

**NORCROS**

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Mr. Nigel Peace  
The Institute of Chartered Accountants  
in England and Wales  
Moorgate Place  
London EC2P 2BJ

Dear Mr. Peace,

**The Cadbury Report**

I would be grateful if you could pass on the following comments to the Cadbury Committee in relation to its draft recommendations on the financial aspects of corporate governance.

The Norcros Board is in broad agreement with the Report and already complies with a substantial majority of its recommendations. However, there are some areas where we have concerns which I will set out below.

First, if the Report is followed slavishly, there is a risk that it will lead to a formal division of the Board as between executives and non-executives. In law, of course, there is no distinction and all directors are equally accountable for the activities of a company. The Code of Best Practice, however, suggests that "the chairmen of the audit and remuneration committees should be responsible for answering questions at the Annual General Meeting". This recommendation almost implies that those committees, which are normally chaired by non-executive directors, are separately accountable to the shareholders whereas they are actually sub-committees of the Board.

The inevitable consequence of this recommendation could well be that each director would be responsible for reporting on his activities at the Annual General Meeting, and clearly this is not what is intended by the recommendation. It is accepted practice that the Chairman, acting on behalf of the Board, signs the accounts and reports to the Annual General Meeting. He exercises his discretion as to whether it would be more appropriate for another Director to answer questions on a particular topic at the A.G.M. and we would prefer to see this custom maintained.

Equally divisive is the suggestion that non-executive directors should be entitled to take independent professional advice, at the company's expense. There may well be occasions when directors feel the need to have independent advice but should this facility be confined to non-executive directors? If it is appropriate to incorporate such a recommendation in the Code, it should be available to all directors.

On a more philosophical note, I wonder whether the Cadbury Committee and other bodies are raising expectations from non-executive directors to an unrealistic level. They have a valuable role to play but they cannot be some form of corporate panacea, which is possibly how they are being portrayed at the present time.

Secondly, whilst we understand the thought processes which produced the recommendation that "directors should report on the effectiveness of their system of internal financial control", we question whether such a report would serve any useful purpose. There are no precise rules governing this subject and it is difficult to imagine any company saying anything other than "we believe our internal financial controls are effective".


Similar comments apply to the recommendation that the Directors should state in their report that "the business is a going concern". A company would be in a very peculiar predicament if it could not make this statement without reservation and, if it qualified the statement in any way, it would probably make a difficult situation even more precarious.

In relation to the last two comments, we have always assumed that the directors and auditors had to be satisfied as to the effectiveness of financial controls and the "going concern" question before signing the report and accounts. If our assumption is correct, is anything to be gained by adding further detail to the annual report and accounts?

Finally, we cannot agree with your conclusions in relation to the Caparo judgement; in our view the decision in that case was flawed and should be reversed by statute.

We look forward to receiving the final version of the Report and, in the meantime, if you would like us to expand on any of the above comments please do not hesitate to let me know.

Yours sincerely,



J.J.L.G. Sheffield  
Chairman