

Kingman has failed

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I have just had this article published in [Accountancy Age](#):

Some older readers of Accountancy Age will understand a joke much beloved in Private Eye, when they describe an organisation as undergoing a 'Talbot'. Talbot was the corporate ID given to the failing Hillman / Chrysler brand of cars in the UK in the 1980s in a last ditch attempt to save the whole corporate edifice.

The trouble was that they did not redesign the really poor cars that the company made at the same time. They just stuck a new badge on them. I cannot help but think that John Kingman has 'done a Talbot' to the Financial Reporting Council (FRC) when reinvesting it as the Audit, Reporting and Governance Authority, which will inevitably be termed as ARGA henceforth.

The reality is that John Kingman did a classic insider's job on the FRC. This is hardly surprising. As a former Treasury civil servant who was on record as supporting the FRC in its existing structure he was hardly going to fillet it in public to make it fit for purpose. So frightened of the public was he, in fact, that he has refused to publish the evidence submitted to his review, claiming it was not in the public interest to do so. For a review of a body committed to maintaining standards of transparency that is quite astonishing.

Addressing the real issues

As is Kingman's failure to appreciate the scale of the issue that accounting faces. Whilst focusing on the role of auditors, in the main, Kingman dismissed the even deeper concern that what auditors are auditing is financial data of little relevance to most users of financial statements. And that is an FRC issue.

The FRC sets UK accounting standards, used by many more companies than IFRS, with almost all of them privately owned. And yet Kingman failed to notice that UK GAAP is based on IFRS, which in turn defines the only users of accounts for whom it has concern as the suppliers of capital to a company, and then only with regard to their decision as

to whether to engage with it, or not. In other words, Kingman failed to notice that most financial statements created using FRC standards have been designed for the use of financial markets in which almost none of the companies who have produced them are engaged. And this is despite his report saying:

The FRC has not, to date, been a particularly effective champion of the need for annual reports and accounts to be comprehensible and of genuine value for their readers.

He has chosen to do nothing about this. Instead he has said:

The regulator should be required to promote brevity and comprehensibility in accounts and annual reports, to engage meaningfully with investors and asset owners about their information needs, and to ensure the proportionality and value of reports.

I have no problem with the objective, but to overlook the fact that the needs of many users are ignored at present, and to instead make brevity his objective in financial reporting, is reckless irresponsibility. Those who need data require it, whatever the length of the report. And it is wrong to pretend otherwise.

CMA proposals will go further

As a consequence, as an exercise in reform Kingman could not have got off to a worse start. I accept that putting accounting regulation on a sound statutory footing is wise. I agree that securing ARGA's finances makes sense. I concur that annual reporting on progress makes sense. I think extensions of powers appropriate. But to be candid, nothing that Kingman recommended on auditing will go anywhere near as far as the Competition and Market Authorities' proposals will. They are considerably more useful.

What the CMA recommends will, however, be dependent upon auditors having useful data to audit and right now far too much accounting data is what I call CRAp. That stands for Completely Rubbish Approximations to what the users of accounting data really need. This is true at all levels of accounting, from the multinational corporations to the micro entity. Kingman has created a body that will not recognise that, because he has not recognised it himself. And he could not because that would undermine all that Kingman has himself endorsed in a career at the Treasury and in commerce.

This review needed a real outsider with broad vision to lead it. Kingman was not that person and as a result it missed the point that it is not just the accounting regulator that needs reform, but accounting itself. And all in the profession will pay the price for that. We needed more than a sticking plaster to keep the status quo going. But that is what we got. Talbot failed. Kingman will not save the profession.