

Insights

A NEW DAWN OR A FALSE DAWN FOR UK AUDIT ENFORCEMENT?

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SUMMARY

The proposed replacement of the Financial Reporting Council by the Audit, Reporting and Governance Authority (ARGA) as the UK's new audit regulator should lead to a change in approach to audits and investigations of auditors. But will the UK's economic reality neutralise any such change?

A spate of audit failures in the past few years led to widespread calls for change in both the audit process and the way in which auditors were regulated.

Some high-profile reviews have proposed major changes, with the Kingman Review proposing the creation of a new audit regulator (ARGA). However there are questions as to whether the Government has the appetite to create an enforcement-heavy environment while dealing with the economic pressures of Brexit and Covid-19.

The Government may try to square the circle of ensuring auditors are held accountable for corporate collapses they should have seen coming, while not reducing the corporate attraction of the UK. They can achieve this by following in the footsteps of the financial services regulators, who have successfully driven culture change with the Senior Managers and Certification Regime.

How and when ARGA moves forward is still to be determined, but don't be surprised if there is a stronger approach to enforcement, and a focus on targeting senior individuals to drive cultural change.

Adam Jamieson, Joseph Ninan and Paul Bennett wrote about this in our Emerging Themes in Financial Regulation 2021 publication.

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