

1 December 2008

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Dear Steven

THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS – EXPOSURE DRAFT

As you are aware, Standard Life Investments is one of the largest investors in the securities of UK companies. Consequently, the role of the auditor and their report on the financial statements is of critical importance to us. Therefore, we welcome your Board's invitation to comment on the proposals set out in the Exposure Draft.

Additional guidance on the 'true and fair' consent (Paragraph 18)

We strongly support the proposed change to paragraph 18. In our view, this proposed change reinforces the responsibility of the auditor to exercise over-arching professional judgement in reaching his opinion rather than merely relying on the financial statements complying with applicable law and accounting standards. The importance of this change and its implications should not be underestimated, especially during times when economic and market conditions are challenging. Accordingly, we urge the Board to give prominent emphasis to this change and do so in its communications for the foreseeable future. The Board should recommend to the Financial Reporting Council ("FRC") that it not only does the same but also acknowledges publicly that other bodies that it controls will take due account of this change when fulfilling their responsibilities.

Proposed research to improve understanding of what can be done to make auditors' reports more informative

We note, with measured disappointment, that the Board has not been able to make greater headway in making auditors' reports more informative. However, we are mindful of the breadth of views reflected in the feedback the Board received in this regard in response to the December 2007 Discussion Paper.

Accordingly, we accept and support the Board's proposed course of action which will result in research being undertaken to understand what can be done to make auditors' reports more informative. However, given the importance of this matter, especially in current market and economic conditions, we note with serious concern that such research is described as 'longer term'. We urge the Board to progress this research, which is described as the second phase of its strategy, with a greater priority. Furthermore, we should like the Board to provide greater definition and transparency on the timeline for this second phase in order to not only set expectations but also provide a basis for accountability. As a catalyst for this second phase, we recommend that the Board consider setting up a practitioner group to

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provide real time assistance to the Board and the researchers. This would not only help to ensure the relevance of the research but also serve to reduce the critical path by providing a bridgehead of practitioner consensus as the research recommendations are developed.

Guidelines for Audit Committees

Paragraph 3.24 of the Feedback Paper states that the Board will participate in international initiatives with a view to contributing to future changes in international auditing standards. It cites the extent to which reports from audit committees will provide additional information to assist investors. Whilst we welcome the Board's commitment to undertake this exploration, we believe that it is in the gift of the FRC to provide global leadership and take this matter forward in a manner that will enhance significantly the confidence which users place in the audited financial statements of publicly traded companies incorporated in the UK. Accordingly, we urge the Board to recommend to the FRC that it develops authoritative audit committee disclosure guidelines which would, inter alia, address the additional information referred to in paragraph 3.21 of the Feedback Paper.

A practical issue arising from the proposed web site disclosure of standard paragraphs

We support the Board's proposal to describe the auditor's responsibilities and the work an auditor performs by cross-referencing to standard paragraphs maintained by the Board on its web site. In addition, we are concerned to be assured that audit firms have effective controls in place to ensure that audit partners and relevant audit staff refer to the Board's web site on a regular basis and keep up to date with changes posted on it by the Board. Therefore, we recommend that the Board request the FRC to ensure that those tasked with reviewing professional standards in audit firms and suchlike ensure that this aspect is included within the scope of such reviews.

Significant uncertainties (Paragraph 47)

We note that uncertainties are regarded as significant when, inter alia, they involve 'other matters whose potential effect on the financial statements is unusually great'. Paragraph 47 cites the outcome of major litigation as an example of a significant uncertainty. Mindful of the importance of the 'true and fair' concept we understand that such uncertainty may pertain to circumstances whose outcome may have a beneficial effect on the financial position of the entity concerned. The current wording of paragraph 47 is ambiguous in this respect. We recommend that the Board revise paragraph 47 to make clear that the uncertainties referred to may have a beneficial or detrimental impact on the financial position of the entity concerned.

Conclusion

We are pleased that the Board is taking steps to improve the auditor's report on financial statements and we support its efforts in this regard. We trust that our comments will assist it in its continuing deliberation on this important matter.

With kind regards.

Yours sincerely

Guy R Jubb
Investment Director, Head of Corporate Governance
Standard Life Investments