

Response to APB's consultation process in relation to the provision of non-audit service work by auditors

1a	Do you think that the provision of non-audit services by accounting firms to their clients currently impacts confidence in the independence of auditors?
	<p><i>Petrofac Limited (the Company) has no evidence to suggest that its shareholders or the wider investment community is concerned that the provision of non-audit services by auditors impairs confidence in the independence of auditors. The matter has not been raised by any of the Company's shareholders, either institutional or retail, since the Company's admission to The London Stock Exchange in October 2005. Further the Company has not been contacted with regard to this matter by any shareholder body (e.g. the ABI or the NAPF).</i></p> <p><i>The Combined Code stipulates that a listed company should constitute an audit committee, which inter alia, is required to review and monitor the auditor's independence and to develop and implement a policy, which takes into account the FRC's relevant ethical guidance, on the engagement of the external auditor to supply non-audit services. Petrofac believes that provided a company's audit committee discharges its duties conscientiously there should be no lack of confidence in the independence of auditors. Petrofac has a policy in relation to the engagement of its auditors for non-audit service work, which is reviewed by the Audit Committee on an annual basis and disclosed in the Company's Report and Accounts.</i></p>
1b	Are you aware of any instances where the provision of non-audit services by accountancy firms to their audit clients has or may have adversely affected audit quality?
	<p><i>The Company is not aware of any such instance. We believe that the current safeguards in place are sufficient to protect audit quality. Indeed we are of the view that there are occasions where it is in the shareholders' interests to engage the Company's auditors to carry out certain non-audit service work.</i></p>
2	If you do consider that the provision of non-audit services has adversely affected quality or currently impacts confidence in the independence of auditors please identify which non-audit services are of concern. Please give reasons for your view.
	<p><i>The Company does not believe that the provision of non-audit services by auditors impacts confidence in the independence of auditors subject to the existence of an appropriate governance framework for both a company and its auditor and clear disclosure to shareholders.</i></p>
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 they audit? Please give reasons for your view.
	<p><i>Petrofac does not believe that there should be any change to the approach taken by the APB to the setting of standards relating to the provision of non-audit services by auditors. Ethical Standard 5 comprehensively covers the ethical issues relating to the provision of non-audit services. We believe that a principles based approach, which seeks to identify</i></p>

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	<i>threats to auditor independence and implement appropriate safeguards results in a pragmatic and proportionate response to possible threats to auditor independence. We believe that a more prescriptive approach to the engagement of auditors to carry out non-audit service work would bring little benefit.</i>
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.
	<p><i>We do not believe that there is a justification for complete or more extensive prohibitions on the provision of non-audit services by auditors or the imposition of other requirements through Ethical Standard 5. We believe that complete or further restrictions on auditors conducting non-audit work will result in less choice for the Company. We are a large international company and the number of audit firms capable of carrying out non-audit service work is relatively limited and to restrict further the Company's choice of non-audit service providers does not best serve the Company's shareholders.</i></p> <p><i>Petrofac discloses its non-audit services policy in its Report and Accounts and its Audit Committee regularly reviews non-audit fees. We would support amendments to the Combined Code (or future Corporate Governance Code) which stipulated that a company should disclose its policy and explain how it monitors it. We understand that there is some ambiguity in relation to what does and does not constitute non-audit service work and would welcome any changes in disclosure requirements which provides shareholders with greater clarity.</i></p>
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 the answer is yes, please provide specific examples of those benefits and indicate the magnitude of any cost savings that arise.
	<p><i>The Company does believe that there should be regard to the perceived benefits that are derived by companies from the provision of non-audit services by their auditors. Specific examples are as follows:</i></p> <ul style="list-style-type: none"> <li><i>• The review of interim reports, a very significant non-audit service.</i></li> <li><i>• Due diligence exercises where a company's auditor already has detailed knowledge of the company and its risks.</i></li> <li><i>• Situations where regulators specifically appoint a company's auditor to audit or review certain certifications.</i></li> <li><i>• Letters of comfort provided to banks or underwriters confirming that</i></li> </ul>

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	<p><i>the information provided in a prospectus is consistent with the audited accounts.</i></p> <ul style="list-style-type: none"> <li>• <i>For companies listed in the US, section 404 requirements of the Sarbanes-Oxley Act 2002, which requires an auditor's report on management's report on a company's internal controls.</i></li> </ul> <p><i>A company would be required to incur significant cost for no additional benefit were it necessary to engage an accounting firm other than its auditor to conduct any of the above types of work.</i></p> <p><i>More generally, we believe that the ability to engage our auditors to conduct non-audit service work results in quality, consistency, cost and timeliness benefits. Our auditors already know Petrofac well and therefore do not require the same degree of briefing and oversight that would be required for firms not familiar with the Company.</i></p>
6	<p>Are there any other views that you would like the APB to take into account?</p>
	<p><i>Petrofac adheres to a carefully considered non-audit services policy which is regularly reviewed and monitored by our Audit Committee. Petrofac's non-audit spend as a proportion of its audit fee was 10.8% in 2008, 16.1% in 2007 and 28.2% in 2006. We believe that the current governance framework is appropriate although we would be happy to see a move towards greater transparency both in relation to how a company monitors non-audit work and disclosure requirements.</i></p>