

Response to Consultation on audit firms providing non-audit services to listed companies that they audit

1(a) We do not think that the provision of non-audit services by accounting firms to their audit clients currently impacts confidence in the independence of auditors for people who are involved and understand the relationships. We can see, however, how it could be portrayed such that some people's confidence is impacted adversely.

1(b) We are not aware of any instances where the provision of non-audit services by accounting firms has adversely affected audit quality, though we are obviously aware of instances where this has been alleged.

2 N/A

3 No. The current arrangements give clear guidelines as to which service should not be offered and ensure that both the audit firm and the company have to review and approve the purchase of non-audit services. These services are then disclosed in the annual report such that any shareholder is also aware. The materiality of the services are likely in a significant majority of the cases to be immaterial for the audit firm and, indeed, for the company, but if there was a significant incentive to ensure retention of the non-audit service work, it would be clear to all.

4 We regard the current arrangements as adequate.

5 Yes, regard should be had for the benefits that are derived by the companies from the provision of non-audit services by their auditors. Indeed, it is disappointing to see the APB word this question with the term "perceived" in it, as it is clear to us that the benefits are significant and in the interest of the business and therefore shareholders. Key to this are:

- Removal of cost of briefing consultant team on the company, its business and structure. This applies across the board on nearly all non-audit engagements, but are particularly relevant for:
 - Tax advice
 - Due diligence on acquisitions
 - Reporting accountants for listing
- Ability to choose a team of known ability – removes the risk of a change out in the team if a member is not up to standard
- Removal of need to brief auditors of new acquisitions or tax positions at the year end after an acquisition or a structural change has occurred
- Ensures structures designed to fit certain reporting presentations to ensure an accurate reflection of the underlying transactions do indeed get reported in that way in the audited accounts
- Increased understanding of the business from this involvement ensures less work required at the audit time, reducing the costs to the company
- Involvement in between audits enables the audit team to stay abreast of developments and changes, enabling them to prepare for any significant new issues at the next audit

The magnitude of the cost savings are difficult to quantify, but recent experience would suggest that where a new firm is involved in certain aspects of the business, the uplift in time required to understand the business is of the order of 20-25% of the costs. We would estimate that the overall savings in any one year, though obviously dependent on activity, would amount to several hundred thousand pounds.

6 We note that most of the arguments for prohibiting the provision of non-audit services are based on “perception” and indeed the consultation paper states that there is “not a proven record linking audit failure with a lack of objectivity and independence as a result of a desire to increase or retain non-audit services”.

In terms of the arguments for removing the ability for audit firms to carry out non-audit services, we have not seen any indication of an “alignment of views” other than where there is agreement on how to present certain transactions under IFRS – something that has to occur as a matter of course. The idea that the company’s management can change the auditor’s views detrimentally implies that the reviews carried out to test the audit partner’s decisions are not robust enough, but this does not have to be connected with any non-audit service. This argument put forward really is not connected with non-audit services and is more a concern about the quality of the audit in general, rightly or wrongly.

Whereas the argument regarding the economic incentive has some merit, there are few companies that can claim to make up a significant part of an audit firm’s income. Below a certain threshold, it is barely plausible that the audit firm would risk its reputation for an immaterial part of its turnover and therefore, if this is seen to be a concern, there should be exceptions for immaterial amounts, thus excluding the vast majority of companies from being impacted.

Most audit firms have clear internal guidelines on what is an acceptable and what is not an acceptable service to offer to audit clients and these should be regularly reviewed by an independent body. This will remove any concerns relating to the auditor judging whether an engagement would threaten objectivity.

The only positive argument that we see is the benefit of giving enhanced opportunities to mid-sized accounting firms, but this does lead to a risk that the quality of that work could be lower, if that firm does not have the in-depth understanding of that particular type of service.

In summary, we see little to advocate the prohibition of non audit services but significant additional cost and management time if these services were not available.