



Chartered Institute of  
Internal Auditors

# **Parliamentary Briefing: Safeguarding UK Prosperity - The Economic Benefits of Manifesto Commitments to Audit Reform**

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## **Overview: The Case for Manifesto Commitments to Audit Reform**

This briefing outlines the case for all political parties to include a clear commitment to audit and corporate governance reform in their manifestos for the forthcoming 2024 general election. Recent high-profile corporate failures linked to audit deficiencies in the UK highlight the urgent need for a stronger audit and corporate governance framework, essential for safeguarding our economy. These incidents have not only harmed our economy and led to job losses but have also eroded public trust in the effective governance of companies. Primary legislation is required in the form of an Audit Reform Bill to put the Financial Reporting Council (FRC), the UK's audit regulator, on a statutory footing with the legal powers to do its job properly and transition into the new Audit, Reporting and Governance Authority. The current Government has committed to the legislation, but so far parliamentary time has not been found.

### **The key facts on corporate collapses linked to audit and governance deficiencies in the UK**

- **BHS: Loss of 11,000 jobs** and a **£571m pension deficit**.
- **Carillion: Over 3,000 jobs lost**, affecting 75,000 in its supply chain, **costing taxpayers £148m**, and resulting in the cancellation of 450 construction projects including delays to schools and hospitals.
- **Patisserie Valerie: Approximately 900 jobs lost and 70 stores closed**.
- **Thomas Cook: Led to 9,000 redundancies, 555 store closures**, and left 1,286 businesses owed money.
- **Wilko: Resulted in 12,500 job losses** and the closure of around **400 retail stores**.

**In addition, the Financial Reporting Council's (FRC) 2022 report indicated that 24% of major company audits required improvement. Despite the urgent need for the FRC to be put on a statutory footing so the audit regulator has teeth, legislative action is missing.**

The collapse of Carillion over six years ago, followed by Sir John Kingman's Independent Review of the FRC, Sir Donald Brydon's Independent Review into the Quality and Effectiveness of Audit, and also the publication of the Government White Paper 'Restoring Trust in Audit and Corporate Governance,' has not yet led to the introduction of the necessary Audit Reform Bill to properly empower the FRC with the legal powers it needs to regulate effectively.

The Chartered Institute of Internal Auditors has led calls for these crucial audit and corporate governance reforms, vital for business resilience and economic stability. As the principal body for internal auditors, representing over 10,000 professionals across the UK, we recognise that trust in the wider audit and corporate governance system underpins economic stability and voter confidence in business.

While the Government initially committed to introducing a draft Audit Reform Bill, its absence from last year's King's Speech highlights how these vital reforms continue to be delayed. Even with broad support from businesses, the audit and governance community, and parliamentarians from across the political spectrum, parliamentary time has still not been found to pass the primary legislation that is urgently required.

### **Why Manifesto Commitments Matter**

As the next general election approaches, there is a clear need for clear commitments on audit reform in political manifestos. Parliamentarians will know how these recurring instances of corporate failures, linked to audit and governance deficiencies, have impacted their constituents. Substantial job losses, store closures

on our high streets, wiped-out pensions and harm to investors show how these collapses negatively impact our economy and society.

Despite numerous reviews, white papers, and proposals, legislative action has moved at a glacial pace, leaving the audit regulator without the necessary statutory footing and legal powers to hold those responsible to account. In October 2023, the Chartered Institute of Internal Auditors [sent a cross-party letter signed by parliamentarians to the Prime Minister](#), advocating for the inclusion of the Audit Reform Bill in the King's Speech. This letter, supported by MPs and Lords from all major parties—including the Conservatives, Labour, SNP, and Liberal Democrats—highlights the broad political consensus for these reforms. However, the audit reform bill was then omitted from the King's Speech.

The halts and shifts in the Government's approach to the long-anticipated Audit Reform Bill have resulted in the inefficient utilisation of government resources and public funds. This has conveyed mixed signals to business and global markets regarding the government's dedication to these changes. It has created a climate of uncertainty among business leaders and investors, complicating the strategic planning necessary for long-term economic stability, investment and growth. Moreover, it has undermined the attractiveness of the UK as a public listing destination, potentially deterring companies from entering the UK market, as was highlighted by the Chartered Governance Institute in an [open letter to the Secretary of State for Business and Trade earlier this year](#).

#### **Key Benefits of Audit Reform Bill**

- **Restores trust:** Rebuilds public confidence in audit, corporate governance, and business, supporting greater transparency and accountability.
- **Protecting constituents from avoidable company failures linked to audit deficiencies:** Safeguards jobs, pensions, and suppliers, including small businesses, thereby contributing to economic security.
- **Reinforces the UK's reputation as a world-leading destination for investment supporting growth and prosperity:** Enhances the accuracy and reliability of financial statements through a more robust audit process, increasing investor confidence in the UK public listing market.
- **Supports businesses in uncertain times:** Strengthens financial resilience and security, providing directors and investors with reliable reporting to navigate risks.
- **Strengthens the audit regulator with legal powers:** Empowers the audit regulator with new statutory powers to hold company directors accountable, enhancing protections against corporate failures linked to audit and governance deficiencies.
- **Transforms corporate governance:** Protects and enhances the UK's standing as a world leader in good corporate governance, supporting jobs and economic stability.

#### **Political Landscape and Commitments**

The general election presents an opportunity for all UK political parties to commit to ensuring we have an audit regulator with the appropriate powers it needs to do its job effectively, thereby elevating standards of corporate accountability and governance. A clear commitment to audit reform in party manifestos will signal to the electorate and the business community a clear stance on corporate governance enhancement. It will also highlight the path towards restoring public trust in business and delivering greater economic stability.

**Mark Pawsey MP – Conservative** - *“I want the Government to make sure that a transparent and effective audit system is introduced. There are plenty of reports calling for change, and we have seen the events at Carillion, Patisserie Valerie, Thomas Cook, P&O Ferries and BHS. We need to rectify the situation, and I hope that the audit reform Bill is brought forward.”*

**Jonathan Reynolds MP – Labour (Shadow Business Secretary)** – *“The fact that it was mentioned in last year’s Queen’s Speech was an acknowledgement that you need legislation to do this. We (Labour) would replace the FRC with the new proposed ARGA, which will be the new body with teeth at the heart of this, which does require legislation. I cannot see an argument for it not progressing.”*

**Lord Clement-Jones – Liberal Democrat** - *“Strengthening our audit and governance framework by putting the audit regulator on a statutory footing is essential not just for enhancing transparency and accountability, but also for maintaining public confidence. I see audit reform as a crucial step towards safeguarding the integrity of our business practices and ensuring they meet the highest standards of governance.”*

Historically, there has been political consensus amongst the main parties on the need for a strengthened audit and corporate governance regime underpinned by a strong independent audit regulator:

*“We are also strengthening the UK’s corporate governance regime and will reform insolvency rules and the audit regime so that customers and suppliers – and UK taxpayers – are better protected when firms like Thomas Cook go into administration.”* **Conservative Manifesto 2019**

*“Audits are vital to corporate accountability, but the auditing industry is dominated by a few players riddled with conflicts of interest. Labour will separate audit and accounting activities in major firms and impose more robust rules on auditors.”* **Labour Manifesto 2019**

Despite previous manifesto commitments, the journey from pledge to legislative action has been marred by delays and uncertainty. Although the Government committed to publishing a draft Audit Reform Bill in the **2022 Queen’s Speech**, it remains unpublished, highlighting a gap between promise and action.

**An Audit Reform Bill would transform corporate governance in the UK, improve company outcomes and help to ensure long-term sustainability. Manifesto commitments to audit reform will signal a party’s dedication to:**

- Enhancing corporate governance and audit standards.
- Protecting jobs, pensions, and investments.
- Restoring trust in business and financial markets.
- Promoting economic stability, security and resilience.

**This commitment captures the essence of what audit reform aims to achieve: enhanced accountability, protection for the public, and a strengthened framework for corporate governance.**

### **Call to Action**

We urge all political parties to recognise the urgency of this moment and to include a commitment to audit reform in their manifestos. The support of parliamentarians for these reforms is important for restoring trust in the UK’s audit and corporate governance framework and our reputation as a world-leading destination for investment.

We suggest the following wording for consideration in your manifesto:

***"Following a series of high-profile corporate collapses linked to audit weaknesses such as Carillion, Patisserie Valerie, Thomas Cook, and Wilko, we will continue to strengthen the UK's audit and corporate governance regime to safeguard jobs, growth, pensions, and investors. This will include bringing forward legislation to give the audit regulator new powers to hold those responsible for disorderly corporate failures to account."***

**We now urge all political parties to:**

- **Include a manifesto commitment to deliver audit reform legislation.**
- **Prioritise the passage of the Audit Reform Bill post-election.**

By including these pledges in your manifesto, you can ensure the long-term health and trustworthiness of our businesses, reinforcing the UK's standing as a global leader in audit and corporate governance.

**Rebecca Long-Bailey MP – Labour** - *"A further five years on from Carillion, we are no closer to the creation of the Government's long-promised audit, reporting and governance authority, or the passing of the Government's promised audit reform Bill."*

**Richard Thomson MP – SNP** - *"Financial transparency and accountability are essential components of economic stability. For three years now, the Government have been promising legislation and improved checks on company finances, but they have repeatedly failed to deliver. How can the Minister justify leaving the audit and governance Bill out of the King's Speech, when it is supported by businesses, regulators and auditors alike?"*

**Anthony Browne MP – Conservative** - *"Everyone in finance knows that there is a major problem with auditing. It has always been in the "too difficult" box, the "too complex" box or the "I just don't understand it" box. Thank God it is now being addressed, because we need that Bill to stop the series of scandals that have happened as a result of bad auditing."*

**Kevin Hollinrake MP – Conservative - Minister of State (Department for Business and Trade)** - *"The Government has carried out significant work towards audit and corporate governance reform legislation but has not set a date for publication of a draft Audit Reform Bill. The Government is committed to legislating when Parliamentary time allows."*

**Seema Malhotra MP – Labour** - *"There is not just a failure to take this issue [rogue directors] seriously, but a broader pattern of failing working people, who are so often left in the lurch. For too long, our economy has been ravaged by dire productivity, insecurity and stagnant pay. Government and business need to work together on a proper, pro-business, pro-worker, long-term plan for industry and the economy." "Reform of the audit sector is clearly necessary and long overdue. The scandals we have heard about have damaged the reputation of the audit sector and the professionals who work in it."*

**Mark Pawsey MP – Conservative** - *"Business collapses such as that of Wilko, Carillion, Thomas Cook and Patisserie Valerie have been a consequence of failures in the audit process, costing people their jobs and hurting investors and suppliers. Audit reform was recommended by the then Business, Energy and Industrial Strategy Committee in 2019, and the Government offered to bring forward a draft Bill. I know the Minister wants to reduce red*

**Contact us:**

We hope this briefing has made the case for manifesto commitments to audit reform. For enquiries regarding this briefing or if you would like to set up a meeting to explore how we can support your work as a parliamentarian contact **Gavin Hayes, Head of Policy and Public Affairs** at [gavin.hayes@iia.org.uk](mailto:gavin.hayes@iia.org.uk).