



FINANCIAL REPORTING COUNCIL

CHOICE IN THE UK AUDIT MARKET

FOURTH PROGRESS REPORT

OCTOBER 2009

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One Introduction and Background

This document is the fourth Progress Report on the implementation of the recommendations of the Market Participants Group (MPG)¹ and on other UK and international developments relevant to choice in the UK audit market.

In October 2006 the FRC established the MPG, which consisted of investors, companies and audit firms, to provide advice on actions that market participants could take to mitigate the risks arising from concentration in the market. The establishment of the MPG was a result of the preference for market-led solutions expressed by respondents to a discussion paper issued by the FRC in May 2006.

In October 2007, the MPG published 15 recommendations intended to allow the audit market to work more efficiently and, in the medium-to-long-term, to have a positive impact on audit choice in the UK. The recommendations included supply-side measures intended to encourage non-Big Four² firms to offer audit services to large public interest entities and demand-side measures, making boards more accountable to shareholders and reducing the perceived risks to directors who choose a non-Big Four auditor. In addition, the MPG made recommendations on the need to mitigate the risk of a major audit firm leaving the market, and to minimise disruption might be minimised in the event that this were to happen.

The FRC committed to report every six months on progress in implementing these recommendations; previous Progress Reports were published in May 2008, November 2008 and May 2009.

This document includes:

- a review of developments subsequent to the third Progress Report;
- an update on the implementation of the MPG's recommendations;
- a summary of current and previous market concentration statistics; and
- an outline of likely or potential next steps.

¹ See Appendix 1 for a full list of the MPG Recommendations

² The Big Four audit firms are: Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers

Two Key Developments

Introduction

This section includes a review of relevant developments in the UK and internationally.

Developments in the UK

Audit Firm Governance Code

Recommendation 14 in the MPG Report stated that “Every firm that audits public interest entities should comply with the provisions of a Combined Code-style best practice governance guide or give a considered explanation”. In response to this, in 2007 the ICAEW set up a working group under the chairmanship of Norman Murray to develop such a governance code.

A second consultation paper, featuring a draft governance code, was published in July 2009 following an earlier consultation exercise. The draft code is aimed at firms which audit more than 20 public interest entities. It follows the Combined Code’s “comply or explain” approach.

One of the draft code’s key features is the appointment of independent non-executives. It is envisaged that these non-executives will encourage dialogue with stakeholders; increase stakeholder confidence in the public interest aspects of the firm’s decision making; and manage reputational risks.

The code contains a number of other provisions around risk management and compliance, people management, leadership and whistleblowing.

It is anticipated that firms will detail their compliance with the code, or explanation as to why it is not being followed, in their transparency reports.

The deadline for comments on the draft code was 10 October 2009 and a final version of the code is expected to be published later in 2009.

Ethical Standards

Recommendation 11 in the MPG Report stated that “authorities with responsibility for ethical standards for auditors should consider whether any rules could have a disproportionately adverse impact on auditor choice when compared to the benefits to auditor objectivity and independence”.

In the original MPG Report rules, the five year rotation period for audit partners on listed company audits was identified as a potential barrier to increased participation by non-Big Four firms in the audit market for large listed companies. As reported in the Third Progress Report, the Auditing Practices Board (APB) began in March 2009 a consultation on changes to the Ethical Standards which, amongst other things, would have allowed for the extension of the rotation period of the audit engagement partner on listed company audits from five to seven years, provided certain safeguards

are in place. The consultation closed in June 2009. In October 2009, a revised Ethical Standard was published, allowing audit committees in certain limited circumstances to extend an engagement partner's rotation period from five to seven years, if they are satisfied that this is necessary to safeguard audit quality.

More recently, the FRC has received feedback from some market participants that a complete ban on firms providing non-audit services to their audit clients may increase choice in the audit market, as the Big Four may choose not to tender for certain audits, preferring to retain existing contracts for non-audit work. In May 2009 the House of Commons Treasury Committee published its report on the banking crisis³. Although the report concluded that there was no evidence that auditors had failed to fulfil their duties in respect of the audits of the failed banks, it raised concerns regarding auditor independence. The Committee recommended that the APB consult on whether firms should be prohibited from providing non-audit services to their audit clients. The APB launched a consultation on this in October 2009, with a deadline for responses of January 2010.

Ownership of law firms

Recommendation 1 in the MPG Report stated that "The FRC should promote wider understanding of the possible effects on audit choice of changes to audit firm ownership rules, subject to there being sufficient safeguards to protect auditor independence and audit quality".

The legal profession has for many years been subject to similar ownership restrictions as those imposed on audit firms. The position is about to change following the enactment of the Legal Services Act 2007. In May 2009 the Legal Services Board (LSB) published a consultation document⁴ on developing a regulatory regime for alternative business structures in the legal market. The document discusses a number of alternatives to the traditional partnership model, and suggests greater flexibility in the way law firms are managed, such as allowing non-lawyers to access senior roles within such firms. The consultation closed in August 2009.

Although there are major differences between the markets for audit and for legal services – in particular, the latter is not especially concentrated – there may be lessons to be learned for the audit market, especially in relation to whether the ownership restrictions in the Statutory Audit Directive should be relaxed. The FRC will continue to monitor developments in the ownership of law firms.

Transparency reports

Recommendation 5 in the MPG Report stated that "The FRC should continue in its efforts to promote understanding of audit quality and should promote greater transparency by the firms and the FRC of the capabilities of individual audit firms".

As reported in the Third Progress Report, seven of the ten largest audit firms⁵ have published, on a

³ House of Commons Treasury Committee; 'Banking crisis: reforming corporate governance and pay in the City', May 2009

⁴ Legal Services Board, 'Wider access, better value, strong protection', August 2009

⁵ BDO Stoy Hayward, Deloitte, Ernst & Young, Grant Thornton, KPMG, Mazars and PricewaterhouseCoopers

voluntary basis, transparency reports for 2007/8. The Professional Oversight Board (POB) published the results of its review of these in May 2009. The review found that the reports included some useful information, but that firms could do more to provide detail on internal governance structures and their use of the Audit Quality Framework.

There is now a statutory requirement for transparency reports⁶ and the POB plans to publish the results of its review of the first set of these next year.

Audit proposals project

Recommendation 5 in the MPG Report stated that “The FRC should continue in its efforts to promote understanding of audit quality and should promote greater transparency by the firms and the FRC of the capabilities of individual audit firms”.

The POB is currently carrying out an exercise to, amongst other things, understand how auditors and audit committees demonstrate and assess audit quality in a tendering process. This exercise includes a review of recent audit proposals for a selection of listed companies and interviews with some of those companies’ audit committee chairmen. The POB will publish a short paper detailing common themes arising from the exercise by the end of 2009.

Restrictions in loan covenants

Recommendation 9 in the MPG Report stated that “When explaining auditor selection decision, Boards should disclose any contractual obligations to appoint certain types of auditing firms”.

This recommendation was included in the FRC’s Guidance to Audit Committees. As this came into effect only for financial years beginning on or after 29 June 2008, it is too early to determine how widespread such obligations are; however, the FRC continues to receive examples of banks imposing loan covenants with “Big Four only” clauses, including one which imposed a higher rate of interest if the borrowing company chose a non-Big Four auditor. From 2010 the FRC will monitor disclosures made by companies who follow this guidance.

Changes in market concentration

Appendix 2 shows changes in market concentration from 2006 to August 2009. Since that date the market has seen a slight increase in the number of FTSE 350 companies with non-Big Four auditors, although looking at the latest figures compared with those in February 2009, it is possible that this trend may now have stalled. Subsequent to August 2009, the FRC is aware of at least one FTSE 350 company which has changed from a non-Big Four auditor to a Big Four firm.

Non-Big Four firms remain strong in AIM and to a lesser extent in the FTSE Small Cap and Fledgling indices.

⁶ Statutory Auditors (Transparency) Instrument, 2008

International developments

Publication of summary of responses to European Commission consultation on ownership

MPG Recommendation 1 stated that “The FRC should promote wider understanding of the possible effects on audit choice of changes to audit firm ownership, subject to there being sufficient safeguards to protect auditor independence and audit quality”. There are concerns that the current rules on ownership make it more difficult for new or growing firms to raise sufficient capital to compete for the audits of the largest companies. Currently, the Statutory Audit Directive requires all firms registered to conduct statutory audits in the EU to be controlled by individuals who are themselves eligible for appointment as auditors.

In July 2009 the European Commission (EC) published the results of its consultation on ownership and control structures within audit firms. The consultation followed an earlier report by Oxera on the subject for the EC.

Although there was no overall consensus among respondents for change to the current ownership rules, with only 43% expressing a clear preference for change and 33% being undecided, all of the investors who responded were in favour of competing models of ownership. A number of respondents expressed concerns that the involvement of external investors could have negative effects on audit quality and independence, and stressed the importance of appropriate measures to safeguard against this.

Most respondents agreed that, although current ownership models provide a useful route to rewarding and remunerating talented staff, it should be possible to provide appropriate rewards under alternative ownership models.

At this stage the EC has not committed to making any changes to the Statutory Audit Directive’s rules on ownership, but has stated that it will consider what actions should be taken at EU level to encourage new market players, whilst ensuring that auditors’ independence and audit quality are not undermined.

IOSCO consultations

In September 2009 the International Organisation of Securities Commissions (IOSCO) launched three consultations relating to audit firms:

- ‘Exploration of non-professional ownership structures for audit firms’
- ‘Transparency of firms that audit public companies’
- ‘Auditor communications’

All of these papers have implications for the audit choice project. The consultations close in January 2010 and the FRC encourages interested parties to respond to the consultations.

Three Next Steps

In its 2009/10 Plan the FRC noted that one of the most important risks which was of concern to it was the significant uncertainty and cost which could arise in the event that one or more of the Big Four audit firms left the market. The FRC also noted that, regardless of the actions taken by market participants, this was likely to remain significant in the medium to long term. The majority of the MPG Recommendations have now been implemented but have not had time to impact significantly on this risk. It remains to be seen whether market-led actions will prove to be sufficient to reduce this risk to an acceptable level.

Over the next 18 months the FRC intends to carry out a number of projects looking at the effect of implementation of the recommendations on choice in the UK audit market. In particular, the FRC and its operating bodies plan to monitor:

- the extent to which listed companies are following the disclosure recommendations included in the revised Guidance to Audit Committees;
- the level of non-Big Four representation on regulatory and professional bodies;
- transparency reporting by the larger audit firms;
- the effectiveness of arrangements allowing successor auditors access to the previous auditor's working papers; and
- changes in market concentration.

On an international level, discussions on ownership rules, limitation of liability and consistency of regulation are anticipated to continue.

The FRC will report on developments over the coming six months in the next Progress Report, which is expected to be published in May 2010.

Appendix 1 Progress on MPG Recommendations

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. The FRC should promote wider understanding of the possible effects on audit choice of changes to audit firm ownership rules, subject to there being sufficient safeguards to protect auditor independence and audit quality.</p> | <p>FRC issued discussion paper on the possible effects on audit choice of changes to audit firm ownership rules in Q2 2008.</p> <p>FRC has used this discussion paper to influence legislative change in the EU and US.</p> <p>European Commission published responses to consultation paper on changes to ownership restrictions in July 2009.</p> <p>Issue of IOSCO consultation paper on ownership structures in audit firms in September 2009</p> <p>Publication of Legal Services Board paper on regulation of alternative business structures in the legal profession.</p> | <p>None. Changes to ownership rules have not yet been made</p> | <p>EC to decide whether to take steps to change ownership rules</p> <p>FRC to monitor developments abroad and to continue to influence legislative change in the EU and US</p> <p>FRC to consider whether there are any lessons for the audit profession</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <p>2. Audit firms should disclose the financial results of their work on statutory audits and directly related services on a comparable basis.</p> | <p>CCAB Guidance for the Voluntary Disclosure of financial results issued on 27 March 2009 following earlier consultation.</p> <p>Voluntary adoption by major firms for accounting periods from 6 April 2009</p> | <p>None. Due date for publication of additional information has not yet passed.</p> | <p>FRC to monitor extent to which firms choose to disclose this information during 2010-11.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| <p>3. In developing and implementing policy in auditor liability arrangements, regulators and legislators should seek to promote audit choice, subject to the overriding need to protect audit quality.</p> | <p>Under Sections 534 to 538 of the Companies Act 2006, which came into force on 6 April 2008, auditors are able to negotiate with clients to limit liability by contract to an amount that is “fair and reasonable in all circumstances.”</p> <p>The FRC established an independent working group to produce Guidance to directors on the use of agreements to limit the liability of auditors of companies. The final Guidance was published in June 2008.</p> <p>In June 2008, the European Commission issued a Recommendation to Member States asking them to limit auditor liability.</p> | <p>None. No major listed companies are known to have entered into a limited liability agreement.</p> | <p>FRC to monitor take-up of agreements and developments in the EU and US.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>4. Regulatory organisations should encourage participation on standard setting bodies and committees by appropriate individuals from different sizes of audit firms.</p> | <p>The FRC agreed to review its policies on membership of its boards and committees and the new FRC Board that came into being on 1 November 2007 undertook to comply with the relevant principles and provisions of the Combined Code. Since then two individuals from non-Big Four firms have been appointed to the boards of FRC operating bodies.</p> <p>The FRC sent this recommendation to International Auditing and Assurance Standards Board, and member bodies of the Consultative Committee of Accountancy Bodies.</p> <p>The Policy and Regulatory Group has for the first time appointed a chairman from outside the Big Four.</p> <p>In its call for nominations for IFAC Boards and Committees, issued in February 2009, IFAC included tables setting out the professional diversity of each of its Boards and Committees. Nominating organisations are encouraged to consider how their candidates would strengthen the professional diversity of the relevant Board or Committee.</p> | <p>Limited progress.</p> | <p>Non-Big Four firms to put forward candidates for standard-setting bodies and committees.</p> <p>FRC to monitor levels of non-Big Four representation on regulatory and professional bodies</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
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| <p>5. The FRC should continue in its efforts to promote understanding of audit quality and should promote greater transparency by the firms and the FRC of the capabilities of individual audit firms.</p> | <p>The FRC published the Audit Quality Framework in February 2008 and subsequently reviewed a selection of audit committee reports to see to what extent they reflected the Framework.</p> <p>In April 2008 the POB published regulations requiring auditors of public interest entities to publish annual transparency reports and setting the minimum requirements such reports must meet.</p> <p>In December 2008 the AIU published for the first time reports on the results of inspections of individual audit firms.</p> | <p>Moderate progress. Although there is little evidence that audit committees are referring directly to the Framework, most reports reviewed reflected some elements of it.</p> <p>Seven of the ten largest firms chose to publish transparency reports on a voluntary basis. The POB reviewed the transparency reports of the largest six firms and published the results on its website in May 2009.</p> | <p>The FRC plans to update the Framework in 2010.</p> <p>The FRC will continue to monitor audit committee reports.</p> <p>POB to carry out a review of the first set of compulsory reports next year.</p> <p>A second set of reports is due to be published in November 2009.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <p>6. The auditing profession should establish mechanisms to improve access by the incoming auditor to information relevant to the audit held by the outgoing auditor.</p> | <p>The Joint Audit Committee (JAC) of the Institute of Chartered Accountants in England & Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS) and the Institute of Chartered Accountants in Ireland (ICAI) published new Audit Regulations and Guidance allowing successor auditors access to working papers of the predecessor auditor.</p> | <p>Limited progress. The FRC has received anecdotal evidence which indicates that firms are following the guidance. No formal monitoring has yet taken place</p> | <p>Firms to follow new arrangements.</p> <p>AIU to consider effectiveness of arrangements in 2010-11.</p> |
| <p>7. The FRC should provide independent Guidance to Audit Committees and other market participants on considerations relevant to use of firms from more than one audit network.</p> | <p>FRC published Guidance to Audit Committees in October 2008.</p> | <p>None. It is too early to judge whether this has had any impact as disclosure recommendations apply to financial years beginning on or after 29 June 2008</p> | <p>FRC to review and monitor in 2010-11 the extent to which market participants use firms from more than one network.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| <p>8. The FRC should amend the section of the FRC Guidance to Audit Committees dealing with communications with shareholders to include a requirement for the provision of information relevant to the auditor re-selection process.</p> | <p>The FRC issued its revised Guidance to Audit Committees in October 2008</p> | <p>None. It is too early to judge whether this has had any impact as disclosure recommendations apply to financial years beginning on or after 29 June 2008</p> | <p>FRC to review use of revised guidance in 2010.</p> |
| <p>9. When explaining auditor selection decision, Boards should disclose any contractual obligations to appoint certain types of auditing firms</p> | <p>Included in the FRC Guidance to Audit Committees above.</p> | <p>None. It is too early to judge whether this has had any impact as disclosure recommendations apply to financial years beginning on or after 29 June 2008</p> | <p>FRC to review use of revised guidance in 2010.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <p>10. Investor groups, corporate representatives, firms and the FRC should promote good practices for shareholder engagement on auditor appointment and re-appointments.</p> | <p>The National Association of Pension Funds (NAPF) published Corporate Governance Policy and Voting Guidelines November 2007. The Guidelines encourage companies to consider submitting the audit function to periodic tender and disclose their policy on this matter, including when the audit was last subject to tender.</p> <p>The Guidelines also encourage improved disclosure on the auditor re-selection decision and disclosure of any contractual obligations to appoint audit firms.</p> | <p>None. It is too early to judge whether this has had any impact.</p> | <p>FRC to monitor levels of disclosure and also number of audit tenders by listed companies resulting in a change of auditor</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <p>11. Authorities with responsibility for ethical standards for auditors should consider whether any rules could have a disproportionately adverse impact on auditor choice when compared to the benefits to auditor objectivity and independence.</p> | <p>The Auditing Practices Board (APB) published revisions to the Ethical Standards, including changes to audit partner rotation rules, in October 2009.</p> <p>Following the Treasury Committee recommendation, in October 2009 the APB initiated a consultation on banning the provision of all non-audit services by auditors</p> <p>FRC sent recommendation to the International Ethics Standards Board for Accountants and SEC.</p> | <p>Moderate progress. Awareness amongst standard-setting bodies of impact of standards on choice has been raised.</p> | <p>Firms to follow revised Ethical Standards.</p> <p>Market participants to respond to consultation document.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| <p>12. The FRC should review the Independence section of the FRC Guidance on Audit Committees to ensure that it is consistent with the relevant ethical standards for auditors.</p> | <p>The FRC issued its revised Guidance on Audit Committees in October 2008.</p> | <p>None. It is too early to judge whether this has had any impact as disclosure recommendations apply to financial years beginning on or after 29 June 2008.</p> | <p>FRC to review use of revised guidance in 2010.</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| <p>13. Regulators should develop protocols for a more consistent response to audit firm issues based on their seriousness.</p> | <p>FRC and its operating bodies to review policies on regulatory penalties and publish for discussion outline details of any proposed changes.</p> <p>The FRC has initiated a discussion on oversight of the global audit networks with its counterparts in other major jurisdictions.</p> | <p>None. Proposals on regulatory penalties have not yet been developed</p> | <p>FRC to continue discussions with counterparts in other jurisdictions.</p> <p>Discussions to continue</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <p>14. Every firm that audits public interest entities should comply with the provisions of a Combined Code-style corporate governance guide or give a considered explanation.</p> | <p>The ICAEW published its draft governance Code for auditors of public interest entities in July 2009</p> | <p>None. Final version of Code has yet to be published.</p> | <p>ICAEW to finalise governance Code</p> <p>Firms to comply with Code or explain why not in their Transparency Reports</p> |

| MPG recommendation | Implementation progress to date | Degree of impact on risks | Next steps |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 15. Major public interest entities (PIEs) should consider the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning. | Revised FRC Guidance On Audit Committees published in October 2008. | None. It is too early to judge whether this has had any impact as disclosure recommendations apply to financial years beginning on or after 29 June 2008. | FRC to review use of revised guidance in 2010. PIEs to consider contingency arrangements. |

Appendix 2 – Market concentration statistics

| AUDITOR | FTSE 100 | | | | FTSE 250 | | | |
|--------------------------------------------|----------|--------|--------|--------|----------|--------|--------|--------|
| | AUG 09 | FEB 09 | FEB 08 | NOV 06 | AUG 09 | FEB 09 | FEB 08 | NOV 06 |
| NUMBER OF COMPANIES | 100 | 100 | 100 | 100 | 250 | 250 | 250 | 250 |
| | % | % | % | % | % | % | % | % |
| PRICEWATERHOUSECOOPERS | 41 | 40 | 39 | 42 | 27.6 | 25.7 | 29.0 | 31.2 |
| KPMG | 25 | 22 | 23 | 22 | 21.2 | 23.3 | 19.6 | 22.7 |
| DELOITTE | 21 | 24 | 21 | 18 | 25.6 | 24.9 | 29.0 | 24.3 |
| ERNST & YOUNG | 15 | 13 | 16 | 17 | 19.6 | 19.6 | 18.4 | 18.6 |
| BDO STOY HAYWARD | 1 | 1 | 0 | 0 | 2.8 | 2.4 | 2.0 | 2.0 |
| GRANT THORNTON⁷ | 0 | 0 | 0 | 0 | 2.4 | 2.9 | 2.0 | 0.4 |
| PKF | 0 | 0 | 0 | 0 | 0 | 0.4 | 0 | 0 |
| BAKER TILLY | 0 | 0 | 0 | 0 | 0.4 | 0.4 | 0 | 0 |
| HORWATH CLARK WHITEHILL⁸ | 0 | 0 | - | - | 0 | 0 | - | - |
| OTHERS | 0 | 0 | 0 | 0 | 0.4 | 0.4 | 0 | 0.8 |
| NON BIG FOUR SHARE | 1% | 1% | 0% | 0% | 6% | 6.5% | 4% | 3.2% |

Based on Hemscott Corporate Advisers Rankings Guide with the agreement of Hemscott, a Morningstar company. The August 2009 FTSE 100 figures add up to 103 because one company (WPP plc) reported that it retained four audit firms. In addition, one company in the FTSE 100 had not confirmed its auditor in time for the February 2008 guide. Figures include UK, Gibraltar and Channel Island domiciled companies. Table shows percentages except where otherwise stated.

⁷ Grant Thornton merged with Robson Rhodes on 1 July 2007. November 2006 figures show Robson Rhodes clients under “Others”

⁸ Horwath Clark Whitehill included from February 2009 onward as it is subject to a full scope AIU inspection. Previous figures show Horwath Clark Whitehill clients under “Others”

| AUDITOR | FTSE SMALL CAP / FLEDGLING | | | | AIM | | | |
|---------------------------------------------|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | AUG 09 | FEB 09 | FEB 08 | NOV 06 | SEP 09 | FEB 09 | FEB 08 | NOV 06 |
| NUMBER OF COMPANIES | 425 | 438 | 522 | 542 | 1156 | 1270 | 1390 | 1132 |
| | % | % | % | % | % | % | % | % |
| PRICEWATERHOUSECOOPERS | 21.9 | 22.4 | 22.2 | 23.1 | 11.3 | 11.2 | 11.1 | 9.8 |
| KPMG | 21.2 | 19.6 | 19.9 | 19.7 | 14.9 | 14.9 | 13.4 | 13.3 |
| DELOITTE | 18.8 | 18.9 | 17.3 | 18.1 | 10.6 | 10.0 | 9.9 | 9.6 |
| ERNST & YOUNG | 17.6 | 19.2 | 21.3 | 19.9 | 8.1 | 8.3 | 9.1 | 7.2 |
| BDO STOY HAYWARD | 3.5 | 3.4 | 2.9 | 3.3 | 11.6 | 10.7 | 10.5 | 11.8 |
| GRANT THORNTON⁹ | 9.4 | 9.4 | 8.2 | 2.6 | 17 | 16.5 | 16.0 | 13.8 |
| PKF | 1.2 | 1.1 | 1.7 | 1.3 | 4.2 | 4.4 | 3.7 | 4.1 |
| BAKER TILLY | 1.2 | 1.1 | 1.1 | 2.2 | 7.0 | 7.1 | 7.9 | 8.7 |
| HORWATH CLARK WHITEHILL¹⁰ | 0.2 | 0.2 | - | - | 1.0 | 1.0 | - | - |
| OTHERS | 5.0 | 4.7 | 5.4 | 9.8 | 14.3 | 16.1 | 18.4 | 21.7 |
| NON BIG FOUR SHARE | 20.5% | 19.9% | 19.3% | 19.2% | 55.1% | 55.7% | 56.5% | 60.1% |

Based on Hemscott Corporate Advisers Rankings Guide with the agreement of Hemscott, a Morningstar company. Figures for FTSE FTSE Small Cap / Fledgling include UK, Gibraltar and Channel Island domiciled companies. Figures for AIM include UK domiciled companies. Table shows percentages except where otherwise stated.

⁹ Grant Thornton merged with Robson Rhodes on 1 July 2007. November 2006 figures show Robson Rhodes clients under “Others”

¹⁰ Horwath Clark Whitehill included from February 2009 onward as it is subject to a full scope AIU inspection. Previous figures show Horwath Clark Whitehill clients under “Others”



FINANCIAL REPORTING COUNCIL
5TH FLOOR
ALDWYCH HOUSE
71-91 ALDWYCH
LONDON WC2B 4HN
TEL: +44 (0)20 7492 2300
FAX: +44 (0)20 7492 2301
WEBSITE: www.frc.org.uk

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Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.