

## Hazel O'Sullivan

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**From:** Aga.Phillips@corusgroup.com on behalf of Frank.Royle@corusgroup.com  
**Sent:** 22 January 2010 10:34  
**To:** Hazel O'Sullivan  
**Cc:** andrew@starfish62.wanadoo.co.uk  
**Subject:** The Auditing Practices Board - Consultation

Consultation on audit firms providing non-audit services to listed companies that they audit.

I am responding to the above consultation on behalf of Tata Steel Europe Limited (formerly Corus Group plc). Tata Steel Europe Limited is no longer a listed company, having been acquired by Tata Steel Limited of India in 2007. Tata Steel Limited has a primary listing in Mumbai and also a listing of GDRs in London. However, as the largest UK based manufacturing company, we feel that our views remain valid and worthy of consideration by the FRC and APB.

In its former guise as Corus Group plc, the company was bound by both its UK and its US listing. A policy regarding the control and monitoring of audit and non-audit work by the company's auditors was (and still is) maintained, with all non-audit services approved by the company's audit committee. The policy included (and still does) a prohibition on specific services as prescribed by the US regulatory authorities.

In our view these arrangements act as an adequate and appropriate method of ensuring the independence of the auditor, whilst allowing the company flexibility in using its audit firm where it is efficient and cost effective to do so. The effect of the changes made a number of years ago has been to significantly reduce non-audit related fees to an acceptably low proportion of audit fees. We do not support further restrictions being imposed on a system that is 'fit for purpose', well understood and managed by the board of directors and the audit committee, and provides some flexibility for companies to minimise cost and maximise audit quality whilst retaining auditor independence. However, we would support some improvement in disclosures to ensure that a more meaningful picture is provided of the company's policy in regard to provision of non-audit services and what services have actually been provided. In this context, we believe it is important to recognise that a large proportion of fees currently classified as 'non-audit' are, in fact, audit or statutory related. For example, fees incurred in connection with prospectus preparation, working capital reports, etc.

I have responded below to the specific questions laid out in section 7 of your consultation document.

Frank Royle  
Finance Director

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? I have described above how Tata Steel Europe Limited controls and monitors the provision of non-audit services. We have a clearly defined policy as to which work can be carried out by the audit firm, in many cases after competitive tender, and which work we will not permit the audit firm to undertake. In the case of permitted work we have clearly defined authority guidelines governing the size of fee commitment that can be approved at each management level. This provides confidence to the company that the provision of non-audit services does not negatively impact the independence of auditors. With appropriate disclosures referred to above, investors should have similar confidence.

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

No - in our experience accounting firms are acutely aware of the need to remain independent and evidence that independence to their audit clients.

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.  
Not applicable in view of answer to 1(a).

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?

The policy adopted by Tata Steel Europe Limited was heavily influenced by the regulatory constraints of the US listing for Corus Group plc and was, thus, 'rules' influenced in addition to having regard to the 'underlying threats and safeguards approach'. As a company, therefore, we would be equally comfortable with the existing UK approach or the US approach, provided the range of restrictions was not increased beyond the current level.

4 If you think 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;

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

- \* 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;

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

The response to question 3 really covers this ground i.e. Tata Steel Europe Limited would be equally comfortable with a US style approach, but does not specifically advocate this change. We do not favour more prohibitions and believe that the issue is being overblown in public debate at this time.

However, we do advocate better and more extensive disclosure along the lines referred to in the covering note above.

5 In setting the standards 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?

Yes we do believe so. Your consultation paper touches on the main areas of benefit for companies in paragraphs 3.3(a) and (b). It is sometimes difficult to quantify the cost savings, but in most cases there is a marked efficiency benefit, and avoidance of cost duplication and of learning costs that would apply to a new supplier. In addition, in many cases, it is a saving of management time that is also material i.e. the audit firm's familiarity with the client saves both their time in conducting the work and management's time in briefing and responding to queries.

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

I would refer you to my introductory remarks above.

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