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## **Regulation forces up FTSE 100 audit fees and delivers mixed results**

Audit regulation such as mandatory audit firm rotation (MAFR) has delivered mixed results in the UK, and at the same time, has forced up audit costs for the FTSE 100—with audit fees jumping a whopping 10% to almost \$1bn (\$935m) in the last 12 months, finds a new report.

The [Source Global Research report](#) found that while MAFR has massively shaken up the landscape of some of the world's biggest audit markets, it has had very mixed success in terms of achieving the following goals:

- **Reducing the dominance of the Big Four:** These firms continue to dominate the audit market, so the aim of opening the market up to new competitors has so far failed.
- **Increase competition:** Clients and auditors agree that the market is becoming more competitive, but say that competition continues to sit almost exclusively with the Big Four. Globally, clients may not mind, with eight out of 10 audit clients surveyed by Source believing there's enough choice in the market. The UK is a different story, however, with nearly one-third of UK respondents saying there isn't enough choice.
- **Improve audit quality:** Audit clients interviewed for the Source report said that quality is on the rise, because the requirement that they regularly put audits up for tender has inspired them to take a fresh look at their needs, which has made them more demanding. But not everyone agrees that quality is going up, with the UK's Financial Reporting Council providing a powerful dissenting voice.
- **Shrink the share of non-audit work performed by audit firms:** While Source found the share of non-audit work performed by audit firms is in decline, the report says that this is largely a result of improved governance practices, with clients backing away from auditor relationships that could become—or even just appear to be—overly familiar. As a result, non-audit fees are just 19% of audit fees among the FTSE 100.

The Source report also reveals that PwC leads the Big Four for the number of audit clients across the global sample<sup>1</sup> and the FTSE 100. Out of the Big Four firms, PwC also achieved the highest average audit fee per client for the FTSE 100.

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<sup>1</sup> This Source Global Research report reviewed 405 listed companies spread over eight jurisdictions: the US (100), the UK (FTSE 100), France (40), Germany (30), South Africa (30), Australia (30), China (50), and Singapore (25). Specifically, Source looked at the very largest listed companies in each of these jurisdictions.

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**Edward Haigh, Director of Source Global Research, said:**

*“Given that competition is increasing, one would expect fees to fall. But average fees are actually moving up at this very high end of the market. And it’s not regulation-light outliers driving those numbers up: For example, the UK’s FTSE 100 see a high degree of audit firm turnover while fees have jumped 10% over the last year. Compare that to the far more modest 5% increase seen in the MAFR-free US market.*

*Regulation isn’t really achieving what it is set out to achieve. Competition remains between the Big Four, and this is having the unintended consequence of pushing up fees—in part because these firms are spending much more time pitching for work.”*

**The impact of new technology on audit quality**

The reports also says that if regulation isn’t the answer to shoring up audit quality, digital solutions—especially those relating to data & analytics—have huge potential to increase the quality of audit by allowing auditors to work with data sets that would have been unfathomable in the past. Equally important is that new technology promises to open the audit field up to a host of new players which, unlike today’s traditional firms, have the scale and scope to give the Big Four a run for their money.

**B.J. Richards, Senior Editor at Source Global Research, added:**

*“The need to stand out in this increasingly competitive environment has clearly helped to speed up the rate of digital transformation in the audit industry, which could ultimately be a boon to quality.*

*At the same time, it is not difficult to imagine a tech company on the scale of Google or Amazon entering the audit space and quickly becoming a major global player. It’s also not difficult to imagine that, with their vast resources and deep data & analytics know-how, these new market entrants could deliver high-quality real-time auditing that would force all players to up their game.”*

The report concludes that a world in which technology is the driving force in improving competitiveness and audit quality is not, however, a world in which regulators have outlived their usefulness. Public trust in the audit process will remain paramount, and regulators will continue to have a critical role in ensuring audit integrity—a role that arguably becomes even more important as non-traditional players enter the field.

For more information on Source reports contact [ella-sian.jolley@sourceglobalresearch.com](mailto:ella-sian.jolley@sourceglobalresearch.com) or telephone +44 (0)20 3478 1204 or visit [www.sourceglobalresearch.com](http://www.sourceglobalresearch.com).

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# PRESS RELEASE



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**Notes to the editors:**

**About Source Global Research**

Source Global Research (Source) is a leading provider of information about the market for management consulting. Set up in 2007, Source serves both consulting firms and their clients with expert analysis, research, and reporting. Source draws not only on its extensive in-house experience, but also on the breadth of its relationships with both suppliers and buyers.

The Source [global consulting data model](#) is the biggest and most sophisticated model of the consulting industry ever created, and the model on which many of the world's leading consulting firms now base their understanding of the size and shape of the consulting industry. It provides data on market size, growth rates, and forecasts across 29 sectors, six service lines, 84 countries and five firm types.

Source was founded by Fiona Czerniawska. Fiona is one of the world's leading experts on the consulting industry. She has written [numerous books](#) on the industry including: [The Intelligent Client](#) and *The Economist* books, [Business Consulting: A Guide to How it Works and How to Make it Work](#) and [Buying Professional Services](#).

All of Source's work is underpinned by its core values of intelligence, integrity, efficiency, and transparency. For further information, please visit: [www.sourceglobalresearch.com](http://www.sourceglobalresearch.com).

**This Source Global Research Report:**

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The sample of 405 companies was taken from recognised stock market indices as at February 1, 2018. Audit and non-audit fees were collected from the latest available annual report or proxy statements that correspond to FY2017 and FY2016. The year of appointment was taken from the latest available annual report or from archive research if the annual report failed to disclose the information. As such, the auditor's length of service could have been underestimated in a small number of cases.

Source also carried out in-depth interviews with a number of senior auditors, clients, and non-executive directors to get their thoughts on how regulation and other pressures are changing the audit market. In addition, it surveyed 160 audit clients across all eight jurisdictions. This group included chief finance officers, audit committee members, financial controllers, and senior risk executives, all of whom have shared their thoughts on how they see audit and audit providers changing and what these changes mean for the organisations they lead.