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Pension funds launch audit reform engagement campaign

1. Local authority pension funds will initiate a major shareholder engagement campaign during 2007 aimed at improving company audit practices.
2. The Local Authority Pension Fund Forum (LAPFF), comprising funds 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.
3. The Forum's primary engagement targets will be the small number of All-Share companies without an audit committee. It will also engage with companies in the All-Share where the Forum believes the structure of the audit committee poses significant risks to the defence of shareholders interests.
4. 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.
5. Finally Forum members will oppose all resolutions seeking to limit auditor liability.
6. Cllr Darrell Pulk, chair of the Forum, said: "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."
7. In addition to the new campaign Forum 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.

8. Alongside the shareholder campaign the Forum will also work with other investor groups and regulatory bodies to push the case for reform. Already there is notable investor consensus over the issue of auditor liability. The Forum recognises that there also needs to be significant engagement with regulatory bodies in order to turn the momentum generated through its campaign into practical reforms.
9. Cllr 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."

About LAPFF:

The Local Authority Pension Fund Forum (LAPFF), which was set up in 1991, is a voluntary association of 39 public sector pension funds based in the UK. It 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 over £70 billion.

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