



**Private and Confidential**

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Our ref: 000147/GCC/GCC00013

Dear Sir

**Choice in the UK Audit Market  
Progress Report and Further Consideration**

We welcome the publication of the above report and are pleased to respond to your request for comments.

As you are aware, BDO Stoy Hayward LLP is the UK member firm of BDO International, the largest international accounting network outside the “Big 4”. In the UK we are one of the two largest firms outside the “Big 4” and audit a number of companies in the FTSE 350 including, in recent years, a FTSE 100 Company. As such we believe we are well placed to contribute to the debate on Competition and Choice in the UK audit market.

We welcome the work of the FRC in facilitating a debate over choice in the UK audit market and we believe that the developments to date have been useful in stimulating debate and in highlighting some of the risks associated with concentration in the audit market. We believe this concentration restricts competition and has led to a premium being charged for certain audits as has been shown by independent research commissioned by us that was conducted by the London School of Economics.

Our main concern is that the developments to date do not address the issue of underlying institutional prejudice that exists within the audit market place characterised by such devices as “Big 4 only” clauses in many financing agreements that act as barriers to entry for firms outside the “Big 4” and which could be addressed for example, in guidance to boards.

We comment on the discussion topics as follows:



**Changes to audit firm ownership rules**

We do not consider that changes to audit firm rules are required in order for firms to access sufficient finance to fund growth.

It is unlikely that a step change could be achieved by an existing audit firm obtaining capital from investors without there being fundamental changes to the prejudice that exists in the market place.

In our experience it is not the availability of funds that causes issues but the ability to attract new clients in the sector of the market dominated by the "Big 4" accounting firms. We have concerns that if a firm were to grow using external funds then the cost of servicing that capital would reduce the returns available to equity partners and limit the ability to attract and retain partners and staff of sufficient quality consequently limiting growth.

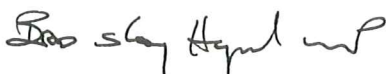
**Draft guidance on use of firms from more than one network**

We believe that there are appropriate circumstances when a group could and should use audit firms from more than one network, for example when a different local firm has capabilities more suited to the local market.

On the subject of joint auditors we do not believe there would be many circumstances where these arrangements would be cost effective or sustainable for the long term.

If you have any questions or wish to discuss any issues arising from our response please contact Graham Clayworth.

Yours faithfully



BDO Stoy Hayward LLP