



The Hundred Group
of Finance Directors

Investor Relations & Markets Committee

Hazel O'Sullivan
Project Director
The Auditing Practices Board
5th Floor, Aldwych House
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29 January 2010

Dear Ms O'Sullivan

APB Ethical Standards: Consultation on audit firms providing non-audit services to listed companies that they audit

We are pleased to submit our comments on the above consultation.

Who we are

The Hundred Group is a non political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly from constituents of the FTSE100. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

Whilst it is appropriate periodically to reassess the regulatory framework within which listed companies operate, especially at times when the framework is tested to the extreme, at this time we see no need to alter the current approach to using auditors to perform non audit work.

Although we recognise that the processes by which companies and auditors assess independence may not be widely understood by investors and other stakeholders, the safeguards we both have in place are robust and operate independently of one another. Accordingly, decisions over whether to use the auditor to provide a certain service is assessed bilaterally and only then is the service approved. Furthermore, the processes used by the company are operated by both executive and non-executive management (as independent directors) and the processes used by auditors are tested independently by bodies such as the Audit Inspection Unit.

Due to this rigorous approach, we are satisfied that no real threat to independence exists. However, the conclusions of the Treasury Select Committee cannot and should not be casually dismissed. To counteract any remaining perceived threat, we agree more could be done to communicate the processes operating within companies, which non-audit services the auditors have performed and why the Audit Committee (as independent Non-Executives)

are satisfied that the auditors remain independent of the company and its management. We recommend that the APB considers:

- The nature of governance disclosure companies should provide in this area; and
- The quantitative and qualitative disclosure prepared by companies about the extent of non-audit fees paid to the auditor in the Annual Report, recognising that the current categorisation is, at best, confusing. Indeed, we believe that even the definition of audit work needs some clarification.

We believe that investor confidence is built or broken on the performance of the company and the Board entrusted with its stewardship. The Board takes decisions in the best interests of its shareholders, which includes the engagement of the auditors to perform non-audit services, where the auditor is the "best" choice to perform that particular service.

Certain "assurance" type services – for regulatory requirements or contractual requirements – are often performed by our auditors. These services are a natural extension from the core statutory audit and it is far more effective and efficient for the auditor to leverage their own work in these areas, thereby avoiding the duplication of costs. Examples include bank compliance (and other types of) certification, regulatory returns (eg in the utility or banking sectors), reporting on internal controls for US registrants and half yearly statements.

For certain transactional work the auditor is often the best choice for shareholders. Familiarity with the company enables the auditor to mobilise far quicker (for prospectuses and associated work streams that accompany shareholder circulars). Their understanding of company specific issues is invaluable in assisting with certain aspects of diligence.

Finally, from time-to-time there will be other services that the company elects to use the auditor for – perhaps tax compliance, a one-off review of certain controls, ad-hoc accounting advice. Decisions to use the auditor are not taken lightly in these circumstances. Quite often companies will invite firms to tender and submit a proposal for the work. Decisions are taken based upon a range of criteria, most critically:

- Which firm is best placed to perform the work, in terms of quality of service offering, value for money and relevant expertise; and
- Whether any firm is conflicted or the service threatens independence.

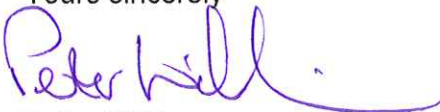
Both decisions are taken with shareholders in mind.

Finally, the international aspect of any prohibition cannot be ignored; in that a ban on non-audit work by auditors would, as far as we are aware, be unique and may have an impact on the competitive position of UK companies.

We believe the current principles are working well and our members do not support a material change in the current guidelines, as it would not be in the interests of companies or their shareholders.

Please feel free to contact me if you wish to discuss our comments or if there are additional areas where you feel the Hundred Group can contribute further.

Yours sincerely



Peter Williams

The Hundred Group – Investor Relations & Markets Committee

Appendix 1 – Responses to specific issues for further consideration

1.
 - a. Do you think that the provision of non-audit services by accounting firms to their audit clients currently impacts confidence in the independence of auditors?
 - b. Are you aware of any instances where the provision of non-audit services by accounting firms to their audit clients has or may have adversely affected audit quality?Please give the reasons for your views.

No to both. See letter above for reasons.

2. If you do consider that the provision of non-audit services has adversely affected audit quality or currently impacts confidence in the independence of auditors please identify which non-audit services are of concern. Please give the reasons for your view.

Not applicable, see response to question 1.

3. In the light of your answers to questions 1 and 2, do you think that there needs to be a change in the approach taken by APB to the setting of standards relating to the provision of non-audit services by auditors to the entities that they audit? Please give reasons for your view.

If, as is argued by some commentators, there is a perceived independence issue then it may be appropriate to extend disclosure requirements and clarify the current ethical standards. However we would not support any change in emphasis or fundamental meaning to the existing standards.

4. If you think that there should be a change in the current arrangements, would you advocate:
 - a. Complete or more extensive prohibitions on the provision of non audit services by accounting firms to their audit clients within the Ethical Standards for Auditors;
 - b. The imposition of other requirements through the Ethical Standards for Auditors (and if so which);
 - c. More active corporate governance – e.g. so that non-audit service engagements were required to be pre-approved by the company's board of directors or audit committee;
 - d. Better (and more extensive) disclosure in financial statements.Please provide reasons for your views and any suggested solutions.

As outlined in our letter, we would encourage the APB to consider point 4d. We also believe many of our members already adopt 4c.

5. In setting the standards relating to auditor independence, do you believe regard should be had to the perceived benefits that are derived by companies from the provision of non-audit services by their auditors? If your answer is yes, please provide specific examples of these benefits and indicate the magnitude of any cost savings that arise.

Yes, as outlined in our letter. As regards specific examples, we have encouraged our members to respond individually to this consultation, and would expect them to quote specific examples.

6. Are there any other views that you would like the APB to take into account?

Please see the comments we make in our letter.