

Is Labour now set on audit failure?

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Effective and fair markets can only operate if they have access to data that is reliable, true and fair. That is why financial markets are utterly dependent on the role of auditors to deliver accounts that genuinely represent the financial operations of the companies that issue them and which seek investment from third parties to enable them to undertake their operations.

The need for reliable data is wider than that, though. We also need it from the government itself, all its agencies, and organisations like universities that have massive macroeconomic impacts in the localities in which they work.

This is what accounting is meant to be all about. It is there to protect the creditor, the consumer, society, and taxation authorities from abuse. Some may think this is boring. I think it is absolutely fundamental to the underpinnings of a fair society.

That is why, with my Sheffield colleague Prof Adam Leaver, I have spent a lot of time writing extensive submissions to the government on the various proposed audit reforms that came out of the Tory government from about 2018 inwards, which were precipitated by very obvious audit failures like Carillion, BHS, Patisserie Valerie, and all those other slightly less spectacular but nonetheless serious events that have resulted in the Big Four accountants paying hundreds of millions in fines to compensate for their inadequate work.

I want better data, better accounting, more responsibility and an extension of the duty of care on the part of those reporting so that everyone can make better decisions. I think that is an entirely reasonable objective. A great many hours have gone into trying to achieve this, and behind the scenes, quite a number of meetings with government officials have taken place.

And then, this morning, [the FT has reported](#):

UK ministers are exploring scrapping promised stricter audit rules for private companies as the government seeks to dial back regulation in a bid to boost economic growth.

Business secretary Jonathan Reynolds and employment minister Justin Madders have met large audit firms and big investors in recent months to discuss watering down or axing reforms that would designate about 600 companies “public interest entities”, according to people familiar with the talks.

The concept of the public interest entity (PIE) is really important. It identifies those entities that are too big to fail (whatever the legality of the situation) and which would impose substantial economic cost on the economy, either nationally or in the locality in which they operate, if they were to do so. They are, in essence, the large movers and players, and it is utterly unreasonable to pretend that these organisations are just microeconomic units, as economic theory and past accounting logic have suggested because they are obviously macroeconomic relevant.

Now, all in the pursuit of mindless growth at cost to the consumer, the investor and society at large, it looks as if Labour is going to abandon this agenda. The Tories wanted to deliver this. Covid waylaid the goal, but they never abandoned it. It looks like Labour will.

My suggestion that Labour is very rapidly trying to look like a government more recklessly irresponsible than that of Liz Truss looks to be justified, yet again.

I am staggered by the abandonment of responsibility that will be implicit in this proposal if it happens.

Has there ever been a government more friendly to business whilst being indifferent to the consequences than this one is seeking to be, at least in the post-war era? I am seriously beginning to doubt it.

Labour is now willing to rat on the interests of all those who need the government to deliver policy to protect people from abuse by those with power, many of whom are working people who are being forced to save in the shares of the companies that will benefit from this lax approach to audit by putting out financial statements that may not present a true and fair view.

I despair.