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Dear Ms O'Sullivan

**CONSULTATION ON AUDIT FIRMS PROVIDING NON-AUDIT SERVICES TO LISTED COMPANIES THAT THEY AUDIT**

BT welcomes the opportunity to comment on the above consultation document.

We note that the consultation paper was issued in response to a recommendation by the Treasury Select Committee reporting into the banking crisis, arising from its concern as to the large amount spent by banks on non-audit services, which they felt hampered, or conflicted with, auditor independence. The Committee inquiry found little or no grounds to criticise auditors but asked the Financial Reporting Council (FRC) to consult on whether there should be a prohibition of non-audit services.

We would be strongly opposed to any proposal to ban non-audit services. We do not believe that prohibiting auditors from providing non-audit services to their clients is a proportionate or necessary response, and could ultimately result in audit firms withdrawing from the UK audit market, providing even less competition and flexibility for companies in their choice of auditors. We would however support a combination of better communication of the safeguards, more active corporate governance and enhanced disclosures to address the perception of the Committee.

We set out below our key comments and observations on the questions raised in the consultation document.

**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?**



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We do not believe that the provision of non-audit services by accounting firms to their audit clients currently impacts confidence in the independence of auditors, and we consider that the current safeguards in place are sufficient.

In fact, there are circumstances where using the external auditor to provide non-audit services provides significant benefits without compromising independence. The external auditor has detailed knowledge of the company's business and operations which allow certain non-audit services to be provided more efficiently and effectively. In many situations appointing another audit firm will require a company to spend additional time briefing them as they will be unfamiliar with the business. By using the external auditors, and provided appropriate independence assessment is performed in advance, this will often be more cost effective and the work can be completed sooner, which is advantageous to the both company and its shareholders.

In our view, whilst there may be a perception that providing both audit and non audit-services can impact auditor independence, this is not borne out in practice. One way of solving the potential perception issue may be to enhance the level of communication and disclosure in this area by the FRC, APB and audit firms. Companies can also play a role by enhancing the quality of the narrative disclosures in their accounts, for example by setting out what their policies are in relation to the provision of non-audit services by the auditors, and the governance arrangements adopted by boards in overseeing and monitoring compliance with their policies. However we also believe that the FRC and the APB also need to take appropriate steps to raise awareness of the existing ethical standards for auditors and threats and safeguards approach which is currently in use, as well as reviewing whether there are best practice examples used in other jurisdictions, which could be incorporated. We would also support a move to standards for auditors being set on an international basis, however we recognise the challenges this would involve.

**1. (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?**

We have not experienced any instances where the provision of non-audit services by our external auditors has adversely affected the quality of their audit.

**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.**

Not applicable.

**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?**

There is scope for reviewing the ethical standards on non-audit services to make them clearer and easier to understand and for raising awareness of the principles and safeguards set out in the standards.

**4 If you think that there should be a change in the current arrangements, would you advocate:**

- **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;**
- **The imposition of other requirements through the Ethical Standards for Auditors (and if so which);**
- **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; -**
- **Better (and more extensive) disclosure in financial statements.**

As discussed above, we do not believe that prohibiting auditors from providing non-audit services to their clients is a proportionate or necessary response, and it could ultimately result in audit firms withdrawing from the UK audit market and would provide even less flexibility and competition for companies in their choice of auditors. It may also result in deterioration in the quality of personnel entering the audit profession and the associated audit process. We would however support more active corporate governance – we are also subject to the US independence rules and have found the audit committee pre-approval process to be an effective means of ensuring that the auditors do not undertake inappropriate or prohibited services, and it provides a high degree of visibility as to the nature of non-audit services which are undertaken.

We do not believe that more extensive disclosure would necessarily equate to better disclosure. However, aspects of the existing UK legislation on the disclosure of non-audit fees can be difficult to interpret – in particular what services need to be disclosed under the different categories and what to include in the category called 'other services pursuant to such legislation'. Therefore there is an opportunity to revisit the existing categories and also, as discussed above, for companies to provide enhanced disclosures setting out their policies on the use of auditors to provide non-audit services and the governance mechanisms in place to monitor these policies.

**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?**

Yes. In certain circumstances the knowledge and experience of a company's auditors can provide the basis for a more cost effective, higher quality and efficient non-audit service without compromising the auditor's independence. For many non-audit services, it would be difficult for any firm other than the external audit to perform such services without incurring significant additional expense. In addition, we are also listed in the US, subject to SEC regulations and required by S404 of the Sarbanes-Oxley Act to include the external auditor's assessment of management's report on the company's internal controls over financial reporting. This work is not currently included with the UK definition of audit fees and therefore any changes to the rules on non-audit services would need to consider the requirements of S404.



We trust these comments are helpful in contributing to your deliberations. If you have any questions or would like to discuss these comments, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Glyn Parry'.

**GLYN PARRY**  
DIRECTOR OF GROUP FINANCIAL CONTROL  
BT GROUP PLC

