HOUSE OF COMMONS

# Business, Energy and Industrial Strategy Committee

## Oral evidence: Pre-appointment hearing: Chair of the Financial Reporting Council, HC 1122

Tuesday 25 January 2022

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Andy McDonald; Mark Pawsey; Alexander Stafford.

Questions 1 - 41

### Witness

I: Sir Jan du Plessis, Government's preferred candidate for the Chair of the Financial Reporting Council.

# Examination of Witness

Witness: Sir Jan du Plessis.

Q1 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee for our pre-appointment hearing with Sir Jan du Plessis, the Government's preferred candidate for the Financial Reporting Council. Good morning to you, Sir Jan, and welcome to the Committee.

***Sir Jan du Plessis:*** Good morning. Thank you very much.

**Chair:** My first question for you this morning is that we have noted that the Financial Reporting Council has had some difficulties in the past in recruiting senior leaders, including its chairman. Do you have any reflections on the issues around the stability of senior leadership at the FRC that you might need to grapple with if you become the chair?

***Sir Jan du Plessis:*** For somebody in my position, it is not wise to comment on what might have gone before, but I have to say that the governance situation at the FRC today is in a pretty poor state. It has not had a permanent chair for goodness knows how long, it has three non-executive directors and it is really not the way to run the regulator that should be setting the tone for the whole of British business.

I do not know why it has happened. I am not sure what the background is. I would prefer not to comment, but it is really not good enough. If I am given the opportunity to take on the chair of the FRC, I promise you that one of the first things I will do is to address governance at the top of the organisation.

Q2 **Chair:** What might that look like? Are you going to expand the board, add people to the board, or change the governance structure?

***Sir Jan du Plessis:*** There are currently three non-executive directors, two of whom are relatively new. I understand from BEIS that it has made great progress and is almost ready to announce the appointment of further non-executive directors. I do not think it is for me to comment, but my understanding is that it has identified a few qualified people. If I should be appointed, we will, fairly soon, have a much stronger board. As I have done before, I will then give myself some time, get to know the organisation and my colleagues, build a team, get to know the executives, and assess, over some time, whether we have the right people in the team to take the organisation forward. I would not want to rush anything, because I have a lot to learn.

Q3 **Chair:** It has been noted in the papers that there is only one female board member at the FRC. Is that a problem?

***Sir Jan du Plessis:*** It is a problem if that continues to be the case. Again, I hope and trust that it has been addressed by the people who made the appointments that they are about to announce.

Q4 **Richard Fuller:** That was quite a robust opening, Sir Jan, about your perceptions of governance at the FRC, although you did say that you did not wish to comment. What magic, skillsets or experience will you bring to your role that will help solve those problems?

***Sir Jan du Plessis:*** I do not think I can bring magic. I can bring many years of experience of leading complex organisations as a chair, which is what I have done for most of my working life over the last 17 or 18 years. That represents a combination of experience, common sense, good judgment, not rushing at decisions and giving myself the time to get to know the organisation and to be responsive to what I see and learn in the process. I do not think it is magic, but experience and a real commitment to make this a success. This is almost certainly going to be the last professional challenge I undertake before I really have to retire, and I have every intention of doing it well.

Q5 **Richard Fuller:** Have you received any encouragement from Ministers about what your governance priorities should be?

***Sir Jan du Plessis:*** Not specifically. To me, the initial challenges are obvious. I have not specifically discussed it with them.

Q6 **Richard Fuller:** Let us just talk about some of the objectives. Can you outline what the objectives are and how you anticipate being held to account?

***Sir Jan du Plessis:*** The FRC is ultimately there to act in the public interest, as we know, and to set standards in governance or in accounting and reporting, and to hold to account people who are expected to deliver on those standards. Precisely what the shape will be over the next few years will, critically, depend on the mandate that we receive from Government. In particular, it depends on the Government's response to the White Paper and whether we will have legislation in the course of the year to help us establish ARGA.

Q7 **Richard Fuller:** What is your understanding of that at the moment? Maybe you can come back to it later. On the objectives, how does that lack of certainty have an effect on some of the key performance indicators that the FRC will be setting?

***Sir Jan du Plessis:*** That is a good question. One needs to approach a role like this with a degree of pragmatism. In the meantime, some of the objectives are clear and some have evolved quite successfully over the last year or two since the work done by John Kingman, Donald Brydon and the CMA. While I am critical of the FRC in terms of senior-level governance, to give credit to Jon Thompson and his team, they seem to have made real progress in a number of critical areas. I do not think that is always the perception but, to be fair to them, they have made real progress and have progressed the agenda in a number of areas, notwithstanding the fact that the uncertainty around whether ARGA will come about in the next year continues to be an issue for them.

Q8 **Richard Fuller:** Just looking at the KPIs, a lot of them focus on quantity of investigations completed. They are quantitative targets, not necessarily with the same focus on quality of outcomes and learnings. Are there some lessons there for future KPIs?

***Sir Jan du Plessis:*** I should say yes, although I am not sure, in practice, what that means. You are correct in saying that counting numbers or data, or coming up with purely quantitative numbers, is easy, whereas what is important is the quality of the output or of the audit reviews. To be frank, how one measures that is not always easy, because one will probably only know whether that is the case in two or three years' time.

Q9 **Paul Howell:** Sir Jan, you mentioned a couple of times that you would take time, reflect and not rush into things. Can you give any timescale for when you would feel that you were in a position to start making changes to the organisation or where you would know what changes, if any, were appropriate? Are you talking about three months or three years?

***Sir Jan du Plessis:*** That is a very fair question. The point I was trying to make is simply one of appropriate humility. There is a lot to learn. I do feel that I understand the subject matter well. I have been in business and worked with investors, auditors, accountants, boards of directors and audit committees my whole life. A lot of work has been done in terms of communicating with multiple stakeholders about the way forward and how the various issues should be addressed. I am simply expressing appropriate humility that it will take me a while to get to know them.

In terms of the organisation, I do not think it is complicated. In fact, if you are looking for a sense of urgency, subject to the Committee's decision today and the processes thereafter, I am ready to start this afternoon or tomorrow morning. I want to start the job immediately, because it is sad for me to see an organisation like this so obviously needing a chair and other directors to take it forward. Within two or three months, we will have an organisation that is much better equipped to make decisions and to present itself to its external stakeholders as being in a good shape.

Q10 **Alan Brown:** As you have already said, Sir Jan, you have worked in the private sector for years. You have been chair of many big companies. You have led numerous FTSE companies through large mergers and acquisitions worth billions of pounds. To what extent do you intend to challenge auditors in the audit industry who are involved in such mergers and acquisitions as chair of the FRC?

***Sir Jan du Plessis:*** I do apologise, but could you repeat the very end question?

**Alan Brown:** You have already taken companies through large mergers and acquisitions worth billions of pounds. Do you intend to challenge the auditors in the audit industry who tend to be involved in these mergers and acquisitions once you are chair of the FRC? Are reforms or challenges needed to the audit industry in terms of these processes?

***Sir Jan du Plessis:*** These are very difficult issues. I am not entirely sure what is behind your question, but let us take, for example, the problem we had at Thomas Cook a few years ago. It was a classic case of an acquisition. Without being too technical, in accounting terms one then has to determine the value of the goodwill, which is the intangible assets you have acquired. Those are very difficult judgments.

In the first instance, pressure should be put on boards of directors and management in terms of how they make their judgment, before one looks at the audit profession to provide an answer. It is clearly an area that has been abused by companies on many occasions over the years and, from an auditing perspective, should be an important point of focus of any audit of a company involved in an M&A-type situation. Does that answer your question?

Q11 **Alan Brown:** Kind of, but you said it is a process that has been abused by different companies over the years, so how do you, in your role as chair of the regulator, make sure the right governance is in place in these companies and that there is not an abuse of process?

***Sir Jan du Plessis:*** I cannot say much more than to follow general principles. With any aspect of an audit, there are two parties involved in securing the quality of the output—the board of directors with its management team, and the audit firm that is supposed to be doing the audit. Both have an important role to play.

In both cases, in particular with regard to the board of directors and its management team, what is relevant is a combination of the competence to make difficult judgments and of the values. Values in companies are, in my experience, such a critical component. They are hard to quantify but really important. Even if people are competent, if their values are not right and they mean to misuse them in a situation, it is quite hard to know how one stops that.

Q12 **Alan Brown:** Going back to your own experience, when you were involved in companies doing mergers and acquisitions, how important were the auditors in that process?

***Sir Jan du Plessis:*** In the situations I have been involved in, not particularly important. They come, after the fact and after a transaction has been done, to verify and confirm the way in which companies want to account for the particular asset that has been acquired. In my experience, they are not as important as one might think, but I am the first to say to you that some of the high-profile cases, such as Thomas Cook, I am afraid to say, reflect badly on boards, management and the audit profession. I can only agree with you.

Q13 **Mark Pawsey:** Sir Jan, you mentioned in your correspondence with us and have just repeated the importance of getting ARGA established—the new body for audit and corporate governance. Why is that so important?

***Sir Jan du Plessis:*** It is important because it is time for a new beginning. As John Kingman said in his report, the FRC has evolved over many years in a very British manner, if I can say that as an immigrant. It has evolved and it serves its purpose, but it is time that we demolish it and start afresh. For example, so much of what the FRC does today is based on informal understandings and arrangements that do not have a basis in legislation.

If, as a society, we are serious about really doing the best we can to try to avoid some of the corporate scandals and collapses that we have seen in recent years, it is time to make a new beginning, to pass legislation and to create a new organisation and give it the statutory powers it needs to get certainty.

Q14 **Mark Pawsey:** If ARGA is established, how will you prevent it being just a rebranding exercise? How will we make certain that we do not carry on doing the same old things under a different name?

***Sir Jan du Plessis:*** That is a good challenge. It really should not be about rebranding. It is there, subject to the Government's response to the White Paper, to impose real legislative obligations on the organisation to achieve certain things. It does not have those obligations or responsibilities today, because that is not where we are today.

Q15 **Mark Pawsey:** When this Committee looked at audit and the roles of the big audit companies, we spoke about the need to split the audit and non-audit functions. Often, companies were using audit as a low-cost loss leader, almost, in order to get the more lucrative non-audit business. How important is that, in your view, and how would you make that happen?

***Sir Jan du Plessis:*** It is a very important issue. I have to say that, based on what I have read and learned, having spoken with Jon Thompson and others, my impression is that the FRC has made real progress in recent times in creating an organisational or operational separation within the big four audit firms between audit and non-audit work. That is really important. I cannot, as I sit here today, say to you how well it has been done or how effectively that has been governed. I do not know today what processes the FRC has in place to check the effectiveness of what it has been told by the big four in terms of operational separation, but it is the right way forward.

Q16 **Mark Pawsey:** Is there a possibility that the big four might have persuaded the FRC that they are doing the right things when they are perhaps not doing as much as we would like them to do?

***Sir Jan du Plessis:*** I hope not because we have some smart people at the top of the organisations. I hope they realise that, unless they play their part in creating a different regime, the outcome could be much worse for them.

Q17 **Ms Ghani:** Good morning, Sir Jan. The *Financial Times* reported back in

2021 that the FRC faces a "deepening governance crisis", which you reflected in your opening statement. You said it was in a poor state and "not a way to run a regulator", but you also said that you do not know why. Surely you must know why, if you will eventually be chairing it.

***Sir Jan du Plessis:*** I just do not know that this morning is right for me to speculate on why, six or 12 months ago, things might or might not have happened. I am just delighted to be in a position this morning where, if this Committee agrees, I have every chance of being the chair of the FRC quite soon and of getting on with the job. I really do not want to live in the past. I commit to you that I will deliver a much stronger and better governed FRC pretty quickly.

Q18 **Ms Ghani:** There was an earlier discussion about having a gender balance, and I want to get confirmation from you that that is not just about gender and having more women on the board, but about having people with diverse thought and the confidence to call out when things are not quite right. How would you do that?

***Sir Jan du Plessis:*** I agree with you. Unfortunately, at the moment, when we talk about diversity, we talk too often just about gender. Gender is important, but it is not the only thing that is important. In terms of the new directors that BEIS apparently stands ready to announce very shortly, my impression is that it has really borne in mind that it is not just gender diversity, but diversity of thought, with different backgrounds reflected in the people it wants to appoint.

I can only agree with you. As a regulator, you really are there to act in the public interest and to protect the public. Therefore, unless you have a diverse range of input in terms of what the public expects from you and how you should think about problem-solving, you are not going to come up with the right answer.

Q19 **Ms Ghani:** Can you clear something up for me? I am reading something and it does not quite make sense. It says here that Ms Watson and Dame Julia Unwin left, and there was concern that the board would then become underweight and be short on institutional memory. It then says that Ruwan Weerasekera and Hannah Nixon came on board, but there seems to be some confusion because the FRC says it has only one female board member. What is in place at the moment?

***Sir Jan du Plessis:*** I believe that, at the moment, the FRC has only three directors—one woman, Hannah Nixon, and two men.

Q20 **Ms Ghani:** What about Ruwan?

***Sir Jan du Plessis:*** He is a gentleman of Sri Lankan origin.

Q21 **Ms Ghani:** Forgive me. That was my mistake. So there is only one female, who is Hannah Nixon.

***Sir Jan du Plessis:*** Let me clarify that I have not met any of them, but I have done my homework. Ruwan Weerasekera is a gentleman who I think was born in Sri Lanka. Then you have the longest-serving director, who has been on the board for about four or five years.

Q22 **Ms Ghani:** If there are issues about institutional memory, how are you going to shake up the board?

***Sir Jan du Plessis:*** Institutional memory is a problem. I am a firm believer that, in any organisation, board or committee, you need people who have seen problems in the past, so that the bunch of newcomers do not just make the same mistakes. It is a problem, but we are where we are. We will have a board where only one director will have been on it for a few years, other than the chief executive.

The two new people were appointed in August and, hopefully, a few more will join very shortly, if I become the chair. A bunch of new people is a problem, and it will require extra effort and hard work. All I can do as chair is to ensure that I invest the time quickly to get to know the organisation and the people, and to build the team.

Q23 **Ms Ghani:** I am now going to reflect on your candidate questionnaire, so you will have to remember what you said. You noted that the reputation of the FRC has suffered considerably in recent years, which is exactly the presentation you are giving to us this morning, referencing the well-publicised corporate collapses and the perception that limited progress has been made since the Kingman and Brydon reviews. How do you intend to improve the reputation and public perception of the FRC going forward?

***Sir Jan du Plessis:*** Simply and at a very basic level, in another month or two, we can have perhaps not a complete but a much stronger board than the one we have today. It really is not a good state of affairs. There are key board committees today that are chaired by the chief executive. Jon Thompson is the first to agree that is really not appropriate, but they have no choice because they have too few board members.

These are really basic things that one has to address very quickly, so that you run the board and those committees on a professional basis. These are not difficult things to achieve quite quickly.

Q24 **Ms Ghani:** I am now going to reflect on an interview you gave to *Board Intelligence*, where you said that leaders need to come to terms with the growing attention organisations may face as public expectations are increasing. How are you going to deal with the growing scrutiny and criticisms of the FRC as it transforms into ARGA, knowing that neither people nor the press are very patient?

***Sir Jan du Plessis:*** In the interview you referred to, I was alluding to the fact that there is no doubt that, over the last five, 10 or 15 years, societal expectations of business have grown dramatically. The days are gone where the idea was that the board of directors runs the company in the interests of shareholders, in that they are profitable, the shareholders are happy and that is good enough. It does not work like that.

Any successful organisation today—and I was referring there to businesses—needs to be acutely aware of the fact that it can be successful only if it understands that it has a group of other stakeholders that are really interested in how they do things, and expect things from them. That is what I was referring to there.

In terms of the FRC, I am just confident that, if I am given the opportunity to lead the board, we can make a difference quite quickly. Hopefully, over time, we will have a reduction in the level of complaints about the FRC. I am really confident that we can do it.

Q25 **Chair:** It is interesting that the FRC has struggled so much to get people to join its board, with people leaving pretty quickly after they were appointed. You are going to have to deal with that if you are going to try to attract senior, talented and experienced people. Do you have any reflections on the root of these problems that you are going to have to grapple with?

***Sir Jan du Plessis:*** I do not know, but I learned one thing many years ago, in 2009, when I joined Rio Tinto, which is one of the biggest mining groups in the world, at a time when the company was in existential crisis and when I knew absolutely nothing about the mining industry. I agreed to take it on and proved to myself that, in that context, all business is ultimately about people. I honestly feel I can take credit for the fact that, over the first 12 months of my chairmanship, we resuscitated the company and saved it from demise, because I was able to work with people.

I do not think the FRC is that different. Most organisations are about people, people management, building teams and making the time to get to know people. One of the things I will do is personally find time to get to know, on an individual basis, the various members of the board and senior management. I will spend quite a bit of time in the organisation, to get to know not just the challenges they deal with but the people. While I know a lot more about the subject matter of the FRC than I ever knew about mining in 2009—so I do not think that analogy quite stands up—it is ultimately about people.

Q26 **Andy McDonald:** Good morning, Sir Jan. Clearly, the incoming chair has a big job to do, given what we have heard this morning. You say that you do not want to dwell on the past, but it was, of course, only in May 2021 that Sir Jon Thompson said that the FRC was not up to the job when dealing with high-profile collapses and scandals such as Patisserie Valerie and Carillion, where the industry knew from outer space that there was trouble. That due diligence and audit did not feed through into the Government's decisions on things like HS2 when those contracts were awarded. He also noted that the FRC may not have been strong enough, big enough or transparent enough. Do you agree with that overall assessment?

***Sir Jan du Plessis:*** I do. If one looks back at what Jon has achieved over the last year or two, he has significantly beefed up his team. If you just look at the numbers—and this goes back to a quantitative number—there are going to be just over 400 people working for the organisation at around the end of March, whereas there were about 330 a year ago. It has made a real effort to recruit good-quality people into the organisation, in anticipation of morphing from FRC to becoming ARGA. The process has a way to go, but the impression I have is that it has much better people and resources, and is much better equipped to do the job, but it is not good enough yet. This is work in progress.

Q27 **Andy McDonald:** What about ensuring that the transparency issue is addressed? The strength and size of the organisation is one thing. As you morph into ARGA, how are you going to make sure that the transparency issue is addressed?

***Sir Jan du Plessis:*** The honest answer is that I do not know for the moment. I do not think I understand that part of my challenge well enough, so I would rather not give you an answer, because I do not think I can give you an honest one.

Q28 **Paul Howell:** There have been a number of criticisms about restoring trust in audit and corporate governance, and the BEIS White Paper is fundamental to that. One of the criticisms raised is all about whether the stricter auditing systems being proposed are going to have too much regulatory effect on SMEs and add too much red tape and additional cost. As chair of the organisation that regulates auditors, how would you manage the concerns of these businesses?

***Sir Jan du Plessis:*** I have no doubt that, ultimately, businesses create wealth and organisations like the FRC spend money, so we need to look after the wealth creators, not just as wealth creators but as people who create jobs and employment and take society forward. The last thing the FRC should be doing is imposing red tape, costs and complication on organisations, and particularly on small organisations. I have no doubt about that.

To the extent I am able to influence that decision, which is, of course, not just mine but that of the board of the directors, the Government and BEIS, the last thing I want to do is to create avoidable costs for business.

If, as society, we all agree that some of the higher-profile scandals that we have seen really cannot be repeated, we have to ask ourselves what the problem is. If we are just going to accuse the bad guys in the auditing profession, it is not correct, because as much as we do not like acknowledging it, when things go wrong, in the first instance, it is the board and management that were wrong or that had bad values or controls. Yes, the auditor should have picked it up, but we cannot look just at the audit profession and expect it to provide the answers, if we are collectively going to try to avoid these scandals in the future. That is why there is a balance here. One has to look at the role of business and boards of directors as well.

Q29 **Paul Howell:** Following on from that, one of the things Sir Jon Thompson raised previously was that we will not see much dilution of the big four's power in terms of where it is, even though there is an intent to try to get more players into that market. One of the things we saw in our recent steel inquiry is the concern about an auditor being questioned as to whether it has the capacity and capability to do things.

In the role that you play, how would you be able to ensure that the quantum of the auditor is in proportion to the quantum of the business that it is trying to deal with and that it has the capacity to give true and fair audit, in an equal partnership? As you were saying, it is a partnership between the business and the auditor. One is trying to find out and one is doing what it is supposed to do, but you need somebody who can cope with an audit.

***Sir Jan du Plessis:*** It is really hard. I wish I had kept two letters I wrote way back, probably about 20 years ago. I can say on the record that I wrote personally to the chair of Price Waterhouse and to the chair of Coopers & Lybrand at the time of the merger, saying to both of them, "I am completely against the idea of you merging this organisation. This is long-term trouble. You are going to reduce businesses' choice of audit firms."

I remember making a silly remark: "I am not interested in the fact that, as a combined organisation, you will have enhanced audit services," and I probably picked something stupid like Belarus or something like that. I said, "I am not interested in that. Do not use that to justify you people coming together." I wish I had kept those letters, because I was concerned at the time and, frankly, I was proven to be correct.

The problem we have today in the audit profession is a huge one. It is really big. The one thing one has to keep in mind is that it is a global problem. In this country, we can do what we can to protect the audit profession as best we can, and we are doing some good things, but the long-term problem, I am afraid, is a global one. As much as I am supportive of our pursuing some of the initiatives that have been discussed, such as shared audits and things like that, my opinion is that it is a global problem and I do not see how we will solve the problem on our own in this country.

I am also very supportive, by the way, of the step-up in audit quality reviews by the FRC. Why do I say that? The ultimate nightmare will be another disaster like we had after Enron, so five became four, and four becomes three. We would have a real problem. The single most important guarantee we can provide is audit quality because, after all, it is because of the failure of an audit firm that five became four.

If, through the FRC or ARGA, we can really jack up the game of the big four, we will reduce the chance of four becoming three. There are things we can do but we should be collectively realistic about the fact that you need the Americans, the European Union and others to come along and do similar things.

I am sorry if I am overstaying in my answer, but I just want to make this point. I well recall, as a young CFO in 1992, when the Cadbury code first came out. The business community moaned, groaned and complained. It very quickly got used to it and, very quickly, the Cadbury code and all of its subsequent iterations were followed in the rest of the world. If you get this right, there is a chance that, in a few years' time, people will look back and say that this country led the way again in this massive improvement and step-up in the quality of governance and the approach to regulation of the audit profession. There is a real opportunity for us here.

Q30 **Paul Howell:** I agree that quality of governance is critical for inward investment. It is a key platform. I want to come back to one point. Quality of audit, and getting the audit teams and audit companies to a standard, is great but, if the quality of the business does not have the quantum for the business it is auditing, how do we ensure there is oversight?

You are looking at only a certain quantum of company—the big companies that need to have an appropriate auditor in there, whether that is a pair of auditors or something—but how do you get oversight of that in order to prevent the sort of concerns we were seeing in the steel inquiry with King & King? Certainly from our perception, it seemed to be out of its depth in terms of being required to audit a company of that size. It felt like somebody should be keeping an eye on that part of the process.

***Sir Jan du Plessis:*** Just to be clear, you are referring to the audit firms rather than the management.

**Paul Howell:** What I am saying is that the audit firm seemed too small for the organisation it was trying to audit. It was a company with two chartered accountants who, essentially, were trying to audit a £2.5 billion organisation.

***Sir Jan du Plessis:*** I should not talk about something that I do not have detailed insight into, but that does not pass the smell test at all, if I am allowed to say so.

Q31 **Paul Howell:** Who should be doing the smelling?

***Sir Jan du Plessis:*** That particular case takes us into the question of expanding the definition of public interest entities. I do not know where the Government are going to land on this, and it is not for me to speak, but some of the biggest problems we had in recent years were within the steel industry and, separately, the high-profile collapse of BHS. These were privately owned companies.

I would not want to lead an organisation that is seen to be creating oppressive obligations on businesses, but if, as a society, we are serious, it does not make sense not to authorise the FRC, through ARGA and through legislation, to give them the right and the obligation to look at situations like the one you referred to.

Q32 **Richard Fuller:** It is probably worth putting on the record that you potentially come to this position with some of the most desirable characteristics. You are a chartered accountant, you had a career in finance as group finance director, and you have been an active director or non-executive director of many major companies, including BT, Rio Tinto and Lloyds TSB.

One of the issues when people with extensive and successful business backgrounds get involved in public bodies is that they find a dilemma between the desire for executive action and the reluctance of public officials and politicians to be, in Sir Humphrey's terms, "courageous." You mentioned the Cadbury review, which is an example of the UK being courageous. Do you have any indication in your new responsibilities that part of achieving global Britain, making those connections in audit that you mentioned, is on the agenda to try to strengthen the situation of the UK's financial, auditing and accounting services?

***Sir Jan du Plessis:*** I hope it is. If I have any role to play and am given the opportunity, I would press that agenda point quite strongly, because I really do think that there is an opportunity not just to fix some of the problems that we have but for Britain to lead the way. I often say that, as Brits, we often tend to underestimate what we mean in the world today. In terms of corporate governance, our influence worldwide has been enormous, from Australia to Canada and wherever you go. There is an opportunity to build a new house, to set a new template and to do things differently. One day, people might look back and say, "We started it in Britain, by saying that this cannot continue and we can do it differently."

Q33 **Richard Fuller:** I listened to your earlier response to a colleague about how it is not all about returns to shareholders but about other stakeholders. We might agree to differ on that, but there clearly is a move by the Chancellor and others to promote a London with environmental reporting and ESG goals. We now have, potentially, extended producer responsibilities that will then talk about the waste that companies produce. Do you see, in these broader stakeholder goals, whether we like it or not, that that is an area for differentiation in your role, in trying to move reporting and audit standards to cover some of those other areas?

***Sir Jan du Plessis:*** Definitely. It is a new area, so there will be a lot of mistakes made and a learning curve to go through. The ESG field has become very important not only for society but for investors. When I first started travelling the City years and years ago, as a CFO and then as a chairman, there was a time when, if you met one of the big institutions, it was not interested in anything you had to say about ESG.

At the end of a one-hour meeting, there would be a young 22-year-old graduate, and the chief in charge would say to the youngster at the end of the table, "Do you have a question?" Then they would ask something about the environment or some such soft question. It was an afterthought, and they would hardly pay lip service to it. That has changed substantially, even in the last two or three years.

This is relevant to shareholders because, if you go to a City meeting today, the questions that you get about ESG, environmental matters and global warming are real. They are serious and people want answers. Quite legitimately, the FRC should play a leading role in developing standards and encouraging companies to talk openly about their agenda—not to determine for the company what it should be doing but to set out the standards that should be followed and, in due course, get the audit profession more involved.

Q34 **Richard Fuller:** Going back to effective executives and dithering politicians, we have had the FRC review, the Brydon review, the CMA inquiry and the subsequent CMA inquiry, the Kingman review and the *Restoring Trust* White Paper. We have not had any legislation. What is going to happen?

***Sir Jan du Plessis:*** It is not for me to say. That really is for Government to say.

Q35 **Chair:** Sir Jan, there have been some reported concerns that your corporate experience might lead to the FRC not being as tough as it maybe needs to be with some corporate behaviour or decisions. I just want to touch on some of those and let you answer.

You were a non-executive director, I believe, at Lloyds TSB from 2005 to 2009, so in the run-up to and just over the financial crisis—clearly, a fundamental problem around audit and corporate governance in that context. What lessons did you learn by being involved in a big bank in the run-up to the financial crisis that you will take forward into the FRC?

***Sir Jan du Plessis:*** That is a very good and appropriate challenge. First, if I think back to those days and my personal involvement, I have mixed feelings. On the one hand, I genuinely felt at the time that banking is probably the one industry where you need more bankers than non-bankers involved in the business. That is my honest view. I was a non-banker and I do not mind saying to you, with appropriate humility, that at times I felt, "Gosh, I wish I knew more about banking." That is one recollection.

Secondly, it was a frightening time to be in the industry. The world was so unstable. We tend to forget today what it felt like at the time. I was on the board of Lloyds when it acquired HBOS, which was clearly a big mistake—no doubt about it. I can only say that many others involved in the industry at that time were appropriately humbled afterwards by incredibly bad judgments made during that time. I can be no more honest than to say that I was on the board at the time. If you have been a warrior for a long time, at times you get involved in situations when you should not.

What I would like to say is that you learn from things. I have done some good things but I have made lots of mistakes. I have made enough mistakes in my life to know that I will probably make them again, so there is a touch of humility in the way I do business.

Q36 **Chair:** Has auditing in the financial sector changed and improved since the financial crisis to a level with which you would be comfortable as chair of the FRC, or is that something that still needs further work?

***Sir Jan du Plessis:*** I cannot comment on that. Generically, the quality of audit is being improved as we speak, but I cannot specifically answer your question.

Q37 **Chair:** Another issue that was raised was your time as chair of BT. I should declare that I also worked for BT, but I was elected just before you came in as chairman, so our time did not overlap. There was a particular issue where there was a £2 billion contribution to the pension fund by BT plc, which was then borrowed back. I understand that created a tax benefit of around £300 million for the business. Some commentators in the pension industry thought that was abusing a loophole in pension law. Was this an issue that came before you as chairman of the board at the time?

***Sir Jan du Plessis:*** It very much came to the board. I was closely involved and I knew what the executives were doing. The board discussed it more than once. I do not think BT was exploiting some loophole at all. The tool it used has been used many times by similar organisations with a large pension shortfall. The technique is quite complicated but is accepted and has been around for many years. Marks & Spencer, when I was on its board about a decade ago, did something very similar. With all due respect, the suggestion that this was some inappropriate loophole being used by BT is not correct.

Q38 **Chair:** In the context of the debate around ESG or broader reporting requirements, it has been reported that, during your time at Rothmans, Benson & Hedges and British American Tobacco, there were some corporate behaviours that would be deemed to be undesirable and that led to some sanctioning—for example, what is referred to as the smuggling of cigarettes and the fine in Canada at Rothmans, and the joint venture partnership with the military dictatorship in Myanmar at British American Tobacco. Are these types of issues increasingly going to be ones that boards need to understand and take different decisions on from a reporting perspective, now that times have changed, as you alluded to earlier?

***Sir Jan du Plessis:*** Correct. You are referring to events in Canada in the early 1990s, if I recall, or something like that. That would make sense. I can only say that the expectations of boards of directors have, quite rightly, grown over time. Any good board of directors today will be on top of the sorts of things you are referring to. I am not entirely sure where Burma comes in, but I get your message and understand what you are saying. Good boards should be on top of those issues today.

Q39 **Chair:** The question is about what type of information gets to board level, and then how you make decisions around that and how it might be reported on. You were CFO at Rothmans from the late 1980s to the early 2000s, and the fine came after you left, in 2008.

***Sir Jan du Plessis:*** I was CFO of Rothmans for about five years, from 1990 to about 1995.

Q40 **Chair:** The information we have is probably a bit inaccurate, in that case. They are not allegations, because they are not that tough, but the suggestion in some reporting was that you have been involved with companies where things have happened that should not have happened, and Committees like this would probably be quite dissatisfied with what happened. I am putting the question to you to give you the opportunity to say that you agree that those things should not have happened, and that it is not going to lead to your being a chair of the FRC who is maybe willing to turn a blind eye to some of these decisions.

***Sir Jan du Plessis:*** I can only say it is clear that, within organisations and large businesses, it is the job of the chairman, the board and the top management to create a culture of appropriate transparency, so that information comes to the top of the organisation all the time and that the board, in particular, is aware of what is going on in the business and is able to manage risks, understand the issues and sanction particular behaviour, or not, at a point in time.

I can only say yes, but I can also only say to you that standards and expectations have, thankfully, been stepped up over the years, which is right. By the way, I do not think it is going to change either. I bet that, in five or 10 years' time, we can have the same conversation, and more and more will be expected from the boards of directors of large public entities.

Q41 **Chair:** When our predecessor Committee worked on a lot of these corporate failures, it had to do quite a lot of work and was very critical of that reporting at board level and of the auditing and oversight of companies' corporate governance. We share your ambition that we would rather not have to do that again in the future. Thank you for answering those questions.

Lastly, are there any other issues or interests that you want to share with us or declare before we bring the session to an end?

***Sir Jan du Plessis:*** No, except to say that I really hope you give me the opportunity to take on this challenge. I am really enthusiastic. It is the last professional job I will do before somebody decides I need to go and do other things with my time. I would love to do it well, I am keen to start as soon as I can, and I have every intention of making a real difference.

**Chair:** Thank you for answering our questions today. We will now bring this public session to an end.