

THE VIEW FROM THE FORUM

Audit – our agenda for change

In a significant development of its policies, the Forum has considered a position paper on what shareholders require from auditors and on the role of audit. The auditor's role is to provide an independent opinion to shareholders on the truth and fairness of the financial statements, but repeated scandals have raised questions as to the extent to which the audit process is serving investors' and public policy needs. The paper concluded that LAPFF needs to ensure that the issues of financial reporting and auditing remain current topics rather than waiting to react to the next scandal to arrive – there is no substitute for eternal vigilance.

Direct Company Engagement

The primary targets for engagement by the Forum will be the small number of 'All Share' companies without an audit committee.

The Forum will:

- seek to engage in 2007 with every company in the FTSE All Share index where the structure of the audit committee poses significant risks to the robust defence of the interests of shareholders as a body.
- exert pressure through voting at AGMs on companies that refuse to disclose the terms of the auditor's engagement.

- engage with each company recommending a change of auditor (likely to be no more than ten companies a year) with special attention being paid to whether the company considered a mid-tier firm to act as its new auditors.
- continue to use voting opportunities to oppose auditors who earn more from other work than for the audit. LAPFF will also target audit committee members in these circumstances.
- LAPFF members should oppose all resolutions seeking to limit the liability of the auditor

Regulatory Engagement

The Forum will:

- seek to work with the NAPF and the ABI to ensure that the consensus of investors in opposition to liability caps for auditors is maintained.
- continue to ensure that its view that audit firms should be prohibited from providing other services to audit clients is heard by the relevant regulatory body, in this case the Auditing Practices Board.
- lobby the DTI to undertake work into the transparency of audit firms recommended by its own co-ordinating group on audit issues.

To ensure that its views are heard LAPFF will:

- seek representation on both the Financial Reporting Council and its committee on corporate governance.
- meet with senior representatives of the Accounting Standards Board to discuss how the ASB can be best supported to avoid importing lower quality accounting standards.

Continued on page 2 →

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 39 public sector pension funds based in the UK, with assets of more than £70 billion. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612. Alternatively, you can email postmaster@keithbray.plus.com or visit our website www.lapfforum.org



← continued from page 1

- engage with the Financial Reporting Review Panel to ensure that both parties have a mutual understanding of the other's role, interests and concerns.
- continue to contribute to the work of the Audit Quality Forum.

Further Research

We will also commission a study of audit committee reports, which amongst other issues, will look at how companies are managing the risks arising from the current concentration of audit supply; their policies on non-audit work and the risks highlighted by the Auditing Practices Board as well as companies' approaches to continuing development for audit committee members.

LAPFF members should ensure that their fund managers' reports on engagement with companies include financial reporting issues and we will monitor reports from the operational bodies of the Financial Reporting Council to keep up to date on developing issues.

Forum members welcomed the proposed work to be undertaken, considering it one of the most important projects on the LAPFF work programme in that it promotes the Forum's work overall in aiming to preserve shareholder value. It was also recognised that there is a strong consensus on audit issues within the investment industry, which should lead to wider collaboration in the production of the outcomes from the project.

Climate change - we include the 'transport sector' in our engagement



The objective of our climate change work is to engage with companies concerning the likely impacts of climate change on industry sectors and companies with long-term research and development programmes and consequent risk to shareholder value. This work is based on the research that we have previously commissioned from our specialist consultants, Enviros. It will be supported by additional engagement on greenhouse gas emissions and waste disclosures as set out in annual reports.

Following agreement on the oil and gas sector as the initial sector for engagement, the January 2006 business meeting agreed to engage with three further sectors, namely food and beverages, mining and chemicals, and then in November 2006, the Executive requested a prioritisation of the 'transport' sector also.

Transport has become a highly visible part of the climate change debate and is a substantial contributor to the UK's greenhouse gas emissions – estimates suggest that it accounts for between 24-28% of UK emissions. It is also at the forefront of the debate because emissions have continued

to grow - in the UK emissions were 47% higher in 2002 than in 1990 – while overall UK emissions declined during this period due to a decrease in manufacturing. On a global level, transport emissions are expected to more than double in the period to 2050.

Aviation accounts for a relatively small proportion of UK transport emissions, figures vary from 3 – 5%. However, the aviation industry has seen the largest increase in emissions since 1990 – emissions increased by 85% over 1990 levels over the period. UK forecasts suggest that the UK's combined domestic and international aviation emissions could account for up to a quarter of our total contribution to global warming by 2030. Aviation has also come under greater scrutiny lately due to media reports that aviation may have an additional global warming impact due to the effect of other gases, for example water vapour, which are released at altitude. **A further reason to prioritise transport is that it is increasingly evident that it is becoming a key focus of regulation in attempts to address climate change.**

There is no single FTSE defined 'transport' sector, but the LAPFF Executive has agreed that 'transport' companies should include those dealing with private coaches, road haulage, rail and aviation. These companies are primarily in the newly created 'travel & leisure' sector. There are seven FTSE 350 transport companies in this sector, and there are four related FTSE 350 companies in the industrial transportation sector. It is proposed to amalgamate these companies with those analysed by Enviros which included relevant companies in the automobiles & parts and aerospace and defence sectors, to provide an initial list of eleven companies for engagement.



Other News in Brief

Merges and Acquisitions (M&A)

The draft Trustee Guide on M&A is to be tested in four case studies. On completion of these, it is then planned to publish the results around the time of LAPFF's 2007 Annual Conference.

Overseas Employment Standards - China Project

The next stage of the project is to progress an engagement programme on overseas employment standards focused on the UK FTSE 100 companies with significant supply chains in mainland China. A list of eight proposed companies has been identified.

Company Workforce Practices and Equal Pay

A press release will be published noting the findings of our survey, noting in particular the number of organisations without equal pay audits. The Forum will engage with companies on these matters.

Obesity and the Food and Drink Industry

A position paper has been prepared in response to a request from a LAPFF member for work to be undertaken on the food and drink industry and obesity.

This included information on i) the World Health Organisation's Global Strategy on Diet, Physical Activity and Health, ii) key UK and EU policy development; iii) relevant developments in the food and beverages sector; and iv) potential shareholder initiatives in the area of obesity. As a follow up to the position paper, it was agreed to include a targeted engagement campaign on obesity with companies in the food and drink sector as part of the Forum's work plan going forward.

Networking initiative - currency management

Martin Spriggs kicks off our networking initiative



Under our new networking initiative, Martin was the first 'volunteer' to present a short talk on a topical issue to a LAPFF business meeting. He chose the topic of 'Investment in Currency'.

In his presentation, Martin outlined why and how the London Borough of Brent Fund had invested in currency, and the process adopted. The investment has been made using pooled funds and equitisation using futures. After one year, the investments in currency had increased returns to the Fund and were above benchmark, and had added extra diversification into the overall investment portfolio.

The LAPFF Networking initiative is aimed at Forum members sharing their experiences with fellow members, and certainly Martin's presentation was very well received by members, as evidenced by the questions and discussion that followed.

We hope that this will prove to be a useful and valuable additional feature at future Forum meetings.

Trustee Training Seminars

Seminars are planned for 2007 focussing on Private Equity Investment and Fixed Interest Investment Strategies. More details will be announced shortly and in future editions of this newsletter

LAPFF membership as at 1 March 2007

- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire CC
- Devon CC
- Dyfed Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- LB Brent
- LB Camden
- LB Croydon
- LB Hackney
- LB Hammersmith & Fulham
- LB Harrow
- LB Hillingdon
- LB Hounslow
- LB Islington
- LB Newham
- LB Southwark
- Lincolnshire CC
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire CC
- North Yorkshire CC
- Nottinghamshire CC
- Rhondda Cynon Taf Pension Fund
- Shropshire CC
- Somerset CC
- South Yorkshire Pensions Authority
- South Yorkshire Passenger Transport Authority
- Teeside Pension Fund
- Tyne and Wear Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire

Contact details for LAPF Forum are:
LAPFF Secretariat, Stuart Imeson,
West Yorkshire Pension Fund,
Britannia House, Hall Ings, Bradford,
BD1 1HX
Tel: 01274 432317
Fax: 01274 437700
Email: stuart.imeson@bradford.gov.uk