

Our point of view on non audit services restrictions

Independence is about objectivity, scepticism and integrity. It is the hallmark of the audit profession, at the heart of our culture and fundamental to everything we do. Our mandate to audit public companies is founded on our independence and professional competence. Independence is so essential to public company audits that there are comprehensive and strict laws, regulations and professional standards to govern it.

We believe that there are some services which are clearly a threat to auditor independence. We think the best way to address this issue, and to ensure clarity and consistency, is for a globally consistent list of services that are prohibited based on a set of common principles to be developed.

This approach would provide clarity to the marketplace that independence threats have been eliminated. It would be important to review these prohibited services periodically and there needs to be flexibility so the list remains relevant.

We think this is important because as business models, technology and accounting standards change, the auditor's skills and their service offerings must change to reflect the evolving market.

We think a prescribed list of permissible services, or a price cap would not be appropriate. By limiting the auditor to providing services based on only a small subset of its expertise, a company is potentially deprived of access to certain expertise when it's needed. Trying to regulate the provision of non-audit services through price caps would prove arbitrary, difficult to implement and so could damage audit quality.

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For all other services, we believe audit committees (or their equivalent), as representatives of shareholders and those responsible for governance, are best placed to decide what services their auditors can provide beyond the prohibited list. We believe that those charged with governance should not be constrained in their choice of service provider where there are no conflicts with independence and objectivity.

The provision of many non-audit services to audit clients can improve the quality of the audit and reduce costs and complexity for businesses – without compromising independence.

We think that to enhance confidence and trust, there should be more transparency about the detailed processes and standards which currently safeguard independence. There are already significant safeguards and frameworks in place at both the regulatory, audit committee and audit firm level to ensure that only services that do not conflict with independence are provided to audit clients. We suggest that a discussion about those safeguards should be included in annual public transparency reports by the audit firm.

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Our view: Some services are a threat to auditor independence, a globally consistent list of prohibited services is the best way to address this issue. Audit committees (or their equivalents) are best placed to decide what services their auditors can provide beyond the prohibited list.

Audit committees (or others charged with governance) have a critical role to play:

- Audit committees, not regulators, are in the best position to work out who should be allowed to do what. They represent shareholders' interests and have deep knowledge of the company, its business strategy, its operations and its needs.
- The audit committee should make its charter public. The charter should give investors information about how the audit committee chooses its auditors and how it decides what type of services they can provide.
- The audit committee should have full oversight of the auditor's independence, including the nature and extent of the work they do and their fees
- Auditors should be allowed to provide services like tax compliance and advice (and other routine services that help clients understand and comply with their fiscal and regulatory obligations) or transaction due diligence to a company they audit – as long as the audit committee agrees that it is in the shareholders' best interests.