Financial Reporting Council

Competition and Markets Authority
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Strategic Review of Market Remedies – Statutory Audit Services Order 2014

The Financial Reporting Council (FRC) welcomes the opportunity to respond to the Competition and Market Authority (CMA)'s strategic review of market remedies in our role as the Competent Authority for audit in the UK, serving the public interest in the statutory audit services market and supporting UK economic growth.

Our response focuses on the remedy included in the strategic review relating to the Statutory Audit Services Order 2014 ('the Order'). The Order was introduced following the Competition Commission (CC)'s statutory audit market investigation from 2011-13. The Order sought to increase competition by requiring FTSE 350 companies to run a competitive tender for their audit at least every ten years, enhance transparency through earlier disclosure of tendering plans, and strengthen the role of the audit committee by assigning it responsibility for key aspects of the auditor appointment process.

In our view, there have been significant changes since the CC's investigation and the introduction of the Order that mean the Order can now be removed. In line with the CMA's strategic review consultation document, we consider the relevant changes of circumstances that apply in this instance relate to the regulatory landscape and market developments.

Regulatory landscape

Since the Order was introduced, the regulatory framework governing FTSE 350 auditor appointments has evolved considerably. The key features of the Order (regular tendering, limits on auditor tenure, and audit committee responsibility for auditor appointments) are now embedded within (a) assimilated law in the Audit Regulation[1], (b) Chapter 2 of Part 16 of the Companies Act 2006, https://www.legislation.gov.uk/uksi/2019/177/contents, (c) the UK

[1] The assimilated version of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, which is now part of UK law by virtue of the European Union (Withdrawal) Act 2018 and the Retained EU Law (Revocation and Reform) Act 2023. References to the Audit Regulation in this response are to the assimilated version of the Audit Regulation.

Corporate Governance Code, and/or (d) the FRC's Audit Committee Minimum Standard, all of which apply to FTSE 350 companies. Although the current regulatory framework sets out clear expectations and requirements with regards to audit tendering by FTSE 350 companies, not all requirements are legally binding, with some operating on a voluntary basis.

These requirements are supported by ongoing FRC oversight across governance reporting, audit quality and enforcement. Our monitoring plus the strengthened regulatory framework means the objectives and provisions of the Order are now delivered through other instruments, and the Order is no longer needed as a standalone remedy.

Market developments

Since the CC's investigation and the introduction of the Order there have been some noticeable changes in how the audit market operates. Audit quality at the larger end of the market has improved in recent years as firms operating in this space have invested in people and quality management systems. There has been a steady increase in the market share of PIE and FTSE 350 audit engagements among non-Big Four audit firms. There has been a general reduction in the length of auditor tenures among FTSE 350 companies over the mandatory rotation threshold of ten years. The CC reported in 2013 that 67% of FTSE 100 companies and 52% of FTSE 250 companies had an auditor with a tenure of more than ten years. In 2024, this proportion had decreased to 19% for FTSE 100 companies and 18% for FTSE 250 companies.

We have provided additional evidence on the relevant changes in the regulatory landscape and market developments in the annex to this letter.

Taken altogether, the changes to the regulatory landscape and the market developments demonstrate the Order no longer remains necessary and can be removed.

We look forward to hearing the outcomes of the CMA's review in due course. In the meantime, we would be happy to discuss further and provide any additional information, if required.

Yours faithfully,

Miranda Craig
Director of Strategy & Change

Annex – additional evidence

More detail on relevant regulatory developments

The Audit Regulationhttps://www.legislation.gov.uk/uksi/2019/177/contents imposes prescriptive and comprehensive requirements on statutory auditors, Public Interest Entities (PIEs)[2] and the FRC as the competent authority for audit in the UK, and applies to FTSE 350 companies by virtue of their PIE status. In particular, the Audit Regulation requires a competitive tender/selection process (Article 16[3]), limits audit engagement duration to 10 years with limited extension possibilities (Article 17[4]), and mandates audit committee oversight of the appointment process (Article 16). These provisions mirror or exceed the tendering and rotation obligations in the Order.

The FRC's Audit Committee Minimum Standard sets out provisions comparable to requirements within the Order. In particular, it requires audit committees to negotiate terms of engagement with the auditor, exercise responsibility for audit tender oversight, and report transparently on auditor tenure and future tendering plans in the annual report. FTSE 350 companies must apply the Principles of the UK Corporate Governance Code ('the Code') and report on the Code's Provisions on a comply-or-explain basis under the FCA Listing Rules[5]; these requirements already shape audit committee behaviour in practice.

Provision 25 of the Code provides, amongst other things, that audit committees should follow the Audit Committee Minimum Standard. It is worth noting that the legal requirement under the FCA Listing Rules is for companies to report on their compliance with the Provisions of the Code, including where they choose to depart from its Provisions. While adherence to the Audit Committee Minimum Standard is encouraged by the Code, there is no legal obligation on FTSE 350 companies to comply with the Audit Committee Minimum Standard. Although regulatory expectations under the Code in respect of the role and responsibilities of audit committees are clear, those expectations operate on a non-binding basis.

These obligations sit within a wider framework of active FRC monitoring and enforcement. Through our Annual Review of Corporate Governance Reporting, we examine how audit committees apply the Audit Committee Minimum Standard in practice, including how they report on auditor tenure, the timing and conduct of audit tenders, and the rationale for auditor appointments. This monitoring is supported by the FRC's broader oversight of audit quality and conduct, including our Annual Review of Audit Quality, Annual Enforcement

[2] The term 'Public Interest Entities' (PIEs) is defined in regulation 2 of the Statutory Auditors and Third Country Auditors Regulations 2016 and section 494A of the Companies Act 2006. PIEs include: (i) issuers whose transferable securities are admitted to trading on a UK regulated market, (ii) certain credit institutions, and (ii) certain insurance undertakings.

[3] As read with sections 489A(4) and 489B(4) of the Companies Act 2006.

[4] As read with section 494ZA of the Companies Act 2006.

[5] FCA Handbook UKLR 6.6.6R.

Review, and case-specific interventions where necessary (for example, the recent opening of an investigation concerning potential breaches of audit partner rotation requirements).[6]

The table below summarises, at a high-level, the requirements of the Order and identifies where a comparable provision exists within the Audit Regulation or the Audit Committee Minimum Standard.

Requirement	The Order 2014	The Audit Regulation and the Audit Committee Minimum Standard
A competitive tender process	Required by Article 3 of the Order. A competitive tender process is defined as a process that invites and evaluates bids from two or more auditors.[7]	Article 16.3 of the Audit Regulation requires a selection process to take place. Although the terminology used is different, it is in essence a competitive tender process. The Audit Regulation is prescriptive in terms of the requirements of the selection process, but permits invitations to tender from any persons eligible for appointment as statutory auditors.[8]
Audit committee manages the process	Article 5.1(b) requires audit committees to initiate and supervise the competitive tender process.	Article 16(3) of the Audit Regulation requires audit committees to be responsible for the tender process.
10-year requirement	Article 3 prohibits the entering into of a Statutory Audit Services Agreement (SASA), unless various requirements are satisfied, which include a competitive tender process within the past 10 years.	Article 17.1 of the Audit Regulation limits audit engagements to a maximum of 10 years, after which a competitive tender must take place. The provisions of the Audit Regulation, however,[9] do allow for the maximum period to be extended certain circumstances.[10]

[6] Investigation regarding an audit of Shell plc by Ernst & Young LLP, 15 December 2025.
[7] See Article 2 of the Order.
[8] See definition of 'statutory auditor' and cognate terms in section 1210 of the Companies Act 2006.
[9] As read with section 494ZA of the Companies Act 2006.
[10] See FRC publication on applications to extend maximum duration of audit engagements: Process for applications to extend the maximum duration of the audit engagement 17 June 2016.pdf

Requirement	The Order 2014	The Audit Regulation and the Audit Committee Minimum Standard
Tender documents enable understanding of the business	Required under Article 4.5 of the Order.	Required under Article 16.3(b) of the Audit Regulation.
Negotiation of terms of engagement	Article 3.1(b) requires the terms of a SASA to be negotiated and agreed only between the audit committee and the auditor.	There is no similar provision in the Audit Regulation. However, paragraph 6 of the Audit Committee Minimum Standard does include a provision to this effect.
5-year disclosure requirement	Where a competitive tender has not been completed in the past 5 years, Article 4.1 of the Order requires the company to disclose in its annual report the year in which it proposes to carry out its next competitive tender, and why that proposal is in the best interests of the company.	There is no similar provision in the Audit Regulation. However, paragraph 24 of the Audit Committee Minimum Standard provides that the company's annual report should set out various types of information, including, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of retendering plans. While not completely identical to the 5-year disclosure provision in the Order, a view could be taken that this provision seeks to ensure transparency regarding future retendering plans. If required, the Audit Committee Minimum Standard has the flexibility to be amended to promote greater transparency.
Audit committee recommendation	Article 5.1(c) permits only the audit committee (or chair) to make a recommendation to the directors as to which auditor to appoint.	Article 16.2 of the Audit Regulation contains a comparable provision.

Requirement	The Order 2014	The Audit Regulation and the Audit Committee Minimum Standard
Appointment of audit engagement partner	Article 5.1(d) permits only the audit committee to influence the appointment of the audit engagement partner.	There is no express provision to this effect within the Audit Regulation. However, an identical provision is contained in paragraph 24 of the Audit Committee Minimum Standard.
Non-audit services	Article 5.1(e) permits the audit committee, to the extent permitted by law and regulations, to authorise the provision of non-audit services to the company. Article 5.2 permits the audit committee to set a policy for the pre-approval of permitted non-audit services, including setting materiality thresholds.	Article 5.4 of the Audit Regulation provides that a statutory auditor can provide non-audit services, other than prohibited non-audited services, subject to the approval of the audit committee. Article 5.1 details the prohibited non-audit services. Section 5 of Part B of the FRC Ethical Standard details how audit firms must assess and control the non-audit services they provide to their audit clients.

More detail on recent developments in the audit market

The FRC monitors the audit market and reports regularly on ongoing developments. In our Annual Audit Quality Review we show developments in relation to audit quality. In our Annual Update on Competition in the Audit Market we set out the work we are doing to help improve the functioning of the market and the latest data available on some key indicators including audit market shares, audit fees and switching data for FTSE 350 companies.

In our recent annual update on competition, we noted the following positive developments:

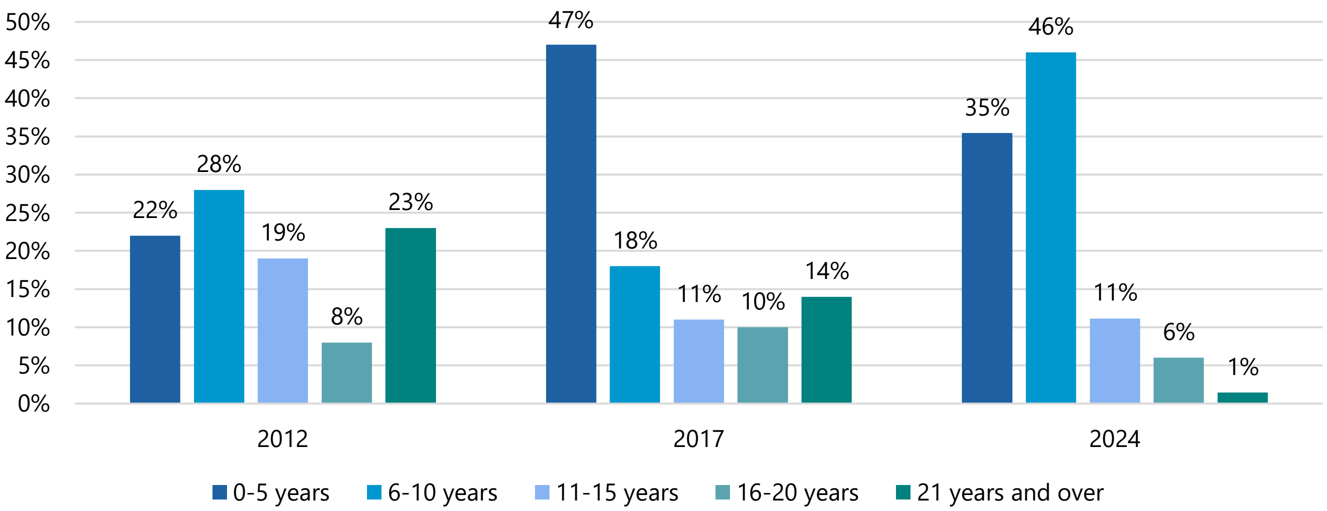
- There has been a steady increase in the market share of PIE audit engagements among non-Big Four audit firms, from 17% in 2016 to 40% in 2024.[11]

[11] Source: Key Facts and Trends in the Accountancy Profession.

- Non-Big Four audit firms also increased their share of FTSE 350 audit engagements, from 3% in 2010[12] to 13% in 2024[13].

In addition to the information in our published annual competition update, our data shows a general reduction in the length of auditor tenures among FTSE 350 companies over ten years. In 2024, 81% of FTSE 350 companies had an auditor with a tenure of 10 or fewer years compared to only 50% of FTSE 350 companies in 2012 (see Figure 1 below).

Figure 1. Distribution of FTSE 350 companies' auditor tenure lengths in 2012, 2017 and 2024



Note: Data labels have been rounded to nearest whole number; totals may not sum to 100%

Source: 2024 data: Audit Analytics Audit Engagements, Auditor Changes, and Audit Fees data, Companies House. 2017 and 2012 data: FRC Developments in Audit 2018.

[12] Source: Table 7.1 in the CC's statutory audit market investigation in 2011-13.
[13] Source: Audit market and competition developments 2025.