

Invitation to Tender (ITT):

Research into firm entry, growth and exit in the Public Interest Entity (PIE) audit market and non-PIE audit market

Provision of Research Services

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Research into firm entry, growth and exit in the Public Interest Entity (PIE) audit market and non-PIE audit market

The Financial Reporting Council (FRC) is commissioning research to enhance understanding of firm entry, growth and exit in the PIE and non-PIE audit markets. The research should generate insights that will help inform the FRC's future work and regulatory approaches and support the FRC's objective to create a more resilient audit market through greater competition and choice.

The project is expected to take place between August 2022 and April 2023.

1 Background and context

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. We seek to promote transparency and integrity in business; our work is aimed at investors and others who rely on company accounts, audit, and high-quality risk management.

A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view of its performance and financial position, and provide a reliable and trustworthy basis for taking decisions. All companies in the UK are required, under the Companies Act, to have their annual accounts audited externally, unless exempt. There are many firms in the UK that can carry out these statutory audits.

1.1 Recent developments in the audit market

The number of firms carrying out statutory audits has halved since 2004.¹ In 2016 the UK's implementation of the EU Directive on statutory audits expanded the range of companies defined as Public Interest Entities (PIEs) and created new rules for the audits of PIEs. As a result of this expansion in the PIE definition and associated rules, around 40% of audit firms with PIE auditees discontinued these engagements in the years that followed.²

In March 2021 the Government published, for consultation, a [white paper](#) setting out proposals to reform corporate governance and audit in the UK following recommendations by three independent reviews including the [CMA's audit market study](#) (April 2019). The Government proposed replacing the FRC with the Audit, Reporting and Governance Authority (ARGA) whose objectives would include promoting effective competition in the market for statutory audit. The Government also proposed expanding the PIE definition to include more private companies and for ARGA to introduce market opening measures in the FTSE 350 audit market to help increase choice and competition. The Government is expected to publish its response to the consultation and plans for reform in due course.

¹ See the 2006 and 2021 versions of: [FRC Key Facts and Trends in the Accountancy Profession](#)

² [Restoring trust in audit and corporate governance: consultation on the government's proposals – Impact Assessment](#), para. 44.

The combination of the proposed market opening measures and expanded PIE definition could result in significant changes to the audit firms operating in the audit market. While the CMA audit market study (2019) and an earlier market investigation by the Competition Commission (2013) investigated the market for the audit of FTSE 350 companies, the FRC is not aware of detailed research on entry, growth and exit in the wider PIE and non-PIE audit markets.

2 Project description

The project will be comprised of two parts:

- A. PIE audit market
- B. Non-PIE audit market

2.1 Purpose and objectives

The purpose of the project is to support the FRC in its objective to 'create a more resilient audit market through greater competition and choice'.³ The research will generate insights into the PIE and non-PIE audit markets to help inform the FRC's future work and regulatory approaches. The overall objective of the research is to enhance understanding of firm entry, growth and exit in the PIE and non-PIE audit markets.

- The **objective of Part A** is to better understand the appetite of audit and non-audit firms⁴ to enter, or expand their presence in, the PIE audit market. This will include understanding any barriers they face in achieving this, and what action(s) may lower these barriers.
- The **objective of Part B** is to better understand the economics of audit firms in the non-PIE audit market, as well as what has driven the decline in the number of such firms over the last five years.⁵ The research in Part B should also produce an analysis of the implications of the declining number of firms, whether positive or negative, for choice, competition and audit quality.

Overall, we are seeking a rich understanding of the supply side in the PIE and non-PIE audit markets to inform our future work and regulatory approaches. Parts A and B of the project overlap in that the larger audit firms in the population for Part B are also part of the population for Part A.

³ [Financial Reporting Council: 3-Year Plan](#), March 2022, p. 5

⁴ This will also include the appetite of, and barriers faced by, institutional investors in investing in new or existing audit firms.

⁵ There were 6,331 firms Registered with the RSBs as at December 2015, compared with 5,007 as at December 2020. See the 2016 and 2021 versions of: [FRC Key Facts and Trends in the Accountancy Profession](#).

2.2 Population

The population with which the project is concerned is split into four groups:

Group	Description	Means of identifying firms in each group	Population size
1	Large firms that are active in markets similar to audit, such as the wider assurance and inspection markets, or other professional services, but that are <i>not</i> currently active in audit. In addition, the research should also seek the views of institutional investors who may be a source of investment capital for new or expanding audit firms. ⁶	The FRC will suggest candidate firms. The contractor will be expected to suggest additional suitable candidates from own research.	Undefined.
2	Audit firms with less than 10 PIE clients.	FRC to supply list.	Approx. 20 firms
3	Those audit firms with no PIE clients that may potentially become PIE auditors under options for expansion of the PIE definition that the Government is considering.	FRC to supply list.	TBD. ⁷
4	All other UK audit firms with no PIE clients (i.e. excluding those in group 3).	The FRC will supply a complete copy of the public Register of Statutory Auditors , which provides details of all audit firms in the UK. Removing the auditors of PIEs and firms in group 3 will produce the population for group 4.	Approx. 5,000 firms. ⁸

Part A of the project concerns groups 1-3; part B concerns groups 2-4.

2.3 Suggested Approach

Bidders are asked to set out how they propose to deliver on the project's objectives. Potential options include (a combination of) the following:

- Deep-dive case studies with a number of firms in each group.
- Semi-structured interviews with a larger number of firms in each group.

⁶ This is to understand the appetite and barriers to investing in an audit business.

⁷ The Government's Impact Assessment modelled the number of firms that may be captured under two different options at 22 and 90. The Government is expected to publish its response to the consultation and plans for reform in due course, and the FRC will supply a list of firms accordingly.

See: [Restoring trust in audit and corporate governance: consultation on the government's proposals – Impact Assessment](#), para. 52.

⁸ See [Register of Statutory Auditors](#).

- Statistically robust questionnaire-based surveys of representative samples of audit firms in groups 2-4.⁹
- Analysis of any relevant commercially available data that bidders would access on their own account, such as data on audit clients.

These are suggestions only; bidders are invited to offer additional/alternative methods as they deem necessary to meet the project's objectives. Bidders should explain in their proposals how their combination of methods would meet these objectives. Proposals should include (as appropriate):

- Which method(s) would be used to meet each objective, with an explanation of how;
- The number of firms the research will include;
- The number and expected content of 'deep-dive' case studies, i.e. example structure of topics to be covered;
- The number and expected estimated length of interviews and questionnaires;
- Additional data (if any) that bidders expect to obtain from their own sources;
- Bid team's knowledge and experience of using the proposed approaches.

The bid team will need a good understanding of the subject matter in order to produce high-quality insights. Please explain in your proposal how sufficient subject matter knowledge will be brought to bear for each task in the research.

For example, where bidders propose doing interviews, they should set out the qualifications, knowledge and experience of the staff who will carry out these interviews, demonstrating their ability to explore and reflect on the topics with the interviewees. Interviewers will need a good understanding of the audit market, competition, and qualitative research techniques so they can formulate on-the-spot follow up questions during an interview. Such follow up questions should be focused on building, iteratively, a detailed understanding of the topics agreed with the FRC (in the interview planning phase). If you propose to use interviewers that do not have a strong understanding of audit and/or competition, please describe how you will ensure that experts with this knowledge will be involved in a way that ensures sufficient quality and depth of information-gathering and analysis.

2.4 Topics and outputs for part A: PIE audit market

As stated earlier, the objective for part A is to better understand the appetite of audit firms and non-audit firms (and their potential investors) to enter and/or expand their presence in the PIE audit market, any barriers they may face and what action(s) may lower these barriers. Topics to explore with firms may include:

- PIE tendering processes and costs.
- Building capacity and capability to deliver PIE audits.
- PIE audit fees.
- Dimensions and level of competition in the PIE audit market.

⁹ The sample of audit firms should be representative of the population, and of a sufficient size to enable statistically robust conclusions to be drawn about the population and relevant groups therein (e.g. breaking down findings by firm size). The contractor should specify and explain their anticipated sample sizes in the proposal.

- The impact of regulation and regulatory oversight.
- Technology and innovation.
- Impact of potential reforms including any change in the PIE definition.

The above list is not intended to be exhaustive. We invite bidders to set out their ideas on the topics to be addressed. The final list of topics will be developed and agreed in collaboration with the FRC at the start of the research project.

We expect that Part A will inform some aspects of Part B because Part A will include some discussion with firms in groups 2 and 3 about the non-PIE audit market.

2.5 Topics and outputs for part B: Non-PIE audit market

As stated earlier, the objective for part B is to investigate the causes behind the declining number of firms in the non-PIE audit market over the last five years¹⁰, the economics of current non-PIE firms, and what the implications may be, whether positive or negative, for choice, competition and quality. Topics to explore may include:

- The factors driving the decline in the number of firms.
- Implications (actual or potential, positive or negative) of the decline in the number of firms for audit quality, choice and competition in the relevant segments of the market.
- Potential barriers to entry and expansion in the non-PIE audit market, including the impact of regulation and regulatory oversight on the non-PIE audit market.
- The economics of supplying audit services in the non-PIE market.

The above list is not intended to be exhaustive. We invite bidders to set out their ideas on the topics to be addressed. The final list of topics will be developed and agreed in collaboration with the FRC at the start of the research project.

2.6 Deliverables

The main product required will be two reports (one for Part A, one for Part B) setting out the evidence gathered, analysis of that evidence and the findings, including some scenarios in relation to firm entry, expansion and exit for the PIE and non-PIE markets in the next 5-10 years. Any data used, including data not directly cited in the main reports, should be delivered to the FRC as digital data appendices (e.g. in Excel format).

We expect the reports to provide specific examples to illustrate the analytical points made, including (anonymised) quotations from firms interviewed. The FRC will also ask to receive transcripts (also anonymised) where interviewees have agreed to this prior to interview.

The FRC may decide to publish the final report, therefore we would expect drafts and the final reports to be written to a publishable standard.¹¹

¹⁰ The FRC will provide six years of historical data including firms that ceased their registration, covering: firm name; location; audit income; total income; number of principals; number of audit clients and RIs.

¹¹ If published, the FRC would arrange document design (at the FRC's expense) in collaboration with the contractor. The contractor would be cited as the author of the work, as appropriate.

The contractor will be responsible for recruiting participant firms for the case studies, interviews, and questionnaires (as appropriate), and for any other method they intend to use. In the event of a lack of engagement from firms, we would expect consultation between the contractor and the FRC to identify ways of overcoming this.

We expect case-study plans, interview topic guides and questionnaires (as appropriate) to be developed by the contractor in collaboration with the FRC's subject matter experts, who will also be required to approve them at each stage.

The following intermediate deliverables will also be required with respect to interviews and questionnaires:

- Details (anonymised, as necessary) of the target interview groups and questionnaire recipients signed-off by the FRC before interviews/questionnaire(s) begin.
- Meeting(s) between the FRC team and the interviewer(s) the contractor will use, during which the interview Topic Guide and questionnaire(s) will be developed.
- A 'dummy run' of at least one interview with each category of firm with senior FRC staff.
- The final Topic Guide to be used in the interviews, signed-off by the FRC before interviews begin.
- The final questionnaire(s) signed-off by the FRC before being sent to participants.
- A presentation to the FRC of initial observations/preliminary findings at suitable mid-points in each work phase so that our input can be acted upon while data collection is ongoing. Likewise a presentation of the preliminary analysis before the first draft of the report is written.
- Contact details of firms/persons who participated in the research where the firm/person has agreed to their details being shared with the FRC.

The following intermediate deliverables will also be required with respect to case studies:

- Details of the proposed case studies.
- Meeting(s) between the FRC and the case study team, during which the case study approach and topics will be developed.
- A case-study plan to be signed-off by the FRC before the case study begins.
- A presentation to the FRC of initial observations/preliminary findings at suitable mid-points in each work phase so that our input can be acted upon while data collection is ongoing. Likewise a presentation of the preliminary analysis before the first draft of the report is written.
- Contact details of firms/persons who participated in the research where the firm/person has agreed to their details being shared with the FRC.

2.7 Liaison arrangements

The FRC team should be consulted on key decisions in the research design and its implementation. This will include regular project progress updates via Microsoft Teams and email.

2.8 High-level project timeline

Part A: PIE audit market

Time	Deliverable / milestone
August 2022	Research approach, questions and methods agreed
August – November 2022	Recruitment of firms and fieldwork
October 2022 – February 2023	Analysis and write-up
End-February 2023	Full first-draft report delivered for FRC comment
End-March 2023	Final report delivered; sign-off

Part B: Non-PIE audit market

Time	Deliverable / milestone
September 2022	Research approach, questions and methods agreed
September – December 2022	Recruitment of firms and fieldwork
November 2022 – March 2023	Analysis and write-up
End-March 2023	Full first-draft report delivered for FRC comment
April 2023	Final report delivered; sign-off

2.9 Cost and financials

The tenderer should provide a fixed fee for the work, exclusive of VAT, inclusive of all expenses. Tenderers should detail their costs in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless the scope materially changes from what is set out / agreed. Changes to the scope / cost of the project must be mutually agreed.

The FRC does not anticipate tender bids over £110,000 excluding VAT

2.10 Your tender response

The proposal should be no more than 12 pages in total, excluding annexes, and include:

- A succinct summary of the proposal.
- Details of the proposed approach. This should include a high-level overview of the data collection strategies, and the analytical approaches to be adopted by the project. Please also address bullet points (i)-(vi) listed on page 5 above.
- Your organisation's experience of similar projects and relevant research capability.

- An estimated timeline of project phases and milestones in sufficient detail to demonstrate realistic planning, and with contingencies where appropriate.
- The arrangements to be put in place for managing this work and quality assuring outputs.
- A budget, including a breakdown of time and costs per activity, in line with the objectives outlined above.
- Details of personnel to be involved, including their role for this project and their relevant experience.
- CVs for the project team should be included in an annex, along with any additional information about your organization that you consider relevant.
- Bids should identify any real or perceived conflicts of interest.

2.11 Tender evaluation

Proposals will be assessed against the following principal criteria:

- (20%) Understanding of our requirement (supported by relevant experience, track record and / or transferrable knowledge).
- (35%) The suitability of the approach (including methodology and management).
- (25%) Experience / relevant experience of the proposed personnel.
- (20%) Pricing / cost of your proposal.

3 References

The FRC reserves the right to take up references. You will be required to provide references in the Tender Response Document. References must be relevant to the FRC requirement and in the last five years

4 Use of ITT & publication

Tenderers **must not** undertake any publicity activity regarding the procurement within any section of the media.

5 Questions & Clarifications

Tenderers may raise questions or seek clarification regarding any aspect of this tender at any time prior to the tender clarification deadline.

Tenderers may raise questions or seek clarification within the timeframe by sending questions to procurement@frc.org.uk in the following format.

Nature of query / clarification	Query / Clarification

The FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

To ensure that all tenderers have equal access to information regarding this tender opportunity, FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

6 Tender process timeline

DATE/TIME	ACTIVITY
20/05/2022	Publication of the Invitation to Tender
27/05/2022 by close of play	Deadline to submit clarification questions
01/06/2022 by 12.00noon	Deadline for publication of responses to clarification questions FRC will endeavour to meet this deadline
27/06/2022 by close of play	Deadline for supplier submission of tender to the FRC.
On 11/07/2022	Shortlisted suppliers advised
Tuesday 26th July 2022	If required: Tender clarification / supplier presentation(s) (with top scoring suppliers). The supplier presentations on will be conducted online/virtually via Microsoft Teams.
On / around 1st August 2022	Tender Outcome
On / around 8th August 2022	Contract Start Date

7 Conduct

The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.

The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.

The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.

The tenderer must not offer any incentive to any member of FRC's staff for doing or refraining from doing any act in relation to the tender.

If the tenderer engages in any of the activities set out in this section or if the FRC considers the tenderer's behaviour is in any way unethical, the FRC reserves the right to disqualify the tenderer from the procurement.

The tenderer represents and warrants that a conflicts of interest check has been carried out, and that check revealed no conflicts of interest.

Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform the FRC and submit proposals to avoid such conflicts.

Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. The FRC is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

8 Due Diligence

While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.

Neither the FRC, nor its representatives, employees, agents or advisers:

- makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the ITT and supporting documents; or
- accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.

It is the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the

Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

9 Submitting a Tender

Tenderers must submit their tender response within the deadline to procurement@frc.org.uk.

Where a Tender Response Template is provided, potential providers must align their tender response with that format.

A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

10 Evaluation

The FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

11 Acceptance of Tender & Notification of Award

The FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

The FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. The FRC also reserves the right to award more than one contract to fulfil the requirement.

The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

Nothing in the documentation provided by the FRC to the tenderer during this procurement or any communication between the tenderer and the FRC or the FRC's representatives, employees, agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally accepted until the successful tenderer has received a formal contract award letter from the FRC.

12 Additional Information

Please use the attached Tender Response Document for your reply.

The Terms and Conditions that will apply to this proposed Agreement are attached. **Suppliers should accept the T&C's with no material changes.**