

Darren Jones
Chairman
BEIS Select Committee
House of Commons
LONDON
SW1A 0AA

3 August 2020

SENT BY EMAIL AND POST

Dear Mr Jones,

RE: Addressing UK audit sector reform

I am writing to you on behalf of Periculum Associates Limited (“Periculum”, “we” or “us”), to request a meeting to discuss some of the specifics of our proposals on audit sector reform, which we have been advocating to the UK Government, including the Department for Business, Energy & Industrial Strategy (“BEIS”), for the past 16 months.

As the Chair of the BEIS Select Committee (the “Select Committee”), you understand the importance of, and need for, open, transparent, and ethical reporting of both financial and non-financial risks to company stakeholders. Strengthening stakeholder confidence in the conduct, governance, and resilience of UK companies has never been more important than now. This need is further heightened by the economic impacts caused by the COVID-19 pandemic and the prospect of an economic recession not experienced in over 300 years¹.

We have actively advocated the UK Government to initiate reform of the audit sector. In its February 2020 letter, the BEIS recognised that “high quality audit is essential for market confidence and a successful economy. The Government’s aim is to build an audit regime with robust oversight that will give shareholders, investors, and wider public confidence in company reports and audited accounts.” Further, the letter advocated that, “The Government is supportive of effective and proportionate action to address key issues

¹ Predictions by the Bank of England in its’ Monetary Policy Report dated May 2020 indicates a drop in UK GDP of ~30% as a result of the Government’s response to the COVID-19 pandemic. A fall in economic activity of this level would lead the UK into a recession the scale of which was last experienced in 1709.

in the audit market, including the lack of competition and resilience, misaligned incentives, and a lack of public trust.”

The sentiments and goals expressed in that letter are certainly encouraging. However, the Government’s delays in bringing forward legislation for parliamentary debate undermines the perception of stakeholders (including investors, shareholders, financial institutions, customers, employees, and regulators) that the Government truly understands the ongoing erosive effect of the widespread deficiencies in the functioning and integrity of the audit sector. These delays also fail to timely address inherent weaknesses in corporate governance at a time of heightened risk to the continuing viability of companies across industries. Such unaddressed weaknesses will continue to prevent the identification, effective treatment and disclosure of information that is relevant and detrimentally relied upon by stakeholders, particularly at our present crisis moment when this information is essential to allow these stakeholders to minimise the impact of such risks to their personal interests and professional obligations².

Your Select Committee’s inquiry into delivering audit reform is a most important step forward to addressing the existing dysfunction of audit, an economic sector which is supposed to promote trust in the performance and integrity of the UK economy, while also overseeing the safety and soundness of companies critical to the future success and continued global economic leadership of the UK. Periculum will be submitting evidence to the Select Committee before the 1st September deadline, addressing the questions raised in the Select Committee’s terms of reference.

Prior to that, though, I would very much welcome an opportunity to meet with you to discuss why audit sector reform should be a Government priority, and the associated risks to the UK economy caused by continued reform delay.

Yours sincerely,

Christopher Thackray
Managing Director
Periculum Associates Limited

CC Sir John Kingman, Chairman, Legal & General Group plc
CC Sir Donald Brydon, Chairman, Sage Group plc

² At this unprecedented time of economic disruption, open and timely disclosures of operational and financial stress, either now or forecasted in the future, to the functioning and viability of companies is essential to serve the needs of a broad range of stakeholders. This includes (without limitation) employees who are at a heightened risk of redundancy, customers who are paying for goods or services that are not immediately delivered (*i.e.* holidays, transportation, home equipment, *etc.*) and investors who are custodians of consumer funds (*i.e.* pensions and investments).