

Rt Hon Boris Johnson MP  
UK Prime Minister  
10 Downing Street  
London  
SW1A 2AA

January 17, 2020

Dear Prime Minister,

**RE: Reform of the Financial Reporting Council and UK audit and consulting sectors**

Pursuant to my letters dated 2<sup>nd</sup> November 2019, 26<sup>th</sup> November 2019 and 16<sup>th</sup> December 2019 in which I wrote about the need for the UK Government to put forward legislation to both complete proposed reforms to the Financial Reporting Council (“FRC”) and enhance corporate governance structures of audit and consulting firms (predominantly led by the “Big Four”<sup>1</sup>), it appears necessary to write again. The Government looks to be losing momentum in addressing known (and egregious) major conflicts of interest and material weaknesses in the UK’s audit industry, as it has now said it will only address legislation “when time allows”<sup>2</sup>.

As Sir John Kingman said in his letter to the Financial Times, “When the next audit or corporate scandal comes along, as it will, we surely need a better answer than ‘we didn’t have time’.” Large-scale corporate failures, including failures of firms with deep roots in British society, alongside material deficiencies in the quality of the UK’s audit sector, have already become commonplace. This clearly demonstrates the need for immediate and persistent Government action. Examples include:

- Thomas Cook (founded 1841)
- Patisserie Valerie (founded 1926)
- British Home Stores (founded 1928)
- Carillion (founded 1999)

Furthermore, Slaughter & May’s report into TSB’s failed technology migration in April 2018 identified several significant operational and governance issues in which the Big Four were directly and indirectly involved, further reinforcing concerns regarding conflicts of interest, conduct practices and the quality of audit and consulting work of these Big Four firms.

The impact to the UK public and to the wider economy resulting from these significant failings continues to expose the Government to the perception of being unwilling to timely do what is right and necessary in the interest of British people and businesses. If the nature of these issues occurred in any other industry, as illustrated in the financial services industry during the 2007/08 crisis, the

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<sup>1</sup> PwC, Deloitte, EY and KPMG

<sup>2</sup> Quote by Sir John Kingman as written by Pickard, J. UK Government under attack for vague commitment to audit reform. *Financial Times*. 23<sup>rd</sup> December 2019. <https://www.ft.com/content/8c7b3e98-233f-11ea-b8a1-584213ee7b2b>

Government would act fast to mitigate harm to investors and protect the interests of the UK economy. It therefore begs the question, why is the Government 'dragging its feet' on completing reforms to the FRC, or on implementing structural and governance changes to the way the UK's audit industry operates?

The UK has deep roots in global trade and finance. It has been for centuries a trusted place to do business, more recently based on the principles of open markets, corporate disclosure and backed by a legal system that promotes confidence in fair outcomes for investors and the public. The Government's continued inaction at addressing the sequence of corporate failures alongside material weaknesses in the reliability of the audit sector, jeopardizes the perception of the UK as a safe and transparent market for investment.

Since Sir John Kingman's report in December 2018 set out recommendations to reform the FRC and proposed changes to the functioning of the audit sector, the "Big Four" have only increased their dominance in the UK's audit sector, accounting for 100% of audits of FTSE 100 companies and 82% of all UK company audits<sup>3</sup> – thereby increasing the UK's exposure to their weaknesses.

I urge you to act now, by putting forward the required legislation to complete recommended reforms of the FRC and implement structural and governance changes to the functioning of the audit sector (particularly to address the conflicts of interest between the "Big Four" audit and consulting divisions), at a time when there is no shortage of advocacy surrounding this topic. The good will for the Government, which we are confident such decisive actions will create, will be invaluable in pursuing such further reforms as are the likely consequence of completing Brexit.

Conversely, when, not if, the next corporate failure occurs, the public will take a dim view on whether the Government took sufficient action to protect their interests. Currently, the Government is seen to be unnecessarily prolonging implementation of much needed reform.

As always, I am open and willing to discuss this topic with you. To schedule a meeting with me, please have your assistant call 07444 788545 or email [cthackray@periculum-associates.com](mailto:cthackray@periculum-associates.com).

Yours sincerely,

Christopher Thackray  
Managing Director, Periculum Associates Limited

CC  
Rt Hon Andrea Leadsom MP  
Rt Hon Sajid Javid MP  
John Witherow, *The Times*  
Dean Baquet, *The New York Times*  
Roula Khalaf, *The Financial Times*  
John Micklethwait, *Bloomberg*

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<sup>3</sup> Williams-Grut, O. 'Big Four' auditors increase market share despite heavy criticism. 28<sup>th</sup> October 2019.