

# Accountancy in crisis: fundamental reform is needed

Published: January 13, 2026, 12:20 pm

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I had this article published on the [Economia website of the Institute of Chartered Accountants in England and Wales](#) yesterday:

The accountancy profession is in crisis. Audit is failing to assure anyone, it seems. The whole structure of that part of the profession is in doubt. And it must only be time before questions will be asked as to whether the accounting data that is presented for audit is itself fit for purpose. Meanwhile, in the SME community there is a different crisis. This is driven by doubt as to what the accountant in this sector now does in the face of Artificial Intelligence (AI) when that might take away so many of the tasks that they have traditionally performed.

Important as each of these questions is, after four decades in the profession I do now doubt whether they are really the existential ones that we should be facing. In my opinion each is symptomatic, but not diagnostic. I suggest that the question we are really facing is what is the role of accountancy, and so the accountant, in society now. To cut a long argument short, I happen to believe that the 21st century accountant has an essential role: to explain what organisations are doing to all who want to know.

This definition of purpose needs some explanation. First, I refer to organisations. These come in all sizes, with almost innumerable purposes. I am suggesting there may be none beyond our reach. That said, there are already some who are quite good at delivering the data I suggest accountants should be delivering. Many of these organisations are a part of government. Or they are in the not-for-profit sector. Or they are charities. Many of these organisations already seem to appreciate that they both have to, and need to, explain what they get up to. So, the problem is not with them.

Instead the problem is with the private sector, where accountancy began and with which it is still most associated by many. I would suggest as a consequence that what accountancy has to do now is to explain what the private sector does, company by company, without exception. I think it is failing to do that now: indeed, it is not just failing, but is failing dismally.

Which brings me to my second point relating to 'all who want to know'. Accountancy is failing the private sector because it has decided, for reasons that make no sense to me at all, that its sole task job is to report on the financial performance of a company to the shareholders of, and other providers of capital to, that entity.

Now I am not for a moment denying that these groups need data. They do. But if anything their need is the least of all users of accounts. That is precisely because they do, almost without exception, either have protection from the risks that limited liability creates or have access to security to protect them from that risk. In addition, many will have the means to secure data to appraise what the entity they are engaged with is doing on an ongoing basis.

It is, then, the other stakeholders of a business who need both data and explanation of that data from accountants to enable them to appraise the risks that they face when engaging with the limited company that is reporting. Despite this the profession has gone out of its way to deny them this information. In fact both IFRS and UK FRS suggest that these 'other' users of accounts are not their concern. Should anyone in that case be surprised that the accountancy profession is suffering an existential crisis in 2019? If a profession refuses to engage with most in society it is hardly surprising that society does in turn then ask what it is for. And that is what is happening to the accountancy profession now.

I would add that it has not always been this way. For example, back in 1975 when I was aspiring to be an accountant, the profession declared that accounting standards should meet the needs of all users of accounts. And they were willing to identify those stakeholders who needed data. Summarising their argument, I would now suggest that those stakeholders who accountancy should serve are the trading partners, employees, regulators, tax authorities and members of civil society who interact with a company, in addition to the suppliers of capital, of course. In that case I suggest that all these groups should now be at the heart of our concern if accountancy is to re-establish its credibility.

And, because we will never know which company we might interact with, I agree with the Jenkins Committee that reported on UK company law in 1962, who rightly, in my opinion, suggested that the full accounts of all accounts should be available on public record, without exception. This was precisely to ensure that those who might engage with any one of them might have the chance to appraise the risk that they faced when doing so.

Despite the sound advice of these past eras, the accountancy profession has since then stood aside and acquiesced and even encouraged two things. The first of these is the reduction in the scope of those to whom we are responsible that I have already noted. The second has been the removal of the evidence of our good work from public view at Companies House over the last twenty years until the point has been reached where more than ninety percent of companies can now file almost meaningless statements

with that agency and still comply with their statutory duties. I often wonder what we have been so ashamed of that made us happy for this to happen?

I do, when looking at how to resolve this problem, have to make one thing very clear. This is that publishing the existing accounts of all companies will not solve the problems that we face. The accounts that we must publish in future must be relevant to all users' needs: those that are produced now do not achieve that aim. Fundamental accounting reform is required to meet the needs of all the users that I identify so that they can get access to the data that they want to know.

And I stress 'want to know'. They have the right to this data, in my opinion. Limited liability is a massive privilege granted by society to shareholders. The price of it is telling all those that it impacts just what risk they face when dealing with the limited liability entity. I stress that this is really not open to doubt: unlimited liability is always available to all who do not want to disclose. Unlimited liability shifts the risk from the stakeholder to the business owner. Those owners would, then, bear the price of non-disclosure. In the same way, limited liability pushes risk onto the stakeholder. That is why they have a right to know: they are the real risk takers with regard to limited liability entities. It is indisputable that risk is the determining factor in deciding who has the right to know in that case.

And what this then means is that accounting standards have to be rewritten. My suggestion is that this rewrite should start from the bottom up. That is because unless we can decide what the small entity needs to report we will never get right what the large company should report. So what should the small company say? About itself? And what it does? And who owns and manages it? And who it employs? And how much it pays them? And what gender they might be? As well as how well it treats its creditors, and the time it takes to pay them? And what resources it really has available to it to pursue its trade? As well as, of course, whether or not it has complied with regulations (or not). And, come to that, whether it has paid all its taxes, and who to (because council tax, VAT and PAYE all matter as much as corporation tax)?

Whilst, because cash flow is the lifeblood of small business, shouldn't such companies be reporting on this as well? Isn't data on all these issues essential in all small company accounts? And let's not pretend that any of it is onerous to produce, before anyone raises objection?

And why aren't accountants encouraging the companies they work with to use this data to make clear that they are valuable member of the community that they serve, a task currently reserved solely for a corporate website? They can do this by promoting the benefit of business in the local community; by highlighting the value it adds; the employment it creates; the diversity (maybe) of the people that are employed; the contribution a business makes in tax, and so much more.

Wouldn't accountants then be really adding value by talking about those things we all

say that we think are of value but which we, apparently, never want to talk about in our professional lives and which we, as a result, encourage our clients to ignore? And might the world not value us again as a result?

This, for me, is what the profession should be talking about now. And that is why I am planning to establish a Corporate Accountability Network to promote this idea. I am unashamedly looking for support, sponsorship and funding. If we are to survive as a recognisable profession I suggest all accountants should be seeking to answer the question 'what are accountants for now?' I am keen to hear from those who want to help answer that question.