



Hazel O'Sullivan
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29th January 2009

Dear Ms O'Sullivan

Re: CONSULTATION ON AUDIT FIRMS PROVIDING NON-AUDIT SERVICES TO LISTED COMPANIES THAT THEY AUDIT

I write in response to the consultation document on the provision of non-audit services provided by auditors to their listed clients issued on 6 October 2009.

Our view in summary is that current auditing standards, the Combined Code and the Companies Act together provide an appropriate framework and underlying principles for (i) regulating choice in sourcing non-audit services, while (ii) establishing a governance and disclosure regime for monitoring the independence of a company's auditor.

In terms of choice in the provision on non-audit services, we should consider two factors – what is appropriate for individual companies and the market for non-audit services in general. In terms of what is appropriate for individual companies, it is our strong view that further restricting the ability of listed companies to use their auditor for non-audit services would undermine a company's ability to choose the most appropriate non-audit service provider in terms of skills and value. There are a number of areas where a company's auditor is well placed to provide non-audit services to a company which are valuable both in terms of their existing knowledge and by implication resulting cost to the company. This is particularly true in areas closely related to the audit such as tax, regulatory and other compliance activities as well as more widely, for example reporting accountant type activities for public transactions, or discrete controls reviews. At the other end of the spectrum, it is clear that auditing firms should not provide non-audit services where their output would be in turn reviewed by the same firm – the challenge is where to draw the line between these two extremes and what is appropriate will differ from company to company. In our view, current rules and guidelines already provide appropriate guidance in this area and companies are best placed to judge what is appropriate for specific non-audit services given their own circumstances.



Looking more generally at the non-audit services market, we do not agree, as some commentators believe, that prohibitions on auditors would lead to greater competition and choice in the accounting services and audit market; quite the contrary, we believe that restricting choice would reduce competition and quality. Furthermore, it should be remembered that while there may be significant choice in developed markets, a large proportion of listed companies operate across many markets, including a number where the choice in non-audit service providers is extremely limited. Prohibiting further the use of auditors to provide non-audit services could result in a listed company being severely limited in the choices available to it in sourcing appropriate local support in a number of markets.

Turning to our second point on governance and disclosure, notwithstanding our view that companies are best placed to judge the appropriateness of non-audit services provided by their auditor, we firmly believe that the overall independence of the auditor should nevertheless be closely monitored. In our view, the current governance framework adequately addresses this: the Combined Code provides clear guidance and underlying principles on the review and monitoring of the external auditor's independence, and the requirement for policies relating to the engagement of an external auditor for non-audit services. In Kesa Electricals plc, we have implemented policies on non-audit services to ensure the independence of the audit is not compromised. These policies are reviewed on an annual basis and currently require the approval of the Chairman of the Audit Committee for any engagements above agreed levels.

Furthermore, the Companies Act requires companies to disclose such policies, as well as the conclusions of their auditor evaluation processes, and an analysis of their auditor's audit and non-audit fees. We believe this overall regime operates effectively to ensure that Boards, through their Audit Committees, monitor the independence of their auditor and allows shareholders to review how this operates, and engage in discussion with a company on this topic as required. This approach is in line with the spirit of the 'comply or explain' approach of the Combined Code, as recently revalidated by the FRC.

If you have any questions on our response to this consultation, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Andrew Robb", with a small mark to the left of the signature.

Andrew Robb
Chairman, Audit Committee
Kesa Electricals plc