THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

Issue 25 – March 2025

Chairman's message

Charles Henderson - Chairman of UK Shareholders

Dear members

Leadership

While on my way to my Saturday foil fencing (sword fighting) session recently, I noticed on the backpack of a woman in front of me a 'Free Palestine' badge. I wondered what she thought 'Free Palestine' meant and what Palestine needed freedom from. Then, coincidently, on the tube to my fencing session I read a book review by Nigel Warburton of 'Liberty as Independence' by Quentin Skinner in The Spectator. This book review made me realise that liberty, which most people are for and not against, means different things to lots of people. Its meaning has changed over time. Apparently, in the older Roman tradition (see the works of Cicero), liberty meant independence from the arbitrary will of others. The Enlightenment then changed its meaning to non-interference, which is probably its dominant meaning today. There are a lot of people today who want all constraints on their actions removed.

Quentin Skinner's conclusion is that the dominant view of liberty as absence of interference can obscure some instances of a lack of freedom. Examples are some de-unionised workers will live at the whims of employers and some people can be economically dependent on their partners. He believes that the concept of liberty as independence has much to contribute to our debates about moral and political improvement.

So, back to freeing Palestine: presumably from interference from Israel. The more powerful state of Israel is not going to stop interfering in the weaker state of Palestine while certain parties in Palestine want the total elimination of Israel and its people and celebrate barbarous acts against them, meaning certain parties in Israel want the total elimination of Hamas. This probably means the stalemate situation will continue for a long time because no one is prepared to see things from the others' perspective. Good and effective leaders need to think of the others when resolving problems and act accordingly.

Acting accordingly is important because thinking and then saying what you are thinking is probably easier than the doing. We all know the saying 'actions speak louder than words'. However, we have a propensity to not be epistemically vigilant and not distinguish between truth and falsehood. Therefore, our

In this edition:

www.uksa.org.uk officeatuksa@gmail.com +44 1689 856691

vigilance can be misdirected. I suggest our vigilance may be enhanced by looking at people's actions rather than just what they are saying.

This why I believe that shareholders should be mindful whether their directors are good leaders in the sense that they implement actions that show they are trying to achieve the outcomes and objectives they say they are, they think of others and get the balance right between material stakeholders in their businesses.

Our response to the FCA's consultation CP24/30 - A new product information framework for Consumer Composite Investments (CCIs)

We recently submitted our response to the FCA on their new product information framework for CCIs. You should be able to see our response when the related news story goes up on our website. The FCA's proposals look good and should, if implemented appropriately, resolve a lot of confusion from the current and previous information regimes of a lot of investment products.

My personal belief is that the problems we've seen in the financial services sector are more to do with the people involved than the rules and regulations they should be following. This is because they don't act as good leaders and don't think of others before themselves, and thus interpret and apply the rules in a very self-interested way. Therefore, we should keep an eye on the new product information framework for CCIs when it comes out to see if it is a lot less confusing for us individual investors.

Stewardship

In February, we submitted our response to the FRC's consultation on its Stewardship Code. Again we are broadly supportive of the revisions and the proposed revised Code. The definition of stewardship is good: stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries. Our one main piece of feedback was that the Code should prioritise engagement between asset owners and/or managers and their beneficiaries (you and me). Any stewardship is highly dependent on effective engagement with beneficiaries as this is one of the main ways that stewards, responsible for other people's money, are held to account by the owners of those monies.

However, stewardship is not just about the responsibilities of asset owners and managers to their beneficiaries. It is wider, as it also encompasses the main stewards of our investments in listed companies, those companies' directors. We need to find ways that will get them to be good leaders (see above) and responsibly allocate, manage and oversee our capital for creation of long-term sustainable value to us. Hopefully we will see some development of this by our board and policy team.

AGMs and voting

An important mechanism for us to hold our stewards of companies to account is through our engagement with those companies and their directors. Part of this is attending AGMs and voting in person or by proxy. Paul Jackson, the Investors' Chronicle's No Free Lunch correspondent who came to speak to us at last year's pre-AGM social, wrote a good article, with the help mainly of our member Monica Redenham, in the IC 14 to 20 March 2025 entitled 'The Value [of going to an AGM'](paywall) (paywall). Our engagement is also enhanced through the company meetings that our valuable companies meetings team volunteers organise.

Financial learning

As you know from John Hunter's HonestMoneyNews in our newsletters and the websites he has developed and is developing, HMN and PHM, we are keen to see financial learning in our schools' curricula. Everyone in the UK should learn about money and how to manage it from their own perspective. As a result, we are supportive of the petition introduced by Cameron Holt, the Youth MP for Bassetlaw, and ask you to consider signing if you haven't already - Legally require all secondary schools in England to teach financial education - Petitions.

There are differences of opinion within the board and policy team on the extent to which we need financial services regulations to protect people. My inclination is towards people being as self-reliant as possible and therefore having a *caveat emptor* regime where financial services and products providers are required to be appropriately transparent to enable buyers to make up their own minds. However, I recognise that this probably needs people to be reasonably knowledgeable about money and money management. Hence the need for financial education legally to be taught in schools as a starting point.

The need for statutory financial education for young people in England

This is the title of a comprehensive report written by Cameron Holt, a member of the UK's Youth Parliament.

The report is a *tour de force* and we were delighted to provide our endorsement:

"UK Shareholders is a not-for-profit membership organisation led solely by volunteers and resolutely independent of the financial sector. We promote greater understanding of money management as a precondition of an otherwise desirable reduction in regulation. When a generation responsible for the future speaks up in place of generations hoping only to perpetuate the present, it is time to listen. Cameron Holt presents a comprehensive and convincing case."

Cameron Holt with Lord Lee of Trafford, who has supported him in his campaign

You can also view Cameron's article in the Investor's Chronicle here.

Company Meetings – BHP virtual meeting on 24 March 2025

At 10am on Monday 24 March, several UK Shareholders and ShareSoc members met BHP to hear about and ask questions on its 31 December 2024 interim results.

I apologise to our members who wanted to attend both on 17 March at 3pm and/or this morning at 10am if we didn't get the technology quite right. The 17 March meeting was to be on Webex and should have seen 20 or so people on the call. When this wasn't appearing to happen, James Bell, Head of BHP's IR, and I decided to end the call and try and reconvene on 24 March. Again, there were fewer people attending than expected. If you wanted to attend, registered and then found difficulties in attending, please let me know at charles.henderson@uksa.org.uk and tell me what the difficulties were. We can then try and reduce the problems next time.

We heard about the interim results, which sounded fairly positive in the context of the geopolitical uncertainties facing the business. The BHP team answered our questions on the Samarco settlement, its capital allocation framework and resulting free cash flows, dividends, revenue dependence on China, being able to recruit its needed skilled workers and the Trump effect. There seems to be more certainty around the eventual total costs of Samarco now that there is an agreed settlement with Brazil. This does not mean the litigation in the UK has gone away, but this continues to be seen as having no basis. The company's US$2.6 billion free cash flow after capital allocations, mainly to environmental commitments, is before the interim dividend, which this time did not include any capital allocation framework excess. China is being managed and the Canadian potash development, which will be revenue-producing at the end of 2026, is seen as diversification to curb reliance on Chinese revenues. There is a sector problem with finding sufficient skilled workers for the business, but this is being managed, including through local education programmes. On the Trump effect, BHP is waiting to see, as it is too early to tell yet what this may mean for the business.

James Bell said that their slides should be available to UK Shareholders members, with an email to send any follow-up questions not thought about in the meeting. We will let you know when these are available, probably only to full paying members, as most company meetings are (although the information in the slides will be accessible on BHP's website).

Look out for the details of the BHP in-person final results meeting later this year. Also, if there are any company meetings you think we should be organising, please let us know.

Charles Henderson

External relations round-up

Sue Milton - External Affairs Director

Pradeep Chand, RIP

It is with great sadness that we share the news that Pradeep Chand died on 12 February.

Pradeep was a long-term member of the Northern Rock Shareholders' Action Group, serving on the original committee and then as an adviser to the current committee.

Pradeep had been seriously ill for a long time, but his resilience was amazing and his mind as sharp as ever up to the end. He remained objective yet saw the priorities clearly. He knew what needed to be done but remained supportive of all that was done.

Pradeep, thank you for everything. We will miss you.

What is President Trump's MAGA?

We are exposed to a lot of news, noise and activity within the White House. Underpinning the changes is MAGA, so what does "Make America Great Again" mean?

According to DGA Group, a global advisory firm, it's an amalgamation of alignment with traditional values, reducing foreign dependencies, prioritising energy independence, strengthening the economy and defence modernisation.

As a framework/manifesto, this is fine as it tells us everything will be US-centric but how MAGA will be achieved is a highly volatile path.

Company boards, beware of complacency. It may be time to improve the company's risk governance.

Boards must work on their risk governance

The Risk Coalition is "a network of not-for-profit professional bodies and membership organisations committed to raising the standards of risk governance".

The Risk Coalition provides eight principles for boards to follow:

1. Clarity of purpose and strategic alignment.

2. Ethical corporate culture.

3. Ensuring the organisation has the right people, processes and technology to execute its business model.

4. Risk-aware decisions based on understanding principal and emerging risks, and how these are interconnected.

5. Encouraging responsible risk-taking to capitalise on emerging opportunities and maintain competitive advantage.

6. Verifying the value-added in the value chain.

7. Integrated oversight and reporting that ensures internal audit, risk advisory, and operations work together for comprehensive risk insights.

8. Meeting and exceeding governance expectations through transparent and reliable reporting.

KPMG hosted a webinar on 5 February 2025, where member of the collation explained how and why boards must raise their game when it comes to risk management.

The board has to be the heart and soul for improving risk management, as it is fully accountable for every corporate outcome.

It is also very important that the Audit and Risk committees have the right mix of talent to identify, challenge and navigate the risks to maximise opportunities balanced by sound internal control.

Because board subcommittees are mainly non-executive directors (NEDs), NEDs must be floorwalkers, not sleepwalkers. They must get out into the business, speak to people, look at operations to get a feel for the company.

As company owners, we must make sure they do.

For your diary: next Investor Relations event hosted by KPMG 8 May 2025 at 4:15pm.

Talking of KPMG, UK Shareholders and KPMG are planning a hybrid roundtable event on reporting and corporate governance. Please add an entry to your diary for the 8 May 2025.

- 16:15-17:00: Roundtable.
- 17:00-17:15: Q&A.
- 17:15-17:30: Buffer in case it overruns / debrief.

Details to follow closer to the date.

AI in fraud prevention and detection

UK Shareholders hosted a nationwide webinar for full members on 19 February 2025. It was an opportunity to hear how AI can help shareholders understand what is going on in the accounts and to identify potential, upcoming and actual accounting issues.

Our speaker was Hamish Macalister, CEO and Founder of Transparently.AI.

The main aim of this AI is to prevent inaccurate, wrong and fraudulent reporting through early observations. Hamish and his team developed the AI because of the high proportion of misleading reports. Based on others' research (How pervasive is corporate fraud? | Review of Accounting Studies, 2024-report-to-the-nations.pdf, 2019_caq_main_street_investor_survey.pdf), 40% of US companies manipulate accounts, some instances being tweaks that might just pass muster with a fair wind behind them, while the rest are fraudulent. 10% are securities fraud. This means $1.5 trillion per year is lost by equity holders alone to accounting manipulation and fraud.

The AI reviews the reports of 100% of listed companies. The reports are graded from A+ (highest) to F (lowest). Of the UK companies with a market capitalisation > $US1bn, 22% were in the A+ to A- category (USA 13%, world 28%) and 19%, a total of 39 companies, were in the C- to F category (USA 37% with 744 companies, world 22%). Those 39 (USA 744) companies warrant investigation.

Investors have a problem. We have to put a lot of trust in external auditors, but external auditors detect only 3% of financial reporting wrongdoing, meaning predicting a collapse is very hard. So far, Hamish's tool has predicted the collapse of 90% of the high-risk companies three years before their last published results and collapse. Traditional methods can predict up to 50% of high-risk company collapses, but this is only after the last published results have been analysed, just prior to the collapse occurring. In other words, traditional methods predict a collapse when there is near certainty that the company will fail. This theme occurs again in Peter Parry's review of the CPIA's launch event, under 'Why companies fail'.

How the AI does it:

- Hamish's tool has 180 models replicating the typical practices used by forensic accountants, short-sellers, equity analysts, credit analysts and academics.

- The whole system is dynamic: the analysis changes as new data is added and new patterns of reporting are detected.

- The AI explains which areas in the financial statements require attention and how users can do further due diligence.

- The AI produces high-level information from which it identifies granular information to provide full forensic reports.

- It is a plug-and-play system via subscription, with varying rates for partial or global coverage.

Can retail investors use it? In theory yes, but the costs are probably prohibitive as it was built with the banks and other market firms in mind. For example, it costs $599 per month, cheaper if you just want UK coverage and cheaper still for a single licence, but still prohibitive.

Hamish's homework is to work out if he can offer a retail investor option. It will still cost us, but maybe at an affordable rate.

My action is to contact Hamish in May, to hear what might be possible.

The Centre for Public Interest Audit (CPIA - The Centre for Public Interest Audit) launch event.

Peter Parry (policy team member and former director) and I attended the launch event at the Institute of Chartered Accountants of England and Wales (ICAEW) on 19 March 2025. The CPIA was set up in 2024 as a policy and research institute formed to improve audit quality across the profession. It is now up and running. The chair, Baroness Ford, is very keen on retail investor rights and will contact us to discuss this further with us. You can find Peter's review of the launch below.

Financial Reporting Council (FRC) latest

1. New reporting thresholds come into effect from 6 April 2025. See Changes to company thresholds. The changes should reduce the reporting burden on companies by:

- Increasing by approximately 50% the turnover and balance sheet criteria that identify whether a company is a micro/small/medium/large entity.
- Removing several reporting requirements from the directors' report that overlap with other reporting requirements or have little material value to users of company reports.

2. The FRC has relocated its London office from London Wall in Moorgate to Harbour Exchange in Canary Wharf Financial Reporting Council Relocates London Office to Canary Wharf. The new address is:

13th Floor Exchange Tower
1 Harbour Exchange Square
London
E14 9GE

FRC launches public beta of digital tool to access company data

The FRC has announced the public beta launch of its digital reporting Viewer, a new tool designed to improve free access to structured company reporting data. See the announcement here.

The Viewer, which can be accessed here, enables users to easily view and analyse Inline eXtensible Business Reporting Language (iXBRL) files, displaying tagged data within reports. This innovative tool represents a significant step forward in making company financial information more accessible and transparent to stakeholders.

HonestMoneyNews

Shareholder rights: how can AI help us?

The Digitisation Task Force (DTF) was set up to make recommendations on how to eliminate paper certificates, but its conclusions will have enormous implications for the future of shareholder rights in the UK. Its final report is still awaited.

The interim report of the DTF uses the term Ultimate Beneficial Owner (UBO) to refer to those whose money is at risk in the investment chain – a typical individual investor, for example. But when an investor buys shares through a platform, those shares are held in an account held by the platform (called a nominee account). The investor is the UBO, but the platform is the shareholder. All legal rights of shareholding accrue to the platform. 'Shareholders' are defined in law, but 'UBOs' are not.

The DTF needs to find an acceptable solution to this problem, balancing the needs of those who want to trade ownership with those who want to exercise it. Trading or governance?

Argument between the two sides tends to involve hectoring from entrenched positions and focusing on just one or two aspects of shareholder rights (such as 'access to AGMs'). But shareholder rights are complicated. Comparisons between proposals need to address ALL rights. Perhaps Microsoft's AI tool Copilot could help? As always with AI, not everything will be right. But the response could form an agenda of issues that need to be addressed in any comparison between alternatives.

We asked Copilot to identify the rights of shareholders of public companies in the UK. The response is printed below, unedited. We offer it as a disciplined framework with twelve headings, ALL of which any complete proposal, including from the DTF, should address.

John Hunter - UK Shareholders director and creator of HonestMoneyNow and PlainHonestMoney

Here is Copilot's reply to our question:

Rights of Shareholders of Public Companies in the UK

A Comprehensive Guide

Introduction

Shareholders of public companies in the United Kingdom enjoy a range of rights that protect their investments and ensure they have a say in the governance of the company. These rights are enshrined in the Companies Act 2006 and other relevant regulations, and they aim to strike a balance between the interests of shareholders and the company's need for effective management. This guide provides an overview of the key rights shareholders hold.

Basic Shareholder Rights

1. Right to Attend General Meetings

Shareholders have the right to attend general meetings, including Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs). These meetings provide a forum for shareholders to discuss the company's performance, ask questions, and vote on important matters.

2. Right to Vote

One of the most fundamental rights of shareholders is the right to vote on resolutions. These resolutions may include the election and re-election of directors, approval of financial statements, mergers and acquisitions, and other significant corporate actions. Typically, each share carries one vote.

3. Right to Dividends

Shareholders are entitled to receive dividends, if declared by the company's board of directors. Dividends are a portion of the company's profits distributed to shareholders and can be paid in cash, shares, or other assets.

4. Right to Inspect Company Records

Shareholders have the right to inspect certain company records, such as minutes of general meetings, the register of members, and annual accounts. This ensures transparency and allows shareholders to stay informed about the company's affairs.

5. Right to Information

Shareholders are entitled to receive timely and accurate information about the company. This includes receiving the annual report, notices of meetings, and other communications. Companies must disclose material information that could affect shareholders' decisions.

Specific Rights for Minority Shareholders

1. Protection Against Unfair Prejudice

Minority shareholders are protected against actions that are unfairly prejudicial to their interests. They can apply to the court for relief if they believe the company's affairs are being conducted in a manner that is unfairly prejudicial to them.

2. Right to Call a General Meeting

Shareholders holding at least 5% of the company's voting shares have the right to call a general meeting. This allows minority shareholders to bring important issues to the attention of all shareholders.

3. Right to Propose Resolutions

Shareholders holding a specified percentage of the company's voting shares (usually 5%) can propose resolutions to be considered at a general meeting. This empowers minority shareholders to influence the company's agenda.

4. Right to Take Derivative Action

In cases where the company's directors are failing in their duties, shareholders can bring a derivative action on behalf of the company. This legal action seeks to address wrongs done to the company that the directors have not pursued.

Corporate Governance and Shareholder Rights

1. Say on Pay

Shareholders have the right to vote on the remuneration of directors. This vote, known as the "say on pay," is advisory but can influence the board's decisions on executive compensation.

2. Right to Remove Directors

Shareholders can remove directors from the board through an ordinary resolution passed at a general meeting. This ensures that directors remain accountable to shareholders.

3. Right to Approve Major Transactions

Significant corporate actions, such as mergers, acquisitions, and disposals of substantial assets, require shareholder approval. This right ensures that shareholders have a say in transformative decisions that affect the company's future.

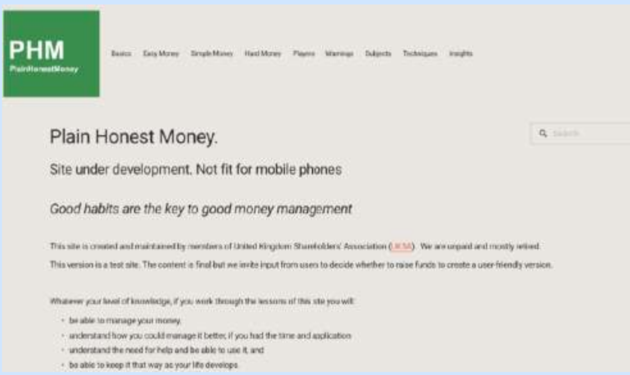
Conclusion

The rights of shareholders in public companies in the UK are designed to protect their interests and ensure that they have a meaningful role in the governance of the company. By exercising these rights, shareholders can contribute to the company's success and hold the board of directors accountable for their decisions. Understanding and utilising these rights is crucial for any shareholder looking to safeguard their investment and influence the direction of the company.

End of Copilot response

UKSA’s financial learning sites

Click the images below to view the latest additions to the sites. PHM is a work in progress and your comments are welcome.



The Martin White column

Martin White's letter to the FT, published Friday 7 March

Why City regulation needs more Meg Hilliers

Meg Hillier's guest *op ed* "Show me the evidence that City deregulation will help growth" (February 18) is a breath of fresh air. In recent years there seems to have been less and less appetite on the part of the Financial Conduct Authority, the UK Parliament's Treasury committee, Education committee and many other bodies to engage with representatives of consumer interests. Is this a case of the financial sector having ever more power over government policy?

Perhaps there is a reason for this.

For "growth" in the UK we don't need rising asset prices. Financial services do not create growth directly as they are intermediaries. We need to have good companies, providing good jobs, that are able to export successfully, and we need them where possible to divert resources from consumption (dividends, executive bonuses, share buybacks) to productive investment. And that often includes continual, patient innovation, at the price of reduced profit today.

But City pressure is often in the wrong direction, focusing on today's profits and share prices. Witness this very worrying sentence in Anjli Raval's Business Insight column (January 22): "A third of UK chief executives surveyed by PwC don't even believe their own business will be economically viable in a decade's time, let alone have confidence in their prospects for growth."

What this means is the UK needs to start running very hard to improve productivity and true business competitiveness, just to stand still, let alone achieve valuable growth. We desperately need a well-informed and cross-party consensus in this area.

Finally, quoting Hillier: "When a decision requires somebody to listen to opposing expert views and decide a way forward, we earn our crust." How many of her predecessors at the Treasury select committee would have included the word "opposing" in this sentence? We need more Meg Hilliers.

Martin White Director, Savers Take Control, UK Shareholders' Association

Martin White - UK Shareholders director and creator of Savers Take Control

There are two themes in this letter. The first is the position of the individual in the face of the powerful influence of the financial sector, and the second is what I now think of as a national emergency – our ability to compete in the world.

The individual, the financial sector and the Treasury. I am convinced it has been the policy of the Treasury for decades to regard the financial sector as a valued source of tax revenue, and that the importance of this outweighs the fact that only a lucky few have the knowledge to largely avoid or at least minimise the wealth extraction process that is inherent in annual *ad valorem* charges. On a short-term view, this is entirely understandable. Especially as the charges made each year benefit the Treasury immediately yet are not felt quite so immediately by most savers. It is a bit late, when the time comes to begin spending in retirement, to realise that you would have been a good deal better off if you had managed to reduce the charges and fees suffered each year. Of course, when we make this argument, we find ourselves in conflict with the interests of much of the financial sector, but we are not daunted by this. Our independence from the financial sector makes us unusual in this respect.

A challenge to face up to: can the UK pay its way in the future? The second theme is one which it ought to be much easier to engage in widely, including with many parts of the financial sector. I would go so far as to describe it as a national emergency. The letter refers to the disturbing message from a PWC report that many companies don't think they will be viable in 10 years' time. What does this say about the prospects for the UK's ability to pay its way in the world and to have the high-productivity jobs necessary to fund public services? An obvious question for us is what should the role of shareholders be in this, and does the way in which corporate control is developing in the UK help or hinder? This leads to the idea that it might be time to produce an updated version of our 2010 "Responsible Investing" paper that received critical acclaim.

But, on this second theme, which is vital to our economic future, I see little evidence of it being openly discussed in the public domain. Yes, there is The Productivity Institute, and you can see at least one good discussion on YouTube with Ed Balls and Lord David Sainsbury, but I would like to see wider debates on the challenges involved. I just googled "UK parliamentary debate on UK competitiveness" and the best thing I found was a debate in the House of Lords on 5 July 2012. No doubt there is lots more, but my fear is that I just don't see the issue getting the public attention it deserves. Something more is needed and I'd like us to do our best to contribute. My ideas for a new initiative are set out in the next piece below.

Corporate stewardship and the need to seek cross-party consensus; might we be able to help encourage discussion?

Over the weekend of 21-23 March, on the recommendation of Malcolm Hurlston who attended the event last year, I attended an event in Hay-on-Wye entitled "Weekend of Mistakes". It has some association with the "Library of Mistakes" charity founded by Russell Napier, who was one of the speakers. The event was a series of well-chaired lectures and discussions around economic themes, enlightening rather than fun. Topics included the impact of and uncertainties around Trump, the importance of energy, the impact of international competition, as well as a bit on what's happening in investment markets. There were lots of high-powered speakers, many of them authors on financial topics, and I think some interesting contacts for the future.

But what I came away with was an even more heightened sense of urgency on the second theme I mentioned in my article above on my recent FT letter. What can we do to improve the prospects of UK businesses? If shareholders challenged their companies to explain how the competitive environment was developing and whether they could identify strategies to improve their chances of survival, let alone really succeeding, what response would we get? Might some say: "It's really hard for us to think like this if we are incentivised to focus on our share price all the time"? Might others say: "We can't see a way of succeeding unless there were improvements in things we rely on that are external to our business, such as education, skills, transport, energy supplies and costs"?

There is definitely research and discussion going on in lots of places, but I am struck by the need for some well-informed cross-party consensus, so that policies can be adopted and adhered to across parliaments[1], with an emphasis on "well-informed". Being cynical, not all research is done with the intention of learning; some is done with a view to promoting someone's existing view or someone's special interests. Look at all the think-tanks that abound, including those with charitable status. How do you know what their objectives really are? My suggestion would be to look at where their funding comes from. And if that funding is at all opaque, beware.

The UK Shareholders' Association runs on volunteers, so we are clearly independent. We are. of course, greatly constrained in terms of funds, but does that have to stop us? With our independent status, might it be possible for us to have a series of conversations with a range of thinkers that have something to contribute in the really broad topic of competing successfully in the world of the future? And might we identify some politicians across the parties who see the value of establishing some well-informed consensus around long-term policies and are prepared to spend some of their precious time talking to us. Something to think about.

Finally, for everyone: if you have some thoughts you would like to share, don't hesitate, please get in touch!

[1] There is a YouTube discussion entitled "How to tackle low productivity and growth", hosted by the Institute for Government, which has Lord David Sainsbury and Ed Balls in a conversation prompted by a book by Sainsbury called "Windows of Opportunity". Here's a link to it. Right at the end, Balls expresses that view that things of importance only really happen when there is a consensus.

Tax avoidance schemes

Readers may be interested in this article from Tax Policy Associates, a not-for-profit company, founded to improve tax and legal policy, and the public understanding of tax.

"How do promoters get rich from selling hopeless tax avoidance schemes?"

Centre for Public Interest Audits (CPIA) - launch event on 19 March 2025

Peter Parry - Member of the UK Shareholders Policy Team

The Centre for Public Interest Audits (CPIA) is a policy and research institute which has been formed to improve audit quality across the profession. Its main focus of attention is on improving audit standards for Public Interest Entities (PIEs) – although it seems clear that a corollary of this will be an improvement in audit standards for all entities.

Background

Since the collapse of Carillion in 2018 there has been significant interest in the concept of PIEs. The factors that define a PIE are not entirely clear, but in the UK in broad terms they are businesses of significant public focus because of the nature of the business, the size of their operations or the number of employees on their books. They include:

- Companies with listed equity or debt on the London Stock Exchange;
- Banks;
- Insurance companies.

This sounds simple but prompts the question why, for example, is Severn Trent Water a PIE but not Thames Water; and why is Sainsbury's a PIE but not ASDA? Answers on the back of a postcard please!

The role of the CPIA

The CPIA states that its work during 2025 will be based around three pillars which are critical to supporting meaningful audit reform:

- **Future-focused audit profession**
  Audit has to continue evolving to meet changing needs and expectations. As market risks, business models and information needs change, the audit profession must adapt so that it maintains the confidence of all stakeholders. Quality and transparency remain core fundamentals of the profession.
- **Public interest and proportionality**
  Governance, audit and regulation do not have to be a burden. Taking account of issues such as risk and materiality, it should be possible to ensure that the right balance is struck between protecting stakeholders while supporting the attractiveness of the UK capital market and the general competitiveness of UK PLC. At the same time, it is vital that the

audit market itself is resilient and provides consistently high quality audit and assurance to all stakeholders'.

- **Corporate and audit failure**
  Responsibility and accountability for strong corporate governance and reporting must be balanced between directors and auditors, and be sufficiently transparent to be understood by all stakeholders. There is a need to better understand corporate health, including company culture, business model risks and strength of controls on a timely basis, so that users of corporate information can make informed decisions.

Turning aspiration into practical action

All these issues were discussed during the launch event. Not surprisingly, there was significant input from the FRC as the regulator which oversees the audit profession. Richard Moriarty, CEO of the FRC, was at pains to stress that there should be no conflict between the current government's desire to increase UK competitiveness and drive growth on the one hand and the importance of robust and proportionate regulation on the other.

He acknowledged that the creation of the Audit, Reporting and Governance Authority (ARGA) was overdue and expressed concern that, even when enabling legislation to create the ARGA is enacted, it may still only have the powers to go after directors who are members of a recognised accountancy organisation. To be effective, it needs the power to sanction any director who is guilty of misconduct or dereliction of fiduciary duties.

There was a clear recognition (not always shared, it seems, by government) that maintaining an effective regulatory regime relies on painstaking ongoing management of the rule book. As new regulation is brought in, existing regulation needs to be reviewed to ensure that duplication and ambiguity are removed – along with conflicts and contradictions – so that all regulation is clear, consistent, easy to understand and readily implementable. This may sound obvious, but there are many in positions of authority who seem to believe that regulation can best be pruned using an administrative chainsaw. A more thoughtful and pragmatic approach requires detailed analysis followed by carful trimming and reworking. In this context artificial intelligence may have an important role to play in future.

Elephants in the room

At events of this sort the topics which are not discussed are often as interesting and intriguing as those that are. These are the 'elephants in the room' and it is not uncommon to find whole families of them turning up, including the in-laws. Here are some of those that were present at the CIPA event.

- **Audit market sustainability**: this is referred to (see above) as part of CIPA's work on Public Interest and Proportionality for 2025. The Big Four firms audit very nearly all the FTSE100 companies. They also audit the majority of PIE clients, with PwC doing 424 PIE audits, KPMG 279, EY 262 and Deloitte 302, according to the FRC data. Among the mid-tier and smaller firms, many, including Haines Watts, Watson Buckle and BSG Valentine, had just one PIE audit each.

- This level of concentration is inherently unsound. Every 20 years the audit has to be rotated by the client company. If it is to continue using a Big 4 auditor, therefore, it has only three firms to choose from. At least one of these may be out of the running because it is doing other lucrative consultancy work for the company. That leaves, at best, just two to choose from. That cannot result in a meaningful competition for a critical service. Most importantly of all, this level of concentration is a withering indictment of the way in which the audit market has been managed by companies over many years. Most companies with a professional procurement function will seek to ensure that they are not 'captured' by a small oligopoly of suppliers who, in effect, control the supply market. This has not been the case for audit services.

- **Why companies fail.** There was a discussion about the causes of company failure. The auditor on the panel was quick to point out that it is not the fault of the auditor when a company fails; it is the fault of the company's management. Companies fail because they run out of cash. While this can happen for a number of reasons, this is clearly the fault of the management, not the auditor.

- On the other hand, if the audit team are on their toes, they ought to be able to see impending failure and ought to be raising their concerns as soon as possible. The auditor responded that he or she has to be careful about flagging the possible collapse of their client too openly in case this in itself precipitates the failure. But, as we are talking about PIEs here, surely it is reasonable that the auditors should start thinking hard about exactly what action can be taken to head off a damaging collapse in which employees lose their jobs, suppliers are bankrupted and customers are left high and dry?

- Tim Steer[1], an author and former fund manager on the panel, pointed out that the warning signs of company failure are usually evident long before a company fails. Investors should be able to see impending failure if they look sufficiently closely at the financial statements, but, whatever the case, there is no justification for the auditors to fail to see the direction of travel or to close their eyes to it.

- **The conflicted position of the auditor.** At the time of the Carillion collapse there was significant debate about the fact that auditors have a conflicted relationship with the companies they audit. The whole idea of audit is that the auditor should be working on behalf of the shareholders. However, apart from the rubber-stamping exercise at the AGM, it is the directors (theoretically the non-execs) who appoint the auditors and who have the real 'relationship' with them. The auditor has no meaningful relationship with the shareholders. those whose interests they are really meant to be looking after.

- In this situation the relationship vacuum tends to be filled by the auditors and the directors forming a closer relationship. This works well for both parties. It helps the auditors to retain the audit contract. No audit firm wants the dubious publicity that goes with losing the audit instruction. Equally importantly, most are keen to retain it because it is a door-opener to lucrative consultancy work – even though this area of opportunity has been significantly tightened in recent years. In short, most auditors are often conflicted in terms of where their allegiances lie (with the directors or with the shareholders). Although this issue has been raised before, no real action has been taken to address it properly by ensuring a much stronger relationship between the auditor and the shareholders. This is an area in which the audit committee has an important role to play.

Conclusions

This event, an afternoon of panel discussions, presentations and fireside chats, provided some indications of the work that the CPIA is planning over the coming year. However, the most interesting topics were those that were not specifically on the agenda but were prompted by the discussion. Baroness Margaret Ford, who chairs the CPIA, made a point of coming over and talking to those attending from UK Shareholders. We also have a good relationship with the FRC. We want to maintain and build those relationships. The event gave us plenty of food for thought and plenty of scope to open up further dialogue with them.

[1] Tim Steer: 'The signs were there' - 2017 Profile Books