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For the attention of Hazel O'Sullivan

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Dear Hazel

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

Mazars is an international organisation specialising in audit, accounting, tax and advisory services. Its single integrated partnership assembles more than 12,000 professionals operating in 55 countries. In the UK, we are the eighth largest firm by audit fee income. Mazars audits more FT Global 500 companies than any non-Big Four firm, whilst in the UK, we have 18 FTSE 350 clients. As an organisation we possess a desire to adhere to strong quality guidelines with a determination to comply with the highest technical and ethical standards.

Mazars is pleased to comment on the Auditing Practices Board's "Consultation on audit firms providing non-audit services to listed companies they audit". We set out below our general comments as well as our responses to the specific questions included in the Consultation Paper.

GENERAL COMMENTS

We believe there is a genuine concern over the independence of audit firms which provide non-audit services to audit clients which are listed companies. Hence, we appreciate the Auditing Practices Board's decision to undertake this Consultation project. We consider that making changes to the rules further restricting the non-audit services that auditors are permitted to perform for listed audit clients would enhance both actual and perceived auditor independence and also increase competition and choice in the listed company market place.

We also believe the rules as currently drafted are too subjective and thus open to potential abuse. Therefore, we would welcome the Auditing Practices Board providing more clarity on the services that audit firms can provide to the listed companies that they audit. Notably, we would support a further restriction on the extent of internal audit services that can be provided to listed audit clients since we believe that for this type of entity, outsourcing all or part of the entity's internal audit requirements in the area of accounting internal control or financial reporting systems involves too great a risk of self-review.

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RESPONSES TO SPECIFIC QUESTIONS

In respect of listed companies:

1 (a) Do you think that the provision of non-audit services by accounting firms to their audit clients currently impacts confidence in the independence of auditors?

(b) Are you 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?

Please give the reasons for your views.

(a) Yes, we do believe that the provision of non-audit services by accounting firms to their audit clients does impact the perceived independence of auditors. We believe that in evaluating auditor independence, it is important that the auditor is independent not only in fact, but also in appearance, such that a third party would reasonably conclude that the audit firm's independence had not been compromised. In this respect we consider that the provision of extensive levels or certain types of other services may impair auditor independence or be perceived to do so. As detailed in our answer to question 3 below we believe that a change to the current requirements is necessary to increase market confidence in the independence of audit firms who act for listed companies.

(b) We are not aware of any specific instances where the provision of non-audit services by accounting firms to their audit clients has adversely affected audit quality.

2 If you do consider that the provision of non-audit services has adversely affected audit quality or currently impacts confidence in the independence of auditors please identify which non-audit services are of concern. Please give the reasons for your view.

We have particular concern over the provision of internal audit services and IT services (related to financial reporting systems) when acting as the statutory auditor of a listed company.

3 In the light of your answers to questions 1 and 2, do you think that there needs to be a change in the approach taken by APB to the setting of standards relating to the provision of non-audit services by auditors to the entities that they audit? Please give reasons for your view.

Under the extant APB Ethical Standards for Auditors certain services (such as internal audit, tax planning, corporate finance, legal, actuarial etc.) may be provided under certain conditions. These conditions inter-alia currently require an audit partner to:

“(a) consider whether it is probable that a reasonable and informed third party would regard the objectives of the proposed engagement as being inconsistent with the objectives of the audit of the financial statements; and

(b) identify and assess the significance of any related threats to the auditor's objectivity, including any perceived loss of independence; and

(c) Identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.”

Whilst the current process and safeguards may seem satisfactory in principle we do not consider they are working satisfactorily in practice and are therefore considered not to be sufficient to protect

auditors' perceived lack of independence in the view of the investor community. In particular we consider that a "self- review threat" is a genuine concern. Given that it is in no-one's interest for any service to be provided which would compromise auditor independence we believe that the rules should be made clearer.

In addition we believe that more services should be restricted as referred to in our answer to question 2 above. Irrespective of the safeguards that could be put in place we would welcome a move to restrict the provision of both internal and external audit services to listed companies.

4 If you think that there should be a change in the current arrangements, would you advocate:

- **Complete or more extensive prohibitions on the provision of non-audit services by accounting firms to their audit clients within the Ethical Standards for Auditors;**
- **The imposition of other requirements through the Ethical Standards for Auditors (and if so which);**
- **More active corporate governance – e.g. so that non-audit service engagements were required to be pre-approved by the company's board of directors or audit committee;**
- **Better (and more extensive) disclosure in financial statements.**

Please provide reasons for your views and any suggested solutions.

Based upon our response to question 3 above we believe there is an need to review and extend current requirements. We believe the guidance should be more "black and white" with regard to which non-audit services can or cannot be provided. In addition we would welcome more extensive prohibitions on non-audit services as set out in our response to question 2 above.

Whilst more active corporate governance may go some way to addressing the independence threat we do not believe that this would be sufficient to convince the wider investor community about auditor independence. We believe that only a clearer and stricter set of rules will ultimately help to address the current scepticism on audit independence with regard to the listed company market.

Also, whilst we note that disclosure requirements have generally led to a reduction in non-audit services being provided by auditors of listed company we nevertheless do not consider that current disclosure requirements are sufficient to fully inform stakeholders on the actual threat to the independence of the auditor.

5 In setting the standards relating to auditor independence, do you believe regard should be had to the perceived benefits that are derived by companies from the provision of non-audit services by their auditors? If your answer is yes, please provide specific examples of these benefits and indicate the magnitude of any cost savings that arise.

We believe that the view often expressed "that auditors are the most effective and cost-efficient providers of these services" is often misplaced. We believe that through market forces healthy competition will ultimately lower prices and thus remove the perception that the company's auditors can indeed provide these services cheaper.

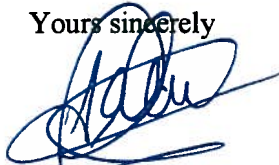
6 Are there any other views that you would like the APB to take into account?

In today's fragile business environment it is even more important that listed companies play a flagship role and as such strengthening the rules applicable to audit firms with regard to the provision of non-audit services to listed companies that they audit is seen as a necessary step to meet public concerns and enhance confidence in the audit process.

We would also stress that we believe that by using more firms to provide these services that it will ultimately enhance reporting quality and this still can be achieved cost effectively.

We hope that you have found our comments helpful. Should you wish to discuss them further please contact David Herbinet at the address above or on +44 (0) 207 063 4419.

Yours sincerely



David Herbinet
Head of Corporate and Public Interest Markets