



**STANDARD LIFE**

**STANDARD LIFE INVESTMENTS**

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26<sup>th</sup> January 2010

Ms Hazel O'Sullivan  
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By email: [h.osullivan@frc-apb.org.uk](mailto:h.osullivan@frc-apb.org.uk)

Dear Ms O'Sullivan,

**The provision by audit firms of non-audit services to listed companies that they audit.**

Thank you for your invitation to comment on the view of the Treasury Select Committee that investor trust and confidence in listed company audit would be enhanced by a prohibition on audit firms conducting non-audit work for the same company. We write on behalf of Standard Life plc and its wholly-owned subsidiary Standard Life Investments Limited. Standard Life plc is a UK FTSE 100 company with around 1.5million shareholders. Standard Life Investments has £137 billion of assets under management as at 30<sup>th</sup> September 2009. As both an issuer and a significant investor in the securities issued by corporate entities worldwide, we welcome the opportunity to comment on a matter that has a direct bearing on the confidence that can be attached to audited accounts and statements issued by listed companies.

We address the questions that you pose as follows:

The independence of auditors. Despite well publicised individual cases, there is little evidence to suggest a systemic correlation between audit failure and the provision of non- audit services by a listed company's auditor. Furthermore, we believe that the recent evolution of UK company law, the Ethical Standards for Auditors issued by the APB and the FRC's Combined Code on Corporate Governance with its supporting Guidance on Audit Committees provide a generally robust framework for the assessment of the independence of a company's external audit. In particular, by specifically prohibiting non-audit services in certain situations, ES 5 of the 2004 Ethical Standard captures those conflicts of interest that are most likely to degrade the quality of the audit and confidence in the independence of the external auditor.

We believe that provided that the Audit Committee complies with the Combined Code provisions and Guidance and develops, implements, monitors and reports on a policy on the engagement of the external auditors to supply non-audit services, the provision of such services should not impact on the independence of auditors employed by that company. Key provisions of the policy must be in place to ensure that the auditor's independence is maintained.

Standard Life Investments Limited, tel. +44 131 225 2345, a company registered in Scotland (SC 123321) Registered Office 1 George Street Edinburgh EH2 2LL.

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We believe that there are instances when engaging its auditor for non-audit services, within the terms of the policy, is advantageous to the company and its shareholders. For example, an auditor who has detailed knowledge of a company's business should be beneficial to management as the company needs to spend more time briefing a firm unfamiliar with the business before it can commence the non-audit work. As a consequence of engaging the auditor, the company may save on fees and the non-audit work can be undertaken sooner. However, when such work is commissioned and undertaken, the Audit Committee must be satisfied that it falls within the terms of the permitted activities within the policy and it must closely monitor closely the non-audit fees that are generated.

Disclosure. While disclosure (within the statutory accounts) of remuneration paid to a company's auditor for non-audit services is required by company law, we believe that investor confidence would be enhanced by greater granularity in such disclosures. While there is a balance to be struck between transparency and commercial sensitivity, we believe that it would be reasonable for audit committees to be encouraged to provide greater context within their report for the reasons behind the contracting of such non-audit services as well as their cost.

Pre-approval. As investors, Standard Life Investments Limited remains sceptical of the adoption of narrowly focused remedies that seek to address perceived shortcomings in corporate governance of a more general nature. The boards of listed companies enjoy powers of stewardship that are delegated to them by shareholders and measures which restrict the discretion of boards undermine this relationship. We are also doubtful that a regime whereby the commissioning of all non-audit services required the prior approval of either the board or audit committee would of itself generate greater confidence in the effectiveness of independent oversight. Locating this responsibility with the audit committee would require a level of engagement with the day-to-day management of a company's financial stewardship that the committee may be ill-equipped to undertake. Notwithstanding, we also recognise that the governance of listed companies would benefit from greater clarity about the expectations of shareholders regarding the provision of particular non-audit services. By way of example, the recent debate about issues such as "Going Concern" is illustrative of investor unease at the management of liabilities at listed companies and of the nature of the advice that is received on such matters from third parties. Equally, audit committees should be explicitly encouraged to exercise more rigorous oversight of the provision of non-audit advice that relates to liability management, such as tax planning, and to make the appropriate disclosures in the report and accounts.

Executive remuneration. The apparent excesses of executive remuneration have been well documented in the media. Less well highlighted has been the increase in the provision of remuneration advice to company remuneration committees by those firms that also have expertise in conducting external audit. The consolidation of the auditing profession and the benchmarking inherent in the advice given to remuneration committees have arguably contributed to the so-called ratchet effect observed in executive pay. These factors and the clear linkage between remuneration outcomes and audited company results risk undermining confidence in the external audit process overall. While the 2004 Ethical Standard specifically forbids a firm providing remuneration advice to a listed company for which it provides external audit, institutional investors would support a more comprehensive prohibition. Such a disaggregation of remuneration advice from the other functions of the auditing profession would, we believe, enhance confidence.

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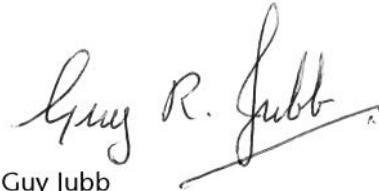
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In summary, while we welcome the opportunity to participate in the review of the case put forward by the Treasury Select Committee, from the perspective of Standard Life plc, we do not feel that applying our current policy with regard to the provision of non-audit services has caused us or our shareholders any concerns. We note that this is the third time in five years that stakeholders have been asked to comment on the regime for the provision of non-audit services. We believe that these matters are best addressed by those that commission these services, namely listed company boards. Greater disclosure of the oversight and context of these services would enhance confidence in audited accounts and of corporate stewardship.

Yours sincerely



Malcolm Wood  
*Group Company Secretary and General Counsel*  
Standard Life plc



Guy Jubb  
*Head of Corporate Governance*  
Standard Life Investments Limited

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