or the chairman of the audit committee. This may have theoretical justification but, for example, it cannot be right to expect an audit committee chairman, who is non-executive, to answer AGM questions on subjects about which the Financial Director is likely to be much better informed. If this trend is developed, there will be a reluctance on the part of non-executive directors to assume the chairmanships of audit committees.
7. Referring to section 4.51 of the main report, as to pensions governance, I doubt whether there are sufficient qualified persons available to enable companies to separate completely the governance of the pension fund from that of the company itself. Would it not be sufficient for there to be independent trustees of pension funds?

Yours sincerely,



Colin Corness

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Chairman*

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