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THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN IRELAND

14th August 1992.

Mr. Nigel Peace,
Secretary,
Committee on the Financial Aspects of Corporate Governance,
P.O. Box 433,
Moorgate Place,
LONDON EC2P 2BJ.

Dear Nigel,

I am attaching, as I undertook, a short staff paper setting out this Institute's views on the recommendations contained in the draft Report of the Committee on the Financial Aspects of Corporate Governance.

Yours sincerely,

R. F. Hussey,
Director.

DRAFT REPORT - COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

Submission on behalf of the Institute of Chartered Accountants in Ireland

Introduction

This short paper is being submitted to the Committee on the Financial Aspects of Corporate Governance to put forward the views of the Institute of Chartered Accountants in Ireland on the Committee's draft report.

The paper is submitted now as a staff paper as it has not been formally adopted by the Institute Council. The paper will be submitted to Council for such formal adoption at its meeting on September 11th.

Many of the matters dealt with in the Committee's draft report, and commented on in this paper, have been the subject of recommendations in relation to Republic of Ireland circumstances by the Financial Reporting Commission (FRCI), (Chairman Dr. L. Ryan) which was established by this Institute and whose report was published in January 1992. The views set out in this paper in relation to such matters tend therefore to parallel the Institute's views on the corresponding recommendation in the FRCI report relative to Republic of Ireland practice. Where the FRCI recommendations themselves parallel or support the recommendations set out in the Committee's draft report that fact has been briefly noted in the detailed comments.

The comments below have been set out in a summarised, rather than discussive, form to aid in the compilation of views and comments on the Committee's draft report.

Finally, we express our appreciation at the Committee's invitation to the Institute to put forward its views on the draft Report.

Proposed Code of Practice - Concept and Compliance

- . The concept of a Code of Best Practice (para 3.1), to which the Boards of all listed companies should comply, is supported.

- . We further support the recommendation that as many other companies as possible should aim at meeting the Code's requirements (para 3.1).
- . The recommendation that listed companies make a statement on compliance (and give reasons for any areas of non compliance) (para 3.7) is also supported.
- . We doubt the practicality of the recommendation that such statements be made in respect of years ending on or after 31/12/1992, where, in the case of many companies, a significant proportion of the reporting year is already past (para 3.7).
- . We support the recommendation that directors' statements of compliance should be the subject of review by the auditors and that the APB should consider the extent and form that the auditors' endorsement should take (para 3.10). The value of the endorsement and indeed the extent to which APB can give guidance will depend on the final content of the Code of Best Practice and the objectivity with which compliance with it can be assessed, both by directors and by auditors.
- . We support the recommendation that compliance with the Code of Best Practice should be promoted, not by company law provisions, but by the encouragement of all parties concerned with corporate governance (para 3.15) and in particular by the Stock Exchange through its listing obligations and by the Institutional shareholders using their influence as owners.
- . We support the concept of a further review in two years' time to examine how far compliance with the Code has progressed (para 3.13). We would suggest that the range of this review might be extended to address, in the light of experience with listed companies, the extent to which the Code's provisions can usefully and practically be extended to other companies and to other reporting entities.

Proposed Code of Practice

- . We support the general thrust and content of the Code of Best Practice.

- . We have some concerns that certain provisions are necessarily subjective and may not easily lend themselves to objective assessment or verification (e.g. calibre of non executive directors/balance of power and authority on Board/objective and understandable assessment (in the directors' report) of company's position.)
- . We support the recommendation (para 4.29) that Boards establish effective audit committees (FRCI recommendation).
- . We support the recommendation (para 4.26) that directors report on the effectiveness of the system of internal control (FRCI recommendation).
- . We support the recommendation (para 4.22) that directors explain their responsibility for the financial statements (FRCI recommendation).
- . We support the recommendation (para 5.23) that directors state that the business is a going concern with supporting assumptions/qualifications as necessary (similar to FRCI recommendation).
- . We support the recommendation (4.32) with regard to disclosure of directors' emoluments (similar to FRCI recommendation).

Other Recommendations

Enhancing the perceived objectivity of the audit

- . We support the recommendation that fees paid to auditors for non audit work should be fully disclosed (para 5.11) (FRCI recommendation).
- . We support the Committee's decision not to recommend a required rotation of auditors (para 5.12). While supporting the principle of rotation of audit partners, we believe that the question requires further consideration before deciding whether detailed professional guidance on the matter is preferable to the current position where it is the responsibility of each auditing firm to decide on such matters to ensure that its overall audit independence/objectivity is maintained.

Interim Reporting

- . We support the recommendation (para 4.47) that interim reports be extended to include balance sheet information (FRCI recommendation).
- . We support the recommendation (para 4.47) that interim reports should be reviewed by the auditors and the Auditing Practices Board develop appropriate review guidance (FRCI recommendation).

Enhancing the effectiveness of the audit

- . We support the recommendation that auditors should report on the directors' statement in regard to the effectiveness of the system of internal financial control and that guidance for companies and auditors in this matter be developed (paras 4.26 and 5.16) (FRCI recommendation).
- . We support in principle the recommendation that auditors report on the directors' statement in relation to the going concern status of the business (para 5.23). We prefer the application of this principle on an exception basis however as proposed in the existing draft auditing standard prepared by the Auditing Practices Board (similar FRCI recommendation).
- . We support the recommendation that consideration be given to extending statutory protection to auditors to enable them to report reasonable suspicion of fraud to the appropriate investigatory authorities (para 5.28) (similar FRCI recommendation).
- . We accept the recommendation made in respect of further consideration on the question of the auditors' role in relation to illegal acts other than fraud and suspicion of such acts (para 5.30). We have some concerns at extending the auditors' responsibilities, or indeed the public's expectation of auditors in these areas without corresponding and specific legal provisions and protection.
- . We welcome the Committee's support for the accountancy profession's continuing efforts to strengthen the standing and independence of auditors.

Endorsement of work by others

- We welcome the support of the Committee for the work of the Financial Reporting Council, Accounting Standards Board, Financial Review Panel and the Auditing Practices Board.



14th August 1992

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