

# THE LONG AND WINDING ROAD TO UK AUDIT AND CORPORATE GOVERNANCE REFORM



GOVERNANCE AND SUSTAINABILITY  
Part of the Horizon Scanning series



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It was Spring 2018 when, in the immediate aftermath of the failure of Carillion, Sir John Kingman was called upon to undertake an independent review of the UK's Financial Reporting Council (FRC), kicking off a whole series of reports, white papers and consultations on proposed reforms to various parts of the UK audit and corporate governance framework. Delays, a global pandemic and three prime ministers later, it seemed that changes to UK corporate governance may finally be falling into place for 2024, only for the journey's end to be once more obscured by a bend in the road in the second half of 2023 with the last minute withdrawal of the SRDR Regulations and consequent implications for the proposed changes to the UK Corporate Governance Code (Code).

The schematic on the following page sets out key steps along this long and winding road.

The Government published its response to the BEIS (as it was then) White Paper, "Restoring trust in audit and corporate governance" setting out its plans for reform in May 2022. This set a path to UK corporate governance reform through a combination of primary and secondary legislation and changes to the Code.

The FRC released a consultation in May 2023 setting out proposed changes to the Code, reflecting what the Government wanted the FRC to cover. New corporate reporting requirements were due to come into effect through the Companies (Strategic Report and Director's Report) (Amendment) Regulations 2023 (SRDR Regulations), published in July. As part of the implementation plan, primary legislation was needed to transition from the FRC to the new Audit, Reporting and Governance Authority (ARGA). That transition had provisionally been targeted for April 2024.

However, a day before the SRDR Regulations were scheduled for parliamentary approval, the Government withdrew them, citing a need to "cut red tape" for business.

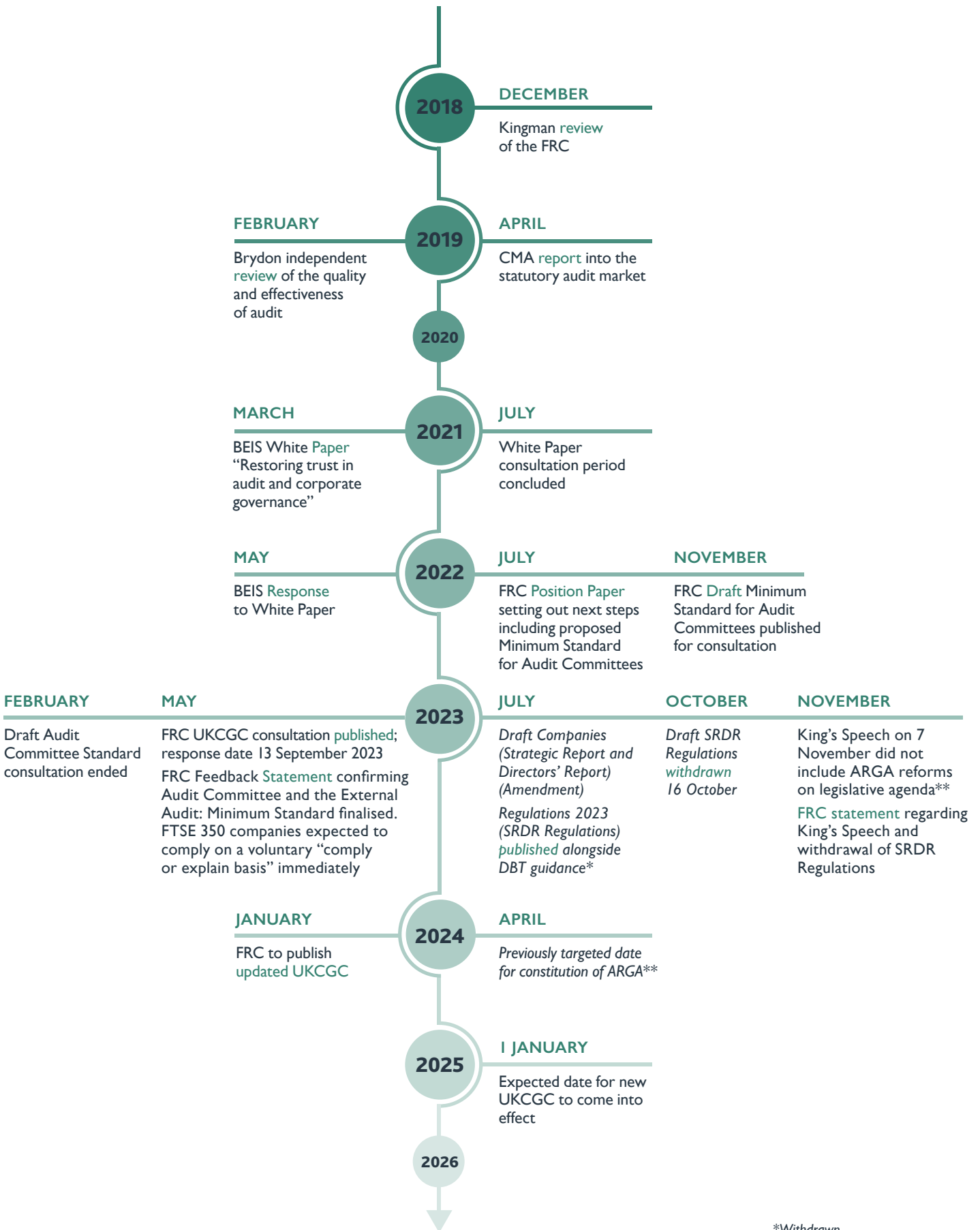
The decision of the Department of Business and Trade (DBT) to withdraw the SRDR Regulations encapsulates the current tension between a call from some sectors of Government to restore trust in audit and corporate governance (in the wake of perceived failings and the high-profile corporate collapses of Carillion and Thomas Cook), and the desire and focus in other quarters to (re-)position the UK, in general, and the London capital markets, in particular, internationally as a more attractive and efficient place to do business.

The SRDR Regulations contained several key reporting requirements that were part of the reform agenda. Companies in scope (public companies and private companies above certain employee and turnover thresholds) were to be subject to new annual reporting requirements, including amongst other things a "resilience statement" and annual distributable profits figure.

The FRC's proposed amendments to the Code were mainly aimed at providing for a more robust framework of effective internal control and risk management (as requested by the Government in its response to the BEIS White Paper back in 2022). Arguably they went further than anticipated by extending audit committee responsibilities and other changes focusing on diversity, directors' time commitments and the quality of corporate governance reporting. Importantly, several of the proposed Code changes relied on the SRDR Regulations being in effect.

The withdrawal of the SRDR Regulations therefore had an inevitable knock-on effect on the FRC's proposals for

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\*Withdrawn

\*\*Future implementation plans for ARGAs (if any) yet to be confirmed

updating the Code. On 7 November, the FRC announced that although it would still be targeting January 2024 for publication of the updated Code, it would be taking forward “only a small number” of its 18 original proposals – namely those aimed at reducing duplication across reporting standards and ensuring internal control standards are “targeted and proportionate”. This aligns with the messaging from the DBT, which following a Call for Evidence in May 2023 looking at overlap and duplication in non-financial reporting requirements, has signalled that it intends to look into streamlining existing frameworks and eliminating duplicative requirements in companies’ directors’ and strategic reports (reinforcing the view that the focus on economic competitiveness is prevailing in Government for now).

Such pressing of the pause, if not the re-direct, button, was further evidenced in November by the absence of mention of the Audit Reform Bill in the King’s Speech. The anticipated creation of ARGA next year will now not happen. The message from Government continues to be that the relevant legislation will happen ‘when Parliamentary time allows’; however, that seems quite far away, despite the FRC gearing up for its change to ARGA for a number of years now.

The timing and extent of audit and corporate governance reform is therefore far from clear, though perhaps this should be of no surprise with the prospect of a generation-defining general election in the UK in 2024. The current appetite within the ruling Conservative Party is uncertain. The Labour Party has pledged support for the audit and corporate governance reform agenda, including the establishment of ARGA, but not as a priority action item. One thing that does appear certain is that it will take a back seat during the run-up to the UK general election. And it seems unlikely that any new, far-reaching reforms will be developed and implemented immediately following the election.

The journey that started in 2018 with Sir John Kingman to reform the FRC and the UK audit and corporate governance framework is therefore set to continue through 2024. Though that may cause concern and frustration for some, if a rethink and rebalancing of the proposed reforms leads the UK to a better door at the end, this long and winding road may well have been worth it.

## CONTACT US TO FIND OUT MORE

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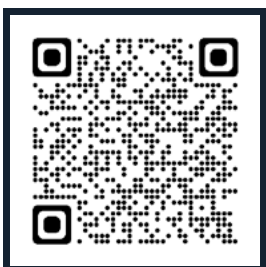
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