



Audit briefings

Why these Audit Briefings?

1. Background

The future of audit is being debated in the UK¹ ². Whilst audit is not just an issue for what the government calls public interest entities (PIEs)³, the focus of their concern is on such entities because they are the ones whose failure might cause greatest disruption within the economy, and loss to those involved with them.

The Corporate Accountability Network believes that audit does need reform within the UK⁴. However, it is our belief that the audit of a set of accounts or financial statements⁵ cannot be considered as an issue that can be addressed independently of those accounts. It is our opinion that audited accounts are ultimately an inseparable whole. As such we suggest that the success or failure of auditing and accounting in meeting the needs of the users of those accounts cannot be separately appraised.

To discuss the issues that arise from these differing views we are issuing a series of Audit Briefings in 2021 and 2022. These will look at the background to the issues of concern about both accounts and audit in the UK.

We will suggest what we think accounts are for, and why they need to be audited. We will also suggest who we think the users of accounts are, and what their needs might be.

Based on that analysis we will then propose new definitions of the purpose of accounts and accounting, which in turn will lead to a suggestion as to a new purpose for auditing.

¹ <https://beisgovuk.citizenspace.com/business-frameworks/audit-and-corporate-governance-review/>

² The consultation papers relating to this process are noted in the references noted at the end of this Briefing.

³ The Corporate Accountability Network has issued a separate Audit Briefing on what it considers an appropriate definition of a PIE might be.

⁴ See our separate Audit Briefing on the reasons why audit might need reform.

⁵ We treat these terms interchangeably.

Importantly, what those suggestions will imply is that accounting needs to be reformed if audit of meaningful data is to be undertaken. Our suggestion is that the accounting data issued by most large companies and PIEs in the UK is no longer fit for purpose. Unless it is transformed the problems with audit and audit failure and the cost that both impose on society cannot be resolved. As a result the focus of much of this series will be on the reforms to accounting and audit that are now required.

2. Likely Audit Briefings

- a. The purpose of these Audit Briefings
- b. What are accounts?
- c. Who are the stakeholders of accounts?
- d. What is a PIE?
- e. What are the information needs of the users of accounts?
- f. Why do accounts need to be audited?
 - i. What is an audit?
- g. What is audit failure?
 - i. Why is audit thought to be failing?
 - ii. What is the audit expectation gap?
 - iii. Are auditors really independent of the entities that they audit, or their accounts?
- h. What might be done about audit failure?
 - i. Is it possible to close the audit expectation gap?
- i. What might the accounts of the future look like?
- j. What might the role of the audit be in relation to the accounts of the future?
- k. Who will the auditors of the future be?
- l. How might auditors be appointed, and paid in the future?
- m. What is the role of an audit regulator in the future?
- n. How should an audit regulator be organised in the future?
- o. How will we know if audit reform succeeds?

It is expected that these audit briefings will be published as an eBook when the series is complete.

Please note that the above listing might be subject to some change as the series progresses.

3. About the Corporate Accountability Network

This briefing has been published by the Corporate Accountability Network⁶.

The Corporate Accountability Network (CAN) recognises that accounting as a whole is facing a crisis of relevance since it is failing to meet the demands made of it by the users of the financial statements that the accounting profession produces. The Corporate Accountability Network exists to identify the causes of that crisis and offer solutions to it.

CAN is pro-business and it is pro-accountancy. What it does not accept is the idea that accounts, accountancy and accounting exist solely to serve the interests of one group in society. They do not. Accountancy was created with a public purpose. CAN believes that it should fulfil that public purpose.

What CAN argues is that accountancy can never fulfil that purpose that unless it fulfils its obligation to account to all the stakeholders of a company, whether they be the suppliers of its capital; its trading partners; its employees; regulators; tax authorities and civil society – who are everyone it impacts whether or not it has a contract with them.

CAN recognises that we live in a mixed economy where the state and private sectors co-exist to meet our needs. That economic model has worked, and could survive long into the future, even with the challenges that issues such as climate change create. But that will only be true if business continues to enjoy the confidence of those who provide it with its licence to operate – which is society at large. It will not do that unless business accounts to everyone in society. The Corporate Accountability Network exists to show that accounting in this way is possible, necessary and achievable.

4. About the author of this Audit Briefing

This Audit Briefing has been produced by Professor Richard Murphy. Richard is Professor of Accounting, Sheffield University Management School⁷ having previously been Professor of Practice in International Political Economy at City, University of London. He is a Fellow of

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⁷ <https://www.sheffield.ac.uk/management>

the Institute of Chartered Accountants in England and Wales, from whom he holds a UK practicing certificate, entitling him to practice as a chartered accountant.

Richard was senior partner of an accounting firm for more than a decade before becoming involved in tax justice campaigning. He co-founded the Tax Justice Network⁸, the Fair Tax Mark⁹ and Finance for the Future¹⁰. He founded Tax Research UK¹¹. He co-created the Green New Deal¹². He is founder-director of the Corporate Accountability Network¹³.

Richard created the concept of country-by-country reporting¹⁴, which is now in use in more than 90 countries around the world to identify tax abuse by multinational corporations as a result of backing for it provided by the Organisation for Economic Cooperation and Development¹⁵.

Richard has created the concept of sustainable cost accounting¹⁶.

Richard has authored a number of books including *The Courageous State* and *The Joy of Tax*. He blogs, usually daily, at Tax Research UK¹⁷ and is a frequent commentator in the media on tax and accounting issues. In both 2019 and 2020 the Institute of Chartered Accountants in England and Wales named him as the top social media influencer on accounting issues in the UK¹⁸.

5. References

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⁸ <https://taxjustice.net/>

⁹ <https://fairtaxmark.net/>

¹⁰ <https://www.financeforthefuture.com/>

¹¹ <https://www.taxresearch.org.uk/Blog/>

¹² <https://greennewdealgroup.org/about-the-group/>

¹³ <http://www.corporateaccountabilitynet.work/>

¹⁴ <http://visar.csustan.edu/aaba/ProposedAccstd.pdf>

¹⁵ <https://www.oecd.org/tax/beps/beps-actions/action13/>

¹⁶ <http://www.corporateaccountabilitynet.work/projects/sustainable-cost-accounting-the-essential-guides/>

¹⁷ <http://www.taxresearch.org.uk/Blog/>

¹⁸ <https://www.icaew.com/about-icaew/icaewroar/icaewroar-top-online-uk-influencers-accountancy-2020>

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