

Invitation to Tender

Research project

Competition and market conditions in the UK market for statutory audit of Public Interest Entities (PIEs)

1. Summary

The Financial Reporting Council (FRC) welcomes proposals for a research project supporting its monitoring of developments in the UK market for Public Interest Entity (PIE)¹ audits. The requirements of this project are set out further below. In summary there are two main parts:

A Indicators and methodology.

- (i) Identify and develop a suitable set of indicators for the routine assessment of the state of competition in the UK market for statutory audit of PIEs.
- (ii) Identify and develop a reliable set of methods for collecting and processing the data (both quantitative and qualitative) needed to populate these indicators.

B Use the indicators and methods in part A to conduct a review and produce a Baseline Report on the current conditions in respect of competition in the UK market for statutory audits.

The project is expected to take place between January 2020 and May 2020.

2. Background to the issue

The FRC regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes. It seeks to promote transparency and integrity in business, and its work is aimed at investors and others who rely on company reports, audit and high-quality risk management. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

As part of its work, the FRC is required to report on developments in the UK market for statutory audit services to PIEs. Under EU law, the FRC is the "Competent Authority" for audit in the UK and has the task of monitoring developments in the PIE audit market, including market concentration levels². The Competent Authority must report every three years on developments in the market for statutory audit services to PIEs³. The FRC also collects and publishes some information about the PIE audit market on an annual basis, for example, [Key facts and trends in the accountancy profession \(2019\)](#) and [Developments in Audit \(2019\)](#).

¹ A Public Interest Entity is defined as: (a) An issuer whose transferable securities are admitted to trading on a regulated market; (b) A credit institution within the meaning of Article 4(1)(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, other than those listed in Article 2 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and investment firms; (c) An insurance undertaking within the meaning given by Article 2(1) of Council Directive 1991/674/EEC of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertaking. No other entities have been specifically designated in law in the UK as 'public interest entities'.

² EU Directive 2014/56/EU and Regulation 537/2014/EU. UK legislation designated the FRC as the Competent Authority for Audit in The Statutory Auditors and Third Country Auditors Regulations (SATCAR) 2016 SI/649/2010.

³ The European Commission produced its [first monitoring report](#) in 2017, drawing on information provided by each national regulator, including the FRC, and the European Competition Network. The report includes: information on the number of PIEs, auditors and audit firms in each country; audit firms' turnover and audit fees; market concentration; quality assurance; performance of audit committees; and enforcement activities.

The FRC is now seeking to develop its approach to market monitoring, taking into account recent analysis and proposals for reforms in the audit market including the [Independent Review](#) of the FRC which proposed the replacement of the FRC with a new regulator (ARGA), as well as the Competition and Markets Authority (CMA)'s [audit market study](#). The Independent Review recommended enhanced monitoring of the audit market while the CMA analysed the audit market and proposed a set of interventions to improve competition.

3. Project Aims

There are two parts to this project (A and B) with the expectations for each detailed below. The successful supplier will be expected to work in close consultation with the FRC throughout.

A. Indicators and methodology

(i) **Identify and develop a suitable set of indicators for the routine assessment of the state of competition in the UK market for statutory audit of PIEs.**

This will include the following elements.

- Agreeing an approach and framework for identifying relevant indicators which:
 - reflect the FRC's objectives, including for the market to deliver high-quality audits;
 - incorporate, and build on, relevant FRC work including its existing market monitoring and Audit Quality Review processes; and
 - take account of the proposals for market monitoring made by the Independent Review of the FRC, and the findings and recommendations of the CMA's market study
- Identification of a range of indicators for monitoring trends in the market over time, and for monitoring specific interventions by the regulator.
 - These indicators could be expected to cover audit quality, concentration, resilience, pricing, choice, switching and firm profitability. This list is indicative (neither prescriptive nor exhaustive).
 - The indicators should ideally include lagging and leading metrics, and measures that involve capturing qualitative and quantitative data.
- Testing and refinement of the indicators including through engaging with relevant stakeholders, in consultation with the FRC.

The FRC will seek an initial face to face meeting with the successful supplier upon award of contract to discuss and agree the approach and framework.

- (ii) **Identify and develop a reliable methodology for collecting and processing the necessary data to report against the indicators in A(i) above.**

This will include the following elements.

- Identifying methods which are reliable enough for the monitoring to be repeated periodically, and trends tracked over time.
- Determining potential options (e.g. for sampling, data collection, frequency) and setting these out clearly with the pros/cons of each including in relation to robustness and reliability.
- Developing data collection and processing methods which, in the first instance, reflect the FRC’s current statutory footing. In addition, we would also like the supplier to develop extra options for a regulator with different duties and powers, including information gathering powers.

B. Baseline Report

Use the indicators and methods in part A to produce a Baseline Report on the current conditions in the UK market for statutory audits.

It is expected that this will include the following elements.

- A report that forms a baseline for comparisons with reviews of the market in subsequent years.
- A written record of all possible indicators identified (current and future) and full details of the methodology (current and future) for replication in future years. This information may be included as an appendix to the report or as a separate written document.
- Any data sets prepared in order to support the review.

4. Data sources

The successful supplier will be expected to incorporate relevant FRC work, wherever appropriate. The FRC will share details of its existing (non-confidential) information, data sources and other related workstreams with the successful supplier *upon their appointment*. It is expected that the successful supplier will advise how the FRC’s relevant work, including its market monitoring and information gathering, would be developed in line with the set of indicators and the methodology developed in this project.

5. Suggested approach and analysis

The FRC recognises that there is no single set of metrics or measures for monitoring developments in the audit market. An appropriate set of indicators, and corresponding methodology, will need to reflect the specific institutional features of statutory audit in the UK. For example, the role of Audit Committees which – acting independently of company

management – represent the interests of shareholders when selecting auditors. We would expect our chosen supplier’s approach to incorporate a solid understanding of the audit market, of how the audit process works, and of the related corporate governance functions.

6. Deliverables

The key deliverables for this research are:

- A set of indicators for monitoring developments in the audit market
- The methodology for collecting data for the above indicators
- A ‘baseline’ report of the audit market using the indicators and methodology identified
- Data sets used in the ‘baseline’ report above
- A written record of all possible indicators identified (current and future) and full details of the methodology (current and future) for replication in future years

7. Liaison arrangements

A schedule of regular progress updates and meetings (including face to face but also conference calls, as appropriate) will be agreed between the FRC and the supplier.

The initial face to face meeting between the FRC and the successful supplier would be expected to take place soon after the contract is awarded and by the end of January at the latest.

8. Project timing

Tender period	13 December 2019 – 13 January 2020
Contract awarded	w/c 17 January 2020
Final report delivered	By end May 2020

9. Budget

The budget for this project is up to £110,000 excluding VAT.

10. Form of proposal

The proposal should be no more than 8 pages in total, excluding annexes, and include:

- A succinct summary of the proposal, including an estimated timeline of project milestones.
- Details of the proposed approach. This should include, as appropriate, the techniques, methodology, and external data sources to be used, including your rationale for choosing them.
- A demonstrable understanding of competition and market analysis and an understanding of the statutory audit market, how the audit process works, and the

related corporate governance functions. Good understanding of the current policy context including concerns about the audit market and current proposals for reform.

- Details of personnel to be involved including their role for this project and their relevant experience.
- Your organisation's experience of similar projects and relevant research capability.
- Arrangements for managing this work and quality assuring outputs, including how you would like to work with the FRC during the project.
- A detailed budget, including a breakdown of time and costs per activity, in line with the deliverables outlined in section 5, and per team member. If your proposal includes options, including additional deliverables, these should be costed separately where it makes sense to do so.

Project team CVs can be included in an annex, along with any additional information about your organisation that you think is relevant.

11. Evaluation criteria

Bids should identify any real or perceived conflicts of interest. Bids will be assessed against the following criteria:

- evidence of understanding the brief;
- suitability of approach;
- experience in the area; and
- cost.

12. Closing date for tenders

11:59pm Monday 13 January 2020. Please submit to research@frc.org.uk