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Our Ref: DWD

31 July 1992

N Peace Esq
Secretary
Committee on the Financial Aspects
of Corporate Governance
PO Box 433
Moorgate Place
London
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Dear Sir,

We submit our main comments on the draft report.

We broadly welcome the recommendations of the report subject to the following important matters.

Scope

First, the recommendations and the Code of Best Practice are aimed at listed companies. These of course vary in size from the multi billion pound international company to comparatively small entities. The cost of the Code for the latter would be relatively expensive and the system would be unnecessarily cumbersome. Either companies below a certain threshold should be exempted (perhaps even this exemption should depend upon the concurrence of the shareholders) or they should be allowed a much longer time span over which to introduce the changes.

Internal Financial Control

Secondly, a proposal is for directors to report on the effectiveness of their system of internal financial control and for the auditor to report thereon. Although the report hopes that the accountancy profession and others will draw up criteria for assessing effective systems of internal control, we fear that the result will nevertheless be the declaration of a bland statement which will soon become meaningless to the shareholder and the business community. We believe that this recommendation requires considerable amendment and might be changed to become a simple statement just by way of confirmation, rather than a detailed statement which would become repetitious and devoid in real meaning.

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Caparo

Last, in the context of the "expectation gap" and the loss of confidence by the public in the assurance of the audit report, we do not believe that the report is justified in its acceptance of the position of the legal responsibility of the auditor in the light of the position confirmed by the House of Lords the Caparo case. The auditor must accept a wider duty of care to a wider section of the community. This is not to say that this increased obligation should not be without some limit of the burden that would be thereby placed upon the auditor, but it is to accept a responsibility that is more in tune with the public perception. We believe the Committee should reconsider its recommendations in the light of this comment.

Yours faithfully,

Chris White

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