

Pension funds launch audit reform engagement campaign

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LOCAL authority pension funds are set to initiate a major shareholder engagement campaign in a bid to improve company audit practices.

The Local Authority Pension Fund Forum – comprising 39 schemes with assets totalling over £70bn – will employ a tiered strategy aimed at both encouraging laggard companies to meet baseline industry practice, and embedding best practice.

The campaign will employ both targeted shareholder voting and direct company engagement.

The LAPFF's primary engagement targets will be the small number of FTSE All-Share companies without an audit committee. It will also engage with companies in the All-Share where it believes the structure of the audit committee poses significant risks to the defence of shareholders interests.

The campaign will exert pressure on companies which refuse to disclose the terms of the auditor's engagement through targeted voting at AGMs.

In addition there will be engagement with companies recommending a change of auditor with a focus on whether the company considered a mid-tier firm.

The LAPFF will also oppose all resolutions seeking to limit auditor liability.

LAPFF chairman Darrell Pulk explained: "Credible financial reporting is the lifeblood of efficient capital markets, which is why we as shareholders attach so much importance to audit quality and auditor independence.

"There are some laggards in the market who simply need pulling up to minimum acceptable standards. But the broader aim of this investor campaign is to give companies a clear message of shareholder expectations on audit, and to begin embedding best practice on issues such as terms of engagement and auditor liability."

In addition to the new campaign, LAPFF members will continue to oppose the re-appointment of firms at companies where they earn more fees for non-audit work than for the audit itself.

Alongside the shareholder campaign the forum will also work with other investor groups and regulatory bodies to push the case for reform.

The forum said that there was already there is notable investor consensus over the issue of auditor liability – but warned that there also needs to be significant engagement with regulatory bodies in order turn the momentum generated through its campaign into practical reforms.

Pulk said: "This is not a campaign for short-term fixes, but a push for practical solutions that improve and modernise audit practices to meet the needs of today's more vigilant long-term investors."