INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

Opportunities and Risks Associated with Alternative Forms of Investment in the Audit Sector

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Established in 2006, the International Forum of Independent Audit Regulators (IFIAR) comprises independent audit regulators from 57 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe. Dedicated to serving the public interest and enhancing investor protection, IFIAR provides a platform for dialogue and information-sharing regarding audit quality matters and regulatory practices around the world and promotes collaboration and consistency in regulatory activity.

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Introduction

On December 16, 2024, the International Forum of Independent Audit Regulators (IFIAR) released a statement on the increasing private equity investment in audit firms.[1] The statement acknowledged that such investment may present potential benefits and risks to audit quality. IFIAR noted that it would engage with audit firm leadership, monitor market developments, and support its Members in assessing the implications for their respective jurisdictions.

Since that statement, private equity and other alternative forms of investment in the accounting and audit sector[2] have continued to grow and evolve. While private equity investment remains a central focus, public ownership and other non-traditional investment models have introduced additional changes in ownership, governance, financing, and operational structures of audit firms. These developments may have implications not only for firms directly involved in such transactions, but also for audit firm networks, audit markets, regulators, audit committees, investors, and other stakeholders across jurisdictions.

This paper builds on IFIAR's initial observations. It does not assume that such investment models are inherently beneficial or harmful. Rather, it seeks to provide a structured analysis of how these models may affect audit quality, independence, governance, culture, financial resilience, and market structure, and to identify issues that IFIAR Members and other stakeholders may wish to consider as these developments continue to progress.[3]

[1] IFIAR Statement on Private Equity Investment in Audit Firms – IFIAR

[2] While this paper refers to "accounting firms" and "audit firms" somewhat interchangeably based on the usage of these terms in the various jurisdictions discussed and by sources used to develop this paper, the term "accounting firm" may generally be understood to mean a multidisciplinary firm that offers a variety of services, while the term "audit firm" is intended to refer specifically to the audit practice of an accounting firm or to a firm that performs primarily audit services.

[3] This paper reflects information available at the time of drafting. Given the rapid pace of private equity and other alternative forms of investment in accounting and audit firms, relevant market developments, transaction activity, ownership structures, regulatory responses, and stakeholder perspectives may have changed or evolved since the paper was prepared. Accordingly, the paper should be read as a point-in-time analysis intended to support discussion and further monitoring, rather than as a definitive or exhaustive account of all current developments in this area.

Executive Summary

This paper examines the growing use of alternative forms of investment (AFI) [4], principally private equity[5] investment and public ownership[6], in the accounting and audit sector. It explains how these models are reshaping firm ownership, governance, financing, and operations, while assessing the potential implications for audit quality. Although AFI activity currently remains concentrated primarily in the United States (U.S.), the United Kingdom (U.K), and parts of Europe, such developments may occur in other geographic areas and may also have broader cross-border effects through accounting firm networks, shared service structures, and changes in firm strategy, technology investment, talent management, and revenue models.

The paper identifies both potential opportunities and risks associated with AFI. Potential opportunities include access to capital for technology, digital tools and improved operations infrastructure; professional management, talent development and succession planning; growth through acquisitions. These investments may help smaller and mid-tier firms compete more effectively, strengthen quality management systems, and expand service capabilities. At the same time, AFI may introduce new or heightened risks where investor return expectations, leverage, exit strategies, integration pressures, or complex governance arrangements affect the incentives, autonomy, or resources of the audit practice. The paper emphasises that these outcomes are not inherent or uniform; they depend heavily on transaction structure, governance design, contractual protections, regulatory requirements, and how arrangements operate in practice.

The paper describes emerging regulatory responses in some jurisdictions, including engagement with firms before ownership or governance changes, enhanced scrutiny of control rights and side agreements, targeted inspection approaches, post-transaction monitoring, updates to independence and control requirements, and increased international coordination where ownership structures or networks span jurisdictions. It also identifies for stakeholder consideration six areas of potential risks of AFI: ownership and control; objectivity and conflicts of interest; audit quality and professional judgment; governance and culture; financial resilience and leverage; and integration and consolidation.

The analysis draws on a variety of sources. These include information and perspectives provided by the following:

- IFIAR Members;
- Interviews with auditors and other market participants, academics, regulators, and other informed stakeholders;
- Public reports and commentary from bodies such as the International Federation of Accountants (IFAC), Accountancy Europe, International Ethics Standards Board for Accountants (IESBA), national audit regulators, professional bodies, and market participants;
- Academic and policy research on private equity, alternative ownership models, and professional services firms; and
- Public information concerning selected transactions, regulatory developments, and ownership structures.

[4] "Alternative forms of investment" (AFI) is used as a broad umbrella term for non-traditional ownership and financing arrangements that can introduce outside capital into accounting and audit firm structures. For purposes of this paper, however, "AFI" refers to PE and public ownership investments. This paper does not address other forms of investment or ownership in audit firms such as employee ownership.

[5] In this paper, "private equity" (PE) refers to investment capital raised from investors and deployed—typically through professionally managed funds—into private companies (or into public companies taken private), with investors seeking to increase enterprise value over a defined holding period and exit through a sale or offering.

[6] In this paper, "public ownership" refers to investments made in companies through shares that are listed on public stock markets.

The paper uses these sources collectively to describe observed market developments, identify potential benefits and risks, and frame questions that regulators, audit committees, investors, policymakers, and other stakeholders may wish to consider as AFI models continue to evolve.

Section 1: Background on AFI in the Accounting and Audit Sector – Trends, Structure, Potential Impacts

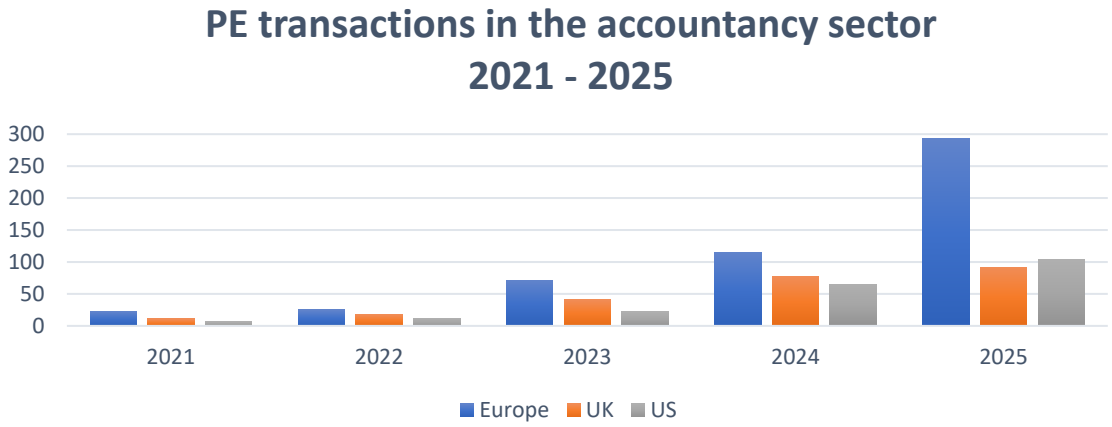
Section 1 provides the factual and structural foundation for the paper. It outlines the recent growth of AFI in the accounting and audit sector, the principal models through which capital is entering firms, and the economic incentives driving these transactions. It also highlights the main opportunities and risks associated with these developments, including their potential implications for firm strategy, governance, and the delivery of audit services. This background is intended to frame the regulatory and stakeholder issues examined in the sections that follow.

1 Current AFI Trends in Audit Sector

AFI in the accounting and audit sector have increased significantly since 2020. A 2026 report by IFAC[7] found that private equity investments have impacted more than 1,000 accounting firms worldwide over the past 10 years. The sector's appeal is driven by stable, recurring revenues, opportunities for consolidation, and scalable advisory and non-audit service lines. While investment activity is growing across some regions—particularly in the U.S., U.K., and parts of Europe—strict ownership and independence requirements across the globe continue to limit direct investment in audit firms. As a result, PE investment is typically in the non-audit accounting firm that is affiliated with the audit firm.

The growth of AFI has led to the emergence of new ownership models, consolidation strategies, and hybrid structures designed to comply with jurisdiction specific regulatory constraints. One of the conclusions in the IFAC report is that, as PE investment focuses on scale and growth, "it seems very likely that there will be consolidation and fewer, larger accountancy firms in the future." Although the pace and nature of activity vary across markets, common themes include the gradual diversification of ownership beyond traditional partnerships, alternative practice structures and increasing professional services platforms.

Market Activity Across Key Jurisdictions[8]



PE investment in U.S. accounting firms has accelerated markedly in recent years. As of early 2026, almost half of the 30 largest U.S. accounting firms are reported to have taken PE investment.[9] An

[7] Private Equity Investment in Accountancy | IFAC
[8] IFIAR, based on data from Accountancy Europe, Private Equity in European Accountancy and Audit Firms (June 4, 2025), Private Equity in European Accountancy and Audit Firms (July 2026), DealSeam, PE Roll-up Tracker (Oct 2026), and CPA Trendlines Research (as of March 2026).
[9] Cherry Bekaert, The Trillion-dollar Rebound: Private Equity 2025 Trends and 2026 Outlook (Feb 25, 2026).

early example was TowerBrook Capital Partners' investment in EisnerAmper in 2021.[10] Since then, PE investments have backed several mergers. In 2025, the PE firms Hellman & Friedman and Valeas Capital Partners backed the merger of Baker Tilly and Moss Adams.[11] In 2024, New Mountain Capital invested in Grant Thornton US,[12] which has since been followed by Grant Thornton US and New Mountain Capital purchasing CBIZ, Inc., creating the fifth largest professional services, tax and advisory provider in the U.S. according to Grant Thornton's press release.[13] PE firms also backed the creation of Sorren (U.S.), a conglomerate formed from 13 merged firms (previously part of the BDO network) under DFW Capital.[14]

As an alternative to PE investment, some U.S. firms have adopted Employee Stock Ownership Plans (ESOP) including firms such as BDO USA[15], KSM[16], and Grassi.[17] In 2023, Ernst & Young (EY) abandoned Project Everest, a plan to separate its global businesses into two organizations: an audit-focused firm that would retain the EY name and a new consulting-led company that would include most of EY's tax practice and was expected to pursue an initial public offering.[18]

Likewise, PE activity in Europe has grown rapidly. A 2025 report by Accountancy Europe[19] found that over 100 PE transactions in the European accountancy sector were recorded in 2023, increasing to 192 in 2024. This includes 71 transactions in 2023 and 115 transactions in 2024 when excluding the U.K.[20] While 60% of these involved non-audit firms, the remaining 40% included audit services.[21]

In the Netherlands, 21% of audit firms that do not perform audits of a Public Interest Entity (PIE) are backed by PE according to 2024 data.[22] Key transactions include AnaCap's majority stake in DK Accountants & Adviseurs and Inflexion's investment in Baker Tilly Netherlands.[23]

PE investment in the French accountancy sector has also increased with examples including Waterland's acquisition of a minority stake in COGEP.[24] The minority stake allowed COGEP to pursue their growth strategy whilst retaining partner control. The partner led buyout with financing from Carvest in In Extenso and PKF Arsilon formed from the previous SME division of PwC France and Maghreb are additional examples of external investment.[25]

PE activity in the Nordic region surged in 2023 and 2024, although most transactions involved small and mid-sized firms. A notable transaction in Norway includes PE firm Castik Capital acquiring a 55% stake in Aider Konsern AS, a tech-enabled accounting and consulting firm.[26]

The U.K. is also a major market for AFI transactions. Prominent transactions include Cinven's

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[10] Journal of accountancy, Private equity's push into accounting (Oct 6, 2021).
[11] Wall Street Journal, Exclusive | Baker Tilly, Moss Adams to Merge in $7 Billion Deal. Here's How It Will Work (April 21, 2025).
[12] Journal of accountancy, Grant Thornton deal continues the private-equity investment trend (March 18, 2024).
[13] Press Release, Grant Thornton Advisors completes acquisition of CBIZ | Grant Thornton (Nov 2, 2026). Press Release, Grant Thornton LLP acquires CBIZ CPAs P.C. | Grant Thornton (Nov 6, 2026).
[14] CFO Brew, 13 firms merge into one PE-backed conglomerate (May 6, 2025).
[15] BDO, BDO Employee ownership.
[16] KSM - Employee owned.
[17] GRASSI, Q&A with Lou Grassi: Why I Chose Employee Ownership Over Private Equity.
[18] Accountancy Age, The rise and fall of EY's Project Everest (Feb 13, 2024).
[19] Accountancy Europe, Private Equity in European Accountancy and Audit Firms (June 4, 2025).
[20] *Id.*
[21] *Id.*
[22] *Id.*
[23] *Id.*
[24] *Id.*
[25] *Id.*
[26] *Id.*

acquisition of Grant Thornton UK[27] and Waterland's investment in Moore Kingston Smith.[28] The U.K. also saw the 2025 IPO of MHA (Baker Tilly International network) on the AIM exchange.[29]

Currently, the trend of PE and public ownership investment in audit firms is observed primarily in the U.S., U.K., and parts of Europe and has not been widely observed in other regions, such as Asia, Africa, the Middle East, or Canada.

The lack of AFI transactions in some parts of the world may be due to legal restrictions. For example, in Asia, Japanese law[30] limits capital contributions to an audit firm to its partners, who must be certified public accountants or a registered specified partner, thereby precluding investment by external investors. In Singapore, the law[31] requires accounting entities to be predominantly owned, governed and managed by public accountants. For accounting firms and limited liability partnerships, generally at least two-thirds of the partners must be public accountants. For accounting corporations, generally at least two-thirds of directors must be public accountants, at least two-thirds of the voting shares must be held by directors or employees of the corporation who are public accountants, and that only individuals may own shares in the corporation. Similarly in South Africa, shareholders of an audit firm are limited to individuals who are registered auditors by law,[32] and in at least one Canadian province, Ontario, regulations require 100% CPA ownership in public accounting firms.[33] Although such restrictions may also be present in countries with pronounced AFI activity, as discussed below, those countries appear to permit the use of alternative practice structure mechanisms, involving *indirect* outside investments, to address such legal restrictions on firm ownership and/or control.[34]

However, even in jurisdictions where AFI are not currently observed or permitted, alternative investment in network member firms may indirectly affect local firms through changes in the management, strategic priorities, talent strategies, or revenue structures of accounting firm networks.

2 AFI Ownership Models

This paper focuses on two broad categories of AFI ownership models that have emerged across jurisdictions:

A. PE Ownership
B. Public Ownership

These ownership models vary somewhat across jurisdictions, reflecting differences in regulatory frameworks, market structures and ownership traditions. Despite the variance, each model represents a departure from the traditional partner ownership model that has historically characterized the accounting profession.

The PE and public ownership models differ from traditional partnership owner models in that they introduce the potential for outside (primarily non-accountant) investors to influence and be involved the operation of an audit practice. The potential benefits and risks of these models to audit quality, and the regulatory responses to date, are discussed in Section 2 of this document.

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[27] Press Release, Grant Thornton UK LLP agrees strategic investment with Cinven (Dec 16, 2024).
[28] Press Release, Moore Kingston Smith pioneers innovative professional services transaction – with completion of private equity funding as an LLP – Moore Kingston Smith (July 3, 2023).
[29] International Accounting Bulletin, Accountancy firm MHA lists on AIM with £271m valuation (April 16, 2025).
[30] Japanese Certified Public Accountants Act (Act No. 41 of 2017).
[31] Singapore Accountants Act 2004 (2020 Revised Edition).
[32] South Africa Auditing Profession Act, 2005 (Act No. 26 of 2005).
[33] CPA Ontario, Alternative Practice Structures and Private Equity (Nov. 18, 2024).
[34] By contrast, CPA Ontario cautions its members assessing alternative practice structures that "services to be provided through these entities would still be seen to fall within the definition of *providing accounting services to the public* . . . and therefore . . . can only be [provided] through a firm registered with CPA Ontario." *Id*.

The following sections describe each ownership model and provide jurisdiction-specific examples.

A. PE Ownership

Where permitted, PE investment in the accounting and audit sector can take different forms. Depending on the legal and regulatory constraints in the local jurisdiction, PE investors may invest directly in an audit firm or its holding structure, or they may invest indirectly through an alternative practice structure or affiliated non-audit entity. Subsequently, they may pursue acquisition strategies designed to build scale, expand service lines, and increase enterprise value.

- **PE Investment in Audit Firms**

Direct Investments in Audit Firms: Many jurisdictions permit non-accountant investors to take a stake directly in the firm or its immediate holding structure. This brings capital closer to the regulated entity and can create a more immediate link between investor interests and firm performance. These jurisdictions often have requirements to maintain auditors' control of a firm through ownership stakes, governance requirements (e.g., board composition, veto rights, etc.), or other safeguards.

In the EU, a majority of an audit firm's voting rights must be held by, and the majority of the management body must be made up of, statutory auditors or audit firms approved in an EU Member State.[35] Similarly in the U.K., the Financial Reporting Council (FRC) requires a majority of an audit firm's voting rights to be held by audit qualified individuals.

Indirect Investments in Audit Firms: Other jurisdictions may prohibit non-accountant investors from directly owning audit firms. As such, external capital investment in accounting firms with an audit practice may entail an extra layer of complexity.

To comply with restrictions that limit ownership and control of audit firms, many AFI transactions involve the use of an Alternative Practice Structure (APS). The APS enables investments in accounting firms while maintaining compliance with the ownership and control requirements for the audit practice. The APS may be used in conjunction with PE acquisition strategies and other AFI such as the IPO, both of which are discussed below.

> **What are the elements of an APS?** An APS is a business structure that enables outside investors, whether from PE or public ownership, to invest in accounting firms while audit practices remain controlled by qualified professionals.[36] In an APS, the audit and non-audit services of a firm typically are separated into distinct legal entities whose relationship is governed by an administrative services agreement (ASA). A holding company sits above the non-audit legal entity that serves as the vehicle for outside investments and decision-making at the firm. The non-audit entity typically holds the assets of the firm, which are then leased back to the separate entity providing audit services. These may include: staff; intellectual property, office space, equipment, and technology; and back-office services like IT, HR, marketing, and billing.[37] The ASA between the non-audit and audit entities establishes the decision-making process for firm leadership to determine resource allocation, compensation, and other business strategies in the audit entity.

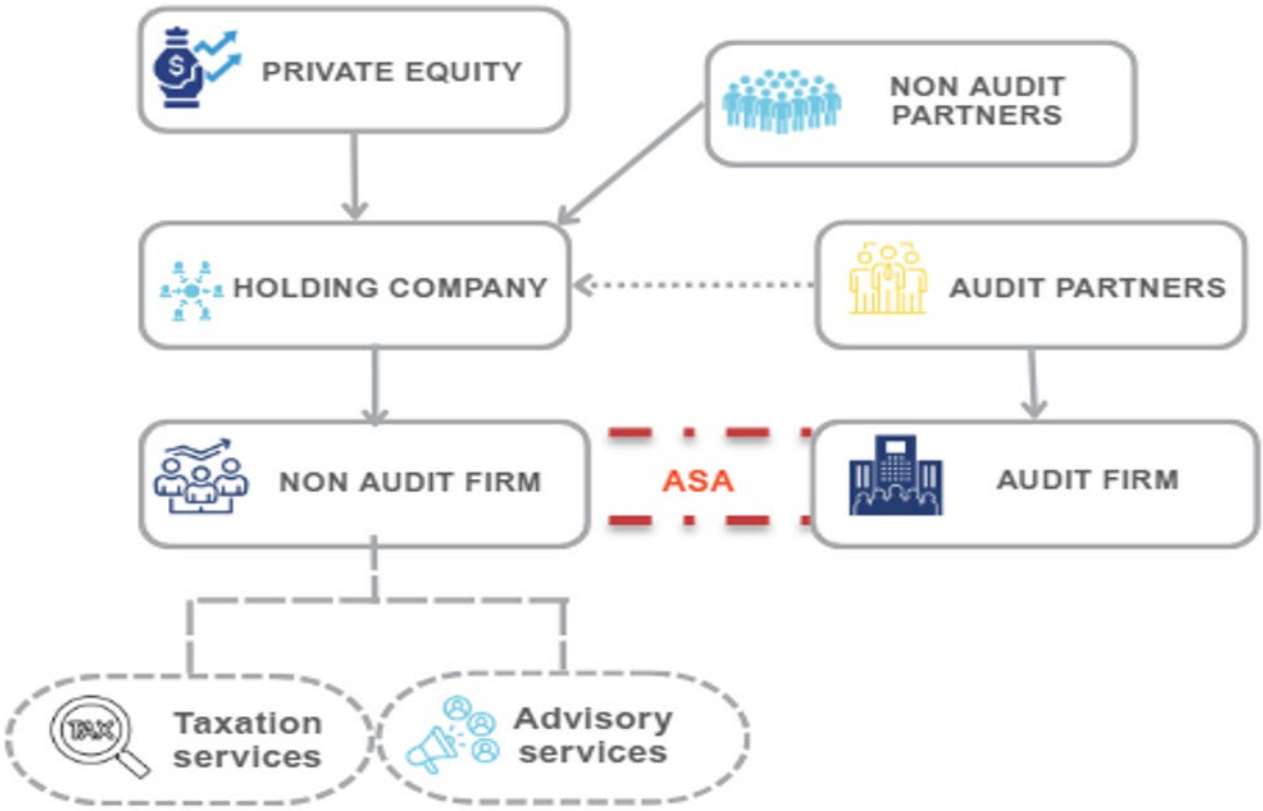
Interviewees noted that APS arrangements often separate economic ownership from professional control but stressed that the practical effects depend on the detailed contractual and governance

[35] Article 3(4)(b) and (c) of Directive 2006/43/EC, as amended by Directive 2014/56/EU.
[36] *See generally* Alternative Practice Structures | About | AICPA & CIMA.
[37] Hunton, Insights – Forming an Accounting Firm Alternative Practice Structure: Key Considerations for CPA Firms and Investors (Feb 27, 2024).

arrangements. Specific observations included the following:

- Some audit entities may operate at or near break-even, with surplus funds flowing to a holding, advisory or non-audit entity; audit firm autonomy depends on how effectively audit partners negotiate and use service agreements or equivalent arrangements; and
- The key question is who holds cash-flow rights and who holds decision-making rights; and legal form alone may not demonstrate where influence sits.

Common PE APS Diagram



Appendix 1 to this document includes additional detail on the structure of PE Funds.

- **PE Acquisition Models**

Having outlined how PE investors may structure their ownership interests in accounting and audit firms, the following paragraphs turn to the acquisition strategies PE investors commonly use to build scale, expand service lines, and increase enterprise value after the initial investment.

PE acquisition strategies typically fall into two models: the “roll-up” and “platform” investment models. These can be designed flexibly, and PE investors may utilize mixed approaches that combine the platform and roll-up approaches described below.

Roll-up investment model: Under this approach, a PE investor will take a stake directly in the accounting firm or its immediate holding structure and then the accounting firm may acquire smaller accounting firms and merge them into the larger entity with a common brand, typically resulting in full legal and operational consolidation of the acquired firms into the acquiring firm.

PE investors in the Netherlands have used roll-up strategies, including, for example in connection with PE investments in accounting firms de Jong & Laan and Moore DRV.

Platform investment models: Under this structure, a PE investor acquires or forms a holding or service entity (i.e., the "platform firm"), which it may then use to acquire or invest in other accounting firms. The platform firm holds the brand, technology, and operational infrastructure used by legally independent member firms. The other accounting firms remain legally separate, retain their own ownership, name, and audit or professional services licenses, as well as professional responsibilities and clients. The platform firm provides support services, such as IT, HR, marketing, training, and quality management, and generates revenues through service agreements involving payments by the member firms. This model has been used by several PE investors to consolidate regional accounting firms and to expand the footprint of an accounting firm globally.

The 2022 investment by New Mountain Capital in Citrin Cooperman and the Cherry Bekaert partnership with Parthenon Capital are examples of PE investors acquiring platforms and using them to acquire smaller regional accounting firms. An example of this model being used for international expansion is Grant Thornton US's acquisitions of firms across Ireland, continental Europe, UAE, Cayman Islands and Channel Islands. Grant Thornton in the US created a multinational advisory and tax platform — Grant Thornton Advisors LLC — following the private equity investment by New Mountain Capital. This PE backed structure unites multiple Grant Thornton member firms under shared governance, technology, and strategy, while audit practices remain independent for regulatory reasons.[38]

An example of the platform investment approach is evident in France where PE investors funded accounting firm Archipel with the explicit strategy to consolidate independent accounting firms into a larger group structure while maintaining local operational identities.[39]

Interviewees noted that the platform investment model can operate in two distinct ways. Under one approach, acquired firms are fully integrated into the acquiring firm, including branding, technology platforms, methodologies, policies and procedures. In some cases, this may also involve the centralisation of audit work into specialist audit hubs. Under the second approach, firms retain a greater degree of operational autonomy, with integration limited primarily to selected back-office functions such as IT, HR or administrative support. Interviewees noted that the extent of integration may have implications for governance, culture, independence arrangements and the realisation of anticipated efficiencies and quality benefits.

PE acquisitions using the platform and/or roll-up models are typically financed using leverage, often involving establishment of a holding company or a special purpose vehicle (SPV), in transactions that are commonly referred to as leveraged buyouts (LBOs)[40]. In an LBO, the PE fund provides a portion of the purchase price as equity, while the acquired platform bears the economic burden of repaying the debt.[41]

PE investors will generally seek to exit their investments within three to five years following the initial investment (*i.e.*, the "flip").[42] The main exit strategies include sales to other PE funds (secondary sales), sales to strategic buyers such as another accounting or consulting firm ("trade sales"), and

[38] Press Release, New Mountain Capital & Citrin Cooperman Announce Strategic Partnership (April 11, 2022).
[39] Press Release, Launching Archipel: Building France's Next Generation Accounting & Professional Services Firm (April 3, 2025).
[40] An LBO is an acquisition in which a PE investor purchases control of an accounting firm or accounting-firm platform using a significant amount of borrowed funds, with the expectation that the acquired business's future cash flows will repay the debt and increase returns to the investor. Following the acquisition, the debt is typically pushed down to, guaranteed by, or serviced from the acquired business and its cash flows. *See generally,* Investopedia, Understanding Leveraged Buyouts (LBOs): Fundamentals and Examples. & Wikipedia, Leveraged buyout.
[41] *Id*.
[42] Blackstone's acquisition of a majority stake in Citrin Cooperman Advisors LLC from New Mountain Capital marked the first major secondary sale ("flip") of a PE-backed U.S. accounting firm. CFO Brew, Accounting enters its private equity 'flip' era (April 30, 2026).

IPOs. In the audit sector, IPOs are relatively rare. However, some observers anticipate that this could become more common in the future, particularly for the non-audit entities.[43]

Interviewees emphasised that exit scenarios in the audit sector remain relatively untested. Several interviewees considered secondary sales to other PE investors to be the most likely near-term route, while IPOs were generally viewed as possible but less common and likely to require significant scale, public market familiarity with the structure and supportive market conditions. Interviewees also noted that stressed or poorly planned exits could create continuity, governance, independence or market stability risks, particularly where audit firms have limited practical influence over the identity or incentives of a future owner. Interviewees noted that audit firms and audit partners are unlikely to have formal input into the identity of a future investor following an exit. Nevertheless, interviewees observed that the success of any transaction may depend on the continued participation of partners and senior leadership. Accordingly, while audit firms may not exercise formal approval rights over a successor investor, interviewees suggested that prospective investors may have commercial incentives to take partner views into account when structuring and executing a transaction.

B. Public Ownership

In this model, investors provide capital to the accounting firm by acquiring shares offered publicly, while management and service delivery remain the responsibility of qualified professionals. Capital from a public offering may also be leveraged for acquisitions. Similar to PE, in some major jurisdictions where this model has been utilized (*e.g.*, the U.S. and U.K.), an APS may be necessary to comply with ownership and control requirements.

A recent example of this is the 2025 offering of MHA (UK), part of the Baker Tilly International network, on the London Stock Exchange's Alternative Investment Market (AIM). In the U.S., CBIZ, Inc. operated under an APS structure beginning in 1998 and, until recently, was a publicly listed company. .[44]

MHA (UK) provides a useful recent example of how an APS based on public ownership works in practice. While the general purpose of an APS is to separate economic ownership from professional control, implementing such a structure typically requires firms to reorganise their legal entities and governance arrangements to ensure that audit-qualified individuals retain control of the audit practice. Consistent with this approach, MHA (UK) adopted an APS as part of its transition to a public company. To facilitate the listing while remaining compliant with audit regulations, MHA plc was established as a listed parent company of several distinct legal entities with different service lines, including entities for audit, advisory, and corporate finance services, among others.

The audit LLP is controlled by audit-qualified individuals through voting rights, governance arrangements and board composition. The audit LLP acts as the regulated entity responsible for audit delivery. MHA plc is the vehicle through which external investors participate and to which the profits of the subsidiaries flow. The IPO raised approximately £98 million and implied a market capitalisation of around £271 million. A meaningful minority of shares is held by external investors, while a controlling interest is retained by existing partners of MHA plc, which may include audit partners. The IPO proceeds were used by MHA plc primarily for the repayment of partner loan notes, while approximately £3 million was allocated to technology and AI investment and £9.6 million to bolt-on acquisitions.[45] This introduces external capital into the firm while preserving formal audit control within the audit LLP.

[43] *See e.g.*, CPA Trendlines, Major Accounting Firm IPOs on the Way (Aug 27, 2025).
[44] CIBZ, Inc. ceased being a public company when it was acquired by Grant Thornton Advisors and New Mountain Capital on November 2, 2026. For an example of an APS involving a publicly traded company in the United States, see AICPA Code of Professional Conduct § 1.220.020, *Alternative Practice Structures*.
[45] MHA plc, *Admission Document*, at 34 (Apr. 10, 2025).

Interviewees identified IPOs as a potential, albeit currently less common, exit route for PE-backed accounting firms. Interviewees noted that a successful public listing is likely to require significant scale, supportive market conditions and structures that can be readily understood by public market investors. Several interviewees observed that the limited number of listed accounting firms means that investor understanding of this APS model remains relatively undeveloped, although this may evolve as additional firms pursue public listings.

3 Opportunities and Risks Concerning AFI

Having described the PE and public ownership AFI ownership models, this section examines the opportunities these structures may create for AFI investors, and accounting and audit firms, as well as the risks they may pose to audit quality, independence, governance, competition, and firm resilience.

A. Potential Opportunities for AFI Investors

The growth of AFI in accounting and audit firms is part of a larger trend of AFI changing focus beyond asset-based industrial sectors to professional service sectors, where value creation is driven primarily by human capital and specialized expertise. Other areas of recent investment focus include healthcare, law firms, insurance brokerages, and wealth management.[46] Like other professional services, accounting firms are attractive to AFI for several reasons discussed below. The factors that make professional services such as accounting firms attractive to investors also align with the strategies that AFI utilize to grow the value of their investments. These strategies are used to drive the main metric that AFI use to measure the value of a firm – as expressed in "Earnings Before Interest, Taxes, Depreciation, and Amortization" (EBITDA). These AFI growth strategies are also discussed below.

- **Stable, Recurring Revenues**

Like the law and healthcare industries, accounting and audit firms have recurring revenue streams. Their revenue streams are supported by a "sticky" client base that are required by regulation to seek their services.

Several interviewees said that audit practices are attractive to AFI investors because they provide stable, recurring revenues and reputational benefits. Interviewees described audit as steady, recurring or "annuity-like," and also emphasised that investors value audit quality because poor audit quality, regulatory findings or litigation risk can damage enterprise value and brand reputation.

- **Prospects to Grow High Margin Advisory Services**

In addition to the attraction of stable revenue flows, investors also believe there are opportunities to scale higher margin, non-audit accounting services and to expand consulting services in new areas such as cybersecurity and wealth management. This entails hiring employees with different skills or expertise and buying other firms with different service offerings.

The expansion of consulting services is also seen as a potential avenue for increased growth through increased cross-selling of services. Investors may also seek to leverage an accounting firm's client data and create new incentives for employees to maximize opportunities for cross-selling services.

[46] In the healthcare sector cumulative PE investment in the US has exceeded USD 1 trillion over the past decade. HMPI, Healthcare Private Equity: A Review of Key Case Studies and Recommendations for Effective, Equitable Private Investment in Healthcare. Healthcare Market Policy Institute (May 2024). PE investment in law firms has also accelerated in some jurisdictions such as the U.K. and the U.S. In the U.K., PE investors have invested approximately GBP 1.2 billion into law firms over the past five years, including an estimated GBP 534 million in 2024 alone. Pinsent Masons, Private equity investment in law firms: Opportunities and challenges. Pinsent Masons (Oct 2025).

- **Consolidation**

Outside the Big Four, the accounting and audit firm marketplace is fragmented with many smaller and mid-tier accounting firms. As a result, investors consider this market ripe for consolidation.

A primary growth strategy for AFI has been to grow a firm's footprint through the platform and roll-up acquisition models.

- **Greater Operational Efficiency**

AFI investors see opportunities to improve the efficiency of firms by cutting spending. This can be done through the adoption of improved technology, such as AI, data analytics and automation; centralizing and standardizing back-office functions; offshoring; and increasing staff utilization.[47] Investors may also seek greater efficiency through a reduction in overall headcount to both increase utilization of remaining staff and, thereby, increase the value of the firm. In addition to cutting expenses, investors may also seek to change the fees that they charge customers.

The interviews did not support treating cost-cutting or headcount reduction as the only, or necessarily the principal, efficiency strategy. Several interviewees instead framed the opportunity as investment in technology, infrastructure, talent and professional management, while also acknowledging that efficiency targets and margin expectations can create audit quality risks if not balanced by strong governance and resourcing controls.

In addition to efficiency initiatives, pricing strategies may change as firms seek growth or market share. Finally, AFI investors may introduce new governance models that are less partner-driven and are more akin to a corporate model with an executive managing partner and more clearly defined reporting structures.[48]

B. Potential Opportunities for Accounting Firms

Accounting firms that accept AFI see potential benefits in adopting this model of capitalization for their ability to deliver services to clients. Proponents have argued that the PE or other AFI capital infusion model enables accounting firms to invest in technology, talent, and other opportunities each of which is discussed below.[49]

- **Technology Investments**

One of the most cited reasons by accounting firms for accepting AFI is that it enables firms to make investments in new technology, particularly AI and increased digitization.[50] This is particularly true for small- and medium-sized firms that lag behind their larger counterparts in technology adoption and implementation.

The adoption of AI, data analytics and greater automation for routine tasks may make these firms more efficient and better able to compete for audit clients. Professionals in those firms may benefit by being able to work more efficiently.[51] The client experience may also improve through better collaboration tools and improved service overall.[52]

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[47] Accountancy Europe, Beyond private equity: third party ownership in the accountancy and audit sector - Accountancy Europe (Nov 27, 2025).
[48] Legal Clarity, How Private Equity Is Buying Accounting Firms (Dec 8, 2025).
[49] *See, e.g.*, Accounting Today, Why are accounting firms looking to private equity? (Dec 29, 2025); Journal of Accountancy, Private equity eyes accounting firms large and small Journal of Accountancy (Feb 2023).
[50] Accountancy Europe, Beyond private equity: third party ownership in the accountancy and audit sector - Accountancy Europe (Nov 27, 2025).
[51] *See* StanfordReport How AI is improving accounting efficiency (June 26, 2025).
[52] *Id*. *See also* Beyond private equity: third party ownership in the accountancy and audit sector - Accountancy Europe (Nov 27, 2025).

Indeed, the most frequently cited potential opportunity for accounting firms cited by interviewees was access to capital for technology. Reported examples included investment in AI, data analytics, automation, digitisation, audit platforms, independence and conflict-checking systems, and collaboration tools. Interviewees suggested that these investments could support efficiency, improve audit execution, strengthen client service, and help smaller or mid-tier firms narrow technology gaps with larger firms.

Interviewees also reported that technology investment may support audit quality where it is used to improve methodology, quality management, evidence gathering, consultation, monitoring, and access to technical support. However, interviewees also noted that technology benefits may be slower to materialise than expected and depend on adequate human capital, training, controls, and implementation discipline.

- **Talent Investments**

Interviewees identified talent, succession, and people strategy as further potential opportunities. Reported benefits included the ability to fund recruitment, training, leadership development, specialist expertise, improved career pathways, and retention initiatives.

Interviewees reported that outside investment may provide liquidity for retiring partners and help address succession pressures that can otherwise constrain a firm's ability to make investment under traditional partnership models. Some interviewees also suggested that external capital may enable firms to promote or recruit partners, attract higher-calibre graduates, and offer clearer progression opportunities, while emphasising that accelerated advancement can create audit quality risks if experience and capability are not maintained.

Interviewees also noted that revised compensation or ownership models may, in some cases, allow a broader group of employees to participate in the value of the firm, through variable pay, management incentive arrangements, employee ownership models, or other equity-linked structures. These arrangements were presented by interviewees as potential tools for retention and alignment, not necessarily as inherently positive outcomes.

Interviewees further reported that outside capital may support more formalised HR, training, leadership development, centralised support, and professional management functions that may be under-resourced in some partnership models.

- **Scale, competition and market resilience**

Interviewees reported that PE/AFI may help smaller and mid-tier firms build scale, consolidate, professionalise management, and compete more effectively with larger firms. Reported opportunities included wider access to technical support, shared methodology, centralised infrastructure, stronger back-office functions, participation in issuer or public company audit markets where scale had previously been a constraint, and the potential creation of additional credible competitors. Some interviewees framed this as supportive of market choice and resilience, while others cautioned that consolidation could also reduce choice over time.

- **Governance, infrastructure and independence**

Several interviewees reported that well-structured transactions may strengthen governance, independence, and operational discipline where audit leadership retains real authority over audit strategy, client acceptance, methodology, quality management, resourcing, and independence decisions. Reported examples included strong oversight boards, clear service agreements, enhanced independence monitoring, robust portfolio conflict-checking processes, and strong central infrastructure. Interviewees noted that whether these opportunities can be realized may depend on investor sophistication, contractual design, regulatory engagement, and whether arrangements operate in practice as intended.

- **Client service, business quality and strategic positioning**

Interviewees also identified potential benefits for clients and firm strategy, including improved service delivery through technology, access to more sophisticated clients, more disciplined client acceptance and risk assessment, stronger sector or niche strategies, and the ability to decline work outside risk appetite while still pursuing sustainable growth. Some interviewees reported that audit quality and brand reputation may be aligned with investor value because poor audit quality, regulatory findings, or litigation risk can damage enterprise value.

C. Potential Risks to Audit Quality

The growth of AFI illustrates a broader shift in the audit market where ownership, control and influence are becoming increasingly separated. A key question is therefore not only who holds formal control, but how influence is exercised across the structure in practice, particularly through governance, capital and incentives. The AFI-related risks to audit quality largely stem from the level of control and influence that auditors retain over their practice and the pressures they may face from external, non-accountant investors. Below we discuss several potential risks that AFI in accounting firms may pose to audit quality.

- **Heightened Focus on Profit**

One overriding risk is that outside capital investment from non-accountant investors may change the incentive structures within firms to prioritize profit over audit quality.

PE investors generally seek substantial returns in a relatively short investment time horizon. Investors in public companies, likewise, have financial expectations for a company they invest in that, if unmet, can lead investors to take their money elsewhere.

Firms under these types of financial pressures may focus on increasing profitability, which may not always be compatible with the obligations of an auditor to the public interest. A heightened focus on profit maximization, efficiency, and cost reduction could undermine a culture that emphasises auditor independence and professional skepticism.

Moreover, a more corporate model with a greater focus on profit can lead to firms becoming more focused on individual output and utilization.

Interviewees suggested that this outcome is not inevitable. Several emphasised that sophisticated investors in accounting may recognise that audit quality protects enterprise value. The risk therefore lies in how incentives, governance, budgets, reporting obligations and leadership messages operate in practice, particularly over time and across successive ownership cycles.

- **Staff Turnover**

While AFI may create opportunities for increased investments in talent, it may also introduce changes that negatively impact staff retention, posing a risk to audit quality.[53] Some of the changes that may contribute to staff turnover include:

  - Firm leaders and other employees may experience a loss of control over decision-making with changes to governance.
  - Changes to compensation structure and benefits can reduce employee satisfaction.
  - A more corporate approach to firm governance and performance may impact the staff experience by increasing performance monitoring and utilization.
  - A more growth-focused approach may also result in increasing responsibility and productivity expectations for junior staff that exceeds their capabilities.
  - At least one interviewee noted that firm mergers and acquisitions may run into challenges with

[53] *See e.g.*, The Accounting Review, Individual Auditor Turnover and Audit Quality—Large Sample Evidence from U.S. Audit Offices (Nov 2024).

integrating the culture and systems of different firms, which could also impact staff satisfaction. This interviewee noted that many firms are delaying the integration of newly acquired firms.

Interviewees identified risks including senior partner departures from the firm following liquidity events, accelerated promotion of less experienced staff, uncertainty at senior manager and director level, changes to compensation and reporting expectations, integration challenges of acquired firms, and cultural disruption arising from rapid growth or organisational change. Conversely, some interviewees noted that external investment may help firms attract talent, fund training and provide clearer career progression if implemented well.

- **Loss of Audit Firm Autonomy**

Another risk to audit quality is governance changes that may reduce the decision-making power and influence of audit partners and their control of the audit practice. This issue is apparent in an APS (discussed above) where the audit practice is heavily reliant on the governance policies in the APS to maintain control over the trajectory of the audit practice. As several commentators noted, a well-constructed governance structure that empowers the audit practice also requires appropriate implementation and monitoring to meet its objectives. Below are areas where investors outside of the audit practice may have influence over the operations within the audit practice.

- **Compensation.** Non-auditors in the non-audit entity evaluating the performance of the audit practice and/or determining compensation, may place a greater emphasis on output and efficiency rather than compensating for high audit quality.

- **Shared Resources.** Having the audit practice wholly reliant on the non-audit firm for resources, including staff, systems, and services, could create an environment where the audit firm's autonomy is undermined by the non-audit firm that owns and controls shared resources. Moreover, shared personnel and co-located offices can affect information flows and might create new avenues where auditors feel pressure to put maintaining positive client relationships ahead of their duty to perform high-quality audits.

- **Resource Allocation.** There is no assurance that AFI capital will be directed toward measures that support the audit practice, particularly when non-auditors control or influence resource allocation. There is a risk that capital may instead be used to fund payments to retiring partners, acquisitions, expand higher-margin non-audit service lines, service debt, or return capital to investors. There may also be incentives to limit longer-term investments in audit technology, staffing, training, methodology, or quality management where the return on those expenditures may not be realized until after investors seek to exit their investment in a firm. These pressures could create a risk that the audit practice is not allocated resources necessary to maintain or improve audit quality.

Several interviewees stressed that a key question for regulators and other stakeholders is whether auditors retain real authority over audit strategy, client acceptance, resourcing, methodology, quality management, independence decisions, compensation inputs and escalation, not merely whether formal legal control requirements are satisfied. Some interviewees also opined that this was not in fact a risk as they believe that audit partners may have more control over audit decisions under a robust service agreement than under a traditional model where negotiations with non-audit partners may be required.

- **Erosion of Audit Firm Objectivity**

A concern for some observers is the potential for the AFI, particularly PE investments, in audit firms to erode auditor objectivity in ways that negatively impact audit quality. Below are several examples of how auditor objectivity could be impacted under an AFI model:

- **Conflicts of interest.** Outside investment may create actual or perceived conflicts of interest.

Actual conflicts of interest may arise when there are shared client relationships between the audit firm and non-audit firm entities and in situations where investors' portfolio companies are either clients or vendors of the accounting firm. Either instance may create scenarios where the interests of an auditor could come into conflict with the interests of the client. More generally, outside investments may create the appearance of a conflict of interest that undermines investor or public confidence in the work of an auditor.

- **Audit Client Confidentiality.** Audit firms maintain significant confidential financial and non-financial information about the entities that they audit. There is a risk that confidential client information could be accessed for non-audit purposes in an AFI model.

Such conflicts could impact a firm's compliance with auditor independence rules, depending on the jurisdiction.[54] Moreover, failure of the new firm leadership under AFI arrangements to establish governance structures and strong controls for independence requirements and conflicts of interest could prove detrimental to audit quality over time and deteriorate ethical culture.

Interviewees identified independence risks arising from conflicts involving PE portfolio companies, shared client relationships, dynamic investment portfolios, shared service arrangements and potential access by investors or non-audit entities to audit client data. In addition to concerns about independence in substance, several interviewees also stressed the importance of public perception of independence, noting that trust in audit can be affected even where legal independence requirements are formally met.

- **Impacts on Audit Firm Competition**

AFI's effect on competition may also in turn affect audit quality. AFI has the potential to shrink the number of accounting firms performing public company audits in two main ways. First, AFI may involve merging smaller to medium-sized firms into fewer, bigger practices. Second, accounting firms that take AFI may choose to no longer perform public company audits and instead focus on growing higher margin non-audit services.

Whether a reduction in the number of accounting firms offering audits of public companies improves audit quality is uncertain. On the one hand, it creates less client choice, which may lead to market concentration that could reduce or eliminate competition based on audit quality in some markets. On the other hand, AFI may enable firms to compete for more audit business by improving their audit practice overall (discussed above), which could, in turn, improve audit quality.

One interviewee noted that firms may undercut audit fees to gain market share, and other interviewees raised concerns that consolidation and changing incentives could affect fees and reduce competition.

- **Risks to Firm Solvency**

Another indirect risk is the potential for AFI to increase the risk to a firm's solvency. As noted above, the three main exit strategies for PE investors are a public offering, selling to another PE firm, or through an acquisition. As audit firms are sold and resold to successive PE firms, the purchases may be financed in part by debt. Firms that struggle to service debt may be forced to cut costs in ways that negatively affect audit quality. For example, not being able to pay employees competitively could lead to employee turnover and an increased risk of reduced audit quality.

[54] Different jurisdictions may be subject to different independence requirements. In 2022, the staff of the IESBA published a study comparing the provisions of the International Code of Ethics for Professional Accountants applicable to PIEs with the independence requirements for entities that are subject to the U.S. Securities and Exchange Commission and the US Public Company Accounting Oversight Board (PCAOB). IESBA, Benchmarking International Independence Standards. An analysis of specific independence concerns related to AFI under international or U.S. rules is beyond the scope of this paper.

Section 2: Regulatory and Stakeholder Considerations

In Section 2, we provide a summary of how some regulators have adapted their regulatory and supervisory approaches in response to the increasing involvement of AFI in the audit sector. We also have categorized into six areas the potential risks related to AFI and provide a list of potential questions stakeholders may wish to consider in assessing each of the six areas of risk that AFI may introduce.

1 Current State of Regulatory Supervisory Approaches

The introduction of AFI into audit firms changes where supervisory risk lies. Across jurisdictions, the most persistent and primary drivers of risks arise in governance and accountability, particularly where control structures are layered or indirect.

As discussed above, the introduction of AFI into audit firms has implications for independence and ethical considerations, financial resilience, culture and behaviour, and cross-border ownership and governance structures. A key underlying challenge is whether the audit firm and its auditors maintain the necessary authority for ensuring audit quality. Interviewees discussed the importance of governance design, controls, monitoring mechanisms and early regulatory engagement to mitigate these issues. The interviews further suggest that it may be helpful for regulators to assess whether firms have identified AFI-related risks within their own systems of quality management and whether policies, procedures, reporting lines and escalation routes are operating effectively in practice.

To date, regulatory approaches are primarily focused on transparency of ownership and governance arrangements, scrutiny of incentive and control structures, and the management of risks arising during restructuring or integration. While the specific tools may vary, there is a consistent underlying objective to ensure that accountability for and authority to maintain audit quality remains clear within the regulated firm.

Below, we provide an overview of some of the approaches regulators and standard-setting bodies are taking in response to the increasing involvement of AFI in audit firms.

A. Changes to Regulatory Guardrails

Existing independence rules,[55] ownership restrictions, and governance requirements remain critical to audit quality and ethical behaviour. However, many of these guardrails were developed for traditional partnership models and may not fully anticipate alternative, more complex ownership structures involving external capital. Some regulators are assessing whether existing guardrails continue to operate as intended in these new structures rather than assuming that compliance alone is sufficient. Some regulators may find that clarification or modernisation of applicable rules or guidance may be required. In several jurisdictions, standard setters and oversight bodies have begun this process, with a particular focus on control and independence requirements.

For example, in July 2025, IESBA released a staff alert highlighting several important ethics and independence considerations for professional accountants (PAs) in public practice (PAPPs), especially leadership of accounting firms, under the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) as they consider investment from private equity organisations and after they accept such investment.

The U.K.'s Institute of Chartered Accountants in England and Wales (ICAEW) recently amended its

[55] For a more in-depth discussion of independence rules, see IESBA's 2022 study, "Benchmarking International Independence Standards." IESBA, Benchmarking International Independence Standards.

Audit Regulations to introduce strengthened control requirements for audit registered- firms. The key change is that decisions directing the overall policy of the firm or altering its constitution must now be controlled by "qualified persons." To achieve this, Chartered Accountants must typically hold a majority (i.e., more than 50%) of the voting rights, unless the firm's constitution requires a higher threshold. This is intended to ensure that control of audit firms remains with individuals licensed to perform audits.

In the U.S., the American Institute of CPAs (AICPA) proposed independence-rule revisions related to APS in December 2025, driven largely by the significant increase in PE and other AFI in accounting firms.[56] Some of the key updates focus on updating defined terms related to control and independence requirements. In February 2026, the AICPA also issued revised standards for peer review,[57] a requirement for licensure in nearly all states. AICPA noted several concerns with PE investments in accounting firms that it considered, including that "a conflict may exist between the CPAs' motive (public trust) and the PE investor's motive (profit)." The revisions required (1) peer reviews of firms with APS to be administered by the AICPA National Peer Review Committee (allowing the AICPA to closely monitor these reviews on a temporary basis) and (2) specialized expertise by the review team in independence requirements applicable to APS.

In the Netherlands, the Authority for Financial Markets (AFM) published a revised interpretation of the Dutch Audit Oversight Act in June 2026, clarifying its application in the context of increasing PE activity.[58] The revised interpretation requires that auditors occupy a "central position" in the firm by maintaining a "decisive influence" on the day-to-day operation of the firm, which requires that auditors have a majority of a firm's voting rights.

The Greek Hellenic Accounting and Auditing Standards Oversight Board (HAASOB) recently amended its supervisory approach to include inquiring about any confidential agreements between the audit firm and PE investor that fall outside of any administrative services agreements, also commonly referred to as "side agreements" or "side letters". These confidential agreements may grant the PE investor in the auditing firm special rights or terms that are not offered to the broader investor base. These agreements may be tailored to the specific relationship between the PE investor and the auditing firm and may grant rights relevant to control and independence of the audit firm.

B. Early Regulatory Engagement

The AFI ownership and control structures may weaken the alignment between regulatory accountability and the entities that exercise operational control. In some jurisdictions, there is a shift toward earlier, more proactive, firm-level, and transaction-aware regulatory engagement where audit firms undergo ownership, governance, or network changes.

As such, audit regulators are increasingly focusing on earlier engagement, with pre-transaction assessments typically focusing on ownership and control, governance arrangements, management roles, independence safeguards, and clarity of accountability. Where risks are identified, supervisors may use conditions, undertakings, or other supervisory tools to support continuity of regulatory obligations.

For example, the FRC recently made changes to its audit firm registration rules related to AFI, noting

[56] In the U.S., independence standards differ depending on the engagement. The PCAOB and SEC establish independence requirements for issuers, brokers, and dealers subject to their oversight, while the AICPA establishes standards applicable to its members and certain non-issuer engagements. Ownership and control restrictions for accounting firms are generally governed by state accountancy laws and regulations, rather than by federal rules.
[57] AICPA & CIMA, Peer Review Standards Update No. 3, Modernizing Peer Review Administration Requirements | Resources (Feb 12, 2026).
[58] AFM, Central position and decisive influence required for auditors within audit firms (June 15, 2026).

in its press release, "[w]here previously … registered firms could notify the FRC up to ten working days after governance or ownership changes had already completed, they will now be required to notify the FRC as early as reasonably possible ahead of any such planned changes; including as part of a restructuring or private capital investment. This change aims to provide the FRC with the necessary time to consider how structural changes may affect a firm's compliance with the requirements of the Regulations before they take effect - and to act decisively in the public interest if needed."[59]

Certain regulators are also using post-transaction monitoring to assess the impacts changes to firm operations have on audit quality. This includes reviewing changes to audit methodologies, systems of quality management, technology platforms, training arrangements, and the alignment of incentive and reporting structures. The aim is to ensure that control, accountability, and audit quality are maintained.

C. Audit Quality Reviews and Inspection Approaches

Inspection activities by audit regulators are increasingly focused on transitional risk associated with restructuring and ownership change, including considering whether firms have appropriately identified and addressed risks arising out of potential governance and process changes arising out of AFI. Regulators' file selection strategies may target audits performed before, during, and after restructuring to reflect the risk that audit quality may be affected during and following periods of organisational change. Some inspectors are also placing greater emphasis on firm-wide systems and controls, including methodology implementation, technology migration, quality management systems, and cultural indicators.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has adopted a targeted, risk-based inspection approach in response to the growing presence of private equity investment in audit firms. In addition to compliance with formal ownership and control requirements, IAASA's framework focuses on governance, accountability, culture, incentives, and resource allocation. As such, IAASA obtains an understanding of the firm's ownership, control, and governance arrangements, including the practical influence of investors, boards, and other decision-makers, to determine whether responsibility for audit quality remains vested in statutory auditors. This assessment is the foundation for the remainder of the inspection process. It informs the scope and focus of inspection testing in the areas of tone at the top, independence, remuneration and resource allocation, particularly where investor involvement or complex governance arrangements may create risks to audit quality. IAASA's updated inspection approach does not assume that private equity investment is inherently detrimental to audit quality. Rather, it recognises that alternative ownership structures can create both opportunities and risks and focuses on whether audit quality, professional judgement and the public interest responsibilities of statutory auditors remain protected notwithstanding external investment.

D. Enforcement Challenges and Regulatory Adaptations

Complex legal structures and successor arrangements may also limit the effectiveness of regulatory enforcement related to compliance by firms with applicable laws, regulations and standards. Regulatory liability may not transfer clearly from predecessor to successor entities, or complex APS structures may insulate – intentionally or inadvertently – certain entities or individuals with control over the firm from such liability.

[59] "The audit market is changing, with increasing restructuring activity and private capital investment across the sector. These updated regulations seek to ensure that the FRC has the visibility it needs to help drive improvements in audit quality, during periods of significant change, while also responding to the sector's call for greater flexibility and reduced administrative burden . . .." Anthony Barrett, Executive Director of Supervision, Financial Reporting Council, FRC strengthens oversight of PIE audit firm restructuring (March 31, 2026).

Certain regulators are exploring responses that are more targeted. This includes enhanced registration conditions, undertakings designed to secure continuity obligations, and coordination with professional bodies. Some jurisdictions are also considering whether legal reform is required to address successor-firm accountability more explicitly.

E. International Regulatory Coordination

The cross-border nature of many AFI-related transactions increases the importance and complexity of supervisory coordination. In these structures, ownership, control and operational activities may be distributed across multiple jurisdictions, while regulatory accountability remains anchored to a specific entity. Where transactions have cross border dimensions, some regulators highlight the importance of coordination with other authorities to address accountability, inspection continuity, and enforcement challenges where ownership chains or group structures extend beyond national boundaries.

In practice, certain regulators are strengthening information sharing, coordinated inspection activities, and alignment of supervisory approaches in relation to governance, independence, and enforcement challenges. Discussions within IFIAR support the development of a more consistent understanding of how these governance, independence, and enforcement challenges arise and how supervisory tools can be applied effectively in a cross-border context.

2 Core Risk Themes and Potential Stakeholder Questions

The audit has long been considered a public good that helps ensure the reliability of financial disclosures of publicly listed companies. The audit has many stakeholders including audited companies, investors in public companies, audit committees, and policymakers, among others, that could be impacted by the risks implicated by the introduction of AFI in an audit firm.

Broadly, the risks discussed in Section 1 can be organised into six areas.[60] Together, these six areas may provide a structure for stakeholders to consider how ownership and financing changes in an audit firm may affect accountability, independence, audit quality, governance and financial resilience of a firm. These areas of risk distinguish between ownership and control, recognising both formal governance arrangements and the practical exercise of influence over decision-making and culture.

The following section sets out the six areas of risk and includes questions that stakeholders, including audit committees, may want to consider assessing potential risks and the firm's responses to those potential risks when AFI is introduced to an audit firm.

A. Ownership and Control

Risk: Non-auditor investors may exert undue influence over audit-related decisions while remaining insulated from accountability for audit outcomes.

Stakeholders may ask about ownership chains, i.e., structures through which control of the audit firm is transmitted, control rights, board composition and decision-making authority and the extent to which influence is exercised through financial, contractual, or informal mechanisms.

Potential Questions:

- Where does decision-making authority actually reside with respect to the audit practice?
- How does the audit firm hold decision-makers accountable for audit quality?
- How are key decisions made about the operation of the audit practice? For example, by whom

[60] These are informed by the analytical framework set out in an internal FRC discussion paper. They have been adapted for use as a practical monitoring framework in this report and should not be interpreted as formal FRC supervisory policy.

and on what basis are decisions made about fees for service, resource allocation, compensation, methodology, staffing, quality management, and engagement performance?
- What role do PE investors and owners of any affiliated non-audit entity play in influencing or approving the operation of the audit practice?
- How does the ownership and governance structure comply with applicable regulatory requirements (if applicable)?

B. Objectivity and Conflicts of Interest

Risk: Investor involvement may introduce incentives that are not aligned with audit quality.

Stakeholders may ask whether changes to governance arrangements, remuneration structures, and investor rights could create incentives that could negatively impact audit quality.

- How does the firm identify and address conflict-of-interest risks?
- How does this firm determine which entities of investors are subject to its conflict-of-interest rules?
- How are new associated entities, acquisitions, portfolio investments, and business relationships incorporated into any applicable conflict-monitoring and restricted-entity processes?
- What protections are in place to prevent the misuse of confidential audit information by the PE investors, lenders, affiliates, or other third parties?

C. Audit Quality and Professional Judgement

Risk: Profit motives and pressure may affect the audit judgements, particularly during periods of transition.

Stakeholders may ask whether changes in ownership or structure are associated with shifts in methodology, staffing, resourcing, or decision-making processes that could affect audit quality.

- How will the introduction of new capital be used to improve audit quality?
- Do growth objectives, profitability targets, exit strategies, debt obligations, cost-reduction initiatives, or return expectations place pressure on audit quality or professional judgment?
- How does the firm's business model balance audit and non-audit revenue objectives?
- What controls ensure commercial considerations do not influence auditor judgments, consultation processes, engagement staffing, resource allocation, or willingness to challenge the audit client's management?
- What audit quality risks have been identified by the firm as a result of the transaction, financing arrangement, or organisational structure, and how has the firm addressed such risks?
- Have there been significant changes in engagement leadership, staffing, methodology, technology, consultation practices, quality controls, or quality management systems?

D. Governance and Culture

Risk: Governance arrangements may not sufficiently reinforce audit quality, ethical behaviour, or escalation of concerns.

Stakeholders may ask whether a firm has adopted accountability mechanisms that support auditors and audit quality.

- What decisions remain exclusively with audit leadership, and what decisions require investor, lender, affiliate, or holding-company approval, consultation, notification, or influence?
- How does the firm's governance framework support auditor independence, professional skepticism, ethical conduct, and investor protection?
- How does the firm empower audit professionals to escalate concerns, challenge audit client's

management, and make difficult audit judgments?
- What mechanisms exist within the firm to report and resolve audit quality or independence concerns?
- Has the firm considered how compensation systems, promotion criteria, performance metrics, and staff utilization targets may affect an auditor's willingness to exercise professional skepticism?
- Has the firm experienced atypical staff turnover since governance and financing changes were introduced?
- Has the firm seen significant departures of senior staff? If so, how have those senior roles been filled?
- Has the firm experienced a change in the composition of clients since the change in governance and financing?

E. Financial Resilience and Leverage

Risk: Financing structures may introduce constraints, pressures, or incentives that could affect a firm's ability to make investments that support audit quality, absorb shocks, and maintain stability.

Stakeholders may ask how financing obligations may impact a firm's financial resilience.

Potential Questions:
- Could leverage, debt-service obligations, investor return expectations, or financial covenants materially limit the resources devoted to audit quality?
- How resilient is the firm's financial model under adverse scenarios such as economic downturns, client losses, litigation, regulatory sanctions, reduced audit demand, or partner retirements?
- How does the firm plan on increasing growth and do the PE investors have a time horizon for seeking a return?

F. Integration and Consolidation

Risk: Repeated restructuring may introduce execution and cumulative change risks.

Stakeholders may ask whether integration plans deliver consistent methodologies, stable governance, and effective remediation processes across combined or restructured entities.

Potential Questions:
- Does the firm's strategy involve acquisitions, mergers, platform expansion, roll-ups, restructuring, or cross-border consolidation?
- How are acquired firms, personnel, and operations integrated into quality management systems, audit methodologies, independence controls, and governance structures?
- What controls exist to ensure consistency in audit execution, methodology application, engagement support, and remediation across an expanded organisation?
- What operational, cultural, staffing, governance, or independence risks could arise from integration activities?
- How are integration risks monitored and addressed to prevent adverse effects on audit quality, regulatory compliance, and financial performance?
- Is there objective evidence that prior acquisitions or integrations have been successfully implemented without degrading audit quality or consistency?

Conclusion

The AFI examined in this paper may reshape the relationships among ownership, control, capital, incentives, and accountability in the audit sector. These developments may create opportunities to support audit quality through investment in technology, talent, scale, professional management, and operational infrastructure. At the same time, they may introduce or heighten risks to audit quality where investor return expectations, leverage, exit strategies, complex contractual arrangements, or integration pressures affect the autonomy, professional judgment, culture, resource allocation, or financial resilience of the audit practice.

AFI is not inherently beneficial or harmful, but when examining AFI arrangements, stakeholders should focus on the operation of specific transaction structure, governance design, contractual safeguards, financing arrangements, and regulatory requirements in practice. Important supervisory and stakeholder considerations include whether:

- accountability for audit quality remains clear and enforceable within the regulated audit firm,
- audit professionals retain substantive authority over audit judgments and quality management,
- conflicts of interest and independence-related risks are effectively identified and managed, and
- audit quality is maintained during periods of restructuring, integration, and ownership change.

Some audit regulators have responded to these market developments by engaging with firms considering AFI, performing targeted inspections, and monitoring, and considering whether existing regulatory frameworks remain effective in light of these more complex ownership structures. Many regulators also continue to engage in bilateral and multilateral settings on these market changes.

Although IFIAR has not conducted a comprehensive assessment of the impact of AFI on audit quality, IFIAR's analysis has identified certain risk areas that merit continued attention, including significant investments in partner buyouts, reduced investment in technology and talent development, and increased staff or client turnover. Accordingly, IFIAR will work with its member jurisdictions to continue to closely monitor the potential effects of AFI on audit quality and the audit profession.

IFIAR can play a meaningful role in this area by facilitating information exchange among Members and other stakeholders, supporting a common understanding of emerging risks and supervisory practices, and sharing relevant insights. IFIAR’s December 2024 statement signaled early attention to private equity investment in audit firms, and the present analysis builds on that work by examining how these developments have continued to evolve. As AFI in the audit sector continues to develop, IFIAR will continue to monitor market trends, support Member dialogue, and contribute to informed supervisory consideration aimed at protecting audit quality, auditor independence, and the public interest.

Appendix 1
PE Fund Structure

A PE fund, generally structured as a limited partnership, is designed by a PE firm that serves as the general partner (GP). The GP then raises capital from limited partners (LPs), such as institutional investors, including pension funds and insurance companies, as well as high-net-worth individuals, to establish the PE fund. In addition to LPs' investments, the GP also makes a capital contribution to the fund (GP commitment), thereby aligning the interests of the GP and the LPs.

The GP is responsible for the management and operation of the PE fund and undertakes core activities including sourcing and originating investment opportunities, conducting due diligence, selecting portfolio companies for investment, and providing ongoing operational and strategic support to portfolio companies. The GP owes fiduciary duties to the fund and acts as the fund's agent and representative in its external dealings. The GP receives a management fee, calculated as an annual fixed percentage of the committed capital, and carried interest, representing a specified share of the fund's profits upon successful exit from investments.

By contrast, LPs are investors in the PE fund and do not participate in its day-to-day management or operations. Since LPs have limited ability to influence the GP's investment and management decisions, their liability is limited to the amount of their capital commitments.

The relationship between the GP and LPs is governed by a Limited Partnership Agreement (LPA), which sets out provisions covering voting rights, information and reporting rights, restrictions on the transfer of partnership interests, and the compensation structure payable to the GP.

In addition to funding from its GP and LPs, PE funds may also obtain loans from third party lenders (including banks or private debt funds) in order to acquire a business using borrowed funds (leveraged buyout or LBO). The businesses or companies which the PE fund acquires or in which it invests are known as its portfolio companies, while Special Purpose Vehicles (SPVs) are often used in LBO transactions in order to ensure that the debt obligation of the LBO is limited to the acquired business rather than the PE fund's other assets.

The diagram below illustrates the typical structure of a PE fund:

