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Hazel O'Sullivan
Project Director
The Auditing Practices Board
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Dear Ms O'Sullivan

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

I am responding to the APB's invitation to respond to the consultation in relation to the provision by audit firms of non-audit services to their listed audit clients.

1. Confidence in the financial statements of listed companies is vital to the effective operation of capital markets and the audit process is an important part of achieving this. This requires *inter alia* that users of financial statements have confidence in the objectivity of auditors. The profession, individual firms and boards of directors of listed companies, typically through their audit committees, have important responsibilities in achieving this.
2. At the same time boards of directors of companies and their management have the responsibility to promote the success of the company. This involves many judgements including the selection of advisers and service providers for many tasks. There are occasions when the engagement of the company's auditors for a non audit task may offer particular benefits such as special knowledge of the company; speed of execution; or reduced risk of an unauthorised leak of confidential information. In my view it is principally for the board to determine what is in the best interest of an individual company and its stakeholders having regard to commercial factors as well as factors which affect or may be seen to affect auditor independence.
3. In recent years much progress has been made in understating the factors which can influence and can be seen to influence adversely auditor independence. Some of these factors are within the control of audit firms, such as the appraisal and remuneration of audit partners, and others such as the range and level of non audit services provided to a listed firm are also within the control

of companies. In my experience the boards of listed companies and their audit committees take this very seriously. They have policies for the engagement of their auditors for non audit work and there is regular monitoring of compliance both by the company and the audit firm. This is perhaps best illustrated by the prompt reporting to audit committees which occurs when even minor breaches of a company's policy occur.

4. In my view with current safeguards and practices there is no general lack of confidence in the audit process as a result of auditors providing non-audit services to their listed audit clients. Further there is no evidence that provision of these services adversely affects audit quality which I believe is consistent with the recent findings of the Audit Inspection Unit review of major audit firms. For these reasons I do not currently favour significant regulatory change. We should however remain vigilant for any factors or changes which may change this position.
5. The one area where I would support change is in the area of disclosure in annual reports. Better disclosure of the process and factors taken into account by audit committees in approving the engagement of auditors for non audit services should promote greater confidence in the audit process. In particular in my view there needs to be better explanation of the nature and scope of audit related services such as reporting in connection with investment circulars which can incur significant fees but often pose little or no challenge to auditor independence. With improved disclosure I would support moving away from the suggestion that non audit fees should not be expected to exceed the audit fee. It is the nature of the service more often than the level of the fee that may challenge auditor's independence and this ratio can become misleading when there are significant audit related fees for independent reporting for example in connection with an investment circular.

I am a member of a number of audit committees of listed companies but make this submission in a personal capacity.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Ormerod', with a stylized, wavy line for the surname.

John Ormerod