

APB Ethical Standards
**Consultation on Audit Firms Providing Non-Audit
Services to Listed Companies That They Audit**

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?***

RBSG does not believe that the provision of non-audit services by accounting firms to their audit clients should impact confidence in the independence of auditors, however we acknowledge that there may be a perception held by the public that the provision of these services can compromise independence.

It is our view that the processes and controls currently in place within most organisations provide sufficient protection and safeguards to mitigate against any potential threat to auditor independence. However, more focus could be given to communication and disclosure of the rigorous process for the appointment of auditors and any subsequent non-audit services they provide.

- (b) ***Are you aware of instances where the provision of non-audit services by accounting firms to their audit clients has or may have adversely affected audit quality?***

RBSG is not aware of instances where the provision of non-audit services by accounting firms to their audit clients has adversely affected audit quality within the Group.

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. Please give the reasons for your view.***

As mentioned above, there may be residual public perception that the provision of non-audit services adversely impacts confidence in the independence of auditors. We do not believe any service is of specific concern. The negative perception is partly driven through the disclosure of the aggregate level of fees attributable to non-audit services in the Annual Report and Accounts. For this reason we believe that clarification of the disclosure requirements would help to provide clarity. Further details of our proposals can be found below in our response to question 4.

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? Please give reasons for your view.***

RBSG does not 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.

However, as mentioned above we believe that improved disclosure in the Report and Accounts to include a more detailed breakdown of the audit, audit

related and non-audit services provided by auditors and the fees connected therewith, together with a comprehensive description of the approval policies and processes in place for non-audit services, should be extended to all listed companies.

Furthermore, we believe that the pre-approval of non-audit services is a strong control against potential threats and would advocate all listed companies adopting this model as best practice.

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;***

No, RBSG does not agree there should be complete or more extensive prohibitions on the provision of non-audit services by accounting firms to their audit clients.

As RBSG operates in multiple jurisdictions including the US, its policy on non-audit services is driven by the UK threats and safeguards approach adopted by the APB and also the legislative standards that apply in Europe and America.

We support the UK approach that sets out fundamental principles, requires a reasoned analysis of possible threats to the principles and provides guidance on potential safeguards to mitigate those threats.

We believe that this approach provides a more robust framework for determining the appropriateness of a potential engagement and does not assume that any engagement that is not specifically prohibited is permitted. Instead it requires the auditor and the firm to consider each engagement on its own merits and analyse the potential threat to the independence and objectivity of the auditor. It recognises that the threat to independence always exists and seeks to minimise that threat by establishing safeguards that either eliminate the threat or reduce it to immaterial or acceptable levels. Furthermore, minimum standards are implemented recognising that there are specific activities where the risk cannot be eliminated and such engagements are automatically prohibited.

A principles based approach is more flexible and capable of being applied to evolving circumstances and in an international context.

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

No, the current Ethical Standards for Auditors are sufficient.

- **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;**

Yes. All non-audit services procured from RBSG’s auditors are subject to pre-approval by the Group’s Audit Committee, in order to comply with requirements arising as a result of RBSG operating in multiple jurisdictions. We would support this requirement being extended to all UK listed companies as an indication of good governance.

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

RBSG would advocate clearer (and more extensive) disclosure in financial statements.

We believe that the disclosure in the Annual Report and Accounts of the Auditor’s remuneration could show a clearer distinction between audit, audit-related and non audit services. Under the requirements of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 and the guidance provided by the ICAEW, fees disclosed for work relating to Section 404 of the US Sarbanes-Oxley Act are disclosed under “Other services pursuant to legislation”, together with all fees for reports to regulators and interim reviews. Fees for these services would be included within the “Total fees for non-audit services”.

We believe that the inclusion of audit related services within the non-audit services total is misleading to shareholders and inconsistent with the disclosure requirements of the SEC. Accordingly, we believe that audit and audit related services should be disclosed separately from other services, including non-audit services in order to provide a more informative disclosure and better reflect the nature of the services provided by the auditor.

5. ***In setting standard 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, RBSG believes that regard should be had to the perceived benefits that are derived by companies from the provision of non-audit services by their auditors.

RBSG would only engage its auditors where we are satisfied that there would be no impact whatsoever on independence and where we are satisfied their engagement would bring significant economic benefit or improve effectiveness. It follows that denying RBSG access to that reservoir of knowledge and experience would be (on occasions seriously) detrimental to the Group’s interests – notably where significant transactions or projects were being undertaken against tight timescales.

Although difficult to quantify precisely, the benefits of non-audit services provided by auditors include efficiency of process brought about through access to a greater degree of knowledge, understanding and experience of the client. This in turn may lead to possible time and cost savings, which may be of particular assistance where either or both factors are particularly restricted.

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

All non-audit service engagements performed by RBSG's auditors have followed the rigorous pre-approval policy established by the Group and the proposed use of the auditor has been challenged and rejected where considered appropriate by either management or the Group Audit Committee. The service provision is reviewed regularly together with the cumulative fee position both in relation to audit fees and also consultancy fees paid to competitors.

RBSG considers that the process operates effectively and will continue to review permitted non-audit service requests to determine appropriateness prior to approval in accordance with its approved policy.