



FINANCIAL REPORTING COUNCIL

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Chairman: Sir Bryan Nicholson
Deputy Chairmen: Sir John Egan Peter Wyman
Secretary: Ann Wilks

FRC PN 67

**FOR IMMEDIATE RELEASE
ON 12 SEPTEMBER 2002**

PRESS NOTICE

FRC GROUP ON AUDIT COMMITTEES STARTS WORK

The Co-ordinating Group on Audit and Accounting Issues, set up by the Government to oversee and co-ordinate the response in the UK to the issues raised by recent major corporate failures in the US, reported in July. As part of the follow-up to that report, the FRC was asked to set up a small group to develop the existing guidance for Audit Committees contained in the Combined Code (which the FRC is presently responsible for keeping under review).

The Chairman of the FRC, Sir Bryan Nicholson, has now appointed the group. It will be chaired by Sir Robert Smith, Chairman of The Weir Group. The members are:

Mark Armour	Chief Financial Officer, Reed Elsevier PLC
Ted Awty	UK Head of Assurance, KPMG
Glyn Barker	Head of Audit and Business Advisory Services, PwC
Richard Delbridge	Formerly Group Chief Financial Officer, NatWest Group
Richard Fleck	Partner, Herbert Smith and Vice-chairman, Auditing Practices Board
David Rough	Formerly Chief Investment Officer, Legal & General



The group will work closely with Derek Higgs' review of the role and effectiveness of non-executive directors, and with the Auditing Practices Board, and will take account of the recommendations made by the Co-ordinating Group on Audit and Accounting Issues.

The group plans to start its work immediately and to complete it by the end of the year. The group would be glad to receive views as soon as possible on the issues set out in its terms of reference, attached.

NOTES TO EDITORS

- 1 The Financial Reporting Council's role is to promote good financial reporting and to act as the overarching and facilitating body for its two operational bodies, the Accounting Standards Board (ASB) and the Financial Reporting Review Panel.
- 2 The Co-ordinating Group on Audit and Accounting Issues issued its interim report in July. It is available on the DTI website, ref URN 02/1092. The FRC's reaction was given in FRC Press Notice 66 of 24 July 2002.
- 3 Comments should be sent to: Charles Bridge, Assistant Secretary, Financial Reporting Council, Holborn Hall, 100 Gray's Inn Road, London WC1X 8AL, email c.bridge@asb.org.uk, telephone 020 7611 9706.

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Press Enquiries: Charles Bridge, FRC Assistant Secretary, on 020 7611 9706



FRC GROUP TO DEVELOP COMBINED CODE GUIDANCE FOR AUDIT COMMITTEES: TERMS OF REFERENCE

To develop the guidance on Audit Committees in the Combined Code, alongside Derek Higgs' review of the role and effectiveness of non-executive directors, taking into account recommendations made by the co-ordinating group on audit and accounting issues in its interim report to government.

In addition to the principle and provisions in the Code (copy at A) the FRC Group will seek to clarify the role and responsibilities of Audit Committees by developing guidance on

- Terms of reference for Audit Committees including guidance on Committee activities and proceedings
- The composition of the Audit Committee, paying due regard to the characteristics which members would need to have to ensure independence from the executive, to avoid conflicts of interest and to achieve a suitable balance of skills and experience;
- The competences required for the proper exercise by individual Audit Committee members of their responsibilities; including any training needs, and the time required to discharge those responsibilities;
 - The relationship between the Audit Committee and the full Board;
- Safeguarding the interest of shareholders, including for example any report from the Audit Committee directly to shareholders;
- Monitoring the company's financial controls and financial policies;
 - Establishing an effective working relationship with the auditors;
 - Criteria for reviewing the effectiveness of the audit and its value to shareholders and other stakeholders;
 - Recommending to shareholders the auditors' appointment and reappointment, approving the auditors' remuneration;—the use of the auditors for non-audit work, including the purchasing policy for any such use, the policy for tendering for audit services and the means of reporting on these activities;



- The relationship with the company's head of internal audit and the internal audit team. The prior approval of the appointment and dismissal of the head of internal audit.

Any other relevant matters drawn to the FRC Group's attention in the course of the review.

In reviewing these aspects, the Group should liaise closely with Derek Higgs, and with the Auditing Practices Board. The Group should report by the end of 2002.

Financial Reporting Council
September 2002