

# APB Consultation on audit firms providing non-audit services

A response by

The National Association of Pension Funds

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## Introduction

The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF Member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF Member schemes hold assets of around £800bn, and account for over approximately one fifth of investment in the UK stockmarket.

The NAPF welcomes the opportunity to comment on the consultation. We remain concerned about the absence of choice in the market for audit services and wish to encourage higher standards of audit quality. We take the view that shareholders can only benefit from greater scrutiny of the range and quantity of services being provided by the audit firms, in the context of the wider concerns stated above.

We have seen the responses prepared by Hermes and Railpen, as well as the IMA and while in broad agreement with them would add our own specific comments below:

**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?**

*NAPF: The short answer to the question is: yes. There is an underlying concern that audit committees need to be more robust in their assessment of the services provided by their auditors and more transparent in how they describe that process to shareholders. There is also considerable lack of clarity about what constitutes a non-audit service.*

**(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?**

*NAPF: None immediately come to mind. However, given our concerns about transparency noted above, that is not entirely surprising.*

**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.**

*NAPF: We support the IMA argument that there are certain services where the conflict of interest is so material (eg restructuring). While most are identified in the Ethical Standards, there remains an onus on firm and client to assess on a case by case basis whether an appointment would be appropriate.*

**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?**

*NAPF: We believe that the current regulatory frame work is appropriate. However several members have expressed concerns about the precedent set by the KPMG/Rentokil deal which was agreed last year.*

**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;**

*NAPF: The evidence of declining non-audit fees suggests that the current regime is effective in encouraging more diversity of service providers, so we would not support additional regulation.*

- **The imposition of other requirements through the Ethical Standards for Auditors (and if so which);**

*NAPF: see above*

- **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;**

*NAPF: We would expect there be some oversight of the type and quantum of services being purchased from an audit firm, to ensure compliance with best practice. This should be routine in most companies and encouraged where it is not.*

- **Better (and more extensive) disclosure in financial statements.**

*NAPF: This seems to us key in improving confidence in a company's approach to addressing the problem. We would look to companies providing enhanced disclosure about the quantity and type of services provided and the rationale for employing the audit firm rather than an outsider. This could be incorporated into a wider statement in which the audit committee comments on its approach to assessing its relationship with the company 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.**

*NAPF: The onus is on the company to assess (then explain to shareholders) whether the benefits of taking a service from its auditor outweigh the drawbacks.*

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

*NAPF: None at present.*

Should you wish to discuss any of the above comments please contact David Paterson on Tel: 020 7601 1726 or Email: [daivd.paterson@napfc.o.uk](mailto:daivd.paterson@napfc.o.uk)