

Nothing less than an accounting revolution is required

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The [FT has reported this morning](#) that:

The Labour party has called out the accounting profession, pledging to eradicate poor practices following high-profile corporate collapses.

It added:

Mr McDonnell said Labour had commissioned an independent review of how Britain's audit market operates, including how it is policed by regulators.

The review will be led by Prem Sikka, a professor of accounting at the University of Sheffield and an outspoken critic of the Big Four audit firms: PwC, Deloitte, KPMG and EY. The review will examine whether existing regulatory bodies should be merged, abolished or restructured, and will consider the appropriate level of fines for accounting firms when misconduct is exposed.

Three thoughts. First, I welcome this. Prem and I are both participants in a small and informal group discussing such issues, and have been for a long time.

Second, the move is necessary: the government appointed investigation looks like a whitewash from the outset, [as I have already suggested](#).

Third, the suggested remit is fine, but at the end of the day a review needs to go much further. I am speaking at the audit and assurance conference of the British Accounting & Finance Association (the body that most UK accounting academics belong to) in Dublin this week. I will, of course, discuss regulation. But I will go much further. If the data that is audited is itself meaningless, even to the directors asked to sign it, what I will suggest is that an audit, however good the quality and however well regulated it might be, cannot make good the deficiency. And the trouble is that we now have accounts that do not make sense to most users; that are not designed to meet their needs and that are, far too often, not available to the stakeholders who need them and who are, in any case, denied the chance of an audit.

Reform is needed, and it needs to go much further than some moves on regulation.
Audit has to be of relevant data. Nothing less than an accounting revolution is required.