

Corporate Accountability Network Audit Briefing - what ...

Published: January 13, 2026, 11:52 pm

As I [have noted previously on this blog](#), the [Corporate Accountability Network](#), which I direct, is publishing a series of Audit Briefings that discuss the need for audit reform in the UK. The [background to this series](#) is noted here.

In a previous briefing, [I addressed the question of what accounts are](#) and it's so in the context of what are called public interest entities, or PIEs for short. So, what is a PIE? [This is an issue that I address in a new Audit Briefing](#).

The key argument in this briefing, which is based upon submissions that I have made jointly with Professor Adam Leaver of Sheffield University Management School to the government's audit consultation process, is that existing thinking about what a PIE might be has been inadequate. As we note:

To date the UK has broadly followed European Union precedent in defining PIEs as quoted companies plus a limited range of other entities within the financial services sector, including credit institutions and insurance undertakings.

In response we say:

The Corporate Accountability Network welcomes an extension to the definition of a public interest entity. We believe that the recognition that there are entities which are PIEs is important. It is our belief that there are significantly more PIEs than the current definition recognises.

We would suggest that a PIE is any entity that has macroeconomic significance. This contrasts with normal opinion on the nature of private sector companies. It is commonplace to think that firms are microeconomic entities. The whole economic theory of the firm is built on the premise that they are.

So too has auditing been based on the logic that the entity being audited is a microeconomic concern. It has been assumed (as is clear from the IFRS definition of the purpose of accounting^[1]) that audited entities only have consequence for a limited range of 'insiders' within the entity itself, including its shareholders who can clearly be

defined in that way, and that broader responsibilities or consequences of their existence can be ignored during the audit process.

We do not agree with this view. Since the 2008 Global Financial Crisis the idea that some firms are 'too big to fail' has been commonplace. This description was originally used to describe banks[2] but has also been used to describe the Big 4 audit firms themselves[3]. We are now aware that the failure of even relatively minor entities can have significant macroeconomic consequence[4].

It is important that we make clear what we mean by macroeconomic consequence. We suggest that this is indicated by the likelihood that a loss that will fall upon society at large as a consequence of the failure of the entity.

That cost may be direct e.g. in having to make settlement of obligations that should have been due by the failed PIE. An example might be the cost of repatriating customers stranded abroad when a holiday company fails. Having to bear the burden of decommissioning costs to limit environmental harm might be another such example.

Alternatively, the costs may be consequential e.g. in terms of cost to a community as a result of the loss of a major employer requiring government intervention to support economic regeneration.

It would therefore seem appropriate to consider that any entity capable of having macroeconomic impact if it fails is a public interest entity. This would be true even if that impact is concentrated in one relatively small location. As such we suggest that income of £100 million will be sufficient to identify a PIE, whilst employment of an average of 500 people will also always be sufficient for this purpose.

There will also be some entities that will always meet the criteria for being PIEs. We suggest the following initial list:

- * All quoted companies, whatever market they are quoted upon;
- * Devolved governments;
- * Local authorities excluding parish councils;
- * Semi-autonomous government agencies e.g. Companies House;
- * UK state owned companies[5];
- * NHS trusts;
- * Universities;
- * Other charities that are determined by the regulator to be, as a result of their activities, key to the provision of government services;
- * Those running school academies if more than five schools are operated in any one

local authority area;

* Other entities that a regulator deems to be a PIE that do not meet any other criteria.

It is our suggestion that legal form and the purpose of an entity will be inconsequential if an entity's potential macroeconomic impact is the criteria for determining which entities are PIEs.

As a consequence, whilst we suggest that guidelines on certain attributes (e.g. listed, AIM listed, turnover, number of employees, etc) will be of use in determining which organisations are PIEs, they will be insufficient to indicate all entities likely to be considered to be PIEs. This is because all definitions can have unintended consequences, and one of those that might result from such a rigid approach is the abuse of such rules. For example, to avoid being a PIE it is possible that some entities may cease to operate under apparent common legal control e.g. through a single parent company, and might instead become loose federations of entities operating in a manner that apparently avoids the requirement that they either present group consolidated accounts showing a true and fair view, or to be recognised as a PIE^[6]. This potential abuse has to be avoided.

In that case it is as our recommendation that the regulator (ARGA) should have the power to deem any entity a PIE if it thinks it would have macroeconomic consequence in the event of its failure.

We also recommend that any auditor should be obliged seek determination on the PIE status of any client from ARGA if they are in doubt as to its status and that failing to do so should be a regulatory offence.

It will be interesting to see what the government says in response to this consultation. There are hints that a response may come in January.

The series

This blog is one of a series. [Links to the others are to be found here.](#)

Notes

[1] See references for elaboration as to source

[2]
<https://economistsview.typepad.com/economistsview/2010/09/too-much-too-big-to-fail.html>

[3]
<https://www.forbes.com/sites/hbsworkingknowledge/2013/02/04/are-the-big-four-audit-firms-too-big-to-fail/?sh=7271a60f4428>

[4] The failure of Greensill Capital is a recent obvious example.

[5]
https://en.wikipedia.org/wiki/State-owned_enterprises_of_the_United_Kingdom

[6] An obvious example of a group of entities working in this loosely federated way are the firms that make up the Gupta Family Group Alliance (GFG) <https://www.bbc.co.uk/news/business-57149731>