



**Local Authority
Pension Fund
Forum**

**FRC Consultation on Proposed Changes to Guidance on Audit
Committees
(The Smith Guidance)**

Response from the Local Authority Pension Fund Forum

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1. Introduction:

LAPFF, which was set up in 1991, is a voluntary association of 48 local authority pension funds based in the UK. LAPFF exists 'to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.' The Forum's members currently have combined assets of £90 billion. PIRC is the Research and Engagement Partner to LAPFF.

The Forum is concerned to review and comment on market developments including proposed changes to the principles and implementation of the UK Combined Code on Corporate Governance. As a result of a wide-ranging review of governance concerns with various developments in the audit profession, the Forum published a report in January 2007 on Audit Reform. As a result of this policy report the Forum agreed to pursue a review of UK company audit committee reporting and the quality of such reporting.

The Forum received a report of this review in January 2008. This review is attached to this submission.

2. The FRC Consultation:

The LAPF Forum welcomes the opportunity to comment on various aspects of the Smith Guidance. It believes that the Smith report on the role of audit committees provided one of the more sophisticated and measured elements of the UK Combined Code when incorporated in 2003. Our comments were set out in a formal response to the FRC consultation in April 2008, as follows:

	Audit committee and auditors	
D3.1	All companies to have audit committee. All members to be independent and at least one to have 'significant, recent and relevant financial experience.'	We note the Smith Report guidance expands requirement further: the company chairman may not be a member, no one other than committee chair and members to have right to be present. We support the provision and guidance.
D3.2	Fuller specification of terms of reference	Provision should include public disclosure of terms of reference. Of the proposed terms of reference, we particularly support the emphasis on the role of the audit committee in leading on the appointment of auditors.

D3.3	Audit committee to be provided with sufficient resources	Support
D3.4	Annual report to contain a separate section describing audit committee's and responsibilities and actions taken to discharge them	Support
D3.5	AC chair to be present at AGM	Support