



HM Treasury

BEIS consultation update

Restoring trust in audit and corporate governance

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Background to the White Paper

- The Department for Business, Energy & Industrial Strategy (BEIS) white paper *'Restoring trust in audit and corporate governance'* sets out the government's response to recommendations made by three independent reviews commissioned by the government in 2018: Sir John Kingman's Independent review of the Financial Reporting Council, the Competition and Market Authority's statutory audit market study, and Sir Donald Brydon's independent review of the quality and effectiveness of audit.
- The main findings from the reviews highlighted long-standing concern over a lack of competition and resilience in the statutory audit market and a perceived gap between the expectation of users of financial reports and the audit product.



Main proposals in the paper

- The consultation set out a package of measures aimed at improving the UK's audit, corporate reporting and corporate governance framework based on the findings from the three independent reviews.
- It focuses on the arrangements in place for large companies, those defined as Public Interest Entities (PIEs), on the basis that this is where there is greatest public interest in ensuring that audit and corporate reporting are functioning effectively.
- Although wide ranging, the consultation primarily covers four broad areas of the corporate governance and audit framework in the UK:
 - 1) Director responsibilities for governance
 - 2) Audit, auditors, and audit firms
 - 3) Shareholder stewardship responsibilities
 - 4) The audit regulator
- In addition, the consultation makes specific proposals in relation to regulatory oversight of the Comptroller and Auditor General (C&AG) addressing the FRC's current statutory oversight over the National Audit Office's (NAO) Companies Act audit portfolio.

Impact on the public sector

- The consultation paper does not principally make proposals for reporting or audit of public sector entities.
- We understand from BEIS that there was no specific intent to broaden the extent to which public sector entities are captured under a revised PIE definition.
- Furthermore, it is not currently possible for departments and local authorities to comply with some existing PIE requirements or the expansion of the requirements as laid out in the consultation. Some of the proposals are also not relevant for some public sector companies because of the different arrangements under which they operate to those in the private sector due to the founding legislation or framework agreement such as the inability to pay dividends.
- However, there are various considerations for public sector reporting, notably in three areas:
 - 1) the application of proposals to existing public sector PIEs;
 - 2) expansion of the number of public sector entities being captured under a revised definition of PIEs
 - 3) the assertion that the public sector applies the same standards, where relevant, as those in force in the private sector.

Next steps

- The initial consultation ran between 18th March 2021 and 8th July 2021.
- BEIS are now reviewing the responses to the paper and a draft policy is being produced.
- A final draft is expected to be produced by mid-October, followed by a write round in Mid-November.
- Some of the proposed measures include the ability to set important details at a later date through secondary legislation brought forward for Parliament's approval by the Government. Many measures not requiring legislation are being taken forward already by the FRC.

Next steps (2)

- We are currently setting out our position in relation to the initial white paper while we await the draft policy from BEIS.
- There has been some opposition to including government departments in an expanded definition, which we are reviewing.
- Should public sector be scoped out, we will seek to introduce comparative measures, where relevant, to keep pace with the private sector.
- The current definition of a PIE currently applies to approximately 20-30 public sector bodies but the extended definition is not expected to apply to any further bodies.



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Questions