

## **BEIS Consultation: Restoring Trust in Audit and Corporate Governance IBE Response July 2021**

Founded in 1986 the Institute of Business Ethics (IBE) is a registered charity whose purpose is 'to champion the highest standards of ethical behaviour in business'. It does this through a programme of research and thought leadership, events and networking activities, education and training and providing advisory services to corporate clients. The Institute has around 150 corporate supporters from all sectors of the economy.

We welcome the opportunity to comment on the Government's proposals contained in the consultation paper. Our responses are limited to those areas where we have particular knowledge or expertise.

### **1.3 Resetting the scope of regulation**

#### **Q1 Should large private companies be included within the definition of a Public Interest Entity?**

The IBE supports the inclusion of large private companies within the definition of public Interest Entities. The IBE was a member of the group that supported James Wates in the production of the Wates Corporate Governance Principles for Large Private Companies (2018). The Principles were developed in response to concerns that corporate failure in larger private entities could cause significant economic and social disruption in the same way that failure of significant public entities could. The IBE believes that by definition therefore there is a public interest in such entities.

#### **Q2 What large companies would you include in the PIE definition?**

The IBE would favour Option 1 as it is consistent with the Wates Principles and the Companies (Miscellaneous Reporting) Regulations 2018.

#### **Q3 Should AIM companies with a market capitalisation exceeding €200m be included?**

Generally, we would favour a consistent approach whereby equivalent employment and market capitalisation definitions are used. We would support the €200m market cap threshold proposed.

### **3.3 Reporting on payment practices**

#### **Q25 Should larger companies be required to summarise their record on supplier payments over the previous 12 months...?**

Payment of debts is a perennial issue which is difficult to resolve as it is essentially a feature of the commercial relationship between trading companies. However, delayed and extended payment periods can cause significant cash flow problems for small and medium sized entities and the exertion of commercial power in this way may be considered unethical business practice. The IBE supports any measure which will help to address this abuse of commercial power.

The IBE would support a requirement to include payment data in the annual Strategic Report as the information would help ensure the issue received attention at Board level and would help smaller suppliers to make more informed decisions on whether to become a supplier. The reporting summary should include a statement regarding the company's standard payment terms (or whether it accepts the supplier's terms). It should include the actual average number of days taken to pay over the year, the percentage of payments that missed the target and the number of payments held due to disputes.

Companies could also be encouraged to include a statement about their payment practices in their code of ethics and consider how it reflects their company values.

#### **Q26 To which companies should the improvements in supplier payments reporting apply?**

We would support the requirement applying to PIEs including larger private companies as defined by Option 1 above.

### **3.4 Public Interest Statement**

**Q27 Do you agree with the Government's proposal not to introduce a new statutory requirement at this time for directors to publish an annual public interest statement?**

The IBE could see value in introducing an annual public interest statement and believes that the idea should be explored further. However, we would agree that, given the risk of duplication and over-burdening business with too many reporting requirements it should not be introduced without further discussion.

### **5. Company directors**

**Q32 Should directors of public interest entities be required to meet certain behavioural standards when carrying out their statutory duties relating to corporate reporting and audits? Should those standards be set by the regulator? What standards should directors have to meet in this context?**

The IBE supports the proposal to require directors of PIEs to meet certain behavioural standards when carrying out their statutory duties relating to corporate reporting. Most professional bodies include such concepts in their codes of conduct/ethics and use them in enforcing their disciplinary processes. Honesty and integrity would appear to be relevant values to include but care must be taken to be clear on the definition of such terms.

#### **6.1 The purpose of audit**

**Q35 Do you agree that a new statutory requirement on auditors to consider wider information, amplified by detailed standards set out and enforced by the regulator, would help deliver the Government's aims to see audit become more trusted, more informative and hence more valuable to the UK?**

In principle the IBE welcomes the proposal for auditors to consider wider information including relevant director conduct. However, consideration will need to be given to the importance of maintaining an effective professional working relationship between auditors and the board and in practice auditors will need to consider the weight and materiality of any 'wider information' they report on.

#### **6.5 Auditor reporting**

**Q43 Will the proposed duty to consider wider information be sufficient to encourage the more detailed consideration of i) risks and ii) director conduct, as set out in the section 172 statement?**

In its Board Briefing 'Ethics and Section 172: key questions for informed board decision-making' the IBE encourages board directors to go beyond legal requirements and to give consideration to ethical values in a way that will lead to meaningful reporting to stakeholders in the S172 statement. Whilst the proposed duty may not be 'sufficient' in itself it certainly could help by sending a strong signal to directors that auditors will consider wider information including an assessment of external signals of an enhanced risk profile for the company, any significant risks omitted from the Risk Report, and whether the company's section 172 statement reflects 'observed reality'. The IBE therefore supports the proposed duty.

#### **11.1 Supervision: Accountants and their professional bodies**

**Q 79 Should the regulator be able to set and enforce a code of ethics which will apply to members of the chartered bodies in the course of professional activities? Should the regulator only be able to take action where a breach gives rise to issues affecting the public interest? What sanctions do you think should be available to the regulator?**

The IBE recognises the benefit of taking a coordinated approach to ethics across the professional bodies and would support the idea of the regulator working with those bodies to develop a core common code if required. However, UK professional bodies all base their codes on the IESBA (the International Ethics Standards Board for Accountants) code and any proposals for a new UK code would need to consider the impact on these international arrangements and the importance of common international standards in the professions.

The IBE recognises the importance of professional bodies in the UK context which provide education and regulate their professions. As chartered bodies they are expected to operate in the public interest. It would seem more appropriate therefore for the regulator to work in partnership with the professional bodies on any development of a common code of ethics rather than setting and enforcing such a code itself.

## **11.7 Whistleblowing**

The IBE sees whistleblowing, or 'speak up' arrangements as an essential part of good governance and a key component of an ethical culture in organisations. Given the proposal that auditors take account of 'wider information' in reaching their audit conclusions and to encourage more detailed consideration of director conduct (6.1.10) there would appear to be merit in Brydon's recommendation that workers be protected for disclosures made to audit firms. We would strongly support the further review of the UK whistleblowing framework.

The IBE would recommend shifting from the term 'whistleblowing' to 'speak up' which is now in general use in business and is a less loaded term and less off-putting to those with concerns to raise.

Any questions about the IBE response should be addressed to:

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