

SME Audit Market Study – Emerging findings at a glance



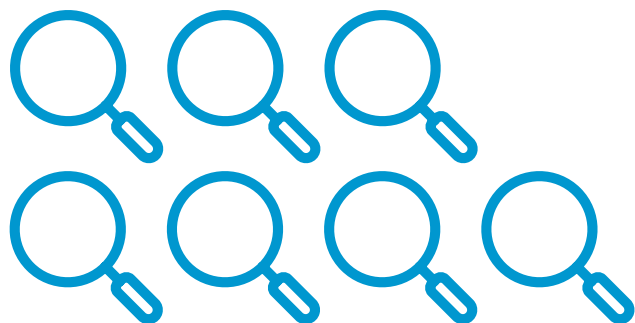
Financial Reporting Council



Over

£1.5bn

total audit fees in 2023

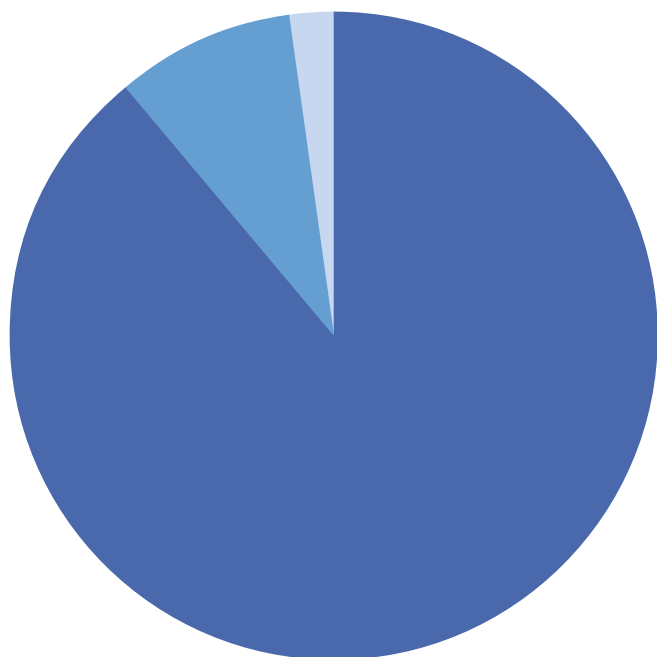
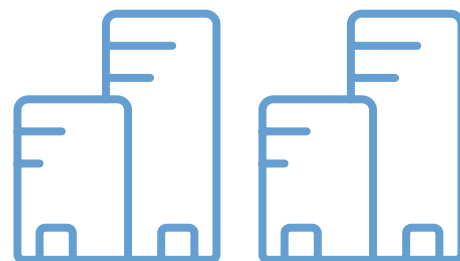


c.70,000

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

Submit a written response to the emerging findings

Get in touch to take part in the second phase of the market study: competition@frc.org.uk

Emerging findings

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.

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



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.



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



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



Potential remedies

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.

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.

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.

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.

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.

Get in touch

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