

The Kingman Review largely fails on reform to the struc...

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The second report on the future of auditing published this morning is the Kingman Review. Undertaken by former Treasury civil servant and chair of Legal and General, John Kingman, there are many reasons to be concerned about this review, which appears substantially less considered than that of the Competition and Markets Authority on which [I have already commented this morning](#).

One of the biggest of the many problems with Kingman's review has been the fact that it will not publish its evidence. So whilst, as I note below, he is not above taking a swipe at the Financial Reporting Council's critics we do not know what evidence he was presented with. You almost could not make up the fact that a City grandee believed he had to undertake a review on such an important issue in private when the whole point of auditing is to report to the public.

Kingman's review looked at the Financial Reporting Council (FRC) - the industry-sponsored body charged with oversight of auditing in the UK, as well as setting accounting standards (which is a task all seem to have overlooked). The FRC has been almost universally derided for its light touch approach, insider appointments and close association with far too many in the Big 4. As an example of failed self-regulation it took some beating.

I have tried to find Kingman's report and press release this morning and have failed. But City AM have seemed to copy and paste it. So I am using [their version](#). They highlight five features:

1. The FRC is not fit for purpose

“[H]aving spent most of its life in obscurity,” Kingman said, “the FRC now finds itself subject to tough and persistent criticism,” which have put it under an “unprecedented spotlight”.

He said close attention had revealed the FRC to be “an institution constructed in a different era — a rather ramshackle house, cobbled together

with all sorts of extensions over time.”

He found some of the FRC’s critics “overstate their case”, but said it had taken an “excessively consensual” approach to its regulatory work.

Kingman said the watchdog needed to be rebuilt from the ground up, with “a clear and precise sense of purpose and mission”. He also strongly criticised the FRC’s propensity for media leaks, which have led to several of its decisions appearing in the press ahead of their official announcement.

2. The FRC has serious problems in how it recruits top staff

Kingman said the FRC board and staffing needed an overhaul, describing its approach to board and council recruitment as “surprisingly, and inappropriately, informal”.

He said the watchdog was “often not employing open advertising or using headhunters, and sometimes even relying on the alumni networks of the largest audit firms”.

“Of the 21 vacancies in relevant positions between 2016 and 2018 only one role was advertised in the national press, and just six involved external search consultancies,” he found.

He said the regulator “has some excellent people”, but that its next chief executive after Stephen Haddrill leaves next year will have a “very big culture-change job to do”. He suggested that though many members of the FRC would transfer to Agra under his proposals, there should be a “limited” overlap in senior management, and that its new board should be much smaller.

3. A new body should have statutory funding and a clearer remit

Agra, the proposed new body, should have statutory recognition and funding to make it more robust, Kingman said.

At present, the FRC is partially reliant on a voluntary levy from audit firms, which the review warned could reduce the watchdog’s willingness to “bite the hand that feeds”. It is formed through a mixture of statutory and delegated powers, which Kingman said “is not appropriate”.

Kingman called for the new body to maintain its remit around improving corporate reporting, but said it needed to have an expanded role in addressing and discussing audit quality, and said current arrangements which give the FRC oversight of the actuarial profession needed further review.

He suggest Agra could be given more power of oversight on public audits

conducted by the National Audit Office.

4. Someone should blow the whistle when audits are going wrong

Kingman described the FRC as “almost powerless” to address firm-wide issues of audit quality, and said it needed to have registry powers to ensure it had “purchase” on firms more widely.

He said it would not be “practical or desirable” for the watchdog to have a “general responsibility” to prevent corporate failures, but said it should keep an eye on market “warning signs” that companies may be at risk.

He said the government should introduce a “duty of alert” for auditors to report “viability or other serious concerns”, similar to the system in place in France.

5. The watchdog needs some new powers

Kingman was supportive of the current fining system which the FRC has in place, noting that there is no limits on the fines it could levy. “The biggest issue is not the size of the fines but how long some of these enforcement cases have taken,” he said.

He recommended the watchdog be given certain expanded powers, however: to be able to commission a “skilled person review”, paid for by the company, in which a suitable individual inspects a firm.

He also said the regulator should have the power to make recommendations to a company’s shareholders that they take action such as cutting dividends or firing senior staff, in “serious cases” where “the severity of the facts” merited an intervention.

In summary, a bit of tinkering and a rebrand should do.

In my opinion it will not. A new body does not need a rollover from the existing body.

And the new body has to understand that the issues it is dealing with are much bigger than audit. Accounting standards, as well as upholding company law, are issues that will fall to it and there is no hint of this awareness in what is being written here.

Thankfully, the government has [**announced a new review**](#) **to build on Kingman - and hopefully dramatically improve it. This is detailed here. There is still a great deal to do and an enormous amount if backsliding to prevent.**

The demand for an accountable accountancy profession goes on.

My speech on this issue to be made today will be published later.