



Chartered Institute of
Internal Auditors

Parliamentary briefing: Why do we need an Audit Reform Bill?

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Why do we need an Audit Reform Bill?

The key facts

- In recent years there have been a series of high-profile corporate failures linked to significant audit and governance weaknesses. This includes BHS, Carillion, Patisserie Valerie, Thomas Cook and most recently Wilko, all of which have cost people their pensions, hurt investors and resulted in tens of thousands of job losses.
- Corporate failures linked to audit and governance weaknesses continue to have a devastating and tangible impact on taxpayers and the economy:
 - The collapse of Wilko has resulted in 12,500 job losses along with the closure of around 400 retail stores.
 - The collapse of Thomas Cook resulted in 9,000 redundancies, 555 retail store closures, and 1286 companies and government entities were owed money.
 - When Patisserie Valerie collapsed, around 900 jobs were lost and the closure of around 70 retail stores.
 - The failure of Carillion was the UK's biggest corporate collapse in decades, affecting hundreds of thousands of people. This included more than 3,000 jobs, 7,000 suppliers and contractors, impacting 75,000 people working in its supply chain and costing taxpayers around £148m. It also resulted in the cancellation of 450 construction projects, including delays to school and hospital building projects.
 - The collapse of BHS cost 11,000 jobs and left a pension deficit of £571m.
- In 2022 the Financial Reporting Council found that almost a quarter (24%) of major company audits it inspected required improvement¹.
- It has now been over five years since Carillion collapsed, over four years since Sir John Kingman's Independent Review of the Financial Reporting Council, over three years since Sir Donald Brydon's Independent Review into the Quality and Effectiveness of Audit, and over two years since the Government White Paper 'Restoring Trust in Audit and Corporate Governance'.
- A more robust audit and corporate governance framework underpinned by a stronger audit regulator can help to avert such collapses, safeguarding employment, pensions, investors, and suppliers.
- Despite countless reviews and a White Paper, we are still waiting for the Government to bring forward the primary legislation that is required to enable the new framework to become a reality. Many of the recommendations, including the key recommendation to put the audit regulator on a statutory footing with the legal powers it needs to do its job effectively, can only be delivered by primary legislation in the form of the Audit Reform Bill.

¹ FRC Audit Quality Inspection and Supervision Public Report 2022:
https://media.frc.org.uk/documents/FRC_Audit_Quality_Inspection_and_Supervision_Public_Report_2022_-_Tier_1_Firms_Overview.pdf

Overview of the Audit Reform Bill

The Chartered Institute of Internal Auditors has been championing audit and corporate governance reform for several years. While much of the focus has been on reforming external or statutory audit, as the leading professional body for internal auditors, we have a stake in the health of the wider audit and corporate governance eco-system. Reforming audit and corporate governance is fundamental for the resilience of businesses and long-term economic stability. It is also vital for restoring trust in the audit and professional services industry, which we are part of.

We have been supportive of many of the proposals in the White Paper 'Restoring Trust in Audit and Corporate Governance' and were encouraged when the Government committed to publish a draft Audit Reform Bill in the Queen's Speech² over a year ago. This has broad support across the business community, audit industry and across political parties. However, we are still waiting for the Bill to be published and would now like to see it included in the King's Speech in November.

Central to the audit reform needed is putting the Financial Reporting Council (which is the UK's audit regulator), on a statutory footing with the legal powers it needs to do its job effectively. This was the key recommendation put forward by Sir John Kingman as part of the Independent Review of the Financial Reporting Council following the collapse of Carillion over five years ago. This would give the audit regulator the teeth it needs to hold company directors and others with key roles to account in a much more regulated fashion. Currently, the FRC only has the authority to sanction company directors with an accounting qualification.

The benefits of an Audit Reform Bill

An Audit Reform Bill would transform corporate governance in the UK, improve company outcomes and help to ensure long-term sustainability. We want to see our businesses succeed and for the UK to maintain its reputation as a world leader in good corporate governance and a great place to invest, thereby supporting jobs, growth, and economic stability.

Help businesses navigate a more uncertain world

Given the more risky, uncertain, and volatile times businesses are now operating in following on from the pandemic and the war in Ukraine, arguably audit reform is needed now more than ever to support financial resilience and security. This will help to ensure that company directors and investors have access to high-quality and reliable corporate and financial reporting, to support them in navigating the myriad of business-critical risks they now face.

Enhance financial reporting

Enhancing financial reporting quality by ensuring we have a robust audit and corporate governance framework underpinned by a stronger audit regulator, can help ensure the accuracy and reliability of our major companies' financial statements. Audit reform would strengthen the audit process reducing the likelihood of errors or fraudulent reporting, enhancing investor confidence, and leading to better business decision-making.

² The Queen's Speech 2022:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1074113/Lobby_Pack_10_May_2022.pdf

New powers to hold company directors to account

An Audit Reform Bill can help enhance protections for the UK against risks to jobs, pensions, and suppliers from corporate collapses linked to audit and governance weaknesses, by improving scrutiny of the UK's largest companies and ensuring that the audit regulator can hold company directors to account. This is because the legislation would give the new Audit, Reporting and Governance Authority the legal powers to enforce company directors' duties regarding financial reporting.

Good for protecting jobs, pensions, suppliers and investors

By reducing the risk of corporate collapses linked to audit or corporate governance weaknesses and ensuring we have a strong audit regulator, the Audit Reform Bill would be good for protecting people's jobs, good for protecting people's pensions, good for protecting suppliers including small businesses, and good for protecting investors. Even more so given the current backdrop of economic uncertainty.

Rebuild public trust and confidence in audit and corporate governance

Undoubtedly an Audit Reform Bill can help to rebuild public trust in the UK's audit, corporate reporting, and corporate governance framework, delivering greater accountability for those with key roles in the system, including company directors. Moreover, the Audit Reform Bill will help to restore confidence in the financial and corporate reporting process, making it more transparent, accountable, and trustworthy for investors, stakeholders, and the public.

As a parliamentarian, we urge you to support the inclusion of the Audit Reform Bill in the forthcoming King's Speech so that you can vote on it in the next parliamentary session.

How can you support an Audit Reform Bill?

- **Sign** our [cross-party letter](#) in support of including an Audit Reform Bill in the King's Speech
- **Ask** a written or oral question in parliament on audit and corporate governance reform
- **Meet** with us to find out more about audit reform

Contact us

We hope that you find this briefing useful in better understanding why we need an Audit Reform Bill. For any enquiries regarding this briefing or if you would like to set up a meeting to find out more about how we can support your work as a parliamentarian please contact **Gavin Hayes**, Head of Policy and Public Affairs at [**gavin.hayes@iaa.org.uk**](mailto:gavin.hayes@iaa.org.uk).