



Department of Trade and Industry



H.M. Treasury

## *News Release*

P/2003/31

20 January 2002

### **GOVERNMENT WELCOMES REPORTS ON THE ROLE AND EFFECTIVENESS OF NON-EXECUTIVE DIRECTORS AND ON AUDIT COMMITTEES**

Derek Higgs today published his report on the role and effectiveness of non-executive directors commissioned by Secretary of State Patricia Hewitt and Chancellor Gordon Brown in April 2002. The report of Sir Robert Smith's group on audit committees, which was carried out at the request of the Coordinating Group on Accounting and Audit (CGAA), is also published today.

The Government warmly welcomes the proposals in Derek Higgs' and Robert Smith's reports.

Derek Higgs' report recommends changes to the Combined Code to require a greater proportion of independent, better-informed individuals on the board. The new Code will require greater transparency and accountability in the boardroom, formal performance appraisal, and closer relationships between non-executive directors and shareholders. The report calls for all boards to put in place a significantly more rigorous appointments process.

The Chancellor of the Exchequer, Gordon Brown, said: "Stronger and more effective boards are essential to continue to raise standards of corporate governance in the UK. Hand in hand with the stronger role for institutional investors recommended in the Myners Review, the reforms Derek Higgs and Sir Robert Smith envisage are crucial underpinnings of our ambitions for UK corporate and economic performance and for productivity. The test for Government will be the extent to which the business and investment communities rise to the challenge that has been laid down".

Secretary of State Patricia Hewitt said:

"The job of the company board has never been more important. In an increasingly competitive world economy UK businesses need boards that can raise company performance and drive innovation. Getting the best quality people onto boards is essential in order to drive up company performance so I welcome the practical steps Derek Higgs proposes to widen the pool of people available to UK boards. Together these reports make an important contribution to boosting market and investor confidence."

Sir Robert Smith's report sets out the key elements of the audit committee's role, with the particular aims of reinforcing the auditor's independence and maintaining the integrity of the company's financial statements. Key proposals include provisions on the supply of non-audit services by the company's auditor, increased transparency and resources for the committee.

The Financial Reporting Council today announced that it will take forward the recommendations of both reports for changes to the Combined Code by 1 July 2003, as the Higgs and Smith reports recommend.

Alongside these reviews, the CGAA is reviewing the UK audit and accounting regime. This report is expected shortly.

## **NOTES TO EDITORS**

1. Derek Higgs was appointed by the Secretary of State for Trade and Industry and the Chancellor of the Exchequer to lead a short independent Review into the role and effectiveness of non-executive directors. The terms of reference required the Review to build and publish an accurate picture of the status quo, to lead a debate on the issues and to make such recommendations as thought appropriate by the Reviewer to clarify the role and increase the effectiveness of non-executive directors. The Review was launched in April 2002.
2. Derek Higgs produced a consultation paper in June last year. Over 250 responses were received, the majority of which are available publicly on the Department of Trade and Industry website (link below). Three substantial pieces of research were commissioned for the Review, which are also available on the website.
3. Copies of the Higgs Review and associated research will be available from the Review's website at [www.dti.gov.uk/cld/non\\_exec\\_review](http://www.dti.gov.uk/cld/non_exec_review) from 11am on Monday 20 January.
4. Sir Robert Smith's group on audit committees was announced in September last year (FRC PN 67). FRC PN 70 announces the conclusions of the group's work. A press notice and, from 11am, the Smith Report 'Audit committees: combined code guidance' will be available on the FRC web site [www.frc.org.uk](http://www.frc.org.uk).
5. Many of the recommendations of the Review are for the FRC, as guardians of the Code, to implement. The FRC has published a parallel press release (FRC PN 71) welcoming the recommendations of the Higgs and Smith Reviews. The FRC envisage that the revised Combined Code will take effect on 1 July 2003, as suggested in the reports of both the Higgs and Smith Reviews.
6. Derek Higgs is Chairman of Partnerships UK plc and a non-executive director of Allied Irish Banks plc, The British Land Company plc, Egg plc and Jones

Lang La Salle Inc. He is also a senior adviser in the UK to UBS Warburg and a Director of London Regional Transport and Coventry City Football Club. He is a member of the Financial Reporting Council and a qualified chartered accountant. Sir Robert Smith is Chairman of The Weir Group PLC, a Governor of the BBC, a member of the Board of Trustees of British Council and a member of the Financial Reporting Council. He is also a non-executive Director of Network Rail and of Aegon UK Ltd.

**Press Enquiries: 020-7215 5964/5969**

**(Out of Hours : 020-7215 3234/ 3505)**

**Public Enquiries: 020-7215 5000**

**Textphone (for people with hearing impairments): 020-7215 6740**

**<http://www.dti.gov.uk>**