



Financial Reporting Council

SME Audit Market Study

Emerging findings



July 2025

Foreword from Director, Strategy and Change

Small and medium-sized enterprises (SMEs) are an important bedrock for our economy. Sitting at the heart of local communities across all regions and nations of the UK, they are drivers of innovation and job creation employing around 16.5 million workers. Our long-term economic success requires an environment that supports businesses to start-up, scale-up and succeed.

Access to audit is often important in supporting SMEs to secure the capital they need to scale and grow. We launched this market study to better understand the challenges they face, how the audit market is serving them, and explore opportunities to reduce burdens where possible. In this first phase, we have engaged with over 500 stakeholders including SMEs, capital providers and auditors.



Miranda Craig
Director, Strategy
and Change

The market for SME audit is wide-ranging with around 2,000 firms undertaking over 70,000 statutory and non-statutory audits every year in the UK, generating audit fees of around £1.5 billion. While it appears that SMEs who are seeking audit services are able to secure them with no capacity problems evident, over time these may emerge if the issues identified are not addressed.

There are many organisations operating in, or which have regulatory responsibilities for, the SME audit market. The potential remedies proposed in this paper utilise the different faces of our regulation – including our supervision of the Recognised Supervisory Bodies (RSBs) and our ability to facilitate and convene relevant organisations to discuss and address issues in their remit.

Unsurprisingly, we have found that SMEs want to receive an audit appropriate to their size and complexity, and auditors want to deliver this. This requires auditors to apply auditing standards in a scalable way. Alongside this report, the FRC has launched a consultation on guidance to support auditors to better deliver a proportionate audit, and wants to better understand the reported challenges with other standards and what support material may be needed.

The vast majority of audit firms undertaking SME audits are regulated on the FRC's behalf by RSBs, with audits inspected by their teams. We have heard concerns regarding the proportionality of the regulatory approach taken with audits of SMEs by the RSBs. For firms to have the confidence to deliver audits scaled to SMEs, the FRC and the RSBs have agreed to work together to reflect on this feedback, ensuring there is a proportionate approach to regulation of these audits, which is applied consistently across the sector. This will include ensuring the Practice Note for audits of smaller and/or less complex entities being consulted on is embedded into both the FRC and RSB's approaches to audit inspections.

The greater use of technology and innovation is reported by respondents as presenting opportunities, but also risks to smaller audit firms and practitioners. In the market study's second phase, we will help facilitate conversations between audit firms, RSBs and technology firms so that current thinking and ideas can be shared, including on tools aimed at supporting smaller firms.

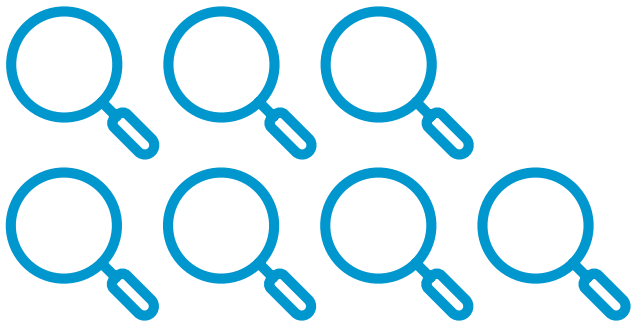
With this report we are commencing the second phase of our market study. We will be engaging with stakeholders over the coming months to hear their views on the findings identified and the remedies proposed, and work with them to develop and implement actions that can be taken forward by different parts of the system to address the challenges seen in the SME audit market.



At a glance

Over

£1.5bn total audit fees in 2023

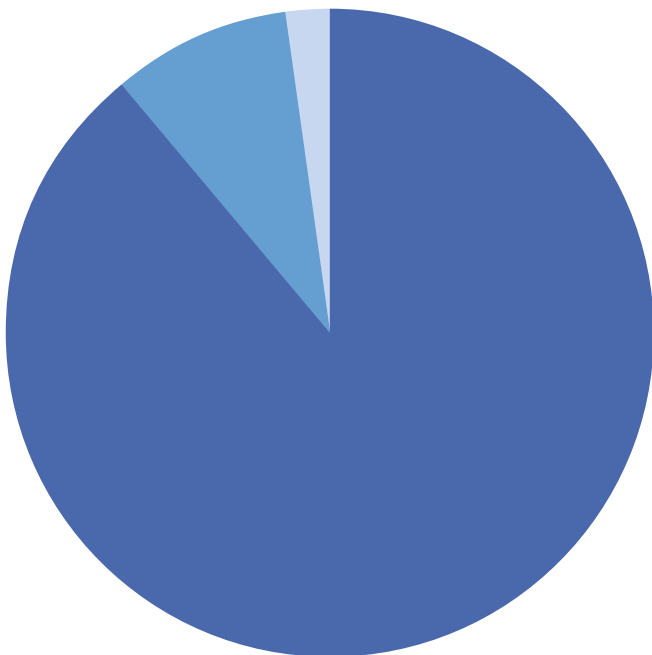
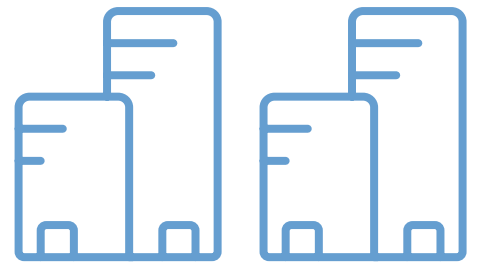


c.70,000

audits carried out in 2023

c.2,000

audit firms active in the SME audit market



89%

of those SMEs obtaining an audit did not have difficulties in finding an auditor

9% experienced moderate challenges

2% experienced significant challenges

Emerging findings

Potential remedies

Many stakeholders:



- Perceive a lack of scalability and proportionality in auditing standards.
- Think the standards do not address the needs of the SME audit market.
- Consider that the Ethical Standard restricts choice and provision of services to SMEs that are disproportionate to the risk.

The FRC is consulting on a Practice Note to provide guidance for the audits of smaller and less complex entities.

We plan to facilitate discussions with RSBs and wider stakeholders on what could be done to improve the understanding and application of the Ethical Standard.

Many smaller audit firms believe regulators expect them to do more work for SME audits than may be necessary.



In addition to our project on the future of audit supervision strategy (FASS), we plan to facilitate discussions with RSBs and audit firms to explore:

- The priority features of a more proportionate supervisory approach to SME (and less complex) audits and how best to achieve them consistently.

Smaller audit firms may lack resources and technical knowledge to implement and customise technology resulting in overreliance on third-party technology that may limit innovative approaches to SME audits.



We plan to facilitate conversations between smaller audit firms, RSBs and technology developers to discuss:

- The challenges faced by smaller audit firms in more detail.
- How technology developers and these firms can explore the development of these customised technologies and tools tailored to their needs.

While audits can offer value to SMEs, they may not always represent the most proportionate course of action for all SMEs.



We intend to facilitate further engagement with the following stakeholders:

- SMEs to better understand the reasons they obtain audits.
- Capital providers to understand their SME-related information needs; and expectations relating to assurance.
- RSBs, SMEs and other stakeholders to understand their views on alternative forms of assurance services which may meet SME needs.

Understanding and knowledge of audit varies across the SME audit market.



We believe there could be scope for RSBs and other relevant bodies to develop targeted educational and explanatory materials to address knowledge gaps in the SME audit market; and to enhance the effectiveness and efficiency of SME audits. We intend to facilitate discussions with RSBs and wider stakeholders to understand how this could be addressed.

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1. Introduction

Aims of the study

1. In February 2025, we launched a market study to examine how effectively the audit market serves SMEs and explore the opportunities to reduce their reporting burden where possible. This study is the first phase of our broader campaign to support UK SMEs to access audit services and secure the capital they need for growth.
2. The exploratory market study is focused on: understanding any challenges faced by SMEs in relation to audit and reporting, understanding where audit firms (including smaller firms) have difficulties in auditing SMEs, and understanding the decision-making process for SMEs who procure audit services when otherwise exempt.
3. For the purpose of the market study, SMEs in scope are those corporate entities that qualify as small or medium-sized under the Companies Act 2006 definition¹ as of 6 April 2025 that have not elected to apply any legislative exemptions from audit.²

Information gathering and stakeholder engagement

4. We have obtained information from a range of sources to inform the first phase of the market study. We have gathered stakeholder views through: 14 roundtables attended by stakeholders relevant to the market; an externally commissioned survey of 400 SMEs; 12 bi-lateral meetings with audit firms and practitioners, RSBs and capital providers; and 38 written responses to our invitation to comment. We would like to thank all those who have contributed to the study to date.

Next steps

5. We welcome responses to this emerging findings document and intend to carry out further, targeted engagement over the second phase of our market study to gather further information and develop remedies in response to the issues we have identified to date. We will produce a final report when the study concludes.
6. In addition, there will be specific engagement and a consultation relating to the Practice Note for audits of smaller and/or less complex entities ('Practice Note'). We would welcome stakeholders' view on this key document.

¹ Detail provided in [SME market study invitation to comment](#)

² The Companies Act 2006 provides exemptions, in certain circumstances, for certain small (as defined) companies and qualifying subsidiaries. [See UK Government website](#)

2. Market overview

7. In this section, we set out some headline data and information³ relating to the SME audit market. We intend to collect further data and information during the second phase of the market study, and provide a fuller analysis of the market in our final report.

Size of the market

8. The SME audit market represents a significant proportion of audits carried out in the UK, with over 70,000 audits (including both statutory and non-statutory) carried out in 2023⁴, representing audit fees of over £1.5 billion. However, it is important to note that the majority of the circa 1.3 million SMEs, namely most micro and small entities, are exempt from the requirement to obtain a statutory audit.

9. The SME audit market is served by a range of audit firms, ranging from Big 4 firms to small, local practitioners. Our analysis to date shows that there are circa. 2,000 audit firms active in the SME audit market; with 82% of SME audits being carried out by firms falling outside of the top tier of the six largest UK firms.^{5, 6}

Over
70,000
audits carried out
in 2023 representing
audit fees of over
£1.5 billion

10. In 2023, the average audit fee for SMEs was £22,000, with small-sized entities' fee averaging approximately £19,000 and medium-sized entities approximately £35,000.⁷ In contrast, the average audit fee for companies in the FTSE 350 was approximately £3.7 million.⁸

Demand for audit

11. Interim results of our survey of SMEs indicate that of a small minority of SMEs that have had an audit conducted, approximately 9% obtained audits not mandated by statutory audit requirements, with the remaining SMEs obtaining audits in compliance with these statutory obligations.

Supply of audit

12. Interim survey findings indicate that 89% of those SMEs obtaining an audit did not have difficulties in finding an auditor, while the remaining 11% encountered challenges (predominantly relating to the availability of suitable providers), with 9% experiencing moderate challenges and 2% facing significant challenges.

³ Data analysis has been conducted by the FRC Data analytics team and by an externally contracted, independent, third-party research firm. The externally contracted research is ongoing and further details will be provided in our final report.

⁴ While the new thresholds effective from 6 April 2025 have been applied to most of the work in the study, the data analysis relates to the 2024 year end to provide a complete picture of the market over a full year. Therefore, the thresholds in place prior to 6 April 2025 were applied:

- Small: turnover of £10.2m or less, balance sheet total of £5.1m or less, 50 employees or less (meets two of three).
- Medium: turnover of £36m or less and balance sheet total of £18m or less, 250 employees or less (meets two of three).

⁵ The FRC categorises the largest six audit firms in the UK, who audit the largest share of the UK Public Interest Entity and Major Local Audit markets, as 'Tier 1' firms. The six Tier 1 firms in 2023/24 were: BDO LLP, Deloitte LLP, Ernst & Young LLP, KPMG LLP, Mazars LLP (now known as Forvis Mazars LLP) and PricewaterhouseCoopers LLP.

⁶ FRC internal data analysis of audits of SMEs carried out in 2023.

⁷ FRC internal data analysis of audits of SMEs carried out in 2023.

⁸ Figure derived from the FRC [Audit market and competition developments](#) paper

3. Emerging findings and potential remedies

13. In this section, we set out our emerging findings and the potential remedies identified to date.
14. Through the information and data we have collected so far, we have not identified significant concerns about the functioning of the SME audit market, specifically regarding SME access to audit.
15. However, we have identified a number of issues in the market through our stakeholder engagement, which can be summarised into five broad themes:



Regulatory requirements relating to SME audits.



Regulatory supervision of SME audits.



Technology used for SME audits.



The appropriateness of the audit product to certain SMEs.



Potential knowledge and resource constraints within SMEs.

16. Many of the issues we have heard about in the SME audit market study are similar to those we have previously identified in other parts of the audit market. Many of these issues are also longstanding. For example, in our [externally commissioned research](#) on audit firms' views on entering and expanding in the Public Interest Entity (PIE)/non-PIE audit market (2024), we heard from small audit firms about issues relating to regulatory requirements, regulatory supervision, and technology.
17. From our work to date, we do not think there is a single remedy that can address all the issues but we think there is potential for a range of organisations including the RSBs and audit firms to take actions in response.
18. The remainder of this section sets out our key emerging findings in relation to each theme and some potential remedies, and areas for further engagement during the second phase of the market study. It should be noted that these potential remedies are by no means definitive or final at this stage, but are intended to provoke and focus discussion and engagement in the next stage of the market study.



Regulatory requirements

Emerging finding: Many stakeholders perceive a lack of scalability and proportionality in auditing standards and think the standards do not address the needs of the SME audit market.



19. All audit firms, smaller practitioners and RSBs told us that they felt the International Standards on Auditing UK (ISAs (UK)) are drafted with reference to larger and more complex, corporate audits. As a result, auditors, particularly smaller firms, may struggle to scale the standards appropriately for SME audits.
20. Several stakeholders stated a view that firms who struggle to scale requirements may 'over audit' to ensure compliance with these standards and to meet inspection expectations. Such disproportionate application may lead to additional costs for SMEs and a longer time period to complete audits than is necessary.
21. Many stakeholders argued that there is a need for additional support for smaller audit firms and practitioners to assist them in determining instances where standards can be scaled to meet the needs of less complex and SME audits.

Further stakeholder engagement and potential remedies

22. On 4 June 2025, we held a webinar⁹ on ISA for Less Complex Entities to give stakeholders an opportunity to share their views on the topic.
23. We are currently developing a Practice Note, scheduled for publication in early 2026¹⁰. The consultation period closes on 17 October 2025.
24. We use practice notes to assist auditors in applying auditing standards of general application to particular circumstances and industries. In response to feedback regarding the difficulty in applying the requirements of the ISAs (UK) to the audit of financial statements of smaller and/or less complex entities, the objective of the new Practice Note is to provide guidance to auditors on how to apply the requirements in an effective, scalable and proportionate basis.
25. The insights gathered from stakeholders who attended the webinar will be considered as part of the Practice Note consultation and in further engagement with stakeholders to inform this study's final report.

We are developing a Practice Note to provide guidance for audits of smaller and less complex entities

⁹ The webinar was recorded and is available [here](#).

¹⁰ A draft Practice Note has been published for consultation and is available here: [X]

Emerging finding: Many stakeholders consider that the Ethical Standard¹¹ restricts choice and provision of services to SMEs that are disproportionate to the risk, but there may be a lack of understanding of the Ethical Standard by audit firms.



26. Many stakeholders reported SMEs often expected their auditor to provide a range of services alongside the audit, including tax advisory, financial reporting or other advisory services¹², and did not understand why their auditor could not do this because of the Ethical Standard and the Codes of Ethics maintained by each of the RSBs.

SMEs often expected their auditor to provide a range of services alongside the audit

27. Further, many stakeholders commented that the Ethical Standard restricted the amount of non-audit services an auditor could provide a client, and this could present challenges where SMEs expected more from their auditor. The additional services SMEs sought from their auditors often related to filling gaps in the knowledge of SME employees, such as in relation to financial reporting.
28. Several audit firms commented that they were prevented from aiding their SME clients with additional work, despite in some cases, the auditor being best placed to help. As a consequence, the audit firms suggested SMEs might need to hire additional external accountancy firms and would incur greater costs.
29. Some stakeholders said that the Ethical Standard was complex, and more guidance might be needed for auditors. This perceived complexity could potentially lead to inconsistent application of standards, or firms not taking advantage of existing reliefs that would enable them to provide a more flexible service.
30. While Section 6 of the Ethical Standard, Provisions Available for Audits of Small Entities (PASE) does provide alternative provisions for auditors of some smaller entities, we have found these provisions might not be universally understood. In some instances, we also heard that these provisions might not be applied due to uncertainty created by inconsistencies in supervisory approaches.

Further stakeholder engagement and potential remedies

31. In the next stage of the market study, we want to engage with RSBs on actions to improve the understanding and application of the Ethical Standard (which aims to enhance and clarify the principles of integrity, objectivity and independence that auditors must adhere to) in the market. Such actions should aid in more consistent and universal application of PASE by auditors and would clarify, to SMEs, what services auditors are able to provide to them. An example of an area where greater clarification could be useful is the relationship between the FRC's Ethical Standard and the underlying RSB and International Codes of Ethics.
32. We believe there is scope to develop additional supporting and education materials for auditors, including practical examples, to increase understanding and application of the Ethical Standard. Further targeted engagement could be undertaken to identify and clarify any gaps in existing material.

¹¹ Revised Ethical Standard 2024 for auditors

¹² This is linked to the 'expectation gap' discussed on page 14, which describes the disparity in what SMEs expect from their auditor, and what an audit entails.



Regulatory supervision of SME audits

Emerging finding: Many smaller audit firms believe regulators expect them to do more work for SME audits than may be necessary.



33. The majority of smaller audit firms raised concerns over the proportionality of the RSBs' supervisory approach to SME audits. Many audit firms said the current supervisory environment prioritises compliance and exhaustive documentation over auditors' professional judgment. Many audit firms expressed the view that all audits, irrespective of size and complexity and whether they are statutory audits (or contractually agreed work relating to non-statutory audits), were expected to meet the same standards and were inspected in the same way.
34. Many stakeholders said that the current approach to regulation leads auditors, particularly smaller firms, to prioritise resource-intensive 'checklist' adherence that disincentivises proportionate approaches to SME audits. Some firms commented that the regulatory expectations were sometimes more stringent than the auditing standards themselves.
35. Several audit firms said a more proportionate approach to audit supervision for lower risk and smaller audits would ease pressure on the SME market. Some stakeholders suggested a different supervisory approach could reduce SME audit costs and would encourage innovation by audit firms and smaller practitioners.
36. Many audit firms suggested that the FRC should take a more collaborative approach to support growth of smaller audit firms and focus on the improvement of audits. Some suggested a more outcomes-and-principles based inspection style, which would shift the focus from a compliance exercise for auditors.

Several audit firms said a more proportionate approach to audit supervision for lower risk and smaller audits would ease pressure on the SME market

Further stakeholder engagement and potential remedies

37. This emerging finding is consistent with the perceptions of audit supervision of the entire market previously identified by the FRC. As part of the next phase of our study, we plan to engage and collaborate closely with RSBs, audit firms and other stakeholders to explore what the priority features of a more proportionate supervisory approach to SME audits would be and how best to achieve them. We are interested in exploring, through further engagement, whether exempting non-statutory audits from the scope of audit inspections carried out by RSBs would aid the market.
38. Consistent with the objective of the Practice Note, we want to explore, in collaboration with the RSBs, how to ensure greater consistency in the supervisory approach to audits adopted by the FRC and the RSBs. This includes how that approach takes account of the relative size, risk and complexity of smaller and less complex entity audits.

39. This links with our project on the [future of audit supervision strategy \(FASS\)](#) – a comprehensive review of our approach to audit supervision. This project will look at ways to make our approach more effective, proportionate, agile and fit for the future. Proportionality is key to delivery and the approach is considering ways to respond to the risks arising and the impact on the whole market.



Technology

Emerging finding: Smaller audit firms may lack resources and technical knowledge to implement and customise technology resulting in overreliance on third party technology that may limit innovative approaches to SME audits.



40. Several stakeholders told us that smaller audit firms face several challenges when conducting audits on SMEs, particularly relating to overreliance on externally developed and non-customised audit-related technology and tools¹³.

41. Some stakeholders commented that smaller audit firms may have limited financial resources and technological knowledge, which could hinder their implementation and customisation of audit-related tools and technology. Some stakeholders said that smaller audit firms in particular can lack the capacity to customise methodologies for auditing smaller and less complex entities, which can result in rigid methods and limited professional judgement from the auditors.

Smaller audit firms may have limited financial resources and technological knowledge, which could hinder their implementation and customisation of audit-related tools and technology

42. We heard that if smaller audit firms invest in technology, time constraints could lead them to layer new technology over outdated systems. Despite the gradual introduction of new technology, this approach could add complexity to the audit process, increase pressure on internal teams at SMEs, and may raise costs with limited benefits for smaller audit firms.
43. Further, some audit firms commented that smaller audit firms often lacked the systems and infrastructure needed to realise the cost savings associated with automation. This could limit their abilities to benefit from technological advancements.

Further stakeholder engagement and potential remedies

44. In the next phase of the market study, we want to facilitate conversations between audit firms and RSBs so that current thinking and ideas about addressing challenges relating to technology for smaller audit firms can be shared. Further, the FRC could promote engagement between technology developers and smaller audit firms, as they explore the development of customised technology and tools tailored to the specific needs of smaller audit firms.

¹³ The use of technology and tools within audit can include generative AI, data analytics tools, data extraction, and document matching products.



The audit¹⁴ product

Emerging finding: While audits can offer value to SMEs, they may not always represent the most proportionate course of action for all SMEs.



45. Some stakeholders suggested that the costs of an audit can often be disproportionate for smaller SMEs, and will typically outweigh the value added by the audit. Some stakeholders spoke of audits as purely a compliance cost.
- The costs of an audit can often be disproportionate for smaller SMEs**
46. Although stakeholders broadly agreed that audits could support SMEs with access to finance, investment readiness and enhancing internal governance, many suggested SMEs see limited value in having an audit.
47. We also heard from some capital providers that, while audits may be useful, they do not always drive investment or lending decisions for SMEs. The capital providers described an audit as a “hygiene factor” but with other due diligence and materials, such as management information and credit assessment tools, having a greater influence on their investment or lending decisions.
48. Many audit firms suggested there should be further exploration of alternatives to audits for SMEs, especially for the smallest of these entities, conscious that such alternatives do not undermine the ‘audit product’, and considering that ‘agreed upon procedures’ engagements do not provide assurance.
- There should be further exploration of alternatives to audits for SMEs, especially for the smallest of these entities**
49. Some of the alternatives proposed by stakeholders which may, in their opinion, be more suitable for the specific requirements of SMEs included options such as limited assurance engagements, reviews of specific items or higher level reviews (similar to the independent reviews for certain charities) and specific, targeted and contractually agreed procedures to meet a stakeholder need (e.g. obtaining finance).
50. To make such alternatives viable, the same stakeholders raised the need for additional support in the form of framework development to assist the smaller audit firms to conduct such activities in a standardised and consistent manner without requiring significant investment to be made by these firms (in the form of training and development of their own approaches).

¹⁴ In the UK, an audit could be a legal requirement (a statutory audit) or obtained voluntarily despite there being no legal requirement for an entity to obtain one. In this section, an ‘audit’ means one obtained regardless of any legal requirement to do so.

Further stakeholder engagement and potential remedies

51. As part of the next phase of the study, we plan to engage further with SMEs regarding the reasons they obtain audit and their perception of the value thereof.
52. Further, we aim to discuss with stakeholders, including RSBs and SMEs, the potential for identifying and promoting forms of alternative assurance to meet SME needs (where statutory audits are not required), recognising that amendments to existing regulations and standards might be required to facilitate changes. Additionally, engagement would seek to identify the nature of such amendments and which part of the system would be best placed to deliver them.
53. We also want to engage with capital providers to understand more about their information needs as they relate to SMEs, the potential sources thereof and their expectations relating to assurance services (that are not audits).



Knowledge and resource constraints

Emerging finding: Understanding and knowledge of audit varies across the SME audit market.



54. Many stakeholders have reported that, due to resource and time constraints, SMEs may find it challenging to stay up to date with legislative, financial reporting and audit requirements. We also heard that SMEs' limited resources can adversely affect their scope to prepare for audits and/or engage with audit processes. This may result in inefficiencies with SME audits, resulting in higher audit fees and delays.
55. Many audit firms told us that SMEs often have small management teams, which struggle to manage the potentially competing pressures of running their businesses and meeting auditor requests.
56. Several audit firms suggested SMEs often have limited, or out-of-date, knowledge of the requirements of financial reporting and audit standards. In the view of these stakeholders, these limitations may lead to errors in financial reporting, or SMEs not adequately preparing for an audit. SMEs' limited knowledge may also mean they are unable to assess effectively the quality of the audit they are receiving.
57. Some stakeholders suggested there was a persistent 'expectation gap' between SMEs and auditors, where SMEs often misunderstand the purpose and scope of an audit. In some cases, SMEs could be confused about the role of the auditor, lack awareness or acceptance of their own responsibilities in the audit process, and/or expect to receive services that fall outside the auditor's remit.

SMEs' limited resources can adversely affect their scope to prepare for audits and/or engage with audit processes

-
58. Many stakeholders, particularly audit firms, suggested SMEs would benefit from more materials to help them prepare for an audit and better understand the 'audit product' and the process by which it is delivered.

Further stakeholder engagement and potential remedies

59. We think there is scope for RSBs and other relevant bodies to develop targeted educational and explanatory materials to address knowledge gaps in the SME audit market alongside the FRC. These materials could include guidance or case studies, targeted at SMEs, to enhance the effectiveness and efficiency of SME audits.
60. As part of the next phase of the study, we plan to engage with all stakeholders on the information needs of SMEs and how these can best be addressed, recognising the resource and time constraints facing SMEs.

4. Next steps and invitation to comment

61. We intend to carry out further, targeted stakeholder engagement over the next phase of our market study to gather more information and develop remedies to address the issues identified to date. In addition, there will be specific engagement relating to the [Practice Note](#).
62. We welcome written submissions on any of the matters set out in this document by 17 October 2025. In particular, we would welcome responses to the questions set out below:
1. Do you agree with our emerging findings? Please explain.
 2. In light of our emerging findings, are there any additional actions – beyond those already proposed – that warrant further exploration?
 3. In instances where we have identified the potential for additional supporting materials for both SMEs and audit firms, what topics or areas should these proposed materials prioritise?
 4. Do you have any views or suggestions on how the supervisory approach to SME audits could be adapted, both in respect of quality assurance and the Ethical Standard?
 5. We have heard that smaller audit firms face challenges in deploying innovative technology. What additional measures, if any, could be implemented to help address these challenges?
 6. To the extent that you agree an audit may not always represent a proportionate approach for an SME (and where an audit is not statutorily required), what alternative assurance or contractually agreed mechanisms may be suitable? How would any alternatives meet the needs of SMEs and their stakeholders?
63. Please email any written responses to competition@frc.org.uk
64. All responses will be acknowledged. We expect to make responses publicly available on the FRC website unless respondents specifically request otherwise. If you send an email response that includes an automatically generated notice stating that the content is to be treated as confidential, you should make it clear in the body of your message whether you wish your comments to be treated as confidential. We will process personal data in accordance with UK data protection legislation and the FRC's Stakeholder Engagement Privacy Notice.



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