



Your ref

Our ref

29 January 2010

Hazel O'Sullivan
Project Director
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Dear Hazel

APB CONSULTATION ON AUDIT FIRMS PROVIDING NON-AUDIT SERVICES TO LISTED COMPANIES THAT THEY AUDIT

Introduction

We are a top 40 accountancy practice and although our client base is predominantly unlisted entities we do act for some listed companies.

We include below our responses to the questions asked in section 7 in respect of listed entities:

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?

We believe that there is a "perception" amongst some institutional investors that the provision of non audit services by the auditors of a company impairs their independence. However there are other stakeholders that also need to be considered. Based on our discussions with shareholders and management of smaller listed entities (those listed on PLUS and AIM) they have no concern with the provision of non-audit services by auditors and can see the benefits that it offers being able to get advice they need from a firm which already understands their business.

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- (b) Are you aware if 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 confirm we are not aware of any instances where the provision of non-audit services has or may have adversely affected audit quality.

- 2. If you consider that the provision of non-audit services has adversely affected audit quality or currently impact confidence in the independence of auditors please identify which non-audit services are of concern. Please give reasons for your view.**

As noted above we consider the only impact is the perception amongst certain institutional investors. Given the request appears to be for a complete prohibition on the provision of non-audit services by auditors it is not possible to determine whether there are particular areas which concern them. Under the existing APB Ethical Standards for Auditors (“the Ethical Standards”) audit firms are prohibited from providing some non-audit services to listed companies, and there is a requirement for safeguards to be put in place if they want to provide other services. It is unclear to us whether the institutional investors that are perceived to have an issue with the provision of non-audit services understand the current code of ethics and, if so, why they consider that it is deficient.

It is important that a principle based approach is maintained, so that the circumstances of each situation and each specific non-audit service can be taken into account.

- 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 the APB to the setting of standards relating to the provision of non-audit services by auditors to the entities that they audit?**

We do not believe that there is any need to change the existing approach taken by the APB to the setting of standards relating to the provision of non-audit services. The Ethical standards when properly applied are adequate for their purpose.

As noted above we believe that a principle based approach to ethical standards must be retained, if it becomes more rules based, people may try to find ways round the rules, with a principle based approach this is more difficult. If further more extensive rules were to be implemented then consideration should be given to the type of entities that they would be applied to. For example it seems that the concern is mainly around companies listed on the main stock exchange rather than those listed on PLUS or AIM, if further regulation is introduced then a distinction should be made between the different types of listed entities, which is not currently the case under the existing Ethical Standards.

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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;**
- **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.**

As mentioned above we do not believe that any changes are necessary to the APB Ethical standards, nor the imposition of other requirements through the Ethical Standards.

In relation to the “perception” issue, we agree a good alternative would be to address it via more active corporate governance. Any additional requirements should however be aimed at those companies who are listed on the London Stock Exchange where the main focus of institutional investors is aimed. It should not be applied to those companies listed on Plus or AIM as the governance and structure of these types of companies are different and should therefore be considered separately.

We believe the current disclosure requirements for fees paid to auditors are adequate.

5. In setting the standards relating to auditor independence, do you believe regard should be had to the potential 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 regard should be had to the benefits which are derived by companies from the provision of non-audit services by their auditors. From our experience the provision of non-audit services often leads to a better audit. The firm’s knowledge of the client and the business is often improved by the provision of other services. Clients also receive benefit from improved advice as a result of the improved knowledge of the client and better value for money due to the synergies. It is not possible to quantify the amount saved as it does vary on type of other service provided, and the size and complexity of the company.

Clients value the fact that their auditors are able to provide them with a range of services, and recognise the cost savings, and also the time savings (time being a valuable resource to management) as referring the work to a firm that already understands their business means their time is often reduced. Limiting firms from being able to provide other services to clients and therefore increasing the costs to companies due to the mistaken perception that it

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impacts on auditor's independence would be inappropriate and an alternative must be found to address the perception issue.

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

It is important that everyone's views are taken into account, but they should also be kept in perspective. We understand that the perception issue for certain institutional investors needs to be addressed, but with no clear evidence that a ban on the provision of non audit services to audit clients by firms would enhance the quality of an audit, an alternative must be found.

There has been some suggestion that by introducing a prohibition of non-audit services to listed companies this would enhance audit choice, or enable mid tier firms to increase their exposure to the larger listed companies. We do not believe that this would necessarily be the case; it is more likely that the company will look to another of the large firms who already has extensive experience in that area, especially in certain industries such as banking and financial services.

We believe that it is important that the Auditing Practice Board supports the existing Ethical Standards and their underlying principles. Any changes to the standards should only be made where a legitimate reason is established; where it is clearly shown that the existing standards do not work.

If you would like to discuss our responses with us then please contact either Catherine Willshire (Technical Senior Manager) or Martin Clapson (Management Board Chairman and Audit Compliance Partner)

Yours sincerely



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