

Scott Henderson, First
Financial Times Limited
September 2011
Exhibits: SH1 – SH13

IN THE MATTER OF AN INQUIRY UNDER THE INQUIRIES ACT 2005
INTO THE CULTURE, PRACTICES AND ETHICS OF THE PRESS

**WITNESS STATEMENT OF
SCOTT HENDERSON**

I, **SCOTT HENDERSON**, newspaper executive, of 1 Southwark Bridge, London SE1 9HL **WILL SAY AS FOLLOWS:**

1. I am employed by The Financial Times Limited ("FTL") as its Chief Financial Officer and Chief Operating Officer.
2. I make this statement in compliance with a Notice sent to me on 8 August 2011 pursuant to section 21(2) of the Inquiries Act 2005.
3. I have answered the questions raised in the Notice in good faith and to the best of my recollection. My answers are confined to FTL's UK operations unless otherwise stated. I believe my answers to be true. I am happy to expand on any answer if required to do so.

Question 1: Who you are and a brief summary of your career history in finance and in the media.

4. I am the Chief Financial Officer and Chief Operating Officer of the Financial Times. I report to John Ridding, the Chief Executive Officer of the FT. Before assuming my role at

the FT in January 2007, I was the Deputy Director of Corporate Finance & Strategy at Pearson plc, the FT's ultimate parent company, where I was responsible for overseeing Pearson's merger and acquisition activity in Europe. Prior to that I was the Director of Strategy at the FT Group. Prior to joining the FT/Pearson, I worked in Business Development at GE Capital, the financial services business of General Electric. I graduated with an MBA from INSEAD (France) in 1996 and prior to that obtained a B.C.L and an LL.B from the Faculty of Law at McGill University (Canada) in 1991. I practised corporate law at Davies Ward and Beck in Toronto from 1992-95 and remain a member of the Law Society of Upper Canada.

Question 2: How you understand the system of financial governance to work in principle and in practice at the newspaper owned by your company with particular emphasis on systems to ensure that the newspaper's funds are not used to pay bribes or to fund the gathering of information by illegal methods.

Question 3: What your role is in ensuring that financial governance and all relevant policies are adhered to in practice. If you do not consider yourself to have been/be responsible for this, please tell us who you consider to hold that responsibility and why;

5. Any system of financial governance should be based on a combination of compliance with applicable laws, accounting standards, best practice and checks and balances. These principles underpin the system of financial governance established at the Financial Times.
6. By way of background, FTL is owned by Financial Times Group Limited which in turn is owned by Pearson plc. Pearson is dual listed on the London and New York Stock exchanges and is therefore subject to the requirements of the Sarbanes-Oxley Act 2002 (SOX). SOX is a US federal statute which implemented a number of reforms to US law to enhance corporate responsibility, enhance financial disclosure and combat corporate and accounting fraud. Pearson has established a framework of compliance procedures designed to achieve compliance with SOX which also apply to Pearson's operating companies, including FTL. FTL's system of financial governance is therefore arguably more stringent than would necessarily be required by a UK entity due to the applicability of SOX to Pearson as a result of its US listing.
7. The FT has designed and implemented a range of financial policies which are reviewed periodically and approved by me (the "FT Policies"). The FT Policies are published and made available to all FT employees on the company's Intranet.
8. The starting point for the FT Policies is an Accounting and Finance Conceptual Framework (attached as Exhibit SH1) which designates responsibility for compliance with the policies

to me as the CFO, and also to the Financial Controller and business analysts. The framework sets out a process for the variation of policies and provides a summary of the individual finance policies which fall within the framework. These include policies on accounting provisions and adjustments, inter-company accounting, transfer pricing, revenue recognition and contract approvals. As part of compliance with SOX, we test a number of these control processes on a regular basis.

9. Probably of more relevance to the Inquiry is the FT's Purchase to Pay Policy (the "PTP Policy") which I attach as Exhibit SH2 and its Global Travel and Expenses Policy (the "Expenses Policy") which form part of the FT Policies and which is attached as Exhibit SH3.
10. The purpose of the PTP Policy is to establish control and provide guidance over: (a) engaging third parties and committing the FT to expenditure; (b) invoice approval; (c) authorisation of payments; and (d) supplier settlement policies. In summary, the PTP Policy sets out a range of authorisation policies and procedures that must be followed when engaging/paying third parties for services provided to the company. The PTP policy is designed, amongst other things, to ensure that an appropriate system of checks and balances exists within the FT to ensure that third parties are engaged on arms-length terms and subjected to appropriate due diligence prior to their engagement.
11. The purpose of the Expenses Policy is to establish control and provide guidance regarding the incurrence and reimbursement of expenses incurred in the course of professional duties. The Expenses Policy contains guidelines for making travel requests, the class of travel permitted, the use of taxis for out-of-hours working, and the process for claiming out-of-pocket expenses.
12. The Inquiry has specifically asked about policies in place which relate to anti-bribery measures. In order to ensure compliance with the UK Bribery Act, Pearson has designed, with input from its operating companies including the Legal and Company Secretariat teams at the FT, an Anti-Bribery and Corruption Policy (the "ABC Policy") which has been rolled-out and implemented across the FT. I attach a copy of the ABC Policy at Exhibit SH4. The launch of the policy was announced by the FT's CEO in an email to all staff on 1 July 2011 (Exhibit SH5) and the ABC Policy is published on the company's Intranet. Training to staff is being rolled out on a phased basis. Prior to the implementation of the ABC Policy, the FT in any event already operated its own "FT Gifts, Corporate Hospitality, Freelancing and Anti-Bribery Policy" which is attached at Exhibit SH6. That policy

contained specific provisions applicable to the Editorial department and which supplemented the requirements of the FT's Editorial Code of Practice (the "FT Code") (Exhibit SH7).

13. The two anti-bribery policies referred to at paragraph 12 above in turn referenced the Pearson Code of Business Conduct (Exhibit SH8) which is a set of high-level principles setting out the standards Pearson expects of its employees and third parties it works with. Staff are requested to confirm their compliance, using an online portal designed for this purpose, with the Pearson Code of Business Conduct on an annual basis or to report any instances of non-compliance they are aware of. This process is supplemented by a whistleblowing hotline operated by Pearson which employees are free to use (electronically or by telephone), on an anonymous basis if they wish, to report issues of corporate non-compliance that they prefer to report centrally rather than to their line manager. Pearson's internal audit team monitor the response to the annual compliance exercise and also monitor the hotline. In each case the Pearson internal audit team will investigate complaints where they feel it appropriate to do so.
14. I thought it would be useful to briefly explain the day-to-day manner in which invoices and expenses are approved at the Financial Times since these issues seem pertinent to the Inquiry's requests (at point (4) in the section 21 notice addressed to me).
15. I will deal with invoices first. If a particular business unit within the FT engages a third party to provide services, it will agree a payment structure with that third party which will usually invoice the FT either on an agreed frequency (for example, monthly) or as and when services are provided. An FT employee, usually who works within the business unit that has engaged the third party, will be responsible for reviewing the invoice upon receipt and arranging payment, which usually occurs by electronic approval on the FT's invoice approval system. Only certain employees within the FT are authorised to approve invoices, and different employees are subject to different approval limits such that a more junior employee will have a lower sign-off limit than a more senior employee. The electronic approval systems are designed to comply with the FT Policies which I have referred to above. Each business unit has an agreed budget (by month) and performance against budget is reviewed monthly to understand any significant variation to agreed spending plans.
16. The approval of employee expenses operates in a similar manner. An employee who wishes to claim expenses must provide documentary evidence of expenses claimed (or

specify that there is no such evidence, in which case a manager ought to ascertain why, if the relevant expense is material) and submit an expense approval via the FT's electronic expense approval system. Usually, that employee's line manager will be authorised to approve the expenses claimed and is required to validate the expenses incurred prior to approving them. Again, approval limits are dependant on staff seniority and the systems are designed to ensure compliance with the FT Policies.

17. Ultimately responsibility for ensuring that only legitimate supplier invoices or employee expenses are approved will rest with the manager responsible for providing the relevant approval. There is therefore inevitably an element of subjective judgment in deciding which employees should be authorised to have approvals authority. Although it is therefore feasible that an employee might abuse their rights, the system of checks and balances around the electronic approvals system mitigates that risk. This risk is also mitigated by a thorough review of business unit performance against budget, and further strengthened by a series of spot checks which are made before payment leaves the FT's bank account. We also expect senior management locally within each business division to play a supervisory role in this regard. For example, if a particular employee was regularly claiming above-average or unusual expenses or regularly approving an invoice to an unusual supplier or unrecognised supplier, I would expect a senior manager to pick-up on this and investigate to ensure that there was no wrongdoing.
18. The above principles apply equally to the FT's Editorial department as they do to any other department within the business. To the best of my knowledge, there are currently approximately 10 individuals within the Editorial department who are authorised to approve employee expenses and 22 individuals who are authorised to approve supplier invoices.
19. There are a number of expense policies which specifically apply to the Editorial department and which supplement the above general policies. I understand that the FT's Managing Editor, Lisa MacLeod, will provide a witness statement explaining how expenses are managed and processed in practice in the newspaper's editorial department. I attach those policies as Exhibits SH9 to SH13.
20. We keep issues such as authority limits, bank account approvers etc. under regular review. Our policies are subject to annual review and sign-off which is a process overseen by the FT's Financial Controller and then approved by me as CFO.

21. Our processes and policies are subject to regular testing by way of a series of checks and balances designed to ensure that they are effective and fit for purpose. These checks include:
- a. A series of tests carried out internally every month/quarter/other pre-determined frequency by independent testers across the business to test FT's compliance with Pearson's SOX requirements, such as: (a) system controls on authority levels; (b) that invoice approval processes are followed; (c) that only genuine employees are able to claim expenses; and (d) the integrity of the new-starter process. The results of these tests are reviewed by the Pearson SOX team;
 - b. An annual controls audit carried out by FT's external audit firm;
 - c. Regular and recurring reviews of the FT's business by Pearson's Internal Audit team. In 2010, the Pearson Internal Audit team spent approximately 200 days auditing the FT's processes, systems and practices etc. and its reports are circulated to senior Pearson management, including the Pearson CFO and Pearson's external audit firm.
22. As a result of this process, any instances where FT's control framework may not have been followed are reported to the FT's Financial Controller during the testing phase and presented to the CFO at regular internal and external audit meetings.

Question 4: Whether financial governance policies and practice (to the extent that they relate to anti-bribery measures and the prevention of funding illegal information gathering activities) are adhered to in practice, to the best of your knowledge;

23. To the best of my knowledge, the FT's financial governance policies and practice, as they relate to anti-bribery measures and the prevention of the funding of illegal information gathering, are adhered to in practice. As CFO, I would not expect to have knowledge of sources used by the editorial arm of the newspaper, but I believe that the systems of checks and balances we have in place mitigate against the risk of unlawful and also unethical behaviour.

Question 5: Whether these practices or policies have changed, either recently as a result of anti-bribery laws, phone hacking media interest, or prior to that point, and if so, what the changes were and the reasons for them;

24. I have described above that the introduction of the Bribery Act 2010 in the UK resulted in a new Anti-Bribery and Corruption policy to supplement the existing policies and processes which were already in place to prohibit and prevent any unlawful conduct, not just bribery. The Act has also resulted in formalised anti-bribery risk assessments being undertaken across our business and the introduction of a specific 'ABC' diligence process undertaken with respect to certain suppliers used by the FT in order to ensure that the FT has established adequate procedures to prevent bribery from taking place. No changes to the finance policies were made as a result of the phone hacking scandal. Although we were aware of the hacking scandal, it was not something which triggered us to consider whether we should review our finance policies because it was not something which concerned us as an organisation.

Question 6: The extent to which you, as a Finance Director, felt any financial and/or commercial pressure from the proprietors of your newspaper, the editor or anyone else, and whether any such pressure affected any of the decisions you made in relation to the use of the newspaper's funds to secure information for news stories;

25. I have never been subject to financial or commercial pressure from the proprietor of the Financial Times, the editor or anyone else in relation to the policies and procedures I have described and compliance with the same or in respect of any other issues falling within the Inquiry's Terms of Reference or indeed in any other manner which I consider improper.

Question 7: Whether, to the best of your knowledge, the newspaper owned by your company used, paid or had any connection with private investigators in order to source stories or information and/or paid or received payments in kind for such information from the police, public officials, mobile phone companies or others with access to the same: if so, please provide details of the numbers of occasions on which such investigators or other external providers of information were used and of the amounts paid to them (NB. You are not required to identify individuals, either within the newspaper owned by your company or otherwise);

Question 8: What your role was in instructing, paying or having any other contact with such private investigators and/or other external providers of information;

Question 9: If such investigators or other external providers of information were used, what policy/protocol, if any, was used to facilitate the use of such investigators or other external providers of information (for example, in relation to how they were identified, how they were chosen, how they were paid, their remit, how they were told to check sources, what methods they were told to or permitted to employ in order to obtain the information and so on);

Question 10: If there was such a policy/protocol, whether it was followed, and if not, what practice was followed in respect of all these matters;

Question 11: Whether there are any situations in which neither the existing protocol/policy nor the practice were followed and what precisely happened/failed

to happen in those situations. What factors were in play in deciding to depart from the protocol or practice?

Question 12: The extent to which you are aware of protocols or policies operating at your newspaper in relation to expenses or remuneration paid to other external sources of information (whether actually commissioned by the newspaper owned by your company or not). There is no need for you to cover 'official' sources, such as the Press Association;

Question 13: The practice of the newspaper owned by your company in relation to payment of expenses and/or remuneration paid to other external sources of information (whether actually commissioned by the newspaper owned by your company or not). There is no need to cover 'official' sources such as the Press Association;

26. Although as CFO, I would not expect to have knowledge of the identity of sources used by the editorial arm of the newspaper, to the best of my knowledge, the FT newspaper does not pay any sources for stories, including private investigators, the police, public officials, mobile phone companies or what might otherwise be regarded as unofficial sources for the sourcing of stories. I have already covered the reimbursement of expenses to editorial staff earlier in this witness statement. I have understood the reference in the questions to "official sources" as meaning sources which are legitimate sources and my answer to questions 12 and 13 is provided on this basis.

Conclusion

27. In summary, I believe the FT operates a robust set of financial controls and, to the best of my knowledge, the FT does not pay bribes or fund the gathering of information by illegal methods.

Documents

28. The Section 21 Notice requests two categories of document. The policies or protocols requested in paragraph (a) of the Notice are exhibited to this statement. I understand request (b) to relate to expenses paid to any unofficial sources such as the sorts of people identified in Question 7. I am not providing any such documents because, as far as I am aware, they do not exist. I have explained my understanding of the position in paragraph 26 above.



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Scott Henderson
CFO and COO
15 September 2011

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Attached are Exhibits marked "SH1" – "SH13" referred to in the First Witness Statement of Scott Henderson dated 15 September 2011.

Signed
Scott Henderson



..... Dated 15/09/2011.....