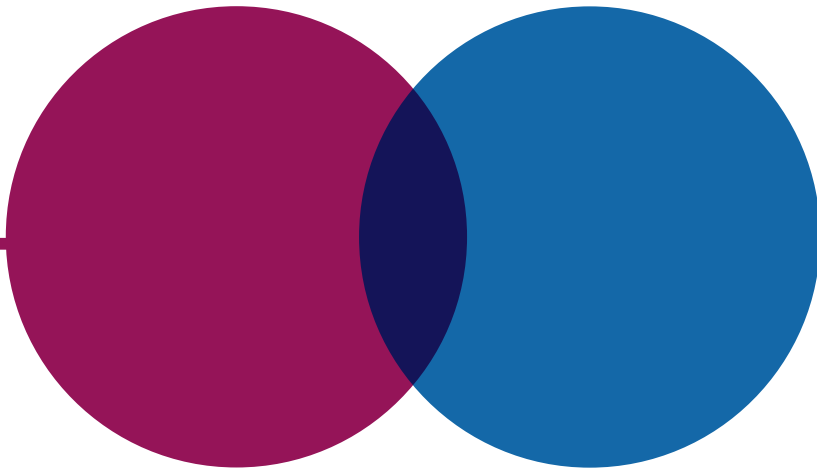




National Audit Office



REPORT

# Accountability in small government bodies

Cross-government

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REPORT

by the Comptroller  
and Auditor General

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SESSION 2024-25  
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# Summary

## Introduction

**1** Central government bodies are expected to comply with a wide range of requirements. They set out how government bodies operate, for example, how they work with each other, how they manage and account for public money, how they oversee their workforce and how they seek to reduce their environmental impact (**Figure 1**).

**2** These requirements help deliver many benefits, such as ensuring that government bodies are run efficiently, effectively and with integrity, and that they are accountable to Parliament and transparent to the public for their use of public money. However, complying with requirements involves time, effort and cost. These can often be proportionally greater for small bodies as they have more limited resources and specialist expertise than larger organisations.

**3** Well-designed requirements support meaningful and efficient compliance. They ensure that organisations are held to account and that their performance is transparent. They reduce the risk of incidents that may damage public trust, without placing an undue burden on those who are tasked with implementing the requirements and ensuring that they are adhered to.

**4** The government has a longstanding commitment to ensure the proportionality of requirements. Some requirements apply uniformly to all organisations because the government seeks to minimise certain risks, such as misappropriation of public funds, across all public bodies. Other requirements can be applied in a more flexible and tailored way. For example, the Better Regulation Framework, issued in 2023, notes that new regulations should be implemented only where there is clear evidence that they will generate net positive outcomes for society. It also states that the government will revise or remove regulations which do not achieve their objectives, or do so at unacceptable cost.<sup>1</sup> Internationally, principles for ensuring proportionate regulations include offsetting new burdens by removing burdens of equivalent value in the same policy area.<sup>2</sup>

<sup>1</sup> Department for Business & Trade, *Better Regulation Framework: Guidance*, September 2023.

<sup>2</sup> European Commission, *Better regulation: Joining forces to make better laws* (Communication), COM (2021) 219 final, April 2021.

**Figure 1**

Examples of requirements that all central government bodies are expected to comply with

Central government bodies are expected to comply with a wide range of requirements

Area	Purpose	Examples
Governance	<ul style="list-style-type: none"> <li>Ensuring that government bodies are run with integrity and effectively (including managing risks)</li> <li>Helping sponsoring departments oversee their arm's-length bodies</li> <li>Promoting transparency, accountability and public trust</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance code for central government bodies</li> <li>Framework documents between sponsor departments and arm's-length bodies</li> <li>Governance code on public appointments</li> <li>Transparency disclosures on procurement</li> <li><i>Orange Book</i> on risk management</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>Using public funds efficiently, economically and effectively, within the limits set by Parliament</li> </ul>	<ul style="list-style-type: none"> <li><i>Managing Public Money</i></li> <li><i>Consolidated Budgeting Guidance</i></li> <li><i>The Government Financial Reporting Manual</i></li> <li>Spending approvals (for example, Cabinet Office controls, <i>Financial Transaction Control Framework</i>)</li> </ul>
Managing organisations' operations	<ul style="list-style-type: none"> <li>Providing consistency and supporting collaboration across government</li> </ul>	<ul style="list-style-type: none"> <li>Government functional standards (analysis, commercial, communication, counter fraud, debt, digital, finance, grants, internal audit, people, project delivery, property, security)</li> <li><i>Aqua Book</i>, <i>Green Book</i>, <i>Magenta Book</i> and <i>Teal Book</i> on analysis, appraisal, evaluation and project delivery</li> </ul>
Environmental impacts	<ul style="list-style-type: none"> <li>Reducing the government's operational impact on the environment</li> </ul>	<ul style="list-style-type: none"> <li>Environment Act 2021</li> <li>Greening Government Commitments</li> <li>Government Buying Standards</li> </ul>
Other	<ul style="list-style-type: none"> <li>Various</li> </ul>	<ul style="list-style-type: none"> <li>Freedom of Information Act 2000</li> <li>Management of Health and Safety at Work Regulations 1999</li> <li>Sanctions on financial transactions, trade, immigration and transport</li> </ul>

**Note**

- 1 This is not an exhaustive list but illustrates the variety of requirements where compliance is expected across all central government bodies.

Source: National Audit Office analysis of government documents

**5** The government announced in March 2025 that it intends to undertake a fundamental reform of the British state.<sup>3</sup> As part of its focus on increasing productivity and efficiency, it aims to simplify and streamline regulations. It also plans to reduce duplication and inefficiency in arm's-length bodies (ALBs),<sup>4</sup> and it is changing the way organisations operate, for example, by moving back-office functions to shared service centres.

**6** The government has the opportunity to achieve more meaningful accountability, protect the public purse and direct its efforts to what makes the most difference. It can achieve this by:

- considering what requirements are most effective at achieving these benefits;
- weighing up these against the time, effort and cost of implementing and complying with requirements; and
- considering how requirements can be tailored to organisations of different sizes, complexity and level of risk.

### **Scope of this report**

**7** This report considers how a proportionate approach to compliance with requirements can improve efficiency and effectiveness while delivering accountability across small bodies. This report does not evaluate the value for money of the government's spending to set or comply with requirements. It does, however, make recommendations to the government and states what we commit to do, as the government's external auditor, to help the government achieve more meaningful and proportionate accountability and compliance with requirements.

**8** This report covers central government bodies that produce their own financial statements. It also covers small Parliamentary bodies (such as the Electoral Commission), although they are not strictly part of the government, because the same issues regarding accountability and proportionality of requirements that apply to small central government bodies also apply to them. In this report we use the expression 'small bodies' to refer to small central government bodies and small Parliamentary bodies.

**9** For this study, we have defined central government or Parliamentary bodies that spent up to £30 million in 2022-23 or had up to 50 full-time equivalent (FTE) employees on 31 March 2023 as small. There were at least 48 such organisations in 2022-23. Appendix One gives more details on our scope and definition of small body.

<sup>3</sup> Prime Minister's Office, *PM remarks on the fundamental reform of the British state: 13 March 2025*, GOV.UK.

<sup>4</sup> HM Treasury, *Spring Statement 2025*, CP 1298, March 2025.

**10** This report focuses on small bodies' compliance with:

- the functional standards, which set out what government bodies need to do to achieve consistent and efficient delivery of policy, outcomes and services in areas such as counter fraud, communications and finance, and why this is important (Part One); and
- the requirement to prepare and audit an annual report and accounts (ARA) to support accountability, transparency and effective decision-making for the use of public money (Part Two).

We have focused on these requirements because they cover a significant portion of government bodies' activity, involve a similar balance between proportionality and accountability, and present similar opportunities for improvement.

**11** This report does not cover ministerial departments, government bodies that are set up as charities or companies, local government bodies, devolved administration bodies, and organisations which do not require staff to carry out their functions, such as public funds and trusts, though some of the findings and conclusions may be relevant and applicable to them. It does not cover sustainability reporting requirements, which we may cover in future work. Unless otherwise stated, in this report we use the word 'audit' to refer to the external or financial audit of an organisation's financial statements, as opposed to the work of internal auditors.

**12** As part of our fieldwork, we also considered small bodies' compliance with government guidance on appraising, monitoring and evaluating policies, programmes and projects (Green Book), and with the Cabinet Office controls, which require central government bodies to obtain Cabinet Office approval to spend money on specific activities. We do not cover them in this report because we did not identify significant issues relating specifically to small bodies.

## Key findings

### Functional standards

**13 The functional standards are designed to be applied in a way that is flexible and tailored to organisations of different sizes, complexity and level of risk, but some aspects of these are better suited to large organisations.** There are 14 government functions. Each one sets a standard that aims to ensure consistent delivery for that function across government. This includes a consistent approach to developing leadership, skills, resources and training; giving expert advice; delivering services and products; and supporting continuous improvement. The functional standards note that an organisation's governance, controls and assurance should be proportionate to its level of risk. The standards contain a combination of mandatory elements – which organisations should follow in all circumstances – and advisory elements. Organisations may choose to comply with these advisory elements, or else explain why they have not complied with them. Some of the functions' self-assessments and guidance are better suited to large organisations. For instance, these documents set out several specialised roles that, in small organisations, may have to be performed by a single individual, in addition to their other duties, which can be challenging (paragraphs 1.2, 1.3, 1.5 and 1.14, and Figure 5).

**14 Deciding what is proportionate falls on individual organisations and, due to more limited expertise in small bodies, it can be challenging to establish what requirements are appropriate.** The functional standards and guidance provide some examples of the requirements that may or may not be applicable to organisations, depending on their circumstances, or how organisations can tailor their application in a proportionate way. Some small bodies told us that it can be difficult to establish what requirements are appropriate to them because they often have fewer people, less in-house expertise and more limited resourcing capability than larger organisations. This makes complying with requirements challenging. Government guidance states that there is built-in flexibility for each organisation to decide how to meet the standards in practice, taking advice from functional leads in departments or across government (paragraphs 1.7, 1.8 and 1.14, and Figure 5).

**15 Sponsoring departments have a role in supporting small bodies to comply with requirements in a proportionate and purposeful way.** Sponsoring departments are responsible for monitoring whether small bodies meet standards of governance and accountability, including functional standards. The *Arm's Length Body Sponsorship Code of Good Practice*, published by the Cabinet Office, allows a flexible approach for departments to support ALBs based on their size, operations, risk and purpose. This ought to allow for a tailored approach to compliance with functional standards and for proportionate oversight by departments. We have seen some innovation in approaches to managing ALBs by departments. For instance, the Ministry of Justice takes a risk-based approach to oversight and assurance of its ALBs, which is refreshed annually. However, in 2021 we found that guidance from the Cabinet Office on what makes for a good sponsorship relationship was not consistently followed (paragraphs 1.9 to 1.11).<sup>5</sup>

**16 Departments and functions do not always monitor ALBs' compliance with functional standards.** Government guidance requires accounting officers to assure themselves that their department's ALBs comply with the functional standards that are relevant to them. It also requires functions to assure themselves that organisations are deploying the functional standards effectively. Some organisations told us that their sponsoring department or the centres of government functions had checked their compliance with functional standards sporadically or not at all. Alongside the standards, functions issue continuous improvement assessment frameworks which follow a 'Good, Better and Best' model, with 'Good' being the minimum expected from all organisations. The centres of 10 functions collect or allow self-assessments to be submitted to them. This helps them understand to what extent government bodies are complying with standards and to support organisations to improve, innovate and be more efficient. The centre of the Project Delivery Function hopes to roll out a system to collect self-assessments from across organisations in the future (paragraphs 1.10, 1.12 and 1.13, and Figure 6).

**17 Small bodies we spoke to value the guidance set out in the functional standards but would like more support to help them comply with the standards.** For example, small bodies told us that they used the functional standards to determine the level of expertise required to perform certain roles and to provide guidance for the audit committee's tender for a new internal auditor. However, small bodies told us that they would like more guidance and support. This includes tailored self-assessment checklists and more involvement of small bodies' experiences in knowledge sharing, such as conferences and webinars (paragraphs 1.6 and 1.15 and Figure 7).

5 Comptroller and Auditor General, *Central oversight of arm's-length bodies*, Session 2021-22, HC 297, National Audit Office, June 2021.

Requirements for annual reports, financial statements and external audit

**18 The requirement to produce an ARA applies to organisations of all sizes, complexity and level of risk.** Many organisations that produced ARAs in 2022-23 were small in size. They include at least 48 organisations which spent up to £30 million in 2022-23 or had up to 50 FTE employees on 31 March 2023. Of these organisations, approximately two-thirds (30) spent under £10 million in 2022-23 (paragraphs 2.7 and 2.8).

**19 Small central government bodies are largely subject to the same financial reporting and external audit requirements as large bodies.** Some disclosures are optional or apply only to large organisations. However, many requirements apply to all central government bodies regardless of their size. For example, the Office of the Registrar of Consultant Lobbyists, which spent around £326,000 and had three FTE employees in 2022-23, is largely subject to the same financial reporting and external audit requirements as HM Prison and Probation Service, which spent over £6 billion and had over 60,000 FTE employees in 2022-23 (paragraphs 2.7 and 2.9).

**20 This is unlike small companies and charities in the UK, and small central government bodies in countries such as New Zealand and Portugal, which benefit from exemptions and simplified requirements.** For example, UK companies are required to comply with increasingly more complex and comprehensive financial reporting requirements as they grow in size (paragraphs 2.11 and 2.12 and Figures 9 and 10).

**21 The number and level of detail of the disclosures required has increased over time.** This is due to new disclosure requirements for annual reports and to changes to the accounting standards. As a result, ARAs have become longer, even for small organisations with simple operations and a low level of risk. The median length of the annual reports of the 11 small bodies in our sample was approximately 30% higher in 2023-24 than in 2018-19 (paragraphs 2.13 to 2.15 and Figure 11).

**22 Longer and more complex ARAs and updates to the auditing standards have increased the scale and cost of external audits in recent years.** For the 11 small bodies in our sample, there was a median increase of approximately 30% in the cost of external audit between 2018-19 and 2023-24 (in 2023-24 real terms). This is partly due to the increase in length and complexity of ARAs, changes to the auditing standards, and increased regulatory expectations for audit quality (paragraph 2.16).



**23 Small bodies told us that the preparation and audit of their ARAs can be time-consuming.** While this can be the case for large organisations too, it has a greater impact on small bodies, as their resources are often more constrained. Small bodies stated that this limits their ability to pursue other valuable work and brings limited benefits. Small bodies told us that they would benefit from more signposting of existing resources, easier access to support from the centre of government, faster responses to financial reporting queries, and more guidance on core processes and technical areas alike. HM Treasury told us that, due to resource constraints, it would prioritise support towards complex, novel or time sensitive issues but explained that all departments are supported if they approach the centre for help (paragraphs 2.17 and 2.18 and Figures 12 and 13).

### Balancing accountability and proportionality

**24** In addition to recommending specific actions to the government, we identified five general points for the government to consider when it sets new requirements for government bodies (**Figure 2**).

#### Figure 2

Points for the government to consider when it sets new requirements for central government bodies

**Considering these points can help the government to set effective and proportionate requirements and to make compliance more meaningful for small bodies**



Understand the costs of implementing requirements for small bodies, including impacts on productivity and on the resources available for organisations' core activities.



Consider whether the benefits of new requirements, such as greater transparency and accountability, outweigh the costs, especially for small and low-risk organisations.



Tailor requirements to organisations of different sizes, complexity and level of risk where this results in a better trade-off between costs and benefits.



Clearly communicate the rationale for the new requirements to the organisations they apply to.



Consider whether introducing new requirements makes it possible to withdraw or streamline pre-existing requirements.

Source: National Audit Office

## Recommendations

**25** The government has ambitious plans to consolidate public bodies, grant earned autonomy to individual organisations and streamline regulations to increase efficiency and productivity. As the government implements these plans, it has an opportunity to review the requirements placed upon public bodies to ensure that they achieve an optimal balance between accountability, transparency, efficiency and continuous improvement. The Cabinet Office and HM Treasury have started to consider what changes to existing guidance and requirements can support these aims. Our recommendations are intended to support this work and to identify further practical steps that the government can take to achieve more meaningful accountability in small bodies.

**26** To make compliance with the functional standards more meaningful for small bodies, the Cabinet Office should work with the centres of the government functions to:

- a** review the functional frameworks and checklists to ensure that they are appropriate to organisations with simple, less significant and less risky activities;
- b** test existing and any proposed future versions of these documents with small bodies and, where appropriate, amend them based on their feedback;
- c** make it easier for small bodies to access, understand and comply with the functional standards, for example by:
  - including more case studies and examples of bodies of different sizes and complexity in the functional guidance;
  - including guidance in the continuous improvement assessment frameworks on how ALBs and their sponsor departments can apply and flex the functional standards in a proportionate way;
  - featuring the *Central Government's Assurance Directory*, which includes a list of functional frameworks and checklists, more prominently on the GOV.UK webpages on government functions; and
  - considering, where possible, how functional standards, continuous improvement frameworks and guidance could be featured more prominently in the training and induction offer for civil servants.

To ensure that the financial reporting requirements for small bodies are meaningful and proportionate, HM Treasury should:

- d** work with departments to develop a consistent approach to deciding which organisations may be eligible for a small body reporting regime. This should consider each body's size, complexity and level of risk, and should involve collaboration with departments; and
- e** explore issuing streamlined reporting and disclosure requirements for ARAs, to be applied to organisations with simple operations and low risk to public money. These may involve, for instance, complying with a smaller set of requirements, using other avenues than ARAs to disclose some non-financial information, reporting on certain low-risk areas every two or three years rather than annually, or giving departments the ability to reward well-run ALBs by allowing them to comply with streamlined reporting and disclosure requirements.

Alongside these recommendations, the National Audit Office is committed to:

- supporting, from our independent perspective, the government's work to achieve more meaningful and proportionate accountability and compliance with financial reporting requirements and functional standards; and
- considering what changes to our financial audit approach, consistent with the auditing standards, may be made possible by the introduction of streamlined reporting and disclosure requirements for small government bodies.