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Rt Hon Boris Johnson MP  
Prime Minister of the United Kingdom  
10 Downing Street  
London  
SW1A 2AA

2<sup>nd</sup> November 2019

Dear Mr Johnson,

### **Reform of the Financial Reporting Council**

Earlier this year, the UK Government backed proposals for the reform of the Financial Reporting Council, with the view to building an Audit, Reporting and Governance Authority. The consultation involved reforms to the Ethical and Auditing Standards, the UK Corporate Governance Code and related Guidance on Audit Committees.

Periculum Associates Limited responded to the consultation on 11<sup>th</sup> June 2019. As we observed in our response, the proposed reforms failed to address leading causes which have contributed to the gradual erosion of public and investor trust in the UK's auditing standards.

In particular, we conveyed our concerns that the reforms failed to address the ethical, conduct and accountability standards of partners within UK auditing firms. This includes the role of the "Big Four" audit firms<sup>1</sup> and the systemic failings in recent years to address material conflicts of interest, such as the dual roles of the "Big Four" firms acting as advisors (consultants) and also as independent auditors. We asserted then (and still believe) the Government must introduce legislation that gives the Regulators power to enact the change required.

As a pro-business Government, (and, given Brexit, presumably pro-UK businesses), we had hoped the proposed reforms would lead to a more open and equal playing field, promoting challenger firms to enter a sector tainted by such conflicts of interest, "fat cat" partners<sup>2</sup> and outcomes that fail to demonstrate the integrity of the UK audit sector. Said another way, we had hoped the UK Government would introduce a series of measures to hold the "Big Four" to a more reasonable, common sense standard in favour of such firms' clients' best interests, with regulatory strictures that would require dual role firms to have segregated organisational structures, thereby promoting competition and innovation in the marketplace, and fair outcomes to new market participants.

One example of our concerns includes the rate and capacity at which the "Big Four" hold auditing accounts for top British companies. In 2017, the "Big Four" held 96% of the auditing for companies in the blue-chip FTSE 100 index, the 100 largest companies in Britain. Just one year later, in 2018, they had advanced this percentage to 100% with generated fees up 5% to £10.95 billion. This growth comes on the

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<sup>1</sup> Ernst & Young, Deloitte, PricewaterhouseCoopers and KPMG

<sup>2</sup> As referenced by the Financial Times, average earnings of Deloitte UK equity partners to year ending June 2019 is £882,000 and PwC UK equity partners earned an average £765,000 in the same period.

back of growing revenues from the “Big Four” advisory and consulting practices, accentuating the conflicts of interest and ethical concerns that continue to spread across Corporate UK.

Since the Government’s proposal of these reforms, there is no shortage of examples, given their broad interests in consulting and advisory work, where the “Big Four” have challenged the ethical and quality standards of the audit industry and their reliance on audits. These include:

- The “Big Four” failing to meet regulatory quality tests for two consecutive years;
- The failure of Thomas Cook, in which MP’s accused EY and PwC of being “complicit”<sup>3</sup>; and
- The failure of Neil Woodford’s flagship fund with suspension on investor withdrawals and widespread losses to UK investors.

These examples have occurred in tandem with of a series of high-profile corporate failings, namely the failure of BHS and Carilion. In each of these cases, the “Big Four” have been widely seen to have failed in their core duty of disclosure to UK investors and the public.

The failure of the UK Government to introduce a bill within the Queen’s Speech on 14<sup>th</sup> October 2019, providing new legislative powers to vastly alter the regulatory powers afforded to a reformed regulatory body, has raised concerns that the Government has altered its position in delivering the required reforms to the UK audit industry.

As we enter a general election on the 12<sup>th</sup> December 2019, I would like to meet with you to discuss our underlying concerns and explore how the next UK Government should address systemic failings in the audit, advisory and consulting industry.

To schedule a meeting with me, please have your assistant call 07444 788545 or email [cthackray@periculum.org.uk](mailto:cthackray@periculum.org.uk).

Yours sincerely,



Christopher Thackray  
Managing Director  
Periculum Associates Limited

CC Rt Hon John Howell - MP for Henley  
Rt Hon Andrea Leadsom – MP for South Northamptonshire and Secretary of State for Business, Energy and Industrial Strategy  
Rt Hon Jeremy Corbyn – MP for Islington North and Leader of the UK’s Labour Party  
Rt Hon Jo Swinson – MP for East Dunbartonshire and Leader of the Liberal Democrat Party  
Rt Hon Rachel Reeves, MP for Leeds West and Chair of the Business, Energy, and Industrial Strategy Select Committee  
Sir John Kingman, Chairman, Legal & General Group plc  
Editor of the Financial Times, FAO Tabby Kinder, Tax & Accountancy Correspondent  
The Times, FAO Louisa Clarence-Smith –Property & Professional Services Correspondent

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<sup>3</sup> As referenced by The Times, the failure of Thomas Cook resulted in the largest repatriation effort since the Second World War.