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**Sent:** 28 May 2009 23:39

**To:** Chris Hodge

**Subject:** Review of the effectiveness of the Combined Code Call for evidence March 2009

Attention Chris Hodge

Dear Sirs,

I am writing in response to your request for comments in relation to the above review which the FRC is currently, and, necessarily, conducting.

By way of background I should perhaps explain that, since my retirement as a senior audit partner with PWC on 31 December 2001, I was, inter alia, a non executive director and chairman of the audit committee of John Laing plc from 2002 until its takeover in 2007. In addition from 2005 to date I have been an independent director on the Supervisory Board, and chairman of the audit committee, of Telekom Polska which is quoted on both the Warsaw and London stock exchanges.

Quite correctly your request for comments would appear to have as its main theme whether or not the "comply or explain" mechanism is operating effectively. In my opinion it is not - it puts very much in mind the French expression "Qui s'excuse s'accuse". Simply put it is a dangerous charade.

Whilst I appreciate the need for the London Stock Exchange to remain competitive it must not be at the expense of lower standards of corporate governance. In this regard much has been made of the absence of a Sarbanes Oxley regime in London thereby making a listing here that much more attractive. In my view the LSE/FSA have been particularly disingenuous in this regard. One of the main objectives of Sarbanes Oxley was to emphasise the full accountability of the CEO/CFO - inter alia, this requires a detailed understanding and recording of the systems of controls, such an understanding which I require and get as Chairman of an audit committee. The problem was that it became overengineered and too expensive because of the needless requirement for external audit reporting on it.

This so called "light touch" approach leads me on to the key point that I wish to make namely the expertise required on audit committees. Para C.3.1 of the Code refers to the need for "recent and relevant financial experience" for one member who, per the guidance, will "desirably" have a professional accounting qualification. This contrasts very weakly not only with the clear requirements set out in section 407 of the Sarbanes Oxley Act 2002 but also the EU DTR which states that "at least one member must have competence in accounting and/or auditing" - by definition "auditing" is the key requirement. This has to be logical given the clear expectations of what an audit committee should be doing as correctly set out in your guidance notes of October 2008. In particular I refer to paragraph 1.11 - it is, indeed, a time consuming task, particularly with quarterly reporting, and I have some difficulty understanding how certain CFOs with full time jobs elsewhere can find the required time to do the job effectively.

Given the above I have to say that I find it incredible that the FSA feels able to express the view that compliance with Para C.3.1 of the Code results in compliance with DTR 7.1.1R - it simply does not. Charitably put I would like to feel that the FSA view of September 2007 would be significantly different today after all that has happened in the intervening period.

To illustrate my point regarding lack of appropriate expertise on audit committees I would, anecdotally, refer to a conversation I had recently with the chairman of the audit committee of a FTSE 100 company without any obvious relevant experience - he told me that this was not a problem for him as he relied entirely on the external auditors to keep him on "the Straight and Narrow". Whilst, maybe, understandable, this is not a sustainable position. It should be clearly appreciated that what we are dealing with is an Audit Committee of the Board, not the Auditor's Committee.

I well appreciate that many Chairmen/CEOs will argue robustly that they do not wish to have a retired auditor on their boards. That may well be so and one can well imagine the "explanations" which would be given for non compliance. Boards should be at liberty to appoint as directors such "value adding" people as they consider appropriate, but they must also face up to the need for "value preservation" directors for audit/risk committees. I am uncertain as to how this can be dealt with for remuneration committees but that is another matter.

In conclusion, given that the public at large evidently no longer has confidence in the current manner in which the Combined Code is implemented in practice, I recommend that the FRC -

-Abandons the "comply or explain" mechanism.

-Conforms the current requirements of Para C.3.1 with DTR 7.1.1R.

-Going forward actively monitors and applies sanctions for non compliance with the Code.

In my view if boards of directors are allowed to continue without appropriately skilled non executive directors (audit/risk,remuneration committees) then we might just as well abandon the whole concept of Corporate Governance and revert to a system of wholly executive boards.Currently the presence of non executive directors in particular roles gives a wholly false sense of balance,knowledge,skills and security.

Yours faithfully,

T.G.Boatman

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