

**From:** Coase, Charles [Charles.Coase@Diageo.com]  
**Sent:** 28 January 2010 15:13  
**To:** Hazel O'Sullivan  
**Cc:** Gill, Karen; Katie Shopland  
**Subject:** Diageo response to APB consultation on audit firms providing non-audit services to listed companies that they audit

Hazel

I have attached below the Diageo response to the APB's consultation document, as from Nick Rose (Diageo CFO) and Philip Scott (Chairman, Diageo Audit Committee).

With best regards  
Charles Coase

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For the attention of Hazel O'Sullivan  
Project Director  
The Auditing Practices Board

**By email**

27 January 2010

Dear Sirs

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

We are writing in response to your consultation document issued in October 2009.

In response to your specific questions, as set out in Section 7 of your consultation paper:

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. We base this view on our extensive contacts with shareholders and other stakeholders in the company - where the issue has never arisen.

(b) We are not 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 base this view on

the annual assessment made by our Audit Committee of the independence and performance of our auditors - where the issue has never arisen. We note that of course the Audit Committee approves all material non-audit work provided by our auditors, as well as approving the annual audit scope and fee, and is thus well informed about the nature of and level of fees for both audit and non-audit work.

2. Not applicable in light of the answers to 1 above.

3 and 4. It is our view that the current arrangements for the provision of non-audit services by auditors to clients that they audit are broadly appropriate and have stood the test of time; we would not support any radical change. You have asked whether "more active corporate governance" might be appropriate, such as for example the pre-approval by the company's board of directors or audit committee of non-audit service engagements. Within Diageo plc, the Audit Committee must approve all non-audit assignments where either the fees are expected to exceed £250,000 or the service is not of a type for which the Audit Committee has given its pre-approval. If this practice is not widespread it would seem to be a reasonable additional safeguard.

As regards your question about "better (and more extensive) disclosure in financial statements", we would urge caution - since the level of detail in financial statements generally is already extensive and we do not consider that such additional disclosures would add material value; if you do decide to pursue this route, we would suggest that this be required only when the fees for non-audit services (other than "services pursuant to legislation") exceed say 50% of the aggregate fees for the audit and "other services pursuant to legislation".

5. We do believe that, in setting the standards relating to auditor independence, regard should be had to the perceived benefits of use of the auditors. Examples of work completed by our own auditors in the last couple of years includes a review of the efficiency and effectiveness of the internal audit function, certain tax advisory work and certain due diligence work on acquisitions. In these cases we see the principal benefits being not only the familiarity of the auditors with the business but also their knowledge of the management across the group and sound working relationship with them. We consider it likely that other firms would of necessity take longer to perform these assignments, as they build knowledge of the business and their relationships. However, we do not make exclusive use of our auditors to perform non-audit work where permitted by regulation and standards and use what we consider to be the "best" firm for a particular assignment. Indeed, the Audit Committee has encouraged management to use firms other than the auditors for non-audit work unless there are significant advantages to using the auditors, in order to strengthen the relationships with the other firms and allow them to build further their knowledge of the group's management and business (this approach also forms part of our risk management in the event that a change of auditor is required at some stage).

It is not possible for us to estimate the magnitude of cost savings that might arise from the use of the auditors vs another firm.

We trust that this response to your consultation is helpful and look forward to your conclusions.  
Yours faithfully

**Nicholas C Rose**  
Finance Director

**Philip Scott**  
Chairman, Audit Committee

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