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CONFIDENTIAL

Dear Sirs

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

We are pleased to respond to the Consultation document published in October 2009. Barclays is a UK listed company with an additional listing on the New York Stock Exchange and as such complies with the US Securities and Exchange Commission rules on auditor independence.

**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?**

We do not think that the provision of non-audit services by accounting firms to their audit clients significantly impacts confidence in the independence of auditors. Any impact is mostly a matter of perception rather than reality.

In particular, it is generally recognised that controls are now in place that mitigate potential independence issues at accounting firms. These include policies that should be in place at both accounting firms and audit clients that limit the type of non-audit work that can be undertaken by auditors. Usually non-audit work is performed by different partners and staff to those who are involved in the audit. Barclays, as with most organisations, has safeguards in place to maintain the independence of the auditor.

From Barclays perspective, these controls include the following:

- A Non-Audit Services Policy which sets out the work that may and may not be undertaken by the auditor.

- An approvals process which requires the following:
  - A clear explanation of the work to be undertaken and any deliverables
  - Expected fees and start and finish dates
  - The person requesting the work must provide information on other service providers considered, if applicable, and the rationale for not selecting them and provide justification for using the audit firm instead
  - Sign off from a Partner within the audit firm to confirm that internal clearance has been obtained and the provision of the service does not impair their independence
  - Sponsorship by a suitably senior person within Barclays
- A Policy on the Employment of Employees from the Auditor and a recruitment approvals process
- The Board Audit Committee monitors and reviews requests under both these policies

Further details on the nature of these controls are given within the responses to the other questions below. In addition, Barclays makes disclosures in its Annual Report explaining how independence is maintained via a stringent governance process. The 2008 disclosure is included as Appendix I.

There are benefits to companies in their auditor undertaking some non-audit work. These include cost and time savings, synergies with other work performed by the auditor and a better understanding of how the business operates. Where the auditor is the market leader in a particular service, or the best firm for the job because of their particular expertise, they can often do the most effective job, which could be of benefit to all parties, including shareholders, regulators and customers, as there is a better chance of a successful outcome.

**(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 are not aware of any such cases.

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.**

We do not believe that the provision of non-audit services has adversely affected audit quality or impairs confidence in the independence of auditors. Barclays operates a Non-Audit Services Policy to govern the appointment of the Auditor for all non-audit work. Work conducted by the auditor must follow a strict approvals process and is monitored by the Board Audit Committee. Non-audit services are divided into allowable and prohibited services. The Board Audit Committee keeps the lists of these services under review and reviews the policy itself annually. The Board Audit Committee also receives a quarterly report on the non-audit services provided by the Auditor.

Barclays seeks to follow the principle that the Auditor should not be providing a service if the result is that:

- The Auditor audits its own firm's work
- The Auditor makes management decisions for the company
- The Auditors objectivity is impaired

- A mutuality of interest is created
- The Auditor develops close personal relationships with the company's personnel
- The Auditor is put in the role of an advocate for the Group

Services prohibited under the policy, which we consider could be perceived as affecting audit quality or impact independence, fall under the following headings:

- Bookkeeping or other services related to the accounting records or financial statements.
- Financial information systems design and implementation.
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports.
- Actuarial services
- Internal Audit Outsourcing
- Management functions or other secondments.
- Human resource functions.
- Broker or dealer, investment advisor or investment banking services.
- Legal services.
- Expert services.
- Tax services involving advocacy.

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?**

No.

**Please give reasons for your view.**

The UK's dual approach, where the APB Ethical Standards ensure audit firms maintain independence and objectivity and the Combined Code ensures Audit Committees oversee the relationship and keep the extent of non-audit services under review, works well to ensure both parties are preserving the independence and objectivity of the auditor. Under this approach, there is a dual responsibility both on the part of the company and the auditor to ensure that auditor independence and objectivity is maintained.

In addition, as a US listed entity Barclays is required to comply with the more prescriptive rules of the SEC, including pre-approval by the Audit Committee of all Audit and Non-Audit services provided by the statutory Auditor. These rules have been effective in ensuring that there is an effective process to review the appropriateness of the services an Auditor is asked to provide.

The current UK system of threats and safeguards works well. There is no evidence to suggest that a US rules-based approach works any better.

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.

Please provide reasons for your views and any suggested solutions.

A change in the current arrangements to complete or extensive prohibitions would be a move towards a US style rule based system. A principles based system is more effective at allowing the audit firm and client to be proactive in assessing risks and not requiring them to passively follow rules. It is also more flexible in allowing the audit firm and client to assess new types of work arising as a result of a fast-paced and changing regulatory and economic environment. Non-audit work can be reviewed in the spirit of the ethical standards rather than against a check list where the rules may not have kept up with changing environments.

Key issues to bear in mind are the existence of good internal controls in the client over the appointment of the Statutory Auditor to carry out non-audit work, so it is not the default option (including oversight by the Audit Committee), good internal controls within the audit firm to ensure one area or country is not undertaking work which may cause a conflict and the approach to how Audit Partners are remunerated and incentivised.

As required by our US listing, Barclays pre-approves all non-audit work, which is administratively burdensome. To require all non-US listed entities to do the same may be a disproportionate response to the issues that have been brought to light in some financial services companies as a result of the financial crisis. It should be borne in mind that a number of the failing banks were already required to pre-approve non-audit work under the requirements of their US listing.

Companies should be encouraged to make disclosures but they should not be prescriptive. The risk with imposing prescriptive requirements for better and more extensive disclosure is that companies will adopt a tick box approach to disclosures, which may become meaningless as a result.

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.**

There are significant cost, time and quality advantages to certain types of non-audit work being conducted by the statutory Auditor, who has a good understanding of the business. There are also very material operational and service quality disadvantages if a business is prevented from appointing its statutory Auditor to do non-Audit work where the statutory Auditor is best equipped to carry out a particular piece of work to the required standard. This is especially true in a large global organisation where there is often a lack of specialised knowledge in some of the jurisdictions in which we operate.

We have had instances where the audit firm is the only firm suitable for a piece of work, for example it has developed a solution or a new approach and there is no alternate

provider as a result or it is the only one with the technical expertise or capability to take on the particular project. As banking organisations are often large and complex it is important that non-audit work is undertaken by the most experienced people for the job. Forcing such companies to use anyone other than the most able and experienced service providers cannot be in shareholders' best interests.

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

If changes are made they must be well aligned with the rules already in place in other jurisdictions so that compliance is not made harder simply by the complexity of conflicting international standards. It would be difficult to ensure that requirements in different jurisdictions ran parallel.

Should you wish to discuss any of the above matters then please do not hesitate to contact Allison Currie on 020 7116 2915.

Yours sincerely



Lawrence Dickinson  
Company Secretary

## Appendix I

### Non-Audit Services Policy

The Committee takes seriously its responsibility to put in place safeguards to auditor objectivity and independence. It has therefore established a policy on the provision of services by the Group's statutory auditor. The Policy describes the circumstances in which the auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the Policy and considers and approves requests to use the auditor for non-audit work. Allowable services are pre-approved up to £100,000, or £10,000 in the case of certain taxation services. The Company Secretary and his team deal with day-to-day administration of the Policy, facilitating requests for approval by the Committee. The Committee receives a report at each meeting on the non-audit services provided by the auditor and the Policy is reviewed by the Committee annually. Details of the services that are prohibited and allowed are set out below.

Services that are prohibited include:

- bookkeeping
- design and implementation of financial information systems
- appraisal or valuation services
- actuarial services
- internal audit outsourcing
- management and Human Resource functions
- broker or dealer, investment adviser or investment banking services
- legal, expert and tax services involving advocacy

Allowable services that the Committee will consider for approval include:

- statutory and regulatory audit services and regulatory non-audit services
- other attest and assurance services
- accountancy advice and training
- risk management and controls advice
- transaction support
- taxation services
- business support and recoveries
- translation services