

Hazel O'Sullivan  
Project Director  
The Auditing Practices Board Limited  
5th Floor  
Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

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Dear Ms O'Sullivan,

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

In response to the Consultation Paper there are a number of areas on which I would like to comment upon and for these comments to be considered by the APB in your review of this area in the New Year.

Like many companies outside of the FTSE100 Latchways plc uses its auditors for the provision of a number of non-audit services. In determining the services that our audit firm may be asked to perform the Audit Committee and the wider Board take a number of factors into consideration. These include the expertise and knowledge of the individuals, the geographical reach of the audit firm, the additional benefit and value we receive from the synergies and understanding that our audit firm can provide from their inherent knowledge of our Group and the absolute cost of the fees proposed.

If further restrictions are placed on the services that we can consider asking our auditors to provide I fear that this removes a valuable and cost effective choice which is available to us. The loss of the tangible benefit of the inherent knowledge that our auditors have of our business, our culture and our strategic goals, were these services no longer permitted to be provided by our auditors, means that we would incur more time and cost. Extra time would be required to co-ordinate the procurement and receipt of services and the financial cost in aggregate would increase. This would provide us with no additional benefits and a much more burdensome environment to do business in. It is my view that, for businesses of our size, this would result in a significant business impact and higher costs, with no additional benefit to shareholders or other stakeholders.

This is against a backdrop where, like many organisations, we are responding to the tough economic environment and seeking more efficiencies, synergies and value from our supplier base.

When considering the non-audit services that our auditors provide the above factors are assessed alongside the prevailing governance regime maintained by the Audit Committee and the existing ethical standards which are already in place to ensure that appropriate auditor independence considerations are followed.

In addition, when selecting suppliers and providers of services there are already a number of codes of practice and defined responsibilities which have been developed over the years. These are clearly understood by directors and the boards and committees upon which they sit. I see that the area of auditor selection and the selection of which non-audit services that we contract with our auditors to supply, within the existing ethical guidelines, remains principally an important governance area and firmly the responsibility of the directors and their appropriate committees.

I acknowledge that the stated intention of the Treasury Select Committee, in recommending this consultation, is to enhance investor confidence and trust in audit and I agree that that is an important objective.

The current Consultation Paper makes it clear that there is no evidence of any direct linkage between the provision of non-audit services to audit clients and audit quality. This is therefore largely about the residual perception that remains with investors and other users of the financial statements regarding the perceived auditor independence issues that result from the provision of non-audit services to audit clients by audit firms.

Therefore, as this is largely about perception, I believe that this "perception gap" can be narrowed by providing greater clarity in the Annual Report of the detailed nature of the services that are provided. In particular this should cover the fee levels charged and how these fees relate to the size of both the company and the audit firm. This could also include reference to an acceptable level of non-audit fees in relation to the size of the audit firm. A clear identification of when the audit firm was chosen to provide the non-audit service after a competitive process was undertaken would also be beneficial and aid transparency.

This leads me to believe that, for material non-audit fees, there may be scope to enhance and improve the disclosure of the processes undertaken in selecting the service provider, and also more detailed disclosure of what these services are and their relative size, scale and importance.

This course of action would keep the decision making responsibilities with those already charged with governance and who already exercise their judgement as part of a strong existing UK governance framework.

Yours sincerely



**Rex Orton**  
**Financial Director**