Balfour Beatty plc
Group Head Office

130 Wilton Road
London SW1V 1LQ

Tel 020 7216 6800
Fax 020 7216 6950

www.balfourbeatty.com

By email

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Hazel O'Sullivan
Project Director
The Auditing Practices Board Limited
5th Floor
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Ms O'Sullivan

Response to the APB consultation on audit firms providing non-audit services to listed companies that they audit

Balfour Beatty is pleased to provide a response to the APB's consultation paper. Balfour Beatty is an international infrastructure group listed on the LSE operating in construction services, professional services, support services and infrastructure investments.

The consultation paper was issued as a result of the Treasury Select Committee (TSC) report on the banking crisis published in May 2009. The TSC report suggests that there continues to be a perceived risk that non-audit work performed by audit firms impacts auditor independence and ultimately audit quality, and suggests that audit firms should be prohibited from performing non-audit work. The APB has as a result questioned whether the provision of non-audit services by auditors impacts confidence in the independence of auditors.

Balfour Beatty believes that the current framework for assessing auditor independence and existing requirements covering non-audit work by auditors are now well established and understood by the board of directors and audit committee and we do not believe that further regulation restricting the use of auditors for non-audit services is required. We do not believe that the current levels of non-audit fees have a significant adverse impact on the confidence in the independence of auditors.

The audit committee has a thorough process in place to assess auditor independence based on current requirements and guidance and already has an active role in approving and monitoring non-audit fees. We believe that appropriate safeguards are in place to manage the risks around auditor independence and that a complete ban on auditors providing non-audit services would be disproportionate to the perceived risks.

We believe that a complete ban on auditors providing non-audit services would be too restrictive and introduce significant cost and inefficiency. Auditors obtain a significant amount of knowledge about the operations of our Group through their audit work. From our perspective, they are often best placed to perform certain non-audit work such as due diligence services and non-audit certifications of financial information. Preventing them from doing so would introduce very significant costs and inefficiencies, particularly considering the size and complexity of a multi-national such as Balfour Beatty. We also believe that from the auditor's perspective, being able to perform non-audit work allows them to gain valuable knowledge regarding the Group and apply that knowledge during the audit process, eliminating duplication of effort, decreasing costs and improving the quality of their audit.

Restricting the use of auditors for non-audit services would significantly decrease available choice in professional service providers. Removing the auditors from the selection process for non-audit work can result in the Group being unable to engage the specialists which have the most appropriate skill set in the industry. Undoubtedly, reducing the ability of an auditor to perform certain non-audit services would also result in a reduction of the number of accountancy firms willing to tender for audit work given they would more likely focus their efforts on other areas where they can offer a broader range of services.

Considering the size and international spread of operations of our Group the "Big Four" accountancy firms are best placed to provide audit services to the Group. Significant amounts of non-audit work may at any stage be with any of these firms. Restricting our ability to use the auditor for non-audit work would result in the Group being unable to consider accountancy firms for the Group's audit that currently perform non-audit work. Alternatively if we were to change and accept as our auditor an accountancy firm already performing non-audit work, the non-audit work with that accountancy firm would have to be moved to another supplier, resulting in significant costs and disruption. It would also be highly likely that audit costs would increase given that the incumbent auditor would be aware of the increased difficulty of changing auditors.

Considering the comments within the TSC report in relation to market perceptions on auditor independence it may be appropriate to improve disclosures on the nature and amount of non-audit services. Current disclosure requirements fail to make a clear distinction between those services which represent a potential conflict to an auditor's independence and those that do not, accordingly we would support improved guidance around the disclosure of non-audit services.

Existing ethical standards require auditors to maintain independence, objectivity and integrity. The threats and safeguard approach to assessing auditor independence has also proven to be an effective and efficient mechanism. We believe that the ethical requirements and existing standards have been effective in managing auditor independence and no further restrictions covering the engagement of auditors for non-audit work are required.

Yours sincerely

D J Magrath

Duncan Magrath
Finance Director
Balfour Beatty plc