

Campaigners call for ‘long overdue’ shakeu...

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I have, with other campaigners named in what follows issued this press release this afternoon:

Campaigners call for ‘long overdue’ shakeup of the audit industry for public good

A group of civil society organisations and institutions including Greenpeace, IPPR, Spotlight on Corruption and academics from Sheffield University, today called for urgent reform of the audit profession ahead of the publication of a government White Paper. They argued that wide-reaching changes should be implemented as soon as possible to prevent repeated audit failure and protect the interests of shareholders, staff, customers, pensioners, investors and society as a whole.

The group supports the separation of audit and consulting functions within professional service firms to reduce conflict of interest and argues that auditors should face stricter penalties, including fines and debarment from public contracts, when they fail to do their job properly. They also stress that companies’ accounts must include information on climate change and that auditors should robustly review this information.

Carsten Jung, Senior Economist at the Institute for Public Policy Research said : “Audit firms should play a critical safeguarding role in our economy and society. We all rely on them to ensure businesses act truthfully and stick to rules. In the UK, almost all of the 300 biggest companies are audited by one of four dominant firms — a huge concentration of power. Moreover, the bulk of these firms’ revenues comes from their consultancy work, not their audits — risking dangerous conflicts of interest. When audit fails - as it does in one in three cases - it leads to job losses, millions wiped from pension pots, huge bills for taxpayers and a weakened economy. Only bold regulatory reforms can address the deep-rooted issues with the current system. We look forward to seeing the government’s White Paper and hope it will show that it is serious about fixing the audit landscape.”

Susan Hawley, Executive Director at Spotlight on Corruption said: “We should

expect the highest standards from auditors - but time and again they have let us down. Just last year, EY failed to report billions of dollars' worth of cash transactions including the smuggling of gold from Morocco. The High Court in London concluded that EY breached their duties of integrity, objectivity and professionalism. These sorts of failures have enabled kleptocrats, corrupt officials and fraudsters to get away with illegal behaviour at huge social cost, while the Big Four audit firms have consistently escaped any serious consequences. This White Paper must be the start of greater regulation of and accountability for the sector."

Richard Murphy, a chartered accountant and director of the Corporate Accountability Network said: "It is good that the government recognises the need for audit reform. But the changes must be more than skin deep: they need to go to the heart of how audit is done and for whom. Companies must be made to report on the issues that matter to most people as employees, pensioners and citizens worried about the future of our planet. Audit did not reveal corruption at Enron. Audit did not reveal that Carillion was effectively insolvent. Audit did not protect the pensioners of BHS. Time and again, auditors have failed us, and without serious reform will continue to do so. We are concerned that the proposals in the White Paper may be too timid to prevent future failures."

Adam Leaver, Professor in Accounting & Society at Sheffield University said: "The audit industry often claims reform will add cost and bureaucracy and undermine the UK's comparative advantage. Yet, the mounting costs of audit failure present a compelling economic case for audit reform. The collapse of Thomas Cook and Carillion cost the government £156m and £148m respectively. A more resilient economy needs a joined-up approach that links audit reform to the reform of accounting standards and corporate governance in order to place the principle of capital maintenance at the centre of policy initiatives."

Charlie Kronick, Senior Climate Advisor at Greenpeace said: "Auditors are failing to assess whether companies are adequately accounting for the greatest threat of our time: climate change. If corporate accounts don't reflect the mounting climate risks, then companies will overestimate their future profitability, and continue to spend on high carbon projects driving the planet past the UN climate goals, as well as destroying shareholder value. BP and Shell's recent massive write-downs of assets demonstrates the urgency of the UK government mandating that corporate accounts fully reflect climate risk."

Joanne Etherton, Senior Lawyer and Climate Finance Lead at ClientEarth said: "Our research shows that, last year, more than 96% of audit reports for the UK's top listed firms failed to clearly disclose whether climate had been considered by auditors. This apparent widespread failure by auditors to challenge companies on the risks, impacts and financial implications climate change poses to their business has serious

consequences for people and planet. We're already seeing that the misallocation of capital and sudden write downs in fossil fuel-related assets are undermining pension fund performance and destabilising communities and economies across the world, while action to reduce greenhouse gas emissions is dangerously delayed. All companies urgently need to align their accounts and reporting with net-zero goals, and auditors must check their work."

Each of these organisations will be providing detailed submissions to the White Paper consultation when it is open.

ENDS

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Notes & more information:

* **ClientEarth [research](#) on companies' failure to report on climate change**

* **Sheffield University, ['Auditing with Accountability' project](#)**

* **Richard Murphy's [tax and accounting blog](#)**

* **Spotlight on Corruption's [letter arguing that EY should be debarred from public contracts](#)**