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Investors are let down by the decision to dilute boardroom rules

Many investors will be disappointed to read the article headed "Backlash spurs dilution of audit reform" (Report, November 9). The reforms are supposed to restore trust in governance and audit. Sir John Kingman's review emphasised that the best way to do this was to focus on "the interests of consumers of financial information, not producers". So why is the government being so swayed by the latter?

In submissions to the government, CFA UK, the Corporate Reporting Users' Forum and representatives of retail investors all backed a form of UK "Sarbanes-Oxley", the 2002 US federal law that established sweeping auditing and financial regulations for public companies.

This lays down requirements for an effective system of internal controls, signed off by the company's leaders whose assessment is subject to external audit. The government's impact assessment cited evidence that the US regime had resulted in more accurate financial information, more conservative accounting practices and a decrease in fraud.

The cost — £2.3bn spread over 10 years — sounds high but is less than a tenth of a per cent of the £2.6tn market value of the FTSE All-Share. The annual ongoing cost would be less than 0.004 per cent of the £5tn-plus enterprise value of the index. Debt holders also have a keen interest in accurate financial information.

The solution left to investors is to press boards to commission external audit as part of the audit and assurance policy. It is to be hoped that a directors' statement on the effectiveness of internal controls will be mandatory so as to make their responsibility for accurate financial information explicit and actionable.

We support the government's interest in fostering a healthy business environment and that is what the proposed reforms aim to do. So why water down measures that would reduce the risk of fraud and misstatements? As usual, however, the UK seems likely to fall back on the corporate governance code, which the good follow and the bad neglect.

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