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Dear Hazel

The Auditing Practices Board (APB) consultation on audit firms providing non audit services to listed companies that they audit

PricewaterhouseCoopers LLP (PwC) is pleased to respond to the APB consultation which has resulted from one of the recommendations of the Treasury Select Committee (TSC) contained in their May 2009 report 'Banking Crisis: reforming corporate governance and pay in the City'.

The TSC indicates in their report that there is a perception that auditors' independence may be compromised by providing services classified as 'non audit services'. We do not believe that further changes are required and strongly support the threats and safeguards principles established in UK Ethical Standards. The role of the audit committee is, in our view, key in monitoring the application of those principles in practice.

In saying this we note that:

- The threats and safeguards approach to assessing auditor independence has been subject to review by the APB on a number of occasions over the past decade. As identified in the consultation paper, this approach is still the most efficient and effective mechanism in allowing auditors and audit committees to consider independence risks and appropriate mitigating safeguards on a 'case by case' basis.
- The role of the audit committee is a key plank of the UK governance system. Introducing any further prohibitions to the provision of non-audit services, via the Ethical Standards or otherwise, would impair the right of companies to make decisions in the best interests of their shareholders.
- The experience we have of dealing with literally hundreds of audit committees is that they exercise a high level of scrutiny over the use of the auditors to provide other services and are therefore taking their governance role very seriously.
- We acknowledge that there is a perception by a minority of commentators that an auditor providing certain non audit services impairs their independence. We believe this is largely due to the lack of detailed information about the nature and volume of those services and therefore support enhanced disclosure including an explanation of audit committee due diligence in this area.

In support of these points we have the following comments.

The effectiveness of the threats and safeguards approach

To provide assurance to shareholders, whilst allowing companies the flexibility to approve their auditors providing services classified as 'non audit', the threats and safeguards approach has underpinned both the UK and the majority of other countries approach to assessing an auditor's independence.

In recognising the value of this approach, global audit and ethical standard setters have used this principle to underpin their standards in this regard. Increasing prescription in this area would move the UK out of line with international practice and potentially threaten the competitiveness of the UK and increase the cost of doing business.

The role of the audit committee

The role of the audit committee in considering whether, or not, to approve their auditors carrying out non audit work has been subject to provisions contained in the Combined Code on Corporate Governance as well as FRC guidance for audit committees since 2003. This guidance was developed to provide assistance to directors and to provide assurance to investors that there had been an independent assessment of the threats to an auditor's independence.

We consider that it remains a key role of the audit committee to consider and decide on the appropriateness of the appointment of the auditor to carry out non audit services and that any further restrictions on non-audit services will undermine the function of the audit committee in assessing what is, or is not, appropriate.

There is no universally applicable ratio of audit to non-audit fees, because it depends on the circumstances of each individual company. However, the change in the proportion of audit to non-audit fees from 2002 to 2008 (as indicated in the consultation paper from 191% in 2002 to 71% in 2008) seems to demonstrate an increased level of scrutiny by audit committees and therefore audit committees would appear to be appropriately exercising their governance role.

The importance of enhanced disclosure

We believe that it is very important to improve the current level and quality of information disclosed by companies in relation to the nature of non-audit services. This would address the current perception problem in a number of ways including:

- Explicit identification of the nature of the work performed by the auditor and how closely it relates to their principal role.
- Clarification of the rationale that those charged with governance have applied in their oversight of auditor independence.

The consultation paper itself analyses the types of services that may be provided by the auditor in a far more meaningful and understandable way than present disclosures achieve. It is helpful to identify clearly the following where:

- non-audit services arise directly from an audit;
- services are required to be provided by the auditor by law or regulation;
- due to the auditors' deep knowledge of the company, provision of services results in time and cost savings for the benefit of shareholders; or

- the financial and business skills available from the auditor provide a significant benefit to the company and its shareholders.

Disclosures elsewhere in the report and accounts could also be enhanced to explain more clearly the principles that audit committees apply in deciding whether the auditor should provide non audit services.

To assist in developing proposals for more robust disclosures to achieve greater transparency we are working with representatives from institutional investor groups and the corporate sector, as well as representatives from the other large accounting firms, in a group that the Institute of Chartered Accountants of Scotland has brought together.

Please contact Pauline Wallace if you require any further information regarding our response.

Yours sincerely

PricewaterhouseCoopers LLP