Audit for Growth: Proportionality in audit and reporting

A joint update from the Association of Financial Mutuals (AFM) and the Building Societies Association (BSA)

In March 2025, the Association of Financial Mutuals (AFM), Building Societies Association (BSA), Quoted Companies Alliance and UK Finance published Audit for Growth: Proportionality in Audit and Reporting. That report set out a practical case for a more proportionate audit and reporting framework, identifying reforms that would maintain investor and consumer confidence while reducing unnecessary burdens on smaller and less complex organisations.

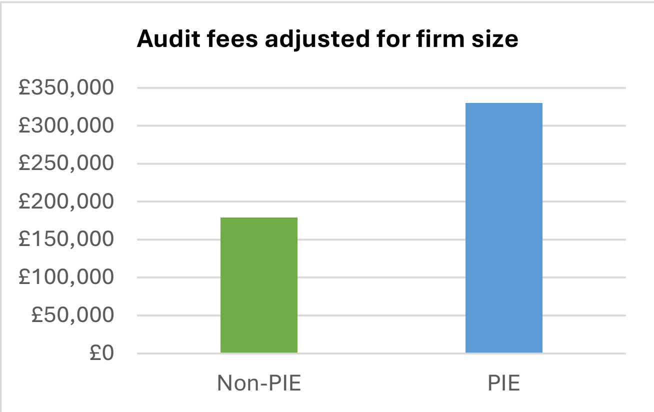
The recommendations contained in that report remain broadly unchanged. Since publication, however, audit and reporting costs continue to rise, competitive pressures in the audit market remain limited, and the burden continues to fall disproportionately on smaller mutual organisations.

Government has put growth, productivity and regional economic development at the centre of its programme, including a commitment to double the mutuals and cooperatives sector in recognition of its contribution to competition, financial inclusion, long-term investment and local economic resilience. The recent publication of growth strategies by both the AFM and BSA demonstrate the mutual sector's ambition to play a larger role in delivering these objectives. Both strategies identify proportionate regulation as an important enabler of growth and highlight the need for requirements that reflect firms' size, complexity and risk profile.

We remain disappointed that wider audit reform did not proceed earlier in 2026, and that this was not addressed in the recent proposals on Modernising Corporate Reporting (MCR). However, the forthcoming Autumn Budget and discussions to be held in light of the MCR proposals provide opportunities for Government to demonstrate its commitment to economic growth and the mutual sector by improving proportionality without weakening audit quality.

AFM Update: PIE firms continue to pay significantly more for audit than comparable non-PIE firms

AFM represents both PIE firms and non-PIE firms, which gives us the opportunity to directly compare the audit fees of PIE members with those of non-PIE members. **Among AFM members, PIE firms paid an average audit fee of £352,222 compared with an average fee of £91,695 paid by non-PIE firms.**[1] However, this comparison is somewhat conflated by size as AFM members within scope of PIE are, on average, larger than those outside the scope of PIE.



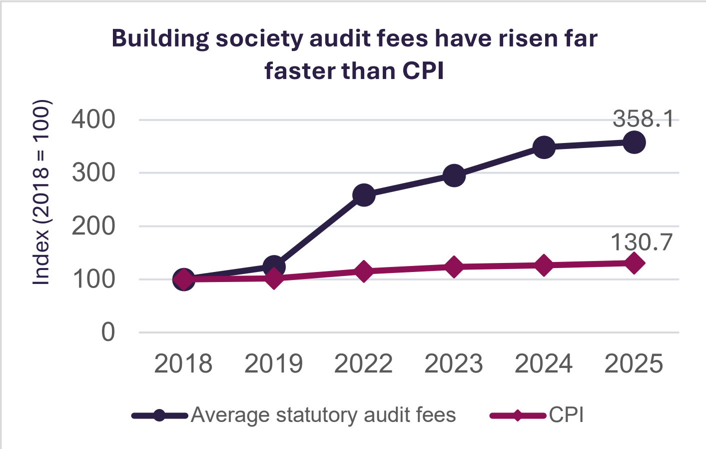
Even still, controlling for firms' size by premium income, total claims paid out and assets, **PIE firms can expect to pay nearly £151,000 more for their audit than comparable non-PIE firms**.

The added expense of PIE audit places a significant financial strain on firms for minimal added benefit. If the scope of the PIE audit regime were to be narrowed to focus on firms which are truly large and systemically important, smaller firms could invest the savings back into their business for the benefit of their customers and wider communities.

In its recently published recommendations to modernise friendly society legislation, the Law Commission recognised the significant evidence that the PIE regime places a disproportionate burden on friendly societies. Their report calls on Government to review the impact of the PIE regime on friendly societies and consider excluding those below an appropriate size threshold.

[1] Figures are based on AFM member firms' 2025 audit fees reporting in annual accounts and annual AFM member survey.

BSA Update: audit costs continue to significantly outpace inflation and disproportionately impact smallest societies



The pressure on audit costs continues to intensify. Updated analysis shows that average audit fees have increased by approximately 258% since 2018, compared with cumulative CPI inflation of 31% over the same period. [2,3]

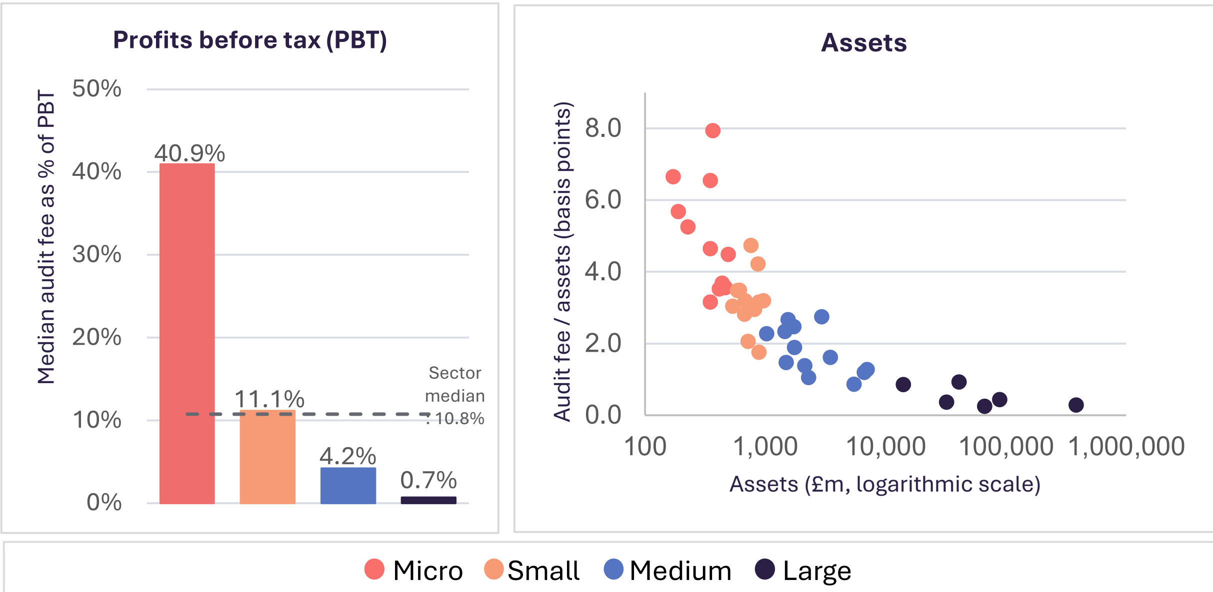
This means that **audit fees have increased over eight times faster than inflation over the same period.**

Excluding the effect of recent acquisitions by Nationwide and Coventry, the average increase in audit fees was 5.5% in the most recent year, this rose to 8% when those societies were included. The growing cost of audit is also consuming a larger proportion of societies' profits. The median profitable society's **audit fee increased to 11% of profit before tax in 2025 from 8% in 2024.**[4]

Audit costs continue to disproportionately impact smaller societies. The **audit-fee burden for micro societies was over 9 times higher relative to assets** than for large societies in 2025.[5] Among profitable micro societies, the median audit fee was equivalent to around 41% of profit before tax in 2025, and in some cases audit fees exceeded annual profits altogether.

These trends continue to underline why audit reform must not be treated as a peripheral issue: proportionate requirements are essential if smaller societies are to continue investing in members, communities and long-term growth. For every £1 not spent on audit this could support £20 of mortgage lending.

Smaller societies face a higher audit cost relative to profits and assets



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[2] Figures are based on group statutory audit fees reported in annual accounts. Nationwide and Coventry are excluded from updated long-term trend and profit analysis to ensure comparability.

[3] ONS CPI All Items Index (Series D7BT/MM23).

[4] Profitable societies excluding Nationwide and Coventry.

[5] Society size is based on year-end total assets: Micro, under £500m; Small, £500m–under £1bn; Medium, £1bn–£10bn; and Large, over £10bn.