Department for Business, Energy & Industrial Strategy

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Thank you for your letter of 20 October requesting an update on audit reform following the FRC and Brydon reviews, the CMA's Market Study and the report by the BEIS Committee in the previous Parliament on the Future of Audit.

The Committee's continued keen interest in this area is welcome. While circumstances this year have not helped us to make progress quickly, we have not lost sight of the commitment to reform that appeared in our manifesto and we remain committed to legislating as soon as Parliamentary time allows. The Government does not have audit reform consultations live at present. We are working hard on a comprehensive set of proposals in response to all of the reviews, incorporating the formal responses to our two consultations in 2019, for publication in due course.

The Financial Reporting Council (FRC) consults as a matter of routine on proposed changes to standards, codes and guidance, including those that reflect or implement recommendations from the independent reviews. For example, on 30 September the FRC published a consultation on governance changes to enforcement and operating procedures, which addresses recommendations made by the FRC Review to simplify the existing FRC committee and panel structure. This consultation is open until 30 November. The FRC's intention is that the new structure will shift the organisation to an 'Executive Led' approach and reduce layers of management to create clearer accountability and enhance transparency, and will take effect from 1 January 2021.

In addition, on 20 October the FRC published a consultation on revisions to UK auditing standard ISA (UK) 240, which addresses auditors' responsibilities relating to fraud. The proposed revisions are intended to address concerns that auditors are not doing enough work to detect material fraud, including those expressed by the BEIS Committee last year and in Sir Donald Brydon's review. This consultation is open until 29 January 2021. Once the revisions to the standard are finalised, the FRC's intention is for the new standard to apply to audits of periods commencing on or after 15 December 2021, with early adoption permitted.

Where implementation of recommendations from the independent reviews does not need legislation, or where some work can be taken forward in advance of legislation, much progress has already been made. Implementation work ahead of legislation has generally been led by the FRC; I note that the FRC's written evidence to the Committee's inquiry has provided a detailed breakdown of this.

Yours sincerely,

THE RT HON ALOK SHARMA MP
Secretary of State for Business, Energy & Industrial Strategy