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PCAOB
1666 K Street NW
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Ref: PCAOB Rule Making Docket Matter No. 008

Proposed Auditing Standard - An Audit Of Internal Control Over Financial Reporting Performed In Conjunction With An Audit Of Financial Statements.

Dear Sirs,

We have reviewed the proposed auditing standard noted above and wish to comment on them.

Firstly, as a publicly quoted company, with listings in both London and New York, we support all sensible and effective steps made to improve company corporate governance and the open disclosure of material information, both financial and non-financial, to shareholders and other interested parties.

As you will be aware, many of the principles recommended under the Sarbanes-Oxley Act, and subsequent SEC rules, have been in place in the UK for several years as requirements of the UK Stock Exchange Combined Code, with which we comply.

We are concerned that the proposals, in their current form, will add significant costs, through additional external audit fees and internal compliance costs, for limited improvement in our existing corporate governance and financial reporting internal control environment, and therefore will provide little or no added value to our shareholders. In fact, we believe there is a risk that the proposed, extremely detailed auditing requirements may lead to a deterioration in the effectiveness of corporate governance as both auditors and management seek to comply with detailed rules at the expense of focusing on the fundamentals.

We welcome the overriding principle that external auditors should review and comment on financial reporting internal controls. We believe that the external auditor can most effectively evaluate the financial reporting internal control environment by focusing on high level entity controls and conducting more detailed evaluations where these controls have failed, appear to be failing or relate to high risk transactions or processes. We also believe greater reliance can be placed on the management's own control processes and reviews, e.g. internal audit, than suggested in this draft standard.

As requested, we have responded to the thirty-one questions you posed. Please see the attached appendix.

We hope you will consider these points favorably in your deliberations and that they will assist you in drafting an appropriate, effective standard which contributes to the improvement in corporate governance and financial reporting in the USA.

Yours sincerely,

Rona Fairhead
Chief Financial Officer

Specific Comments

In making specific comments, we have followed the numbering sequence used in your release number 2003-017 dated October 7, 2003.

1. Is it appropriate to refer to the auditor's attestation of management's assessment of the effectiveness of internal control over financial reporting as the audit of internal control over financial reporting?

   We believe it is.

2. Should the auditor be prohibited from performing an audit of internal controls over financial reporting without also performing an audit of the financial statements?

   We believe it is generally more effective and efficient that the auditor perform both audits, which are closely linked. Any audit of financial statements should take account of the financial reporting internal controls which generate the numbers included in the financial statements.

3. Rather than requiring the auditor to also complete an audit of the financial statements, would an appropriate alternative be to require the auditor to perform work with regard to the financial statements *comparable* to that required to complete the financial statement audit?

   We believe that both audits are linked. Integrating them minimises costs.

4. Does the Board's proposed standard give appropriate consideration to how internal control is implemented in, and how the audit of internal control over financial reporting should be conducted at, small and medium-sized issuers?

   Not applicable to our multinational organization.

5. Should the Board, generally or in this proposed standard, specify the level of competence and training of the audit personnel that is necessary to perform specified auditing procedures effectively?

   We believe that the existing professional standards suffice. The competency of staff used should be left to the judgment of the external auditor taking into account the risks associated with and the complexity of any specific assignment.

6. Is the scope of the audit appropriate in that it requires the auditor both to evaluate management's assessment and obtain, directly, evidence about whether internal control over financial reporting is effective?

   We believe it is appropriate, but the key is for the methodology to allow this to be done in a cost effective and practical manner.

7. Is it appropriate that the Board has provided criteria that auditors should use to evaluate the adequacy of management's documentation?

   We believe it is.

8. Is it appropriate to state that inadequate documentation is an internal control deficiency, the severity of which the auditor should evaluate? Or should inadequate documentation automatically rise to the level of significant deficiency or material weakness in internal control?

   We do not believe that inadequate documentation in its own right is necessarily an internal control deficiency. Controls can be in place and operating effectively without being documented. The auditor should be verifying whether a "real" deficiency exists. Control documentation assists both management and the auditor in reviewing the controls, documentation in and of itself is not an internal control.

   Inadequate documentation should not automatically give rise to either a significant deficiency or a material weakness.

9. Are the objectives to be achieved by performing walkthroughs sufficient to require the performance of walkthroughs?

   General point: The issues addressed by questions 9 – 16 all relate to the amount of detailed work that the auditor must conduct to satisfy him/herself that an effective financial reporting control environment exists to support management's 404 conclusion.

   We support the principle of the auditor's role in this area, however, the proposed requirements are extremely detailed and appear inflexible in both their structure and application. No account seems to be taken of the cost-benefit of your proposed approach, either from the auditor's or the management's perspective. There is a risk that, rather than being in the shareholders' interest, the level of detail required will have the opposite effect – higher cost to implement and more "box ticking" rather than a more effective evaluation of a company's financial reporting internal control environment.

As with any audit, the amount of work required to form an opinion is dependent on the risks and complexity of the business and the business processes being audited. Therefore, we believe that guidance on the general principles for evaluating financial reporting internal controls rather than the prescriptive approach suggested would be better. This would allow the auditor, within a laid down framework, to exercise his/her own judgment on the amount of work to be carried out to evaluate the effectiveness of the financial reporting internal controls and management's conclusions.

Although we believe that auditor walkthroughs may be appropriate in certain circumstances, we believe walkthroughs are just one technique for evaluating internal controls. Auditors should be given the flexibility to determine the audit scope and should be able to rely on other sources to confirm that controls are effective; these would include management's control reviews and prior year work.

10. Is it appropriate to require that the walkthrough be performed by the auditor himself or herself, rather than allowing the auditor to use walkthrough procedures performed by management, internal auditors, or others?

    See 9 above. Wherever possible, the auditor should be allowed to use walkthrough work performed by others, subject to his/her comfort with the quality of the work completed by the other party.

11. Is it appropriate to require the auditor to obtain evidence of the effectiveness of controls for all relevant assertions for all significant accounts and disclosures every year or may the auditor use some of the audit evidence obtained in previous years to support his or her current opinion on management's assessment?

    Where appropriate the auditor should use evidence from prior years to support their current opinion on management's assessment.

12. To what extent should the auditor be permitted or required to use the work of management and others?

    As previously stated we believe the auditor should be permitted to use the work of management and others whenever they feel that this work has been performed to satisfactory standards and can be relied upon. In higher risk areas, e.g. treasury transactions, it may be appropriate for the auditor to do some limited testing to validate management's and other's work.

13. Are the three categories of controls and the extent to which the auditor may rely on the work of others appropriately defined?

We believe these definitions are too restrictive. The risk of fraud exists in any financial system; a literal interpretation of this definition would imply that the auditor would need to audit every financial accounting process/system. A better approach might be to allow the auditor to exercise judgment on what to audit and whose work can be relied on to meet individual circumstances. General guidance on the principles to be applied would be more helpful.

14. Does the proposed standard give appropriate recognition to the work of internal auditors? If not, does the proposed standard place too much emphasis and preference on the work of internal auditors or not enough?

    We do not believe it does. The external auditor should be encouraged to rely on the work of internal audit, which generally covers many of the issues addressed, as far as possible, subject to general agreement on the methodology, including testing, adopted by internal audit.

15. Is the flexibility in determining the extent of re-performance of the work of others appropriate, or should the auditor be specifically required to re-perform a certain level of work (for example, re-perform tests of all significant accounts or re-perform every test performed by others that the auditor intends to use)?

    We believe there should be flexibility in determining the extent of re-performance of work.

16. Is the requirement for the auditor to obtain the principal evidence, on an overall basis, through his or her own work the appropriate benchmark for the amount of work that is required to be performed by the auditor?

    The auditor needs to obtain enough evidence either from his/her own work, or the work of others, to satisfy him/herself that management's conclusions are reasonable.

17. Will the definitions in the proposed standard of significant deficiency and material weakness provide for increased consistency in the evaluation of deficiencies? How can the definitions be improved?

    Clear definitions of significant deficiency or material weakness are definitely needed and will provide consistency in the evaluation of control deficiencies.

    In defining a significant deficiency the terms "remote likelihood" and " is more than inconsequential" are extremely subjective and difficult to interpret. Some materiality guidance would be helpful e.g. financial results could be misstated by x%. As presently defined even a minor control weakness could be interpreted as a significant deficiency.

In defining internal control deficiencies, greater account should be taken of whether the deficiency has actually resulted in an internal control breakdown and misstatement in the financial reporting, as compared to a deficiency that exists but is unlikely to result in a financial reporting misstatement due to compensating controls.

In defining deficiencies that remain uncorrected after some reasonable period of time, consideration should be given to the complexity of the underlying system(s) and the existence of a project plan to address such deficiencies.

18. Do the examples in Appendix D of how to apply these definitions in various scenarios provide helpful guidance? Are there other specific examples that commentators could suggest that would provide further interpretive help?

    Yes. Additional examples would be helpful.

19. Is it necessary for the auditor to evaluate the severity of all identified internal control deficiencies?

    We believe it is.

20. Is it appropriate to require the auditor to communicate all internal control deficiencies (not just material weaknesses and significant deficiencies) to management in writing?

    Yes. This should be a part of the existing standard reporting of audit findings by the auditor; this is standard practice in the UK.

21. Are the matters that the Board has classified as strong indicators that a material weakness in internal control exists appropriately classified as such?

    We believe they are.

22. Is it appropriate to require the auditors to evaluate the effectiveness of the audit committee's oversight of the company's external financial reporting and internal control over financial reporting?

    We believe so, but general guidelines should be provided.

23. Will auditors be able to effectively carry out their responsibility to evaluate the effectiveness of the audit committee's oversight?

    We believe so, if guidelines are provided to all concerned including the Audit Committee.

24. If the auditor concludes that ineffective audit committee oversight is a material weakness, rather than require the auditor to issue an adverse opinion with regard to the effectiveness of the internal control over financial reporting, should the standard require the auditor to withdraw from the audit engagement?

    We do not believe so. Any concerns over the effectiveness of the Audit Committee should be promptly reported to the full Board, and the shareholders as part of the auditor opinion.

25. Is it appropriate that the existence of a material weakness would require the auditor to express an adverse conclusion about the effectiveness of the company's internal control over financial reporting, consistent with the required reporting model for management?

    Yes.

26. Are there circumstances where a qualified "except for" conclusion would be appropriate?

    We believe an exception should be allowed for acquisitions completed close to or at the end of a reporting period. It may be impractical to evaluate the effectiveness of financial reporting internal controls of acquisitions completed close to the year end, despite due diligence work carried out as part of any acquisition appraisal/decision. Unquoted businesses and non-US acquisitions may be a particular problem as these businesses may not be compliant with the requirements of Sarbanes-Oxley. Additional post acquisition work may be required to bring any control deficiencies up to US/UK public company standards.

27. Do you agree with the position that when the auditor issues a nonstandard opinion, such as an adverse opinion, that the auditor's opinion should speak directly to the effectiveness of the internal control over financial reporting rather than to whether management's assessment is fairly stated?

    The auditor's opinion should speak to both the effectiveness of internal controls over financial reporting and, where appropriate, whether management's assessment is fairly stated. If they speak to the latter they should provide adequate explanation of the basis for their opinion.

28. Should the Board provide specific guidance on independence and internal control-related non-audit services in the context of this proposed standard?

    We believe it should.

29. Are there any specific internal control-related non-audit services the auditor should be prohibited from providing to an audit client?

    We do not believe so providing the auditor is not auditing his/her own work.

30. Are the auditor's differing levels of responsibility as they relate to management's quarterly certifications versus the annual (fourth quarter) certification, appropriate?

    No comment -- we are a foreign private registrant.

31. Is the scope of the auditor's responsibility for quarterly disclosures about the internal control over financial reporting appropriate?

    No comment – we are a foreign private registrant.