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Business and Trade Committee
House of Commons
Westminster
London
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Dear Committee members

I would like to extend my thanks to the Business and Trade Committee and its Chair, Liam Byrne, for the opportunity to contribute to the oral evidence session on 26 March on behalf of BDO. The session was an important reminder of the progress we have seen to date, while also underlining the need for further government intervention to continue to advance reforms to the UK audit market.

To build on some of the points discussed, please note further context below regarding BDO's market position and the shape we believe this reform should take.

As the largest audit firm outside of the "Big Four", with a gross UK revenue of £935m, BDO's 3,000-people-strong independently sustainable audit practice is currently double the size of its nearest competitor, generating revenues of £400m in FY 2023. We now audit 10 per cent of the FTSE250, with our share increasing steadily over the last five years from four mandates in 2019 to 25 today. While this growth is indicative of a recent market shift to open competition, the pace of change has now lost momentum as many of the Competition and Markets Authority and Kingman's recommendations have been left adrift.

BDO is continuing to make significant investments so we are able to conduct more complex audits, but our growth remains gradual and responsibly managed so that quality isn't compromised. For this reason, we are increasingly discerning about which entities we pitch for and only accept requests to tender when we know we have the requisite resources to deliver. It would be very difficult for any audit firm to be credible operating at the upper end of the FTSE100 without having built a platform in the FTSE250 first - and we know this takes time.

Just as different parts of the FTSE350 market function differently, the "challenger firm" label is also overly simplistic due to the significant differences in capability and capacity of the non-Big Four firms. This is one of the many reasons managed shared audits (MSA) would be difficult to implement. Compounding this, it would create inefficiencies including the duplication of work and further fee increases. Our preference is therefore for the government's "fall-back" option of market share caps, which is the most practical method available to achieve impactful change in a responsible way and within a realistic timescale.

If MSAs are pursued, we will of course play a constructive part in their delivery, however smaller firms must be given a meaningful share of a given audit. The concern otherwise is that we simply lock in the existing market structure, with a Big Four top tier and minor support act challenger tier.

I appreciate what constitutes a "meaningful" share will differ depending on the size and ambitions of each challenger firm. For BDO, it means a material segment of the UK audit work with proper access to the UK board and Non-Executive Directors, as opposed to the audit of a minor overseas subsidiary, for example. In addition, given we already act as the sole auditor to 10 per cent of the FTSE250, the proposed challenger firm exemption would be an essential mechanism to enable us to continue to develop our credentials in this space.



As highlighted by my fellow panellists, I would also like to reinforce the importance of including wider corporate governance reforms. To avoid another Carillion, all market participants concerned with the preparation of financial statements should take responsibility for their respective roles. It has been disappointing to see many proposals relating to internal controls, such as the directors' annual attestation, be completely abandoned. Well publicised problems regarding "orphaned" audits also reinforce the need for legislative reforms to address wider corporate governance issues.

Proportionality is key. A careful balance therefore needs to be struck to avoid overburdening businesses with onerous compliance costs, and to ensure disproportionate legislation doesn't stifle competition by discouraging smaller audit firms from stepping up. It is quite feasible that many auditors will retreat from the PIE market, thereby limiting choice, if the associated costs and risks outweigh the benefits of investing in this space. In our view, the regulatory and legislative burden imposed on smaller market entrants will be crucial in determining the long-term success of measures introduced to increase competition, choice and resilience - and this must be carefully managed to ensure barriers to entry are broken down without compromising audit quality.

Your sincerely

A handwritten signature in black ink that reads 'Scott Knight'. The signature is written in a cursive style with a long horizontal stroke at the end.

Scott Knight
Head of Audit & Assurance
For and on behalf of BDO LLP