Funding the Future

The Corporate Accountability Network Audit Briefings - ...

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As many readers of this blog will know, I am also a director of the Corporate Accountability Network (CAN). CAN has done a lot of work on accounting for climate change but it has also been in receipt of a grant this year from Luminate to work with a range of other NGOs on audit-related issues. This has already resulted in three submissions to the Department for Business, Energy and Industrial Strategy and another to the Financial Reporting Council, most of which are linked below. Discussions on many of the issues that we have raised the ongoing, but as part of this work CAN also agreed to prepare background briefings on auditing and accounting related issues.

These briefings are now in the course of preparation and sufficient have now been prepared to begin publication on a regular basis. A PDF of the explanatory introductory briefing is available here, but the key contents are also shared below. I expect these to now come out approximately weekly, although there is bound to be a little give-and-take on that schedule, and there will be some changes to the plan list noted below as final documentation is drafted. The hope is that at the end of this process there will be a collected volume of briefings that will provide a background for those interested in why accounting and audit reform is essential if the UK and other countries are to face the challenges that exist within their economies over the coming years.

Background

The future of audit is being debated in the UK[1] [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 UK[4]. However, it is our belief that the audit of a set of accounts or financial statements[5] 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.

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.

Likely Audit Briefings

The current plan is to publish audit briefings on the following issues:

* *The purpose of these Audit Briefings*
* *What are accounts?*
* *Who are the stakeholders of accounts?*
* *What is a public interest entity (PIE)?*
* *What are the information needs of the users of accounts?*
* *Why do accounts need to be audited?*
* *What is an audit?*
* *What is audit failure?*
* *Why is audit thought to be failing?*
* *What is the audit expectation gap?*
* *Are auditors really independent of the entities that they audit, or their accounts?*
* *What might be done about audit failure?*
* *Is it possible to close the audit expectation gap?*
* *What might the accounts of the future look like?*

* *What might the role of the audit be in relation to the accounts of the future?*
* *Who will the auditors of the future be?*
* *How might auditors be appointed, and paid in the future?*
* *What is the role of an audit regulator in the future?*
* *How should an audit regulator be organised in the future?*
* *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.

About the Corporate Accountability Network

This briefing has been published by the Corporate Accountability Network.

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.

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Notes

[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.*