



Financial Reporting Council

# Small and medium-sized enterprises market study

Invitation to comment

February 2025

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# 1. Introduction

1. Small and medium-sized enterprises (SMEs) form a significant component of the UK economy. At the start of 2024, there were just under 5.5m SMEs in the private sector, representing more than 99% of the entire population, with a shared turnover of around £2.75tn (roughly 52% of total UK business turnover) and employing around 16.6m workers<sup>1</sup>. SMEs play a vital role in driving economic growth across all regions and communities in the UK through innovation and job creation.
2. The Financial Reporting Council (FRC) is supporting growth by understanding and improving market effectiveness. This includes developing our awareness of the issues faced by all businesses, including SMEs. We have heard of potential issues associated with reporting and audit requirements that may impact on the cost, availability and resulting access to audit services for SMEs. As a result, we want to build a greater understanding of challenges affecting SMEs, the decisions they make and the drivers for such decision-making.
3. The majority of audits in the UK are of SMEs, many of which will be undertaken by smaller practitioners who may not be directly regulated by the FRC but are overseen by their professional body. As the Competent Authority for all audit, and the regulator responsible for overseeing those professional bodies, we have an interest in gaining a better understanding of the entire audit ecosystem and the functioning of the whole audit market.
4. This greater understanding is to be developed through a study of the SME audit market. Given this market study will focus on a part of the audit market we have not previously examined, we anticipate it being exploratory in nature. It will focus on generating information and insights to improve our understanding of the dynamics around SMEs including their reporting/audit requirements and who is supplying their audits. The market study will also help support us in delivering our Growth Duty.
5. Market studies are a useful regulatory tool for exploring issues in a market. They can lead to a range of outcomes including richer insights about issues and proposals to improve how a market functions. This market study will aid the FRC in meeting, in particular, its strategic objective to “build on our deep understanding of corporate reporting and the audit and actuarial markets we oversee, and by being agile...identify and prepare for opportunities and challenges on the horizon”<sup>2</sup>. The study will inform further work which the FRC undertakes to support the proportionate application of audit standards to SMEs, and provide a deeper understanding of the role of audit standards in the effective functioning of capital markets.
6. We are keen to hear from any organisation or individual who may wish to respond to this invitation to comment in relation to the SME audit market. The remainder of the document provides further information to help inform responses. Some specific consultation questions and details of how to respond are set out on page 6.

<sup>1</sup> [Department for Business and Trade Official Estimates](#)

<sup>2</sup> [FRC 3-Year Strategy: 2025-28](#)

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## 2. Scope and approach to the market study

7. The scope of the market study will be the many audits conducted each year for SMEs – often by smaller audit firms - and the role such audits may play for SMEs, including in supporting them to access the capital they need to build and scale.
8. The companies relevant for this market study are the corporate entities that qualify as small or medium under the Companies Act 2006 definition<sup>3</sup> as of 6 April 2025 that have not elected to apply any legislative exemptions from audit<sup>4</sup>:
  - **Small:** turnover of £15m or less, balance sheet total of £7.5m or less, 50 employees or less (meets two out of three requirements).
  - **Medium:** turnover of £54m or less, balance sheet total of £27m or less, 250 employees or less (meets two out of three requirements).
9. The audit firms relevant for this market study are those that conduct audits for entities that fall within the small or medium definition. While the FRC is the regulator for the whole audit market, we only directly supervise audit firms with Public Interest Entity (PIE) audit clients so we will be engaging closely during the study with the recognised supervisory bodies that oversee smaller firms, especially where those firms do not conduct any PIE audits.

### Our areas of focus

10. We want to explore and understand how the SME audit market is working, including any burdens arising from reporting and audit requirements (and the application thereof), and the market forces driving the consumption of audit services by SMEs.
11. We will be interested in how the existing regulatory environment is affecting the market but will also take into account any relevant regulatory developments. For example, the Government's recent legislation to change Companies Act 2006 size thresholds from 6 April 2025 as well as the expected consultation in 2025 on changes to reporting and audit requirements following the outcome of the non-financial reporting review.
12. We will be interested in stakeholders' views on what, if any, further developments they would like to see, in relation to audits, for SMEs to ensure a well-functioning market.

<sup>3</sup> Definitions reflect the Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 (SI 2024/1303) which have effect from 6 April 2025. Current thresholds for small entities are a turnover of £10m or less and balance sheet total of £5.1m or less; current thresholds for medium entities are a turnover of £36m or less and balance sheet total of £18m or less.

<sup>4</sup> The Companies Act 2006 provides exemptions, in certain circumstances, for certain small (as defined) companies and qualifying subsidiaries. See UK Government website, [link](#).

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## How we will carry out the market study

13. We want to engage closely with stakeholders throughout the market study. In addition to seeking written responses to this document, we intend to gather views, information and data through other means including meetings, roundtables and additional external research or outreach.
14. We will be flexible in our approach and timings to take account of our stakeholders and any relevant, wider developments. We will aim to provide further opportunities for comment, for example on our emerging findings and any proposals for action. We anticipate the market study will conclude by late 2025.

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## 3. Consultation process and next steps

15. We want to hear from any interested parties. We particularly welcome responses, supported with data and evidence where available, to the following questions:

### Consultation questions

Q1. How well is the UK audit market currently functioning for SMEs?

Q2. What are the reasons for SMEs obtaining financial audits? What are the primary drivers in instances where an audit may not be mandatory to an SME?

Q3. What, if any, challenges do SMEs experience in relation to audits (e.g. in finding an auditor, engaging with the audit process)?

Q4. What, if any, challenges do audit firms experience in relation to audits for SMEs?

Q5. What, if anything, would you like to see change in relation to SME audits? (For example, any regulatory /policy changes and/or any specific actions taken by the FRC, Government, firms, companies or others).

Q6. What, if any, forthcoming developments might the FRC want to consider as part of this market study?

16. Please email your responses by 25 April 2025 to [competition@frc.org.uk](mailto:competition@frc.org.uk).
17. 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 which 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.<sup>5</sup>

**Financial Reporting Council, February 2025**

<sup>5</sup> Please see FRC privacy policy at <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>



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