

# Barriers to entry and growth in the audit market



As the UK's Audit Regulator, the FRC remains committed to creating a more resilient audit market through greater competition and choice, and above all ensuring that our work in this area promotes the highest standards of audit quality.

While the FRC continues to play an important role to achieve this objective, we must recognise that a cross-system approach is required to ensure greater choice for businesses, opportunities for auditors entering the workplace, and resilience for the audit market.

To support this, in 2022 the FRC commissioned research into audit firms' entry, growth and exit from the Public Interest Entity (PIE) and non-PIE audit markets. This research identified a number of barriers to entry and growth within the PIE and non-PIE audit market, resulting in limited choice for those companies operating as PIEs.

## Recruitment and retention of experienced and specialist staff

- Significant training costs
- Ability to recruit experienced staff
- Staffs lack of appetite to engage in audit work
- Expectation gap in understanding of statutory audit

## Opportunities in non-audit services

- Lucrative opportunities and development in non-audit work
- Broad range of clients available outside of audit
- Audit not as profitable as other services

## System-wide barriers to entry and growth in the PIE and non-PIE audit markets

### Regulatory framework

- Greater degree of regulatory supervision and requirements
- Complexity of standards and oversight
- Significant expertise required by auditors

### Increased risk and liability tied to audit

- Perceived personal liability risk tied to complex 'risky' audits
- Reputational risk for firms taking on complex audits
- Financial investment required to compete

# How we can tackle this together...

## The role of the FRC

Over the last year, the FRC has taken steps to address these barriers and promote greater choice and quality across the audit market. Most notably, launching the audit firm Scalebox. This initiative provides smaller audit firms with the opportunity to engage with the FRC in a safe space in order to better understand regulatory requirements with a view to improve audit quality and grow their capabilities and presence in the PIE audit market. Additionally, we have introduced a minimum standard for audit committees that aims to support the delivery of high-quality audits and provides audit committees with clear expectations, establishing standards for areas that have clear impact on audit market competition and resilience such as audit tendering. Looking to the future, the FRC has set out our intention to conduct market studies and is also developing an Audit Market Monitoring function. These will further develop our understanding of challenges experienced across the audit market – supporting our continued work geared towards promoting greater choice and market resilience.

## The role of the professional bodies

Alongside the firms, the professional accountancy bodies have an important role to play in tackling the capacity challenges that are present at all levels of the audit market. The bodies should continue to take steps to attract new accountants to the audit profession, communicating the valued role audit plays in maintaining the reputation of the UK as a world leading financial centre. The professional bodies also play a crucial role in maintaining standards of audit quality in the non-PIE audit market. Ensuring that smaller audit firms deliver high-quality audits gives the market confidence in their ability to compete for larger more complex audits. Additionally, the professional bodies hold an important role alongside the FRC, in delivering high-quality audit education that will support the professional development of auditors and aim to retain them within the audit sector.

## The role of the firms

Throughout the research, capacity constraints driven by the recruitment and retention of staff were identified as a key barrier to greater choice within both the PIE and non-PIE audit markets. To tackle capacity constraints, there is need for the firms to take steps to attract new staff and retain existing staff. As shown through our research, respondents recognise that growth opportunities are available for both firms and individual staff stepping into the PIE and non-PIE audit market. However, recruitment and retention of staff within the audit sector relies on building a strong audit firm culture that celebrates audit by highlighting not only the important role of audit in protecting the UK public interest, but also the varied opportunities and interesting work available to auditors. This is an important area where firms can play a role in building the attractiveness of the audit profession.

## The role of Government

Beyond the work of the FRC, the firms, and the bodies, the Government still play an important role in promoting competition and delivering policy that will support an effective and resilient audit market.

The FRC remains committed to the delivery of better regulation that will encourage competition, innovation, and above all, a well-functioning audit market.

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