

Hazel O'Sullivan
Project Director
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Dear Ms O'Sullivan

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

We welcome the opportunity to comment on the consultation (the "consultation") on audit firms providing non-audit services to listed companies that they audit. Our response is attached and covers all areas raised by the questions included in the consultation paper.

We believe that the current standards and guidelines that exist in relation to the provision of non-audit services by a company's auditors provide an adequate framework for maintaining the appropriate level of independence of auditors while not restricting the ability of companies to access the widest possible range of such non-audit services.

We are not aware of any instances in recent years where the provision of non-audit services by a large listed company's auditors has, or may have, adversely affected audit quality, and we consider that other factors have primarily been responsible for recent business failures, particularly in the banking sector. The current standards, through the operation of the existing requirements included in the Combined Code and other relevant regulations, which in turn were enhanced after events such as the Enron collapse, enable audit committees to maintain an appropriate control over such services and to determine, on a case by case basis, the appropriateness of using a company's auditors to provide those services taking into account the need for the Committee to consider the auditors' independence and effectiveness of the audit process.

We are aware that over recent years, audit firms have also significantly strengthened their own procedures and controls in relation to the provision of non-audit services to audit clients. In principle, these also utilise the "checks and balances" approach to consider the appropriateness of a company's auditors providing non-audit services on a case by case basis. In addition, these procedures are themselves, in turn, subject to independent review and assessment by the Audit Inspection Unit as part of their review of audit quality.

As noted in the consultation paper, the term "non-audit services" covers a very wide range of services which can be provided either by a company's auditor or another firm. A number of these services can either only be provided by a company's auditor, or are likely to be carried out much more efficiently if done by the audit firm.

In many other instances, assuming the appropriate checks and balances operate, a company's auditors are as well, if not better, placed than other firms to provide services. Finally, there are a number of non-audit services, which, rightly, audit firms are restricted from providing. In general, we believe that the most appropriate controls around the provision of such services are those which are operated through existing audit committee governance arrangements, as we believe that management and audit committee members are best placed to assess the appropriateness, or otherwise, of a particular service being provided by a company's auditors.

As required by the Combined Code (C.3.7), where an auditor does provide non-audit services, an explanation should be given to shareholders in the Annual Report how auditor objectivity and independence is safeguarded. Shareholders can then determine if such services are appropriate and ultimately shareholders can show their disagreement by voting against the re-appointment of the auditors.

We do believe that enhancements could be made in relation to the disclosure of non-audit fees paid to a company's auditors. We acknowledge that the current disclosure requirements may not best assist the user of a set of financial statements to fully understand the nature and extent of non-audit services being provided by a company's auditor. This in turn may lead to inappropriate perceptions concerning these services leading to a potential reduction in confidence as to the level of independence of a company's auditors.

Finally, we believe that enabling companies to maintain access to the broadest possible range of professional service providers in what is a limited supplier base is important. Any further restrictions on the ability of a company's auditors to provide non-audit services would serve to restrict such access significantly.

We have addressed the specific questions raised in the consultation paper in the attached document.

Yours sincerely

Steve Lucas
Group Finance Director

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

- 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?**

As set out in our cover letter, we do not believe that the provision of non-audit services, of itself, currently impacts confidence in the independence of auditors. However, we do believe that enhancements in the disclosure of these types of services would help the user to better understand the nature of the service provided, as well as the processes used by management to determine that it was appropriate to acquire that service from the company's auditors.

- 1 (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?**

We are not aware of any such instances.

- 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 refer to our answers above. While we are not aware of any such specific instances, we do believe that improved disclosures in this area may serve to further enhance confidence in the independence of auditors. Please see our response to question 4.

- 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.**

As noted in our cover letter, we believe that the existing standards and guidelines provide a robust framework to enable a company, through its audit committee, to maintain the appropriate level of independence from its auditors while still allowing it to access a wide range of services to the benefit of its shareholders. We do not believe that any significant changes in the approach taken by APB are required, other than a consideration of potential enhanced disclosures – see our response to question 4.

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.

For the reasons set out above, we believe that current standards and guidelines are appropriate and do not require significant revision. In addition, as highlighted in the consultation paper, they are also largely in line with international guidance in this area. Any changes which would serve to make the requirements more prescriptive risk diverging from global standards, adding unnecessary complexity to the existing regulatory environment within which we operate internationally.

Overall, we believe that the current checks and balances approach, combined with the ongoing focus and review of a robust audit committee within the broader UK corporate governance standards and guidelines, represents the best approach to ensuring the continued independence of auditors.

We do believe that enhanced disclosure of the nature of non-audit services provided by a company’s auditors in each period would be helpful in addressing any perception of a potential independence threat. We understand that there are industry-wide discussions considering this area, and we recommend that this consultation takes the results of that review into account. In broad terms, we would suggest the following types of disclosures for further consideration:

- Further analysis of non-audit fees into nature of service provided and closeness of linkage to audit service (e.g. to highlight services which are required to be provided by a company’s auditor or which are most efficiently provided in this way).
- Enhanced disclosure in relation to the processes for reviewing and awarding potential non-audit services in advance of the work being undertaken. This would include a more detailed overview of the approval processes together with potential disclosures around value of work subject to competitive tender, reasons for awarding to auditors etc.

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 such potential benefits are one of the factors that should be taken into account in setting the standards relating to auditor independence. Assessing the magnitude of specific benefits in relation to non-audit services is extremely difficult given the huge variety of savings, professional fee levels and other market factors. However, we would highlight the following broad benefits:

- Access to the broadest possible range of professional service providers in what is a relatively limited market once geographical and industry specific factors are taken into account;
- Ability to utilise auditor's existing knowledge of our business together with reduction in potential duplication of cost, as the auditor should generate significant knowledge of other developments in our business through earlier involvement in them;
- We concur with some of the arguments put forward by audit firms in relation to attracting and retaining the best people through offering a greater variety of audit and non-audit work. We believe that the best people in professional services firms should be available to us for our audit services as well as our non-audit services.

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

We have no further comments to make.