



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES



PRESS
RELEASE

18 January 2010

New Governance Code for Audit Firms Finalised

A new code of governance for eight audit firms that together audit about 95% of the companies listed on the Main Market of the London Stock Exchange has been published by the independent working group established by the Financial Reporting Council (FRC) and the ICAEW.

The Code establishes the principle that audit firms should appoint independent non-executives within their governance structure. It also establishes a benchmark for good governance for firms operating in the large audit market. It codifies much existing good practice and links to matters that audit firms must comply with as regulated professional partnerships.

The Audit Firm Governance Code is the result of a recommendation made by the FRC's Market Participants Group and is primarily designed to serve shareholders in listed companies. The new Code draws on aspects of the Combined Code on Corporate Governance, including the structure of principles and provisions and the comply or explain approach, while recognising that the governance challenges faced by audit firms are different from those faced by listed companies.

Commenting on the new Code, Norman Murray, Chairman of the Audit Firm Governance Working Group, said "Audit firms serve the public interest by playing a vital role in the capital markets. The Code provides a template that boards and shareholders can use to assess a firm's governance practices. This should also provide a basis for enhanced dialogue between institutional investors and the audit firms.

"A key feature of the new Code is the role it envisages for independent non-executives. This is consistent with best practice governance across many types of organisation but also takes into account the unique features and responsibilities of an audit firm."

Sir Christopher Hogg, Chairman of the FRC, said: "The FRC applauds the Working Group's thorough approach to this important project and warmly welcomes the Code. The Code lays foundations for the future and rightly reflects the belief that prescriptive requirements are not a substitute for effective governance and that good governance complements regulation. I strongly encourage audit firms and investors to grasp the opportunities the Code presents to strengthen their dialogue."

Cont./..

Ian Lucas, Minister for Business and Regulatory Reform said. "I am pleased to welcome the Institute and Financial Reporting Council's ground-breaking Audit Firm Governance Code, which will complement related provisions in the EU Audit Directive and the 2006 Companies Act. Application of this Code will enhance the transparency of the work of major auditors, promote informed dialogue, and underpin shareholder confidence."

– ENDS –

Media enquiries:

Contact Simon Thompson, ICAEW press office, on 020 7920 8515 or email simon.thompson@icaew.com

About the ICAEW

1. The ICAEW was invited by the Financial Reporting Council (FRC) to draw up the Code. The Financial Reporting Council and the ICAEW formed an independent Audit Firm Governance Working Group (the Working Group) under the chairmanship of Norman Murray to carry out and complete this work. The Working Group was supported by Robert Hodgkinson, Technical Director at the ICAEW, and Jonathan Hunt, Head of Corporate Governance at the ICAEW.
2. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 132,000 members in more than 165 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

3. The ICAEW is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

About the FRC

4. Independent monitoring arrangements will be established for this new area of governance under the auspices of the Financial Reporting Council (FRC).
5. The FRC is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

To which firms will the Code initially apply?

6. The Working Group recommends that the Code should apply to firms that audit more than 20 listed companies. Based on the latest information published by the Professional Oversight Board, the relevant firms are:
 - Baker Tilly
 - BDO
 - Deloitte
 - Ernst & Young
 - Grant Thornton
 - KPMG
 - PKF
 - PricewaterhouseCoopers

The Working Group recommends that the Code should apply to an audit firm's first financial year commencing on or after 1 June 2010.

About Norman Murray

7. Norman Murray is Chairman of Cairn Energy PLC, a FTSE 100 company and a non-executive director of Greene King PLC and of Robert Wiseman Dairies plc. He is a past President of the Institute of Chartered Accountants of Scotland and a member of the working group that wrote *Making Corporate Reports Valuable*. Mr Murray is also a past Chairman of the British Venture Capital Association and an Honorary Professor at Heriot-Watt University.
8. Mr Murray spent many years in the City holding senior roles with The Royal Bank of Scotland, Charterhouse, Morgan Grenfell and Deutsche Bank before moving to his roles in the listed company sector some ten years ago. Before working in the City, Norman spent his early career in the accountancy profession in Edinburgh and Hong Kong.

Copies of the Code

9. The Code can be downloaded from the websites of the ICAEW or the FRC where information on, and the responses to, the two public consultation documents may be found:

ICAEW	www.icaew.com/auditfirmgovernance
FRC	www.frc.org.uk/about/auditchoice.cfm

Recommendation 14 of the report from the Market Participants Group

Recommendation 14 of the Market Participants Group report (October 2007) states that "Every firm that audits public interest entities should comply with the provisions of a Combined Code-style best practice corporate governance guide or give a considered explanation."