

**SIR DAVID CLEMENTI  
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Hazel O'Sullivan  
Project Director  
The Auditing Practices Board Limited  
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Dear Ms O'Sullivan,

I am replying to the APB paper headed "Consultation on audit firms providing non-audit services to listed companies that they audit". The consultation paper is dated 6<sup>th</sup> October 2009. I set out below my view on some of the issues which are raised by the paper. I recognise that my response by no means covers all of the issues on which you have sought views.

I should say that I am a member of a number of audit committees, including of listed companies. However, this response represents my own personal views.

My view is that auditing firms should be permitted to provide non-audit services to their audit clients. This should be permitted subject to the safeguards which I set out below. My main reason for permitting the provision of non-audit services is that I believe it would severely reduce choice if the existing auditor could not compete for this work. Much of the non-audit service provided, certainly for larger listed companies, is investigative work associated with mergers and acquisitions. In many cases this work needs to be carried out by a major firm with an international network. The number of firms able to do this work is restricted, particularly since some of those, who might otherwise be eligible, are often conflicted.

The main argument against permitting the provision of non-audit services by the auditor to a company is raised in question 1(a) on page 25, that is the suggestion that such work impacts the independence of the audit function. I do not believe that this issue is of such a concern that it overrides the "need for choice" argument set out above; and I think the independence issues can be dealt with through the safeguards I would like to see in practice.

The safeguards I seek are:

1. There should be a proper ring fence around the audit function of accounting firms. Audit partners should not be permitted to provide non-audit services to their clients, or indeed in my opinion to other clients of the firm.

2. In order to maintain the separation, each accounting firm should set out the names of the audit partners involved in audit work. The profit and loss account relating to the audit function should be disclosed separately in Annual Accounts. Auditors often argue that they do not make a profit from auditing work, which would be a concern if true; but, since there is a lack of transparency in the published accounts of most accounting firms, the true profitability by function is very hard to determine.
3. Audit partners should not receive any direct financial benefit (through a points system or similar remuneration formula) when audit clients use the firm for non-audit work.
4. As regards the client involved, there should be a clear process, involving the Audit Committee, for authorising non-audit work carried out by the Auditor.
5. There should be full disclosure in the client's Annual Accounts of non-audit services provided by the Auditor.

In short, I am not opposed to accounting firms offering non-audit services. But there should be a ring fence around the audit function, so that there is clear transparency about the identity of those involved in the audit function, and the profit and loss arising from the audit function.

I hope this short contribution is of help. I would be happy to expand on any individual point if you wish.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Clementi'. The signature is stylized, with a large 'D' and 'C'.

Sir David Clementi