



Accountants &  
business advisers

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Dear Ms O'Sullivan

**APB consultation on the provision of non-audit services by auditors to listed companies**

We are pleased to respond to your request for comments on the *Consultation on audit firms providing non-audit services to listed companies that they audit*.

Whilst we accept that there is a genuine concern about the threats to objectivity posed by the provision of non-audit services we are opposed to a total ban on such services for all listed companies.

In general we support the idea of a principles based ethical framework supplemented with specific rules where appropriate. However, in formulating such principles and rules we believe that there should be an acceptance that the needs of smaller listed companies and their investors will differ from those of large listed companies and that some regard should be had to proportionality in determining whether it is acceptable or appropriate for auditors to provide certain additional non-audit services to their clients.

Given the range of options now available to public companies seeking to raise capital in public markets we would also question whether the issue of whether an entity is or is not listed is the most appropriate criterion for determining which non-audit services are or are not acceptable.

Our answers to the specific questions asked in the consultation paper are set out in the appendix to this letter.

Please contact me or my colleague Ian Connon, Technical Director should you wish to discuss any of the points raised.

Yours sincerely

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**APB consultation on the provision of non-audit services by auditors to listed companies****Appendix****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?**

Yes. There is a general perception that the provision of some non-audit services impacts the independence of auditors and this has the effect of undermining confidence in the quality of audit. However, we consider that there is too much focus on the goal of "independence". Auditors can never be truly independent of their clients whilst management is free to choose auditors and to determine their fees. We consider that the focus of standard setters and regulators should be on auditors' objectivity and audit quality rather than theoretical independence per se.

However, our experience with audit committees of smaller listed company audit clients is that their primary concerns do not relate to auditor independence and investor confidence but to our inability as auditors to provide additional services under existing ethical standards.

**(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?**

No.

**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.**

We consider that concerns are greatest in relation to services that are not traditionally supplied by external auditors - such as consultancy and internal audit - especially where fees for such services are significant. We believe that there is generally less concern over the auditor's involvement in accounting issues, preparation of financial statements or the provision of tax compliance services.

**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?**

We think that the current approach involving a mixture of principles and rules and imposing obligations on corporate boards as well as on their auditors is broadly right.

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

- o **Complete or more extensive prohibitions on the provision of nonaudit services by accounting firms to their audit clients within the Ethical Standards for Auditors;**

Whilst there are certain areas of non-audit services where a blanket prohibition is appropriate we are not in favour of excessive prescription or a one-size fits all approach. The needs and capabilities of smaller listed companies and the needs and expectations of their investors are not always the same as those for large multinational companies. Strict rules applied to the audits of all listed entities would deprive such companies of a certain amount of flexibility in sourcing appropriate professional assistance to help them meet their objectives.

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

No. We consider that current ethical standards provide the right balance between rules and principles.

o **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;**

We believe that boards and audit committees should continue to be encouraged to take an active role in monitoring the appropriateness and level of non-audit services provided by the auditor and in evaluating their potential impact on audit quality and investor confidence. As noted below we believe there is some scope for greater transparency and disclosure regarding how this is achieved in practice.

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

Yes. In the interests of transparency we believe improvement could be made to the current levels of disclosure regarding provision of non-audit services. We consider that disclosure could cover:

- specific details of the nature of non-audit services provided;
- the auditor's fees for such services;
- the specific actions taken by the board or audit committee (and possibly the auditors) to ensure that non-audit services provided by the audit will not impact on audit quality; and possibly
- the reasons why it is considered appropriate to source such services from the company's auditors

We also consider that the current disclosure of non-audit fees required by Regulations does not provide a particularly helpful analysis and does not sufficiently distinguish between services traditionally provided by the auditor in conjunction with the audit from the more discretionary services that could be provided by others.

**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.**

Yes. There are services where there is a real benefit to be gained from the provision of other services by the auditor. Three areas are of particular concern:

- Accounting advice – at the smaller end of the listed company scale where finance directors have limited experience and resources many companies feel that there is a benefit to be gained by establishing a relationship with a single firm of accountants and advisers rather than having to invest time and effort in liaising with two firms on the same accounting issue.
- Accountants' reports in connection with a prospectus or other circular. It is generally very difficult for reporting accountants who are not the auditors to prepare such reports without doing extensive audit type work. If auditors were prevented from doing such work this would result in a considerable duplication of effort at a not inconsiderable cost.
- Accounts preparation - many smaller AIM companies are at a loss to understand why auditors are prevented from typing accounts for the company and/or its subsidiaries even when such services are little more than a secretarial function.

The marginal cost of employing a firm other than the auditor will vary depending on the size of the entity and the nature of the service but could, in the case of accountants' reports, exceed the audit fee.



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

As mentioned above we believe that whatever framework is applied to the provision of non-audit services it should recognise that not all companies are the same and that a degree of proportionality is appropriate in its application. Smaller, or relatively immature listed companies do not necessarily have the in-house skills and resources available to larger or more established companies and as a result are often forced to rely more heavily on their auditors for assistance and professional advice. Provided there is adequate disclosure we consider that companies and their investors should largely be left to decide on what is appropriate and what is not, on a case by case basis, without the need for onerous prohibitions on auditors.

It is not clear from the consultation document whether the APB's considerations at this stage relate only to companies with a full listing on an EU regulated market or to "listed" companies as defined in Ethical Standards - which would include AIM companies. Many AIM companies have even less internal skills and resources than the smaller listed companies referred to above and are heavily dependent on external professional assistance and advice. However, in our experience many such companies attempt to follow the lead of listed companies in corporate governance matters and may feel unduly constrained were additional limits to be imposed on the provision of non-audit services by auditors of larger listed companies.

At the same time the FSA is changing the listing regime to create 'premium' and 'standard' categories of listing. Different rules will apply to the two categories such that a standard listing may appeal to some entities as an alternative to AIM and further erode the distinction between listed and AIM companies. In our view, rules and prohibitions applied to all publicly traded companies irrespective of their size, circumstances and needs impose an unnecessary burden on smaller or relatively immature companies with little or no obvious public benefit.