



R.C. Grayson  
Company Secretary

CAO-02460  
The British Petroleum Company p.l.c.  
Britannic House  
1 Finsbury Circus  
London EC2M 7BA

Switchboard: 071-496 4000  
Central Fax:: 071-496-5656  
Telex: 888811

Direct Line: 071-496-4018  
Direct Fax: 071-496-4552

Reference: RCG/JG6

10th August, 1992

Mr Nigel Peace  
Secretary  
Committee on the Financial Aspects  
of Corporate Governance  
PO Box 433  
Moorgate Place  
London EC2P 2BJ

Dear Mr Peace

### Cadbury Report

With apologies for their slight lateness, I hope you will be able to accept these observations on the Cadbury Report.

While there is much that is excellent in the Report, and much that is a matter of philosophical viewpoint, there are two main areas on which BP would like to comment.

The first is in relation to the Code of Best Practice itself:

- a) There is little in it that BP would find difficult to conform to but there is a risk in trying to make one regime fit all companies. They come in very different formats and it is inappropriate to be over-prescriptive.
- b) There is a danger, we think, in trying to distinguish between the roles of executive and non-executive directors and, in particular, in appearing to give the latter some form of supervisory role over the former. This does not reflect their joint and several responsibilities at law but, if accepted, may also make it more difficult to resist the Brussels approach as set out in the draft 5th and other Directives.
- c) The need for auditors to review a company's statement as to compliance with the Code fits oddly with the non-statutory nature of the Code.

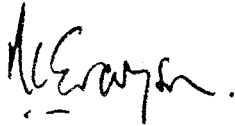
The second area concerns internal control, where we believe that there are some important practical deficiencies.

- a) The report takes for granted that readers share a common understanding of what internal control is. In reality there are widely different perceptions of what it means. A definition would help and the American Treadway Commission attempted one (attached) which might avoid the need to re-invent a wheel.

- b) The Report implies that internal control is a consideration only with regard to financial recording and reporting. These will have unreliable foundations if the physical activities and commercial operations of an enterprise are not themselves disciplined by internal controls. Internal control has wider application than the area of financial transactions.
- c) The professionals best suited to assess and oversee internal controls of an enterprise will usually be its internal auditors. A strong system of corporate governance will emphasize their role and provide a carefully structured place for it vis-à-vis the interests of shareholders, the responsibilities of non-executive directors and the duties of external auditors.

I hope that the final recommendations of the Committee can respond to some of these reservations.

Yours sincerely



**R C GRAYSON**  
Company Secretary

The Committee of Sponsoring Organisations of the Treadway Commission of the USA, definition of internal control :

“The process by which an entity’s board of directors, managements and/or other personnel obtain reasonable assurance as to the achievement of specified objectives; it consists of inter-related components with integrity, ethical values and competence, and the control environment, serving as the foundation for the other components which are: establishing objectives, risk assessment, information systems, control procedures, communication, managing change and monitoring.”