

AUDIT FIRM GOVERNANCE – Second Consultation Paper

NAPF Response – October 2009

Introduction

The NAPF is the leading voice of workplace pensions in the UK. Our member schemes currently account for around 80% of private funded pension saving in the UK, by size of assets and by the number of consumers benefiting. NAPF members manage around £790 billion in pension fund assets.

The NAPF has welcomed the development of a Governance Code for audit firms and this further opportunity to respond to the proposals. We believe that the Draft Code represents a good starting point for the profession in developing higher standards of governance. It is up to companies and investors to ensure that the Code is and remains relevant to their needs and is applied appropriately. In that context we have noted the comments from some other investors. The broad thrust of these is similar to our own views which are set out below and which we see as complementary rather than contradictory.

You will see that we have little to add to our earlier response, but should you wish to discuss any of our points please contact David Paterson, Head of Corporate Governance.

Comments

- Section A - Leadership:
While the owner accountability principle is key, audit firms have a responsibility to a wider group of stakeholders. It is important therefore that transparency extends to disclosure of the outcomes of the performance evaluation process.
- Section C – Independent Non-executives:
It is important that the appointment process is transparent and that those selected bring demonstrable, relevant skills and experience to the board.

We accept that it is not helpful in this document to describe in detail the responsibilities of NEDs. However we anticipate that individual firms will go further. As you note in C.3 it is important the NED rights are clear from the start and that these are supported by procedures for escalating any concerns. We agree that these should include the right to make a public statement although we expect that would be extremely rare.

- **Section D – Operations**
The principles set out here are consistent with good practice more widely. However we question whether remuneration policies should have more emphasis. We accept that under the EU Statutory Audit Directive disclosure is required, but from a governance perspective the issue is around conflicts of interest and specific guidance might be helpful.
- **Section F – Dialogue**
The NAPF has long maintained that an effective comply or explain regime is dependent on a good dialogue between the parties involved. Audit firms should take initial responsibility for introducing the Code to their clients and should assist them and shareholders to develop monitoring tools. We encourage shareholders to use Code compliance statements when assessing the reappointment of an audit firm at company AGMs.
- **Monitoring**
We understand that it is your intention to establish an independent monitoring group which will assess the Code and compliance with it. We believe that this is essential if it is to achieve wide acceptance and remain relevant to the needs of audit firms and their clients.

David Paterson
Head of Corporate Governance