

From: Peter Smith [PSmith@savills.com]
Sent: 11 January 2010 15:34
To: Hazel O'Sullivan
Subject: APB Consultation - Non audit services

Dear Ms O'Sullivan,

I am pleased to provide a brief comment in respect of the consultation paper on non audit services. I do so in a personal capacity but based on my experience over the last ten or so years as chairman of three FTSE 250 companies and chairman of the audit committee of a FTSE 100 company and a number of unlisted companies.

In response to the issues in Section 7 of the paper my comments are as follows:

- 1(a) No. I can see someone making that assertion but, as explained below, the assertion is not sustainable
- 1(b) No. As the paper itself suggests, there is no evidence that this has been the case in recent years. In my experience the factors that can challenge the quality of the audit are more likely to be a dominant company chairman or CEO, or the large size of the audit fee relative to the size of the office or firm of auditors.
- 2 n.a
- 3 Over recent years, and particularly since the Smith report, there has been a major beneficial change in the relationship between the auditors and the audit committee. The ethical standards associated with independence are well understood and applied by both parties. Audit committees have laid down parameters for the permissible and non permissible non audit services and processes for approving fees. They are conscious of the expectations of shareholders. The evidence in the paper suggests that non audit fees are falling. Management increasingly has to justify using the auditors for non audit work. There is now more meaningful disclosure. In short, it is all going in the "right" direction without any new rules being required.
- 4 It would be regrettable if a total prohibition of non audit services were introduced since this could work against the interests of shareholders if the auditors had special skills or confidentiality was required. I can see no reason why non audit services should not be pre authorised provided that there is a de minimis limit to avoid excessive bureaucracy - indeed, in my experience most audit committees require just that. Because of the desire to maintain confidence in the quality of audit, most companies in my experience describe the nature of non audit services provided.
- 5 Yes. See 4 above
- 6 Be confident in the processes that have been developed post Higgs and Smith. Require evidence before responding to assertions.

Please let me know if there is any further information you require

Yours sincerely,

Peter Smith

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