



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

25 January 2010

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

I write in response to the above consultation paper, as the Chairman of Aviva plc, as a past and current chairman of FTSE audit committees; a member of the House of Lords and a past Chairman of KPMG International.

I am aware that you are consulting because of the report of the Treasury Select Committee; however, I do just note that when the House of Lords Economic Committee examined the same evidence – and often cross-examined the same people – they did not highlight the issue of non-audit services provided by auditors.

Since I moved from the profession to the corporate sector I have noted – these past eleven years – significant changes in relation to non-audit services provided by the auditor, these in my opinion provide a robust framework for corporates, investors, regulators and auditors. These are the introduction of a rigorous ethical framework; an independent regulator which inspects and publishes individual (and collective) reports on the quality of the firms' audit work (something I pressed hard for during the debates on the Companies Act 2006); a strong and clear role for the audit committee in determining non-audit services and increased disclosure in financial statements. Much of this – not least for larger companies – is broadly consistent on an international basis.

This regime has ensured a gradual decline in the level of non-audit fees as a proportion of the audit fee for the largest firms as you highlight from a high in 2001. Such a development is welcome in my view and shows that the system, especially the role of the audit committee, has been a success. I strongly believe that the best place to make the decision about the provision of non-audit services is the audit committee. The audit committee is better placed than any other body to make that

call and is best able to weigh the issue of perception through application of the reasonable and informed third party test.

In short, the above gives you my view on your first three questions with the added point that in my view the strength of the British profession has been the multi-disciplinary firm which has enhanced audit quality to the benefit of all stakeholders.

In terms of question four my sense is that the current disclosures are rather broad brush. The audit fee is perhaps defined too narrowly and the non-audit fee too broadly. There is a case for a review and challenging whether services like the auditing of statutory accounts of subsidiary companies should be included in the audit fee disclosures. Such a review would help to provide a clearer picture of the services provided by the auditor as between audit and non-audit and so would add some necessary further perspective to this debate. The more this could be coordinated internationally the better.

In considering question five, let me list some of the factors that I consider when weighing up the issue of a possible non-audit service provided by the auditor. In addition to the clear ethical test, three major factors enter my mind. First, does the service impact negatively on audit quality? Secondly, do the unique insights of the auditor make it more efficient and less costly to ask the auditor to carry out the service than any other provider? Thirdly, are there particular individuals within the audit firm who because of their industry knowledge and expertise are essential advisers on a particular issue?

In conclusion, I don't support UK-led blanket prohibitions of non-audit services and I would be surprised if the Department for Business did either. I accept that there is always a perception issue to be considered when deciding on agreeing to the provision of non-audit services. However, I have considerable confidence in the audit committee process to deal with this taking into account all the key factors. A blanket second-guessing of what is right in all circumstances for all companies would restrict choice, undermine the multi-disciplinary model which would ultimately harm audit quality and weaken audit committees.

Yours sincerely



Andrew M. Sherman