

Audit reform after the shelved Bill: what remains, what doesn't, and what happens next

The Government's January 2026 decision not to proceed with the planned Audit Reform and Corporate Governance Bill marks a clear change in the direction of travel for UK audit and corporate governance reform. In this paper we explore why the Bill was shelved; what the Government still intends to do on audit and corporate governance; possible routes forward for reform; key issues that still need to be addressed; the wider implications for UK corporate governance; and how, in the absence of a Bill, progress should be judged in future.

The announcement prompted criticism from a broad spectrum of stakeholder groups – representing [investors](#), [accountants](#), [directors](#), [governance experts](#), – all expressing concerns about the implications for UK audit and corporate governance reform.

While the absence of a comprehensive bill on the horizon is disappointing, it does not necessarily bring the reform agenda to an end. Instead, it reframes how (and how quickly) change is likely to happen.

There are still a number of routes forward and, it's important to acknowledge, some of the key audit and corporate governance reform recommendations made by Sir John Kingman and Sir Donald Brydon have either already been implemented or are in progress. As of January this year, for example, the UK Corporate Governance Code requires boards to make an annual declaration (for accounting periods commencing on, or after, 1 January 2026) of the effectiveness of material internal controls – a variation on key proposals made in the [Brydon Review](#) (see 13.1.8), and a requirement [consulted on by the Government](#) as part of its development of the now-shelved Bill (see 2.1.31).

Looking ahead, the Government has indicated that we can expect to see:

- Targeted legislative measures when parliamentary time allows to put the FRC on a statutory footing;
- A broad programme of corporate reporting 'modernisation', adopting a deregulatory approach; and
- Continued evolution through regulator action and market expectations.

The implications are therefore less about a single 'reform moment' and more about whether the system develops in a coherent, risk-based way — and whether governance and financial reporting gaps widen between different parts of the economy, particularly listed and large private companies.

Why was the Bill shelved?

The Government's stated reasons for shelving the Bill, set out in [a 19 January letter to the House of Commons Business & Trade Committee](#), were that:

- It wants to prioritise growth and reduce administrative burdens;
- It considers some reforms less pressing given improvements in audit quality and regulation since 2018; and
- It faces limited parliamentary time.

The Government also indicated it would not consult on the “major package” of measures previously under development.

In some respects, the Government is right to highlight the changes that have taken place since the wave of independent reviews of the UK’s audit and corporate governance framework in the late 2010s. In its [July 2025 update on UK audit quality](#), the Financial Reporting Council (FRC) highlighted a “continued improvement in audit quality” with “five out of six [Tier 1 firms achieving] positive audit quality outcomes on 90% or more of their audits.” The FRC also pointed to “significant investments by the largest firms to enhance audit quality.” Our own [2025 Audit Trust Index](#) found very high levels of confidence in UK audit among investors, finance directors and Audit Committee Chairs.

Taken at face value, the Government’s decision is a shift from a comprehensive, legislated set of reforms to a more incremental approach. That approach has potential advantages — it may reduce compliance costs and avoid complexity — but it also raises questions about whether the remaining mechanisms can deliver consistent outcomes across the market, and in a timely manner.

What does the Government still plan to do?

Although the Bill has been shelved, ministers have not dropped all associated objectives. Three strands are particularly relevant.

Put the audit regulator on a statutory footing (at a later date).

The Government has said it still intends to place the FRC on a statutory footing when parliamentary time allows. In practice, that could mean a narrower bill focused on the regulator’s legal status, powers and funding arrangements, rather than a wider package affecting director accountability, audit committees, and the scope of public interest entity (PIE) requirements.

A statutory footing matters for the FRC and those it regulates because it can provide clearer authority, more stable funding and, depending on design, more enforceable powers. But without a timetable it remains uncertain whether this is a near-term priority or a longer-term aspiration. The FRC’s [draft plan and budget](#) for 2026-27 gives no indication of when these changes may happen.

2) Consult on “modernising” corporate reporting (2026).

The Government has committed to a broad consultation in 2026 on the future of corporate reporting. The overall aim of the consultation is to streamline the Annual Report and Accounts with the broader initiative reflecting a commitment to far-reaching reform, aiming to restore company reporting to its original purpose, providing concise, decision-relevant information for investors and creditors while removing unnecessary burdens on business.

The scope described publicly goes beyond non-financial reporting and is expected to cover areas such as remuneration reporting, corporate governance reporting, the overall financial reporting framework, alignment across frameworks, and the role of digital reporting.

This programme now looks like the Government’s main vehicle for reshaping the corporate transparency landscape. The direction of travel — “modernisation” and “simplification” — could produce genuine improvements in clarity and usefulness for users of reports. It could also, if not carefully designed, reduce comparability or remove information that stakeholders currently rely on. Much will depend on the principles the consultation adopts.

As we noted when the Government made its announcement on the Bill, streamlining does not have to mean dilution, but any proposals need to ensure that decision-useful information for stakeholders is not lost. A successful outcome would be clearer, more risk-focused reporting, shifting away from current requirements that can often generate little public interest benefit.

3) Make targeted company-law and “red tape” changes.

Alongside reporting reform, the Government has indicated it will continue with specific company-law modernisation proposals such as enabling virtual AGMs and streamlining reporting obligations. These changes are not primarily framed as audit reform, but they affect the ecosystem within which audit operates — particularly how stakeholders can exercise scrutiny and how transparent companies are required to be.

How is reform now likely to happen?

With a comprehensive bill off the table, reform will most likely come through three routes.

Route A: narrower primary legislation

A future bill could still legislate on the FRC’s – or its replacement body’s – statutory footing (and potentially a limited set of additional measures). Narrower legislation can be easier to progress politically and procedurally than a multi-topic reform package. However, it is less likely to address the interconnected nature of audit outcomes: audit quality depends not only on the regulator, but also on company reporting, director accountability, effectiveness of internal controls, and the structure of the audit market.

Route B: consultation leading to secondary legislation and reporting rules

Changes to reporting requirements are often implemented via amendments to company law and related regulations. The 2026 reporting consultation therefore has the potential to drive meaningful change relatively quickly compared with a larger bill. But it also creates a key trade-off: the Government’s aim to reduce burdens must be reconciled with the need for stable, decision-useful information and strong accountability mechanisms.

Route C: regulator action and market expectations

Even without new legislation, the regulator can still influence practice through standards, guidance, supervision and enforcement; and the market can influence behaviour through investor expectations, lender requirements and audit committee demands.

Indeed, it’s through this route that key changes have already happened independent from any legislation by Government. Since 2018, firms, for example, have invested significantly in audit quality, introduced new Independent Non-Executives and, working with the FRC, the largest firms implemented operational separation between their audit and wider consultancy businesses to drive audit quality and reduce conflict of interest risks.

Meanwhile, the FRC itself has helped drive change through the UK Corporate Governance Code. The updated 2024 Code (replacing a 2018 version) reflects many of the principles and ideas outlined in the Brydon Review and previous government consultations. As noted above, the updated provision on internal controls (Provision 29) is now in force and presents a significant change in the approach to corporate governance required from boards, increasing their focus on the evidence they use to support statements about controls, and on the roles of internal audit and management testing.

What is unlikely to be taken forward now?

The most direct consequences of shelving the Bill relate to measures that required new primary legislation and were designed as part of a coherent package.

1) Public Interest Entity expansion to include large private companies and LLPs

One of the most material planned changes — extending the PIE audit framework to the largest private companies and LLPs — is not proceeding under the shelved package. Whatever the merits of the proposal, this does remove a near-term route to increasing transparency and audit oversight for a segment of the economy that can be systemically important, but less visible than listed markets. You can read more on why the expansion of the PIE audit framework is important, [here](#).

2) Director accountability measures linked to reporting and audit

Reforms intended to strengthen compliance with existing director duties in relation to corporate reporting were closely tied to the planned Bill. Without it, any strengthening of director accountability would likely require a new legislative vehicle. The problems posed by the gaps here are raised frequently in our conversations with stakeholders across the PIE audit sector: at present, directors are generally only held accountable for a failure to fulfill their reporting duties if they themselves happen to be a chartered accountant, and even then that rarely happens.

3) Audit market interventions

Structural interventions in the audit market have been debated for years and are often controversial. The shelved Bill would have provided a place to legislate for them, if chosen. Without it, those options are less likely to progress.

4) The ‘single package’ approach

Even where elements might proceed via other routes, shelving the Bill removes the integrative logic that attempted to link regulator capability, director accountability, reporting requirements and market structure. Future changes may therefore be more piecemeal and potentially less cohesive.

Implications: uneven coverage and a greater role for non-legislative levers

Given the drivers for reform have not disappeared, criticism of the decision to end progress on the planned Bill is understandable. But a more neutral reading of the situation is that the Government has shifted to a more incremental and consultative approach, with the possibility of targeted legislation later. The implications of that approach depend very much on how it is executed.

1) Potential divergence between listed and private company expectations

Listed companies operate under the UK Corporate Governance Code and face higher market scrutiny. They are likely to continue moving towards stronger internal controls reporting and more explicit assurance mapping. Large private companies may not be subject to equivalent pressures, particularly if reporting requirements are reduced. This could increase divergence in transparency and governance standards across the economy.

2) “Modernisation” could improve usefulness — or reduce comparability

The reporting consultation offers an opportunity to improve clarity, reduce duplication and adapt reporting to digital formats. But simplification that mainly removes disclosures could reduce comparability over time and create information gaps for stakeholders. A key question for policy design will be whether reforms are anchored in clear transparency outcomes (what users must still be able to understand and need for decision-making) rather than primarily in cost-reduction metrics.

3) Greater reliance on boards, audit committees and internal assurance functions

With fewer statutory changes, more weight falls on governance practice: the effectiveness of boards and audit committees, and the quality of assurance systems within organisations. Provision 29 increases expectations around internal control statements for listed companies that apply it and, in turn, heightens the importance of credible evidence over controls. Internal audit becomes more central to governance confidence, not by owning controls, but by providing independent assurance over whether controls are appropriately designed and operating effectively, and whether remediation is tracked.

4) A continuing question about regulatory capability

If the Government later legislates to place the regulator on a statutory footing, the detail will matter. “Statutory footing” can range from modest formalisation to a substantial upgrade in powers, scope and funding. The effectiveness of the model will depend on enforcement capacity, appropriate and proportionate enforcement procedures, and clarity of remit, not simply institutional renaming.

A practical framing for what “success” would look like

Given the current trajectory, a key test of progress will be whether the Government can deliver five outcomes without the original Bill:

- **Risk-based coverage**, so that systemically important large private companies are not an accountability blind spot even if full PIE expansion is delayed or abandoned completely;
- **Modernised reporting that remains decision-useful**, improving clarity and structure while protecting essential transparency and comparability;
- **A regulator with the tools and resources to be effective**, if and when statutory footing is delivered;
- **A joined-up assurance ecosystem**, where boards’ statements about material controls are supported by credible evidence, audit committees can explain how assurance fits together, external audit quality is reinforced, and serious weaknesses lead to remediation.
- **Continued progress on audit quality and market resilience**, through FRC driven changes to audit supervision and initiatives such as Scalebox to support firms entry into the PIE audit market.

The shelved Bill changes the route, not the underlying public policy questions. The next phase will be defined by the quality of the 2026 reporting consultation, the scope and timing of any narrower legislation, and the extent to which boards, regulators and the market can drive coherent improvements in practice.