

By email: h.osullivan@frc-apb.org.uk

Hazel O'Sullivan
Project Director
The Auditing Practices Board Limited
5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

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Dear Ms O'Sullivan,

Smith & Nephew plc welcome the opportunity to comment on the Auditing Practices Board Consultation Paper on Audit Firms providing Non Audit Services to Listed Companies that they Audit. Smith & Nephew plc is a UK FTSE 100 company, with a secondary listing on the New York Stock Exchange. We have around 23,000 registered shareholders and operate in over 30 countries across the world.

- 1) We do not believe that the provision of non-audit services by accounting firms to their audit clients necessarily impacts the audit quality. We understand that there could be a perception by third parties that this might be the case, but we believe that there are strict controls in place, both within the company and in the audit firm to ensure that independence is maintained. In support of this, we would note the following:
 - When a firm carries out non- audit services, invariably these services are performed by a different practice team under a different partner. We have noticed that there is a tendency on the part of the audit partner to be more cautious and challenging in cases where one of his fellow partners has undertaken the non-audit work.
 - One area of concern might be where the audit is relying on services provided by other parts of the firm. However, frequently, when non-audit services are provided there is further supporting evidence from external counsel or other advisors. This helps to give independent corroboration.

- 2) Not applicable, see above
- 3) We do not believe that there is any need for the Auditing Practices Board to change their approach to the setting of standards relating to the provision of non-audit services. The APB Ethical Standards for Auditors, as explained in your consultation paper, comprehensively cover the ethical issues in this area and work well in practice.
- 4) We do not believe that there should be any change to current arrangements relating to the type of non-audit services an audit firm may provide to its audit clients and would wish to make the following points:
 - When we require a non-audit service to be undertaken, we are looking for the best service available for the best price. We would invariably tender the work and then award the work to the firm that we feel would provide the best service, based on their expertise, knowledge of the subject matter and indeed knowledge of our company and its particular issues. Sometimes, this means that our auditing firm is awarded the work, but this is not always the case. Global companies with complex requirements frequently find that it is very difficult to find a firm with the necessary expertise in a particular area. The number of firms with the quality and international reach we would need is usually restricted to the “big four” and, for many projects, we would not therefore wish to give work to smaller firms. It makes no sense to limit that choice even further by excluding one firm from the tendering process, purely because another part of that same firm happens to provide audit services.
 - Most large companies and especially those listed in the US and subject to SEC regulations currently have Auditor Independence Policies, many of which require Audit Committee prior approval for any non-audit services to be undertaken by the audit firm.

We recognise however that there may be scope for better disclosure in financial statements or websites as to how companies ensure independence, perhaps through the publication of their Auditor Independence Policies. There could also be a requirement for Audit Committees to conduct an annual review, if they do not do so already, of the amount spent by the Company on non-audit services.

- 5) We believe that there are a number of benefits to companies in using their audit firms to undertake non-audit services, including:
 - Familiarity with the company, its products, services, issues and difficulties. A firm who is already familiar with a company should be

able to complete audit or non audit work more quickly and efficiently than a firm who has no knowledge of particular issues affecting the company. This has the effect of producing higher quality work more quickly and possibly for a lower fee than if the work were undertaken by a firm less familiar with the company.

- It is useful to spread non-audit services between different firms, including one's own audit firm. If a company were to put all its non - audit work to one other firm, this would have the effect of limiting the number of audit firms in the future who might qualify as independent to be considered as the company's auditor, when the contract was next re-tendered.

6) We do not have any further comments to add.

Yours sincerely,

Susan Henderson

**Susan Henderson
Company Secretary**