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## **Company audit reporting is inadequate say pension funds**

1. A quarter of the UK's larger companies do not provide proper reports to shareholders on audit practices, a leading pension fund group has claimed.
2. In its response to the Financial Reporting Council's recent consultation on the Combined Code on corporate governance, the Local Authority Pension Fund Forum (LAPFF) says that its research has established that 23% of the FTSE 350 do not adequately report on the activities of their audit committees. LAPFF says that in these cases, companies' disclosures amount to little more than a summary of their audit committees' terms of reference.
3. The Forum research found that the standard of audit committee reporting varied by size of company. The Forum discovered that 11% of the FTSE100 did not produce adequate reports, compared to 30% of Midcaps and 40% of Smallcaps.
4. In its response to the FRC consultation, the Forum argues that the Combined Code should reinforce the need for an informative description of the work covered during the year, rather than a general statement of responsibilities. Although the Smith guidance, which is now incorporated into the Code, provided a proposed outline for audit committee reports, the Forum believes many companies do not act in the spirit of the guidance.
5. Cllr Darrell Pulk, chair of the Forum, said: "Audit committee reports represent an area of company reporting where we believe there is substantial room for improvement. Simply disclosing terms of reference is not good enough. We want to see meaningful reports to shareholders, and the Forum believes the FRC can use the recent consultation on the Combined Code as an opportunity to encourage better practice."
6. A copy of the Forum's response to the FRC consultation is available from the website, [www.lapfforum.org](http://www.lapfforum.org), under 'Publications'. A copy of the response is available on request.
7. In February the Forum announced that it would carry out a major shareholder engagement campaign on audit reform during 2007. The campaign employs a tiered strategy aimed at both encouraging laggard companies to meet baseline industry practice, and embedding best practice.
8. Audit has become an increasingly high-profile corporate governance issue in recent years. In addition to concerns about the independence of auditors

there has also been a focus on the concentrated nature of the audit business, with the so-called “Big Four” accounting firms dominating the market for company audit services.

About LAPFF:

The Local Authority Pension Fund Forum (LAPFF), which was set up in 1991, is a voluntary association of 43 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 £75 billion.

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