



Financial Reporting Council

# Audit market and competition developments

A snapshot

December 2023

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# Executive Summary

This snapshot sets out recent developments in the audit market and our work on competition over the last year to help inform and support our ongoing engagement with stakeholders.



## Recent developments in the audit market

Some of the main developments in the FTSE 350 and wider Public Interest Entity (PIE) audit markets are summarised below.

- Audit fees increased between 2021 and 2022. Total PIE audit fees increased by 8% to £1.1bn and total FTSE 350 audit fees increased by 13%.
- Challenger audit firms' share of FTSE 350 audit engagements grew in 2022 but the Big Four firms (Deloitte, EY, KPMG and PwC) earned 98% of FTSE 350 audit fees (90% of PIE audit fees).
- Some FTSE 350 companies switched from a Big Four audit firm to a challenger audit firm but the proportion of FTSE 350 companies making such a switch was lower in 2022 than in 2021.
- The largest audit firms continued to earn a greater proportion of their income from non-audit clients than from audit clients in 2022, although growth in audit income at the largest challenger firms outpaced growth in non-audit income.



## Our work on competition in the audit market

- We have pursued a wide range of activities over the last year to help improve competition and choice in the FTSE 350 and wider PIE audit markets.
- Our work has included: publishing a Standard for Audit Committees in relation to their role on the external audit; obtaining academic insights to inform our thinking on our competition and innovation objectives; exploring developments in the market for the assurance of sustainability (ESG) reporting; undertaking a sandbox initiative on component audit firms' role in tendering and delivering large audits; in-depth research on smaller audit firms' views on the PIE and non-PIE audit markets; launching the FRC's audit firm scalebox to assist smaller firms' entry and expansion in the PIE audit market; and monitoring the large firms' implementation of operational separation of their audit and non-audit practices.
- A key area of FRC competition policy work in the year ahead will be market studies. These will enable us to explore issues relating to the audit market in more detail, generating richer information about these matters and potential proposals for action if we identify concerns.
- We look forward to working with our stakeholders on our existing initiatives and future work, including market studies, to continue to drive improvements in the audit market.

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# Introduction

1. In December 2022, we published a [competition policy paper](#) in support of our strategic objective to create a more resilient audit market through greater competition and choice.<sup>1</sup>
2. The policy paper detailed our overall approach to competition in the audit market, developments with competition in the audit market and our relevant work.
3. One year on, this snapshot provides a high-level summary of the latest developments in the audit market and our work to help realise a well-functioning audit market.
4. A well-functioning audit market is one that consistently delivers high quality audit<sup>2</sup> and is resilient<sup>3</sup>. In a well-functioning market, competition and regulation combine to ensure the right incentives and behaviours on both the demand and supply sides to drive up audit quality and improve market resilience. This would happen through a variety of mechanisms:
  - a. Selection and oversight of auditors (by Audit Committees) would ensure that competition would be focused on quality, and that firms win more business if they deliver good quality audits and lose business if they do not.
  - b. There would be enough opportunities to compete, and there would be sufficient choice of viable competitors (audit firms) over the long term, without undue barriers to entry and expansion.
  - c. Within firms, individual auditors' personal success would depend on whether they deliver high-quality audits, and audit practices as a whole would be focused on the success of audit.
  - d. Regulation would provide an external check on quality, setting standards, increasing transparency and addressing sub-standard performance both by firms and by individuals. This would support competition on quality because buyers (Audit Committees) would have better information on which to choose their auditor.
5. As we set out in our competition policy paper, the FRC cannot achieve this well-functioning audit market by itself or simply by implementing a single measure. This will require a range of actions and activities involving many organisations and individuals, and it will take time.

<sup>1</sup> For more details of our objectives, see [FRC three year plan 2023-6](#) (March 2023)

<sup>2</sup> For the FRC's definition of a high quality audit, see [What Makes a Good Audit](#) (November 2021), p.6

<sup>3</sup> A resilient audit market would include sufficient choice of audit firms and firms that are financially sound and focused on quality.

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# 1. Recent developments in the audit market

6. In this section, we provide the latest available information for the key indicators relating to audit market dynamics and competition reported in the competition policy paper. We show any changes in these indicators for the FTSE 350 and wider PIE audit markets between 2021 and 2022, and the longer-term trends, where data is available.
7. This is a brief snapshot of the audit market, other FRC publications provide more detailed information on recent developments. For example, our annual [Audit Quality Inspection and Supervision reports](#) give information on audit quality at audit firms. Our annual [Key Facts and Trends in the Accountancy Profession \(KFAT\) publication](#) provides a wider range of data about the accountancy profession.

## Summary

8. Some of the main developments in the FTSE 350 and wider PIE<sup>4</sup> audit markets are summarised below.
  - Audit fees increased between 2021 and 2022. Total PIE audit fees earned by UK audit firms increased by 8% to £1.1bn and total fees paid by FTSE 350 companies to UK and non-UK audit firms increased by 13%.
  - Challenger audit firms' share of FTSE 350 audit engagements grew in 2022 but the Big Four audit firms (Deloitte, EY, KPMG and PwC) earned 98% of FTSE 350 audit fees (and 90% of all PIE audit fees).
  - Some FTSE 350 companies switched from a Big Four audit firm to a challenger audit firm but the proportion making such a switch was lower in 2022 than in 2021.
  - The largest audit firms<sup>5</sup> continued to earn a greater proportion of their income from non-audit clients than from audit clients in 2022, although growth in audit income at the largest challenger firms outpaced growth in non-audit income.

<sup>4</sup> Public interest entities (PIEs) are currently defined in the Statutory Audit Directive, implemented before the UK left the EU, as: entities whose transferable securities are admitted to trading on a regulated market; credit institutions; or insurance undertakings.

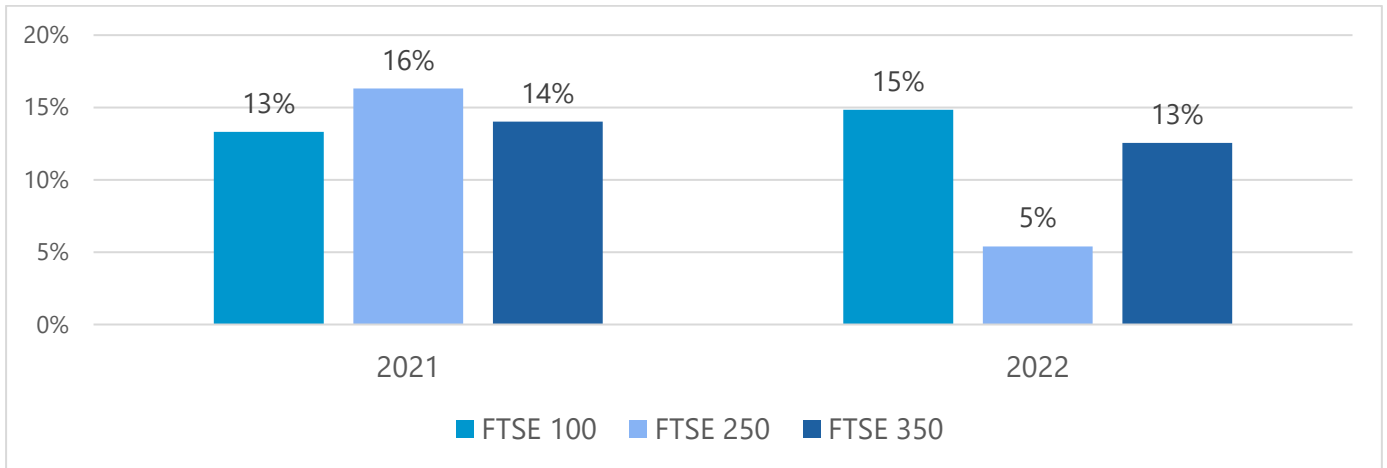
<sup>5</sup> The eight largest audit firms are the Big Four (Deloitte, EY, KPMG and PwC) plus BDO, Grant Thornton, Mazars and RSM.



## Audit fees

9. UK audit firms earned £1.1bn in PIE audit fees in 2022, an increase of 8% on 2021.<sup>6</sup> Most of this growth was from FTSE 350 audit fees, which accounted for over two thirds of PIE audit fees.<sup>7</sup> Total audit fees paid by FTSE 350 companies increased by 13% in 2022. Figure 1 shows the growth in audit fees paid by FTSE 350 companies to UK and non-UK audit firms over the last two years.<sup>8</sup>

**Figure 1. Growth in audit fees paid by FTSE 350 companies, 2021-2022**



Source: FRC analysis of Audit Analytics Audit Opinions data for 2020-22<sup>9</sup>



## Audit market shares

10. In 2022, the Big Four audit firms earned 90% of PIE audit fees compared with 92% in 2021. Figure 2 shows the proportion of PIE audit fees earned by Big Four and non-Big Four firms in 2021 and 2022. Overall concentration in the PIE audit market is driven by the Big Four audit firms auditing nearly all of the largest companies.

<sup>6</sup> Source: Key Facts and Trends in the Accountancy Profession (KFAT) Reports and audit firms' transparency reports. Note: This figure

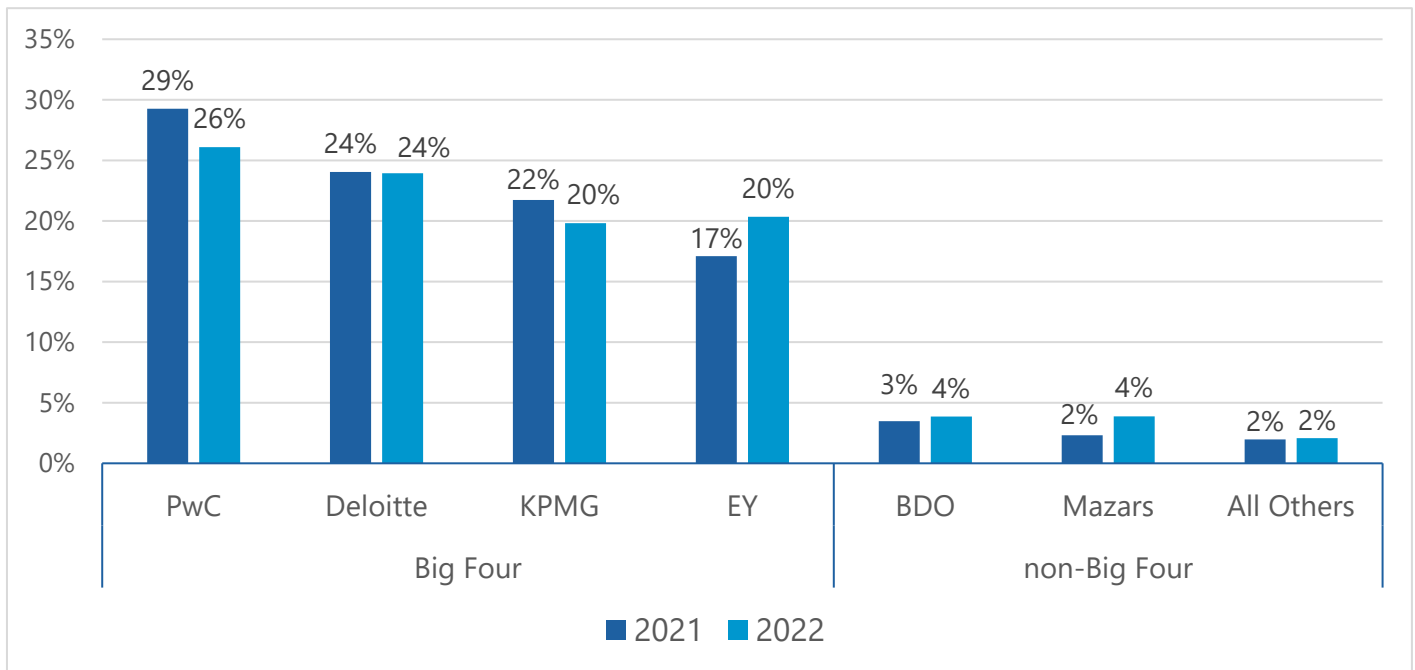
represents the income of UK audit firms only; it does not include fees earned by non-UK network audit firms.

<sup>7</sup> Source: 2022 AQR Inspection Scope Survey.

<sup>8</sup> Figures are based on revenue from audits using the "opinion fiscal year end" data field in Audit Analytics: FTSE 350 companies for which the auditors signed the audit opinions. For data availability reasons, this is calculated at the network level rather than the UK level.

<sup>9</sup> Note: [1] Audit Fees are based on the "Audit Fee EUR" field provided by Audit Analytics, corresponding to the fees paid for the preparation of the audit opinion. We convert these figures to £ using the average yearly exchange rate provided by the ONS. Currency conversions may introduce discrepancies relative to original data sources (i.e. annual reports). [2] For 2022, FTSE 350 constituents as of 22 June 2023 based on list of constituents and associated ISIN provided by Refinitiv Eikon. Audit Analytics Audit Opinions data sourced on 22/06/2022. [3] For 2021, FTSE 350 constituents as of 9 June 2022 based on list of constituents and associated ISIN provided by Refinitiv Eikon. Audit Analytics Audit Opinions data sourced on 10/06/2022. [4] For 2020, FTSE 350 constituents as of 16/05/2021 based on list of constituents and associated ISIN provided by Eikon. Audit Analytics Audit Opinions data sourced on 21/04/2021.

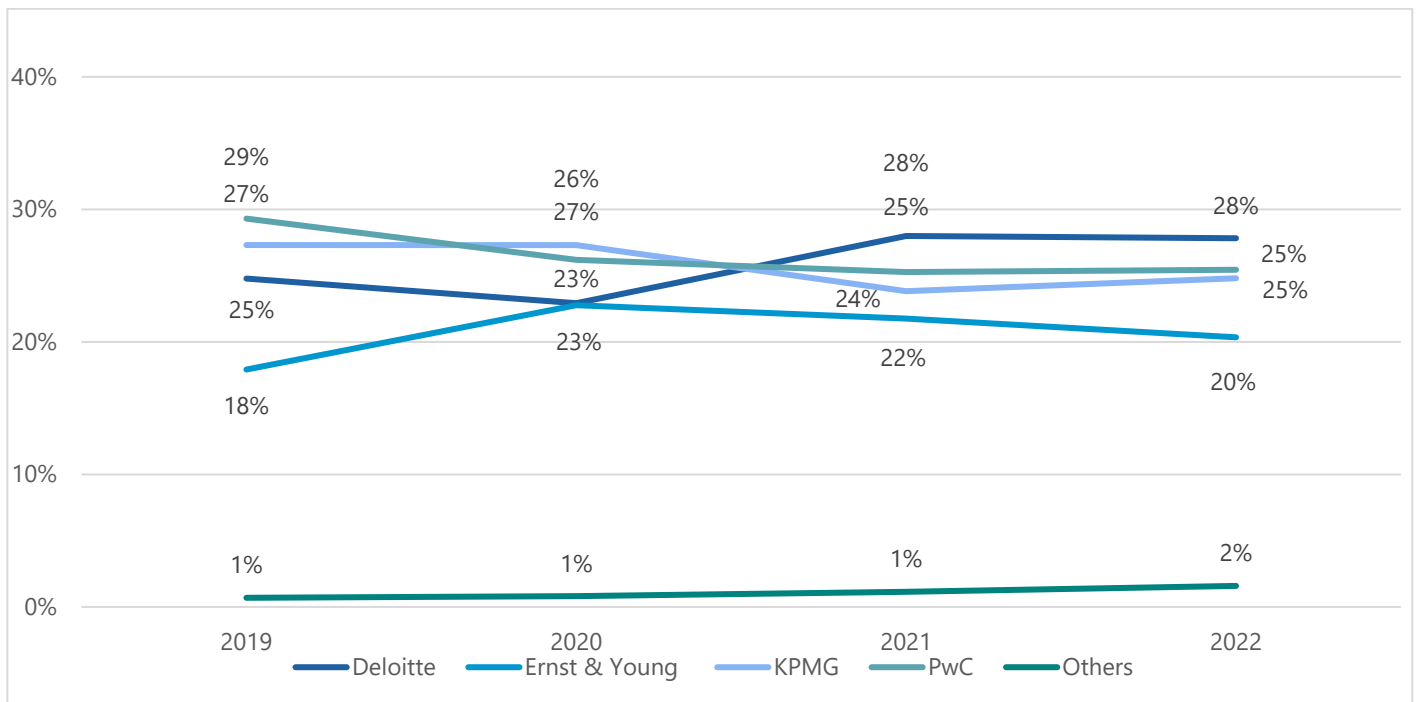
**Figure 2. Audit firms' share of PIE audit fees in 2021 and 2022**



Source: KFAT Reports 2021, 2022 and audit firms' transparency reports 2021, 2022.

11. In 2022, the Big Four audit firms earned 98% of FTSE 350 audit fees (99% in 2021).<sup>10</sup> Figure 3 shows audit firms' share of FTSE 350 companies' audit fees over recent years.

**Figure 3. Audit firms' share of FTSE 350 companies' audit fees, 2019-2022**

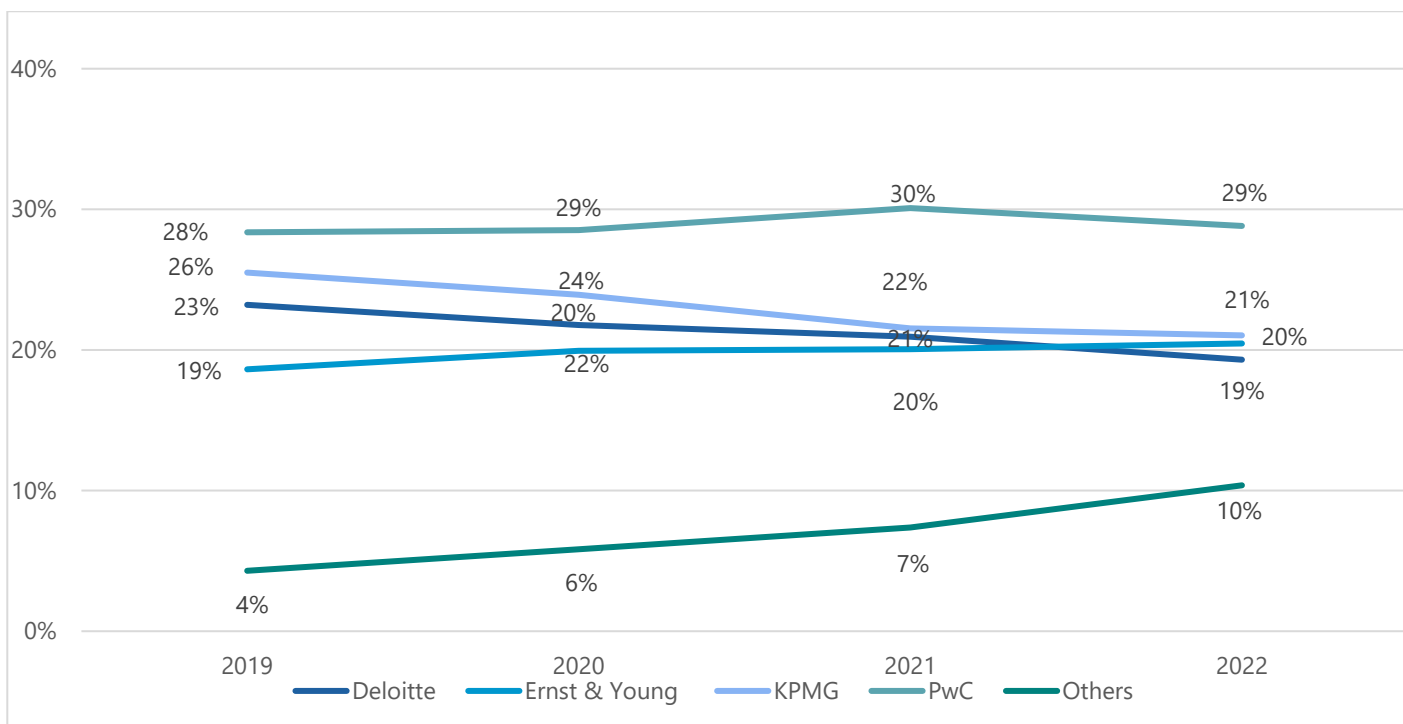


<sup>10</sup> Source: Audit Analytics opinion data for 2019-2022. Figures based on revenue from audits in each calendar year for companies for which the auditors signed the audit opinions. For data availability reasons, this is calculated at the network level; therefore, a figure calculated on a UK-firm-only basis may be slightly different.

Source: FRC analysis of Audit Analytics Audit Opinions data for 2019-2022. Please see earlier footnotes for further detail.

12. In 2022, the Big Four audit firms audited 90% of FTSE 350 companies (93% in 2021).<sup>11</sup> Since 2019, the number of FTSE 350 audit engagements undertaken by the challenger firms has grown from 13 to 36,<sup>12</sup> and a few FTSE 100 companies are now audited by challenger firms. Figure 4 shows audit firms' share of FTSE 350 audit engagements in recent years.

**Figure 4. Audit firms' share of FTSE 350 audit engagements, 2019-2022**



Source: FRC analysis of Audit Analytics Audit Opinions data for 2019-2022. Please see earlier footnotes for further detail.

13. As we set out in our competition policy paper<sup>13</sup>, while there are many audit firms active in the PIE audit market, many of these firms supply only a few PIE audits. In 2022, only 13 of the 42 audit firms active in the PIE audit market supplied more than 10 PIE audits.<sup>14</sup>

14. Over the last four years, there has been an increase in the number of audit firms auditing FTSE 350 companies as well as other listed equity (from 24 firms in 2019 to 33 firms in 2022)<sup>15</sup>. Figure 5 shows the number of audit firms auditing different types of PIEs in recent years.

<sup>11</sup> Source: Audit Analytics opinion data for 2019-2022. Figures based on revenue from audits in each calendar year for companies for which the auditors signed the audit opinions.

<sup>12</sup> Source: AQR Inspection Scope Surveys 2019, 2022.

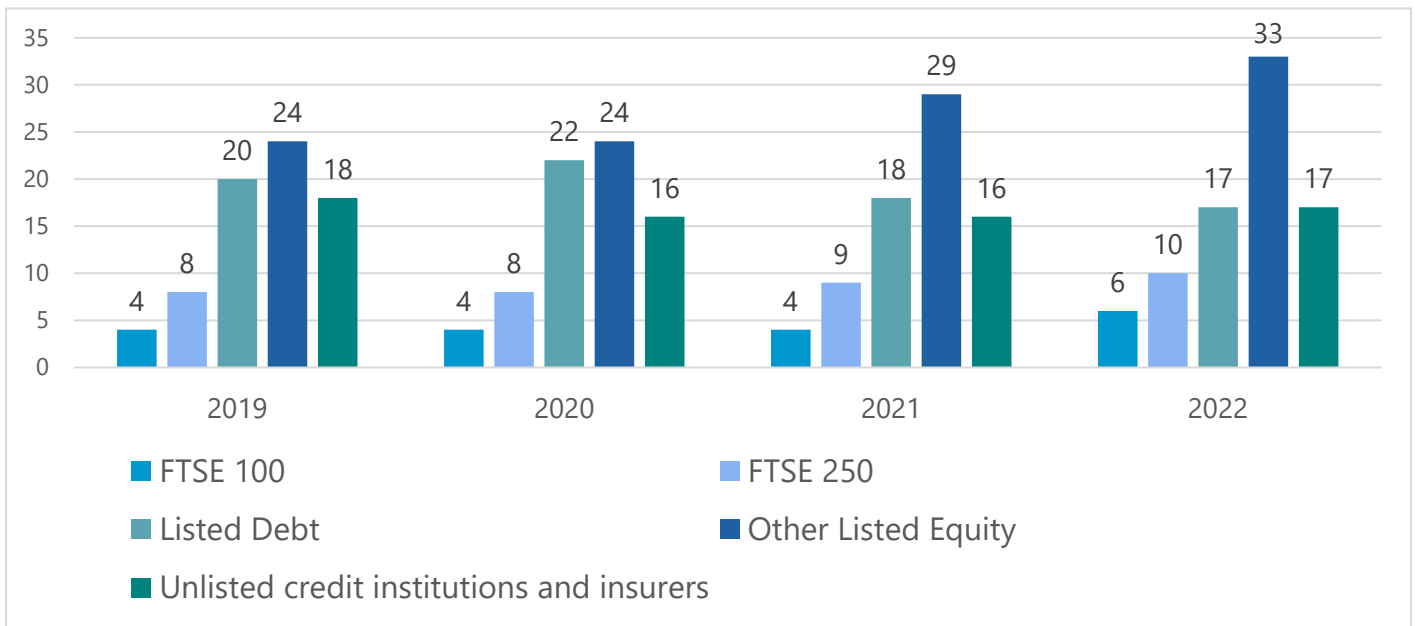
<sup>13</sup> FRC (2022), [Competition in audit market – a policy paper](#), see para 23.

<sup>14</sup> Source: AQR Inspection Scope Survey 2022.

<sup>15</sup> Firms that belong to the same network are counted as one.



**Figure 5. Number of audit firms supplying each type of PIE audit, 2019 - 2022**



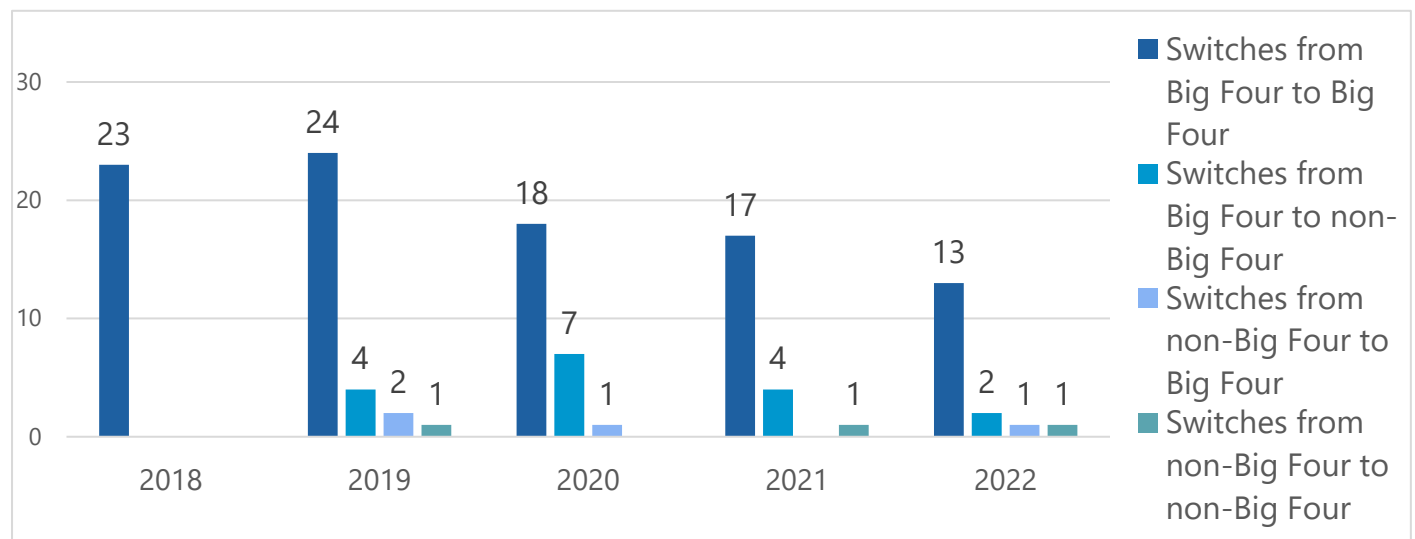
Source: AQR Inspection Scope Surveys 2019-2021



## Switching in the FTSE 350 audit market

15. In 2022, of the 17 FTSE 350 companies that changed auditor, two switched from a Big Four firm to a challenger firm, or around one in ten. In 2021, there were four such switches, or nearly two in ten. Over the last five years, the highest level of switching from Big Four audit firms to non-Big Four firms was in 2020.<sup>16</sup> Figure 6 shows types of switches over recent years.

**Figure 6. Number of FTSE 350 companies switching auditor by type of switch, 2018 - 2022**



Source: FRC analysis of Audit Analytics Auditor Change data; based on FTSE 350 constituents as at 30 June 2023.

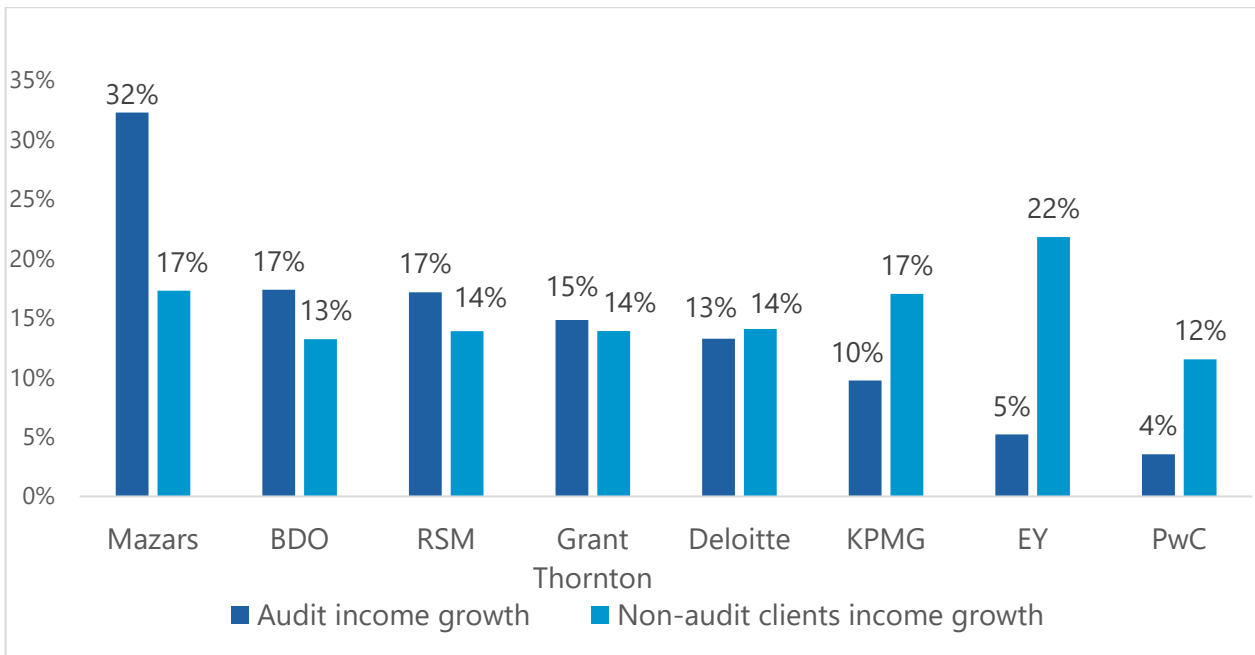
<sup>16</sup> Highest level of switching both in terms of absolute numbers and as a proportion of total switches.



## Audit firm income from audit and non-audit clients

16. The largest audit firms continued to earn a greater proportion of their income from non-audit clients than from audit clients in 2022. The proportion of income from audit clients was largest at BDO, at 40% in 2022 (38% in 2021), and smallest at Deloitte, 15% in 2022 (unchanged from 2021). Figure 7 shows income growth at the largest audit firms in 2022. Audit income grew the most at Mazars, with 32% growth in 2022, and the least at PwC, with only 4% growth. The challenger firms in the chart all grew their audit income by a greater proportion than their income from non-audit clients, whereas the opposite is true for the Big Four audit firms.

**Figure 7. Income growth for the largest audit firms from audit and non-audit, 2022**



Source: KFAT Reports 2021, 2022.<sup>17</sup>

<sup>17</sup> Notes: Audit firms in the chart are ordered by their audit income percentage growth, from largest to smallest. Figures for KPMG and EY exclude figures for KPMG Ireland and EY Ireland.

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## 2. Our work on competition

17. In this section, we provide a high-level summary of some recent FRC work to improve competition in the audit market. We also set out a key area of future competition policy work.
18. In our competition policy paper, we explained our intention to realise a well-functioning audit market through advancing the seven competition policy proposals included in the [Government Response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems](#) (May 2022).
19. While the Government's plan for primary legislation to modernise the regulation of audit, corporate reporting and governance has not been prioritised for the next Parliamentary session, the FRC remains committed to improving the functioning of the audit market.
20. Some of the competition policy proposals we can progress under our existing powers but some require legislation. Where legislation is necessary, we are seeking to identify and pursue non-legislative actions and activities that can help achieve the proposal's aims such as market opening and improving choice of firm.



### Our recent work on competition in the audit market

21. In support of **promoting effective competition**, we have continued developing our approach to our competition objective and embedding understanding of competition across the FRC. We have explored the potential interactions between our competition and innovation objectives through engagement with academics, which provided insights on issues such as the forms innovation can take, its potential drivers, and the role we can play in relation to innovation including through our [audit and assurance sandbox](#).
22. Alongside our general **monitoring of competition**, we have explored specific market issues. We engaged with some providers of assurance of sustainability (ESG) reporting and some Audit Committee Chairs (ACCs) of FTSE 350 companies to see if developments in the market for assurance of sustainability (ESG) reporting could have implications for the supply of statutory audits. We found sustainability assurance is a fast-developing and growing market.
23. In May 2023, we published our [Audit Committees and the External Audit: Minimum Standard](#) to help ensure the selection and oversight of external auditors is focused on quality. The content of the Standard is based on existing FRC best practice and guidance for Audit Committees, and has been made available now so Audit Committees can familiarise themselves and prepare before legislation that will make the Standard mandatory. We have also published research on [Audit Committee Chairs' views on, and approach, to sustainability](#).

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24. In support of **market opening and improving choice of audit firm**, we undertook an initiative through our [audit and assurance sandbox](#) to explore the involvement of component audit firms in tendering and delivering FTSE 350 audits. Through bilateral discussions with 12 audit firms, we have evolved our thinking, and developed some principles to guide our policy work.
25. Our externally commissioned research on entry, growth and exit of firms in the PIE and non-PIE audit markets has provided detailed information on smaller audit firms' views about these markets. The research may inform and lend weight to the FRC's audit firm scalebox [launched](#) in September 2023, which seeks to assist smaller firms develop and maintain audit quality as they start out in the PIE audit market and as they grow.
26. To ensure **audit firms focus on quality**, we are monitoring the progress of the largest audit firms in their implementation of the operational separation of their audit and non-audit practices on a voluntary basis. The firms are in the third year of a three-year transition period to full operational separation, the aim of which is to ensure that the audit practices are focused above all on audit quality and the public interest and do not allow the "client service" aspects of the wider firm's culture to affect the quality of audit work. Operational separation also ensures that within firms, individual auditors' personal reward depends on whether they deliver high-quality audits. We are also seeking to ensure that audit remains an attractive and reputable profession, that is valued both within and outside the audit firms. We will report publicly on the firms' implementation of operational separation at the conclusion of the transition period.
27. For **greater audit market resilience**, we continue to monitor individual audit firm and market wide resilience. We seek to identify any risks to the resilience of an individual firm (and thus the market), whether these risks arise from within the firms' audit practices or the wider multi-disciplinary firm.



## Our future work on competition in the audit market

28. A key area of competition policy work in the year ahead will be **market studies**.
29. Market studies are a useful regulatory tool for exploring issues in a market and can lead to a range of outcomes including richer insights about issues and proposals to improve how a market functions. Many sector regulators have powers to do market studies or they undertake market study type work. The CMA's audit market study (2018/19) was an example of a large-scale Enterprise Act 2002 (EA02) market study but it is not the only approach to market studies.
30. Ahead of having powers to do EA02 market studies, we plan to begin doing market studies from 2024. Commencing market studies now will enhance our ability to respond to stakeholder issues and concerns about the audit market, and will help develop our capability to do EA02 market studies in due course. We intend to take a flexible approach, adjusting the scope, scale, resourcing and timings of any market studies to fit the circumstances, including the topic(s) being explored.

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## Next steps, including opportunity to comment

31. Engaging with our stakeholders is vital if we are to realise a well-functioning audit market. We will continue working closely with others, including audit firms, on existing initiatives to improve competition, and in our future work.
32. We will seek input from our stakeholders for any market studies. We will want to receive views and information when we launch any market studies, and engage regularly with any interested parties as these studies progress.
33. We welcome any feedback on this snapshot to help inform our ongoing and future work. Please provide any comments by email to [competition@frc.org.uk](mailto:competition@frc.org.uk) by 29 February 2024.

**Financial Reporting Council**  
**December 2023**



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