Ministers further dilute audit reform plans after private sector backlash

Hundreds of large privately-owned companies will escape tougher corporate governance requirements under watered-down government plans to reform the audit profession in the wake of scandals at Carillion and BHS.

Sky News has learnt that ministers will this week publish their long-awaited response to a consultation on the future of auditors and boardroom governance.

Insiders said the plans, which are expected to be unveiled on Tuesday, would increase the threshold for companies to become defined as public interest entities (PIEs), which carry enhanced disclosures requirements and fall under the remit of the audit regulator.

Currently, only listed companies and financial institutions are classified as PIEs, but mounting pressure to intensify supervision of other major companies has prompted moves to strengthen that approach.

A government white paper last year proposed one option that would have seen all private companies with more than 500 employees and a turnover of more than £500m falling within the PIE definition.

However, sources said on Sunday that those thresholds had been increased to 750-strong workforces and turnover of more than £750m, removing several hundred organisations from the scope of the new rules.

It was unclear this weekend which companies would evade the

PIE definition as a result of the changes.

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In last year's white paper, the Department for Business, Energy and Industrial Strategy (BEIS) said the broader definition was expected to encompass roughly 1,060 entities.

This week, Business Secretary Kwasi Kwarteng is expected to present the government's response as a pragmatic answer to many of the corporate governance and audit scandals which have engulfed prominent British companies in recent years.

As well as the collapses of Carillion and BHS, which cost in excess of 20,000 jobs and saw their auditors fined more than £25m in total, questions have also been raised about governance standards at companies such as Liberty Steel, the metals conglomerate headed by Sanjeev Gupta, which last year was rebuffed in its efforts to secure a £170m government bailout.

PIEs will come under the supervision of the new Audit, Reporting and Governance Authority (ARGA), which is to be established in place of the Financial Reporting Council (FRC).

Image:
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While the FRC is widely regarded as having become a much more effective regulator during the last two years, its board has been pressing ministers to legislate to give the new watchdog the statutory powers it requires to further sharpen its approach.

Ministers are expected to repeat their support this week for the creation of ARGA, although it is unclear whether the potential remains for legislation to proceed this year after the recent Queen's Speech only included a bill in draft form.

Industry sources indicated that this week's government response was likely to be regarded as a watering-down of its initial proposals, including the removal of strict new laws holding directors accountable for corporate failure.

This week, the government will announce a separate review aimed at removing "unnecessary burdens on UK businesses, including onerous corporate reporting", according to a source.

Ministers' desire to be seen to be taking advantage of post-Brexit autonomy has at times clashed with a desire for tougher oversight in areas where significant scandals have dented confidence in British business.

One Whitehall source said the review was likely to include updating the definition of micro-enterprises in order to free up smaller businesses from onerous accounting requirements, which they described as "an EU relic that could be focusing attention of Britain's smallest businesses away from growth and job creation".

"Frankly, it seems crazy that some of Britain's most promising businesses are having to waste their valuable time on archaic and unnecessary reporting requirements that are set by Brussels," they said.

"Now that we've been uncaged from the bureaucratic burdens of the EU, it's only right that we look to free up our best and brightest businesses so they can grow, create jobs and attract investment."

BEIS and the FRC both declined to comment on the government's audit reform response or the amended definition of public interest entities.