

# Funding the Future

## The government looks as though it is setting out to fail...

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This Bill is [noted in the Queen's Speech](#) briefing:

### Draft Audit Reform Bill

#### The purpose of the draft Bill is to:

- Rebuild trust in the UK's audit, corporate reporting and corporate governance system and the insolvency regulatory framework.
- Ensure accountability for those with key roles in that system.
- Increase resilience and choice in the statutory audit market – reinforcing the UK's reputation as a world-leading destination for investment.

#### The main benefits of the draft Bill would be:

- Strengthening the UK's position as a global leader in corporate governance by improving confidence in the UK market, better protecting jobs and investments, and reducing the cost of capital for well-run companies.
- Improving protection for the UK against risks to jobs, pensions, and suppliers from unexpected company collapses, by improving scrutiny of the largest non-listed companies and strengthening the insolvency framework to increase confidence in the system.
- Increasing competition in the audit market by supporting the growth of challenger firms to reduce the dominance of the largest audit firms, giving businesses greater choice and making the market more resilient.

#### The main elements of the draft Bill are:

- Establishing a new statutory regulator, the Audit, Reporting and Governance Authority, that will protect and promote the interests of investors, other users of corporate reporting and the wider public interest.
- Providing new measures to open up the market, including a new approach of managed shared audit in which challenger firms undertake a share of the work on large-scale audits. This will improve the quality and usefulness of audit; and boost resilience, competition, and choice in the audit market.
- Bringing the largest private companies in scope of regulation in the definition of 'public interest entities', recognising the public interest in companies of this size.
- Giving the new regulator effective powers to enforce directors' financial reporting duties, to supervise corporate reporting, and to oversee and regulate the accountancy and actuarial professions.

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- Reforming the regulation of Insolvency Practitioners to give greater confidence to creditors and strengthening corporate governance of firms in or approaching insolvency so that 'asset stripping' can be more effectively tackled.

#### Territorial extent and application

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- The draft Bill will extend and apply across the UK.

#### Key facts

Regular readers of this blog [will know that I've been campaigning for audit reform](#) for a very long time. However, even last week we were told that there would be no such Bill in the Queen's Speech. An onslaught from the Financial Times and others appears to have changed the government's mind. However, including a Bill is not the same as offering effective reform and the suggestions noted here are wholly inadequate.

Firstly, there is nothing here that changes the definition of what is to be included in a set of accounts, and so auditors will continue to review inadequate information, meaning any reform is itself meaningless.

Second, nothing here talked about bringing the audit of climate change reporting into the financial statements, which means that there is failure on this score as well.

Third, there is no indication that there will be a change to the rules with regard to capital maintenance i.e. the amount of money that the company has to keep back to ensure that it is solvent, meaning that audit failures will remain as likely as ever.

Fourth, the proposed reform of auditing where challenger firms will supposedly join with the Big 4 in shared audits has already been very clearly rejected by the firms involved, and so this suggestion is utterly meaningless.

Fifth, the tinkering around the edges with regard to the change of the regulator and audit, actuaries and insolvency practitioner regulations is a simple rearrangement of the deck chairs on the decks of the Titanic.

Unless there is something very much more to come on this issue, to be released in a white paper, which no one has had any site off as yet, then this looks like a deeply disappointing response to a great deal of work by a lot of people who were hoping for something very much better.