



The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

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Dear Madam

The Provision of Non-Audit Services by Auditors

We are pleased to respond to the Auditing Practices Board's (APB's) second Consultation on the provision of Non-Audit Services by auditors.

Who we are

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

We welcome the continuation of the wide consultation by the APB on this topic and the opportunity to respond on these issues.

Due to the nature of the consultation we have not sought to answer all the questions raised. We have focused on our responses on our experiences as preparers of financial statements, including our interactions with investors and stakeholders.

We continue to be strongly supportive of the APB's position that there should be no outright prohibition on non-audit services, and commend the predominantly balanced approach that has been outlined in the consultation.

We also support the proposal that any perceived lack of independence and objectivity can and should be addressed through appropriate disclosures within the financial statements. We welcome additional guidance to Audit Committees to consider when appointing the auditors to undertake non-audit work. We believe that our members currently already adhere to the guidance outlined, but are of the opinion that this serves the purpose of highlighting and clarifying responsibilities which are already undertaken.

Our one point of caution for the Board is in relation to the proposed additional disclosures. From experience, whereas clear, focused and appropriate disclosure can clarify and assist understanding, excessive, broad reaching and overloaded disclosure will counteract. We would suggest to the Board that proposals to provide explanations for each significant engagement of auditors to perform non-audit services is excessive and could act to restrict competition. If the Audit Committee fully explains its policy and confirms that each engagement has been reviewed in the light of such policy we would suggest that this would be sufficient for investors.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Peter Williams', with a large, sweeping flourish at the end.

Peter Williams

The Hundred Group – Investor Relations and Markets Committee

APPENDIX

Question 1: Do you support the approach outlined in paragraphs 2.10 to 2.18? If not, please indicate what, if any, other action should be taken. In particular, does the proposal in paragraph 2.15 present practical difficulties to auditors of small or medium sized entities?

We broadly support the proposals outlined in paragraphs 2.10 to 2.18.

In particular we fully support the APB's conclusions both 'that a blanket prohibition of non-audit services to audited entities would not be proportionate' and that 'there are a number of specific services (audit related services) in relation to which the APB believes that most shareholders would not consider it controversial for the auditor to undertake the work'. As outlined in our response to the APB's consultation in January 2010, we support increased disclosure and transparency to assist with investor understanding.

We do not comment on any practical difficulties that may be presented by paragraph 2.15.

Question 2: Are the correct services included in the list of audit related services (see ES 5 (Revised), paragraph [AD])? If not, please identify the changes that should be made and indicate whether the provision of such services gives rise to threats to auditor objectivity and independence (other than threats which are clearly insignificant).

We consider that the list of audit related services is comprehensive with two exceptions.

We would ask the APB to consider expanding the list of audit related services to include Investment circular assurance and Pension scheme audits as these both fall logically to our external auditors.

Question 3: Will disclosure of additional information about non-audit services in the form of a template (such as that included as an appendix to ES 1 (Revised)) reduce the perceived threats to objectivity and independence arising out of the provision of non-audit services? Do you have any suggestions to improve the template?

We refer the APB to the comments raised by investors in response to this question.

In our opinion disclosures such as those outline in Appendix to ES1 (Revised) will provide greater clarity, transparency and more meaningful information. Consequently we expect that this will reduced perceived threats to objectivity and independence.

Question 4: Will the proposed changes to the FRC's Guidance on Audit Committees reinforce audit committees' responsibility for:

- **determining whether a company's auditor should be permitted to provide particular non-audit services? If not, what further guidance should be given, and**
- **providing information about the non-audit services provided by a company's auditor and therefore reduce the perceived threats to auditor objectivity and independence arising from the provision of non-audit services?**

In our experience the importance of auditor independence is fully recognised by Audit Committees. Consistently we find auditor fees are disclosed to Audit Committees with appropriate levels of detail to exercise corporate governance responsibilities effectively. Clear disclosure of the existing governance arrangements and the considerations of the Audit Committee will bring greater transparency, benefiting all stakeholders.

We support the clear disclosure of the governance arrangements and policy of the company in relation to non-audit services, as well as the nature and quantum of fees for the work provided.

However, we urge the APB to take a measured response when considering the level of disclosure required around the reasons why the work the audit committee concluded that it was in the interests of the company to purchase them from that the external auditor (rather than another supplier). We are concerned that this could work to oppose transparency by providing excessive and superfluous information. If disclosures are appropriately made surrounding the process by which the services are considered by the Audit Committee it appears excessive to request information for each significant engagement that is subsequently provided.

Question 5: Do you support:

- **the approach taken to the provision of 'extended audit services' in ES 5 (Revised), paragraphs [AH] and [AI] ?**

Yes, this approach appears appropriate.

- **the additional guidance on the threats and safeguards approach in ES 5 (Revised), paragraphs [AH] and [AI] ?**

Yes, this approach appears appropriate.

- **the strengthening of the role of the Ethics Partner in ES 1 (Revised), paragraphs 21 to 24 and ES 5 (Revised), paragraph [AA] ?**

We do not seek to comment on the role of the Auditor.

- **the amended definition of 'affiliate' and 'significant affiliate' ?**

Yes, this approach appears appropriate.

- **the application of the remuneration and evaluation policies to all members of the engagement team in ES 4 (Revised), paragraph 38 ?**

We do not seek to comment on the role of the Auditor

- **the other amendments referred to in Section 5 ?**

If not, please explain your reasons and the approach that you think the APB should take.

Question 6: Are there any reasons why the revisions to the Ethical Standards proposed by the APB in Sections 2, 4 and 5 will be difficult to implement for audits of financial statements for periods commencing on or after 15 December 2010? If so, what further transitional arrangements might be necessary?

In our opinion the implementation day of 15 December appears to be unrealistically short. We are concerned that this provides limited time for consideration of responses or further consultation.

We would support an implementation date for periods commencing on or after 15 March 2011 or later.

Question 7: Which of the options (to address the self review threat arising from the provision of restructuring services) set out in paragraph 6.14 should the APB adopt? Should the option that you have chosen apply to all entities, or only to listed entities?

Option 3 proposes the retention of a threats and safeguards approach which we believe would be appropriate when considering the provision of restructuring services.

We are of the opinion that companies in distress benefit from their auditors providing services which enable prompt action to be taken, for example to secure additional funding. In the current economic climate we would caution against action which could increase the levels of corporate failure.

Question 8: Does the revised definition of a 'contingent fee basis' give rise to any practical issues?

We support a clearer definition of contingent fees, however would recommend that the IFAC definition be used for consistency and clarity.

In addition this would assist with the referral of work overseas relatively straightforward.

Question 9: Which approach do you consider that the APB should adopt in relation to contingent fees and why?

We do not believe that changes to the current restrictions over contingent fees are required. Improvements in disclosure and appropriate safeguards should provide appropriate comfort over independence.

Question 10: Does the definition of a 'connected party' give rise to any practical issues? If so, how could those practical issues be addressed? What are the relative advantages and disadvantages of the alternative approach suggested in paragraph 8.6?

We agree that connected parties should be included within the consideration of independence.

We are of the opinion that whilst the alternative approach outlined in paragraph 8.6 provides guidance with reference to 'related parties' as defined under accounting standards which is therefore well understood, this could be complicated by changes to International Financial Reporting Standards and UK Generally Accepting Accounting Principles. We would support a clear definition established and subsequently controlled by the APB.

Question 11: Would the adoption of any of the approaches discussed in Sections 6, 7 and 8 give rise to any significant costs that would not be outweighed by the benefits of the relevant proposal? If so, please describe and, to the extent possible, quantify the costs that you think would be incurred and why the benefits would not outweigh the costs.

The approaches outlined in the consultation paper will undoubtedly increase costs associated with disclosures. However we do not consider these to be prohibitive.