Government must rein in its instinct for instant audit reforms

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F you thought the business world was engulfed in one financial scandal after another, you ain't seen nothing yet.

Greensill-type farragos are most commonly exposed when money gets tight and flaky, or plain dishonest accounting is revealed.

So, you'd think now was the very best time for the Government to impose tough reforms on the auditing of companies to nip such problems in the bud.

Perversely, you'd be wrong.

The Government has issued a thoughtful review of the rules on audits of plcs, suggesting sweeping changes. Today is the last day for responses.

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One key idea is for audits of big companies to be shared out, with the traditional Big Four audit firm working alongside a smaller one. It could work well; one theory as to why auditors miss red flags is that they're too cosy with the company. A second pair of eyes may keep them honest.

The trouble is that we don't know in practice if it would work. Are the smaller firms geared up for this sudden influx of jobs? How would the auditors divvy it up? How much extra would it cost the client in audit fees and paperwork?

We don't know until it's tested. Yet the proposed reforms call for a rapid roll-out of the rules across the top 350 plcs. Given that so many companies are still reeling from the operational headaches of dealing with Covid, it seems wrong to be dumping this on them now.

Of the 250 finance directors asked by compliance advisers Galvanize, the vast majority want the new rules delayed, with 34% seeking a delay of three or four years. Nearly 70% think the reforms are generally good, but are too much, too soon.

We should try out the reform ideas with some willing stock market guinea pigs, then roll them out if they work.

Private equity firms are already tempting plcs to quit the public markets in droves.

Let's not give them more ammunition.