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To: Hazel O'Sullivan
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Subject: APB consultation - the provision of non audit services to audit clients
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APB Consultation: Provision of non audit services by auditors

I make this submission in a personal capacity as chairman of the audit committees of two listed companies, Wolfson Microelectronics plc and Psion plc. In its paper, the APB is considering the introduction of further rules limiting the amount of non audit work with which an audit firm can provide its clients. I believe any further prescription is both unnecessary and is likely to mean that the companies are banned from using the best supplier for some of the services required. Clearly, the APB is concerned with auditor independence and audit quality, as are we all, but in my view this has very little, if anything, to do with the level of information audit services provide. My reasons are summarised below:

- Auditor independence in particular is far more a function of the importance of the client company to the audit firm than it is to do with the proportion of non audit services provided. If there is a question of independence, the appropriate measure is the materiality of the audit and other fees as a percentage of the audit firm's revenue (i.e. how important is the company's business to the audit firm). In the case of Bernard Madoff's empire built on sand it should have been clear that the audit company was entirely dependent on Madoff for its existence and thus it could certainly not be considered independent even if it had performed no non audit services what so ever. Clearly this is an extreme example but the principle is sound.
- The quality of governance and in particular the role of the audit committee has improved immeasurably over the past ten years or so and audit committees of all companies are very aware of the need to ensure auditor independence. Also, audit quality is a topic re-assessed, at least in my companies, every year. Where the auditor is asked to provide non audit services, it is because the company believes that the audit firm is best able to provide that service on a timely and cost effective basis and with the larger assignments that decision always has to be justified before the audit committee. In such circumstances it would be positively damaging for companies such as Wolfson or Psion to be forced to use other providers.
- For any company outside the FTSE100 it is probably fair to say that the percentage of revenues provided overall to their audit firm is immaterial to that firm. In fact, over the recent period the percentage of non audit services has declined but even so many investors, including representative bodies such as ABI, seem to be to be far too concerned by the proportion of non audit services than is necessary. As I made clear in my first point above, that percentage is irrelevant to auditor independence and audit quality and in any event the audit committees are the best judge of who is the best provider of services.

In conclusion, I would be adamantly opposed to any further restrictions of the kind being considered. There is, I believe, a strong case to be made that for the very large companies, in particular banks but it also applies elsewhere, the large accounting firms have not committed themselves particularly well in their role of protecting investors. However, the form of prescription currently under consideration is, I believe, the wrong medicine for the wrong ailment. I am afraid that it all seems to be part of a belief by the regulators that we need more and more detailed rules as opposed to what has served the UK very well in the past, namely good old fashioned principles.

Best regards

Ross

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