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Ms Hazel O'Sullivan  
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Dear Ms O'Sullivan

**Consultation paper on the provision of non-audit services**

My answer to the first question posed in the Paper, as to whether the provision of non-audit services currently impacts confidence in the independence of auditors, is that, for at least a portion of the investment community, this is the case. This is a reasonable doubt, which has inevitably existed for as long as auditors have provided other services, and surfaced from time to time, usually following major business failures.

In seeking a solution it is important to address the distinction between the actual occurrence of impaired independence and the perception of a threat to independence. My firm belief is that the issue to be confronted is one of perception, and not of a real impairment to independence.

Prior to taking up my current role, I was for seven years an audit partner with Ernst & Young, and hence can consider this issue with the experience of both finance director and audit partner. I am quite convinced of the profound seriousness with which an auditor protects his or her independence. This is deeper than regulation: it goes to the core of one's values. I do not believe that an auditor considers issues of relationship or fees in coming to his audit judgement, and certainly I have never come across this in a UK listed environment.

The issue is to address the perception of investors.

It would, in my view, be rash to conclude that an issue of perception is a good reason to prohibit or inhibit the provision of other services by auditors. This would impose a significant cost on business to resolve the mere perception of a problem.

An effective audit requires a commitment by the auditor to understand the context, strategy, personalities and values of a business, over and above its operations and performance measures. That commitment involves a major and continuing investment of time and energy by the auditor.

Once acquired, this knowledge is relevant to the provision of a number of other services. By instructing my present audit firm to conduct matters of tax and due diligence, for example, I achieve significant savings and efficiencies in briefing and directing the providers of these other services: within the firm there is a deep and evolving understanding of our business, anchored by the audit relationship. The result is that my business receives an enhanced product, incurring no additional cost for this contextual and cultural intuition. It is not the case that the audit is impoverished; rather that the other, occasional services are enhanced.

At Development Securities we have tried the model of separating our audit provision from other services, and found that this both increased our costs and reduced efficiency. In bringing these services back together we were able to satisfy ourselves of the formal and informal independence procedures within our audit firm, and have noticed no change in the robustness of our audit.

Hence the solution must lie in resolving the issue of perception, and not in denying these benefits to business, which would be against the interests of companies and indeed of investors. It is important that the regulatory environment in the UK responds appropriately to identified risks, and does not react with disproportionate caution.

I think that the corporate governance agenda could be enhanced to include specific and explicit consideration of this issue, which could be undertaken by both the Risk Committee and the Audit Committee, with conclusions and recommendations considered by the Board.

These deliberations should be fully documented and made available to investors through AGM documentation, or perhaps form the subject of specific disclosure within the annual report. This would enhance transparency and create a platform for investors to challenge management on this issue, thereby allaying any doubts or concerns, whilst preserving the significant benefits to business of the current freedom to choose.

Yours sincerely



**Graham Prothero**  
Finance Director