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Ach'd.

8th July, 1992. - - -

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

Dear Sir,

Comments on the Draft Report dated 27 May 1992.

I am very favourably impressed with this document and especially with the Code of Best Practice. I am, however, still very concerned that external auditors will not be seen to be truly independent. It is unrealistic to expect an unbiased opinion where auditors are dependant for their remuneration and re-appointment on the same persons on whose stewardship they have to report. I have made a suggestion in this regard below in this letter.

The Code of Best Practice.

Pages 42
and 43

Page 10 at
3.10

This is excellent and should receive maximum publicity. However, it places an onerous duty on auditors. They are required to endorse a statement of compliance. No doubt the Code would be followed, and welcomed, by the majority of public companies, but the auditor has to beware of the ambitious and forceful company leaders who might regard the Code as an interference with their liberties and pay only lip-service to the provisions of the Code.

Audit Committees of the Board.

Pages 17-19
and
Appendix 3

These guide ~~times~~^{lines} are excellent.

However, it must be borne in mind that the general public has to be convinced that non-executives are independent from the executive. There is a real danger that the man in the street will continue to be cynical. A cartoon has recently appeared in one paper showing four or five imagined non-executives (at £10,000 fees each) with the caption "Pass the gravy". The auditor does not have to worry about the righteous majority but about the unrighteous few; and the auditor is liable to have to confront the unrighteous, who are in a position to control both his remuneration and re-appointment.

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Ethics.

Page 33
5.34

Professional "Ethical Behaviour" in the auditing world disappeared many years ago when American methods of "Practice Development" became the custom in the big firms, and fierce competition and advertising became the rule.

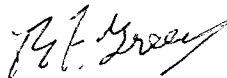
Suggestion. I would like to see an "Audit Supervisory Authority" to give prior approval to all appointments and removal of auditors. No auditor in public practice should be a member of the Authority. Auditors under pressure should be able to discuss their problems in strict confidence and receive advice and backing where necessary. Such an Authority should be limited to the above functions and to keeping a sharp eye on putting the audit out to tender, and the consequent danger of cutting corners.

I submit that only some such radical measure will suffice to restore the public's confidence in company reports and in auditors.

Insuring
Directors
and
Officers

It is becoming the practice for Directors and Officers to be insured, at the company's expense, against claims for damages for negligence. There is no requirement to disclose the amount of the premium paid and the amount (if any) of damages to be borne personally by a guilty party. It seems to me that in the public interest, at least some part should be borne personally - say, a figure of one year's remuneration or some multiple thereof. This matter is not mentioned in the Draft Report. Such a requirement ought to have a salutary effect, and also tend to reduce the premium.

Yours faithfully,



D.E.F. Green. F.C.A.