



National Audit Office



REPORT

Accountability in small government bodies

Cross-government

REPORT

by the Comptroller
and Auditor General

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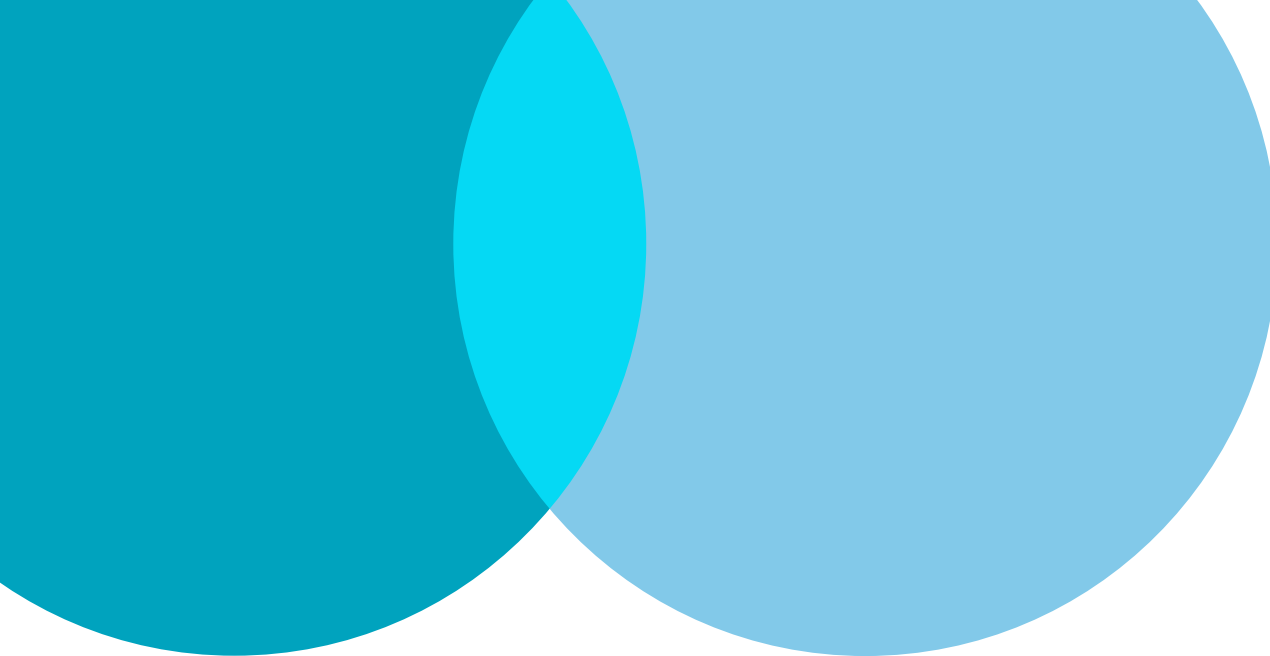
Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

16 June 2025



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Contents

Summary 4

Part One

Functional standards 14

Part Two

Requirements for annual reports,
financial statements and audit 23

Appendix One

Our audit approach 35

Appendix Two

Support and guidance for
small bodies 41

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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.¹ Internationally, principles for ensuring proportionate regulations include offsetting new burdens by removing burdens of equivalent value in the same policy area.²

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

² 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"> Ensuring that government bodies are run with integrity and effectively (including managing risks) Helping sponsoring departments oversee their arm's-length bodies Promoting transparency, accountability and public trust 	<ul style="list-style-type: none"> Corporate governance code for central government bodies Framework documents between sponsor departments and arm's-length bodies Governance code on public appointments Transparency disclosures on procurement <i>Orange Book</i> on risk management
Financial management	<ul style="list-style-type: none"> Using public funds efficiently, economically and effectively, within the limits set by Parliament 	<ul style="list-style-type: none"> <i>Managing Public Money</i> <i>Consolidated Budgeting Guidance</i> <i>The Government Financial Reporting Manual</i> Spending approvals (for example, Cabinet Office controls, <i>Financial Transaction Control Framework</i>)
Managing organisations' operations	<ul style="list-style-type: none"> Providing consistency and supporting collaboration across government 	<ul style="list-style-type: none"> Government functional standards (analysis, commercial, communication, counter fraud, debt, digital, finance, grants, internal audit, people, project delivery, property, security) <i>Aqua Book</i>, <i>Green Book</i>, <i>Magenta Book</i> and <i>Teal Book</i> on analysis, appraisal, evaluation and project delivery
Environmental impacts	<ul style="list-style-type: none"> Reducing the government's operational impact on the environment 	<ul style="list-style-type: none"> Environment Act 2021 Greening Government Commitments Government Buying Standards
Other	<ul style="list-style-type: none"> Various 	<ul style="list-style-type: none"> Freedom of Information Act 2000 Management of Health and Safety at Work Regulations 1999 Sanctions on financial transactions, trade, immigration and transport

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.³ 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),⁴ 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.

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

⁴ 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).⁵

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.

Part One

Functional standards

1.1 This part sets out:

- the background to the government functions and functional standards;
- the application of the functional standards to small bodies;
- monitoring of compliance with the functional standards and continuous improvement; and
- future developments.

Background to functions and standards

1.2 Government functions are groupings of civil servants who work across government bodies to provide expert skills. Functions set cross-government standards; develop leadership, skills, resources and training; give expert advice; deliver services and products for use across government; and support continuous improvement. There are 14 government functions covering areas such as analysis, commercial, counter fraud, finance and security (**Figure 3**).

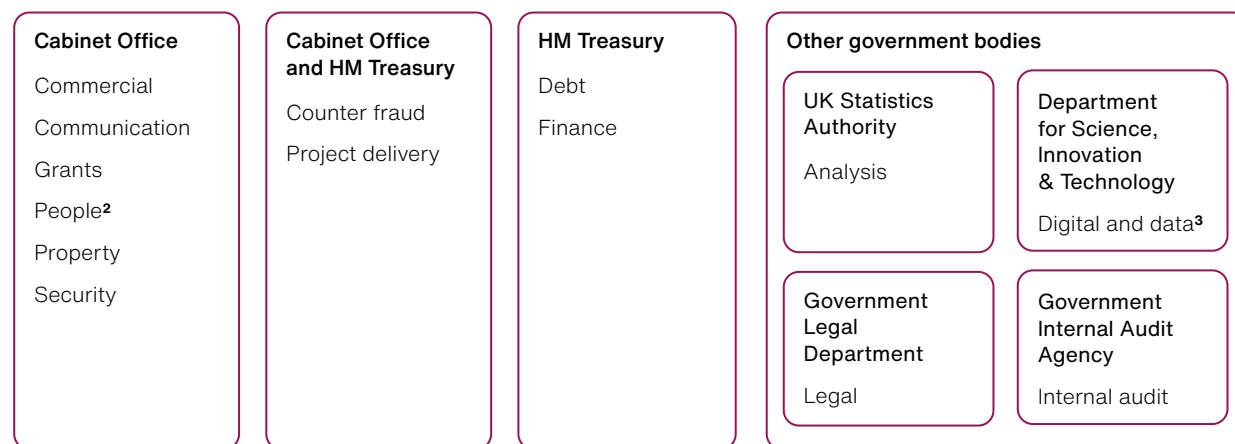
1.3 Each function has designed a functional standard to clarify what needs to be done, and why, for a certain type of work across government. For example, the Project Delivery Function's standard sets expectations for the management of portfolios, programmes and projects. HM Treasury mandates that all departments and arm's-length bodies (ALBs) embed the use of functional standards within business plans and include a statement about use of the functional standards in their annual reports.

1.4 Each function has a central team (a 'centre'). The centres of 10 out of 14 functions are based in the Cabinet Office or HM Treasury. The remaining four are based in government bodies with aligned expertise. For example, the Government Legal Department leads the Legal Function. Individual organisations are responsible for complying with the functional standards.

Figure 3

Centres of government functions, June 2025

The central team ('centre') of 10 out of the 14 functions is based in the Cabinet Office or HM Treasury, with the other four allocated to four other government bodies

**Notes**

- 1 Government functions are groupings of civil servants who work across government bodies to provide expert skills.
- 2 The People Function was formerly known as the Human Resources Function.
- 3 The Digital and Data Function, formerly known as the Digital, Data and Technology Function, was transferred from the Cabinet Office to the Department for Science, Innovation & Technology in June 2025.

Source: National Audit Office analysis of government documents and previous National Audit Office reports

Standards as applied to small bodies

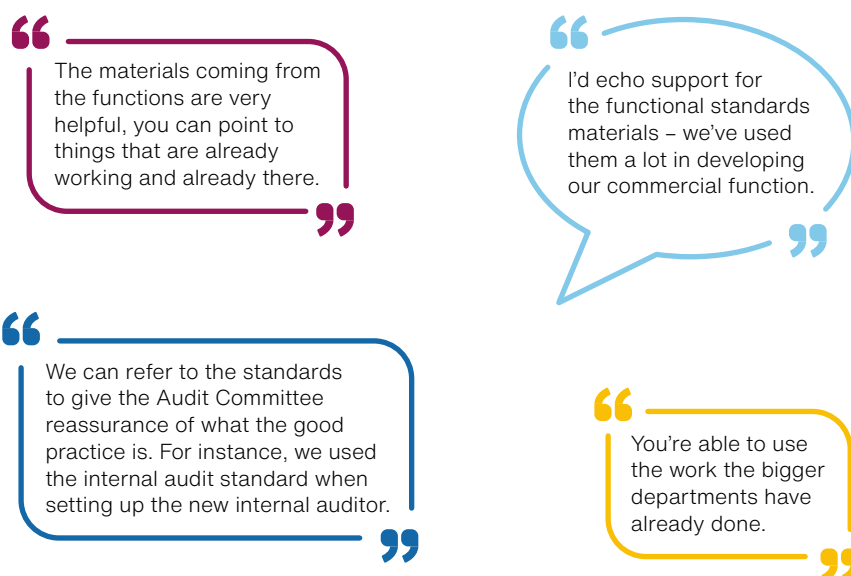
1.5 The functional standards are designed to be applied in a way that is flexible and tailored to organisations of different sizes, complexity and level of risk. The standards note that an organisation's governance, controls and assurance should be proportionate to its level of risk. The standards contain 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. For instance, the government property standard mandates all organisations to have senior officers accountable for managing property. It optionally recommends that organisations' property strategy reflect the local and property implications of their strategic workforce plan. Under the 'comply or explain' principle, organisations which choose not to comply with advisory elements are required to explain the reasons for their non-compliance. 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. Accounting officers are expected to champion the standards. They may prioritise compliance with the advisory elements that are most important to their organisation; take the risk of not complying with advisory elements, where they believe that this is more proportionate given the organisation's circumstances; or use the advisory elements as ambitions for continuous improvements and progressively meet them over time.

1.6 Small and medium-sized bodies we spoke to value the guidance set out in the functional standards. For example, a small body told us that it uses the functional standards to determine the level of expertise required to perform certain roles. A medium-sized body said that it used the functional standards and continuous improvement assessment frameworks to develop and strengthen its activities. A small body told us that the standards supported good governance, such as by providing guidance for the audit committee's tender for a new internal auditor (**Figure 4**).

Figure 4

Examples of positive experiences of functional standards and materials from the public bodies we interviewed

Several small and medium-sized bodies we spoke to find the functional standards and self-assessment materials helpful



Note

1 We interviewed representatives from 11 public bodies we identified as part of our study on accountability in small central government bodies. These interviews took place between September 2024 and April 2025.

Source: National Audit Office interviews with public bodies

1.7 Deciding what is proportionate falls on individual organisations and 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, and of how organisations can tailor their application in a proportionate way. Nevertheless, a small body told us that when it looked at the assessment criteria for a specific standard, it found the expectations to be “black and white” and no considerations for resourcing constraints were included when a standard suggested introducing specialist roles (**Figure 5**). In a small organisation to which several functional standards are applicable, the same individual may have to perform several roles to comply with the standards, in addition to their other duties, which can be challenging. HM Treasury and a small body stated that tailoring requirements in a way that is appropriate to an organisation’s size and level of risk can be challenging, and that standard setters, small bodies and auditors may err on the side of caution and implement more requirements than needed.

Figure 5

Examples of the challenges faced by small public bodies when complying with the functional standards

Several small public bodies we spoke to find navigating, complying and engaging with the functional standards disproportionate

“The self-assessment was enormous and required a significant amount of resources to complete.”

“We are expected to have a recruitment champion and trainer, as well as doing training, but for a small organisation it’s too much as it will always be the same person.”

“The requirement to have people within corporate services who meet the standards is unrealistic for an organisation of our size, e.g. HR professionals etc. It is not realistic for an organisation with three or four people in corporate services.”

“The assessment criteria for one of the standards mention roles that would make sense in a department but not in a smaller arm’s-length body.”

Note

¹ We interviewed representatives from 11 public bodies we identified as part of our study on accountability in small central government bodies. These interviews took place between September 2024 and April 2025.

Source: National Audit Office interviews with public bodies

1.8 Small bodies told us that having fewer people or less in-house expertise makes meeting some standards challenging. Many small bodies have small corporate services teams that cover a range of functional activities such as Human Resources (HR), finance and commercial, without being specialists in those areas. This contrasts with larger departments, that often have specialist teams dedicated to one functional area.

1.9 Sponsoring departments have a role in supporting small bodies to comply with requirements in a proportionate and purposeful way. In 2022, the Cabinet Office published a code of good practice for the departments that sponsor ALBs, which is modelled on the functional standards.⁶ The code sets a framework for departments to design specific sponsorship agreements with the organisations they sponsor. The code allows a flexible approach for departments to support their ALBs based on their size, operations, risks and purpose. The Cabinet Office recognises how a good sponsorship relationship can help small bodies comply with the functional standards. The code's recognition of diversity in ALBs ought to allow for a tailored approach to complying with requirements such as the functional standards, and for proportionate oversight by departments.

Monitoring of compliance and continuous improvement

1.10 Departments and functions do not always monitor ALBs' compliance with functional standards. Cabinet Office guidance requires principal accounting officers to assure themselves that their department's ALBs comply with the functional standards that are relevant to them. To gain this assurance, sponsoring departments may either set up proportionate monitoring and reporting arrangements, or rely on the wider monitoring and assurance processes that support their sponsorship duties. In our 2021 report on central oversight of ALBs we found that, in one fifth of the cases we looked at, ALBs and their sponsoring departments did not formally set out regular reporting arrangements.⁷ We also found that Cabinet Office guidance clarified what makes for a good working relationship between a department and its ALBs, but this was not consistently followed. Functions are responsible for assuring 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.

⁶ Cabinet Office, *Arm's Length Body Sponsorship Code of Good Practice*, May 2022.

⁷ Comptroller and Auditor General, *Central oversight of arm's-length bodies*, Session 2021-22, HC 297, National Audit Office, June 2021.

1.11 Some sponsoring departments have developed bespoke oversight arrangements for their ALBs. For example, the Ministry of Justice takes a risk-based approach to the oversight and assurance of its ALBs, which is refreshed annually. The Ministry of Justice told us that this also enables it to oversee the compliance of its smaller ALBs with the functional standards and that it tailors the support and guidance offered to each ALB. The Department for Education told us that it reviews the risk profile of its ALBs every year, rates each as high-, medium- or low-risk, and uses this information to focus its oversight on higher-risk organisations.

1.12 Individual organisations are responsible for ensuring their own compliance with the standards. To assess this, they can use continuous improvement assessment frameworks and checklists produced by the functions, but not all functions publish their assessment frameworks (**Figure 6** overleaf). Alongside the standards, functions issue (either publicly or directly to functional teams in departments) a continuous improvement assessment framework. Frameworks follow a ‘Good, Better and Best’ model, with ‘Good’ being the minimum expected from all organisations. Where that is not met across all areas of the framework, organisations fall into a ‘Developing’ category. The government’s *Orange Book* on risk management can also help organisations to consider proportionality of controls and risk appetite. The Book includes a Risk Control Framework, which is a structured list of controls that government organisations can use to develop an effective and efficient approach to risk management.⁸ The framework is supported by the *Central Government’s Assurance Directory*, that includes self-assessment questions for all functional standards and for a wide range of other requirements.

1.13 Government functions are responsible for promoting continuous improvement, but only some of the centres of functions collect and review organisations’ self-assessments. Continuous improvement in functional areas promotes innovation, which can lead to more productive and efficient public services. The centres of 10 functions collect or allow self-assessments to be submitted to them. This helps them to understand to what extent organisations are complying with standards and to support organisations to improve, innovate and be more efficient. For example, the centre of the Grants Management Function collects self-assessments from ministerial departments and from ALBs with large grant portfolios on a regular basis. It uses this information to monitor trends and to promote improvement in grant maturity across government. The centre of the Project Delivery Function hopes to roll out a system to collect self-assessment results from across organisations in the future.

8 HM Government, *The Orange Book: Management of Risk – Principles and Concepts*, May 2023.

Figure 6

The government functions' use of continuous improvement assessment frameworks, June 2025

Thirteen functions have issued a continuous improvement assessment framework or a similar document, but not all are publicly available, supported by a checklist or assessed for use across government

Function	Is there a continuous improvement assessment framework?	Is the framework publicly available?	Is the framework supported by a checklist?	Does the function collect and review assessments from across government?
Analysis	✓	✗	✓	✓
Commercial	✓	✓	✓	✓
Communication	✓ ¹	✓	✓	✓
Counter fraud	✓	✗	✗	✓
Debt	✓	✗ ²	✓	✓
Digital and Data	✓	✓	✓	✗ ³
Finance	✓	✓	✓	✓
Grants	✓	✓	✓	✓
Internal audit	✓	✓	✓	✓
People	✓	✓	✓	✓
Project delivery	✓	✓	✓	✗
Property	✓	✓	✓	✗ ⁴
Security	✓ ⁵	✗	✓	✓

Notes

- 1 While the Communication Function has not issued a continuous improvement assessment framework, it maintains a Modern Communications Operating Model (MCOM), which performs a similar role. The MCOM brings together the policies and guidance needed to build and lead a team that delivers the Communication Function's vision.
- 2 The Debt Function plans to roll out a continuous improvement assessment framework in Summer 2025.
- 3 The Digital and Data Function is developing a system to collect information on digital maturity from government departments. It expects it to be operational by March 2026.
- 4 While the Property Function does not collect and review individual assessments, it expects government bodies to conduct an assurance review at least annually, before updating their strategic asset management plans, and to incorporate their response to the review in their plan. The property continuous improvement assessment framework provides a guide for such reviews.
- 5 While the Security Function does not have a continuous improvement assessment framework, it offers an Annual Security Health Check which is aligned with the security functional standard, and the annual GovAssure cyber security assurance scheme. Participation in GovAssure is mandatory for departments and selected arm's-length bodies.
- 6 We have not included the Legal Function in this table as it does not issue a continuous improvement assessment framework due to its independently regulated nature. Several policies and frameworks used in the Legal Function's work are set by legal profession regulators such as the Solicitors Regulation Authority, which conducts reviews of professional compliance.

Source: National Audit Office analysis of information from government bodies and the GOV.UK website

1.14 Some of the functions' self-assessments and guidance are better suited to large organisations and require expertise in functional areas that small bodies often lack. For instance, the criteria for a 'Good' level of compliance with the counter fraud standard refer to reviews by trained fraud risk assessors, and the criteria relating to the HR standard include escalation to complex casework specialists, but small bodies may have neither. The Cabinet Office and the Public Sector Fraud Authority told us that they do not expect small bodies to have these specialists in-house, but that they should be able to access specialist support from their sponsoring departments when required.

1.15 Some small bodies told us that they would benefit from more support to help them comply with the standards. They would like more guidance on how to take a proportionate approach, including tailored self-assessment checklists and more involvement of small bodies' experiences in knowledge sharing, such as conferences and webinars (**Figure 7**).

Figure 7

Examples of support small public bodies would find useful

Several small public bodies we spoke to would welcome further guidance from government functions on how they can comply with standards in more meaningful and proportionate ways



Note

1 We interviewed representatives from 11 public bodies we identified as part of our study on accountability in small central government bodies. These interviews took place between September 2024 and April 2025.

Source: National Audit Office interviews with public bodies

Developments

1.16 The Government Internal Audit Agency, which provides internal audit services to all ministerial departments and many non-ministerial departments, agencies and public bodies, is considering how it might tailor its internal audit offer for ALBs. The revised offer may consist of a standardised set of audit procedures, based on the Risk Control Framework and delivered over a fixed timeframe. This approach is intended to be more proportionate to ALBs' risks, to be delivered more efficiently and at a lower cost, and to offer more consistent insights across government. The standardised procedures may cover ALB's work to assess themselves against the functional standards and to develop improvement plans to rectify deficiencies. The Government Internal Audit Agency is piloting the new approach in 2025-26, with a view to a potential wider roll-out in 2026-27.

1.17 As small bodies move their back-office systems to shared service clusters, shared services will play a role in small bodies' compliance with the functional standards. Under the *Shared Services Strategy for Government*, the government plans for organisations across the civil service to move to shared back-office systems.⁹ Departments and ALBs are expected to join one of five shared service centres, which will run their HR, payroll and other back-office functions. There is an opportunity for functions to work with shared service clusters to build compliance with the functional standards into the way shared services will be provided.

9 Cabinet Office, *Shared Services Strategy for Government*, March 2021.

Part Two

Requirements for annual reports, financial statements and audit

2.1 This part sets out:

- the background to central government annual reports and accounts (ARAs);
- the application of financial reporting requirements to small bodies;
- the increase in requirements over time; and
- developments in the financial reporting and audit landscape.

Background

2.2 ARAs are one of the most important documents on which Parliament and the public rely to hold the government to account. ARAs set out what government bodies accomplished during the year, how they managed their own operations and how they used public money. As audited documents, the ARAs of departments include the expenditure of their arm's-length bodies (ALBs) and provide an accurate and credible record. This enables Parliament to assess if departmental groups have used funds received from Parliament for their intended purpose and to check if they have spent within their assigned limits. ARAs allow the public to scrutinise the value for money of public spending. They also provide managers in government with information they can use to run their organisations efficiently and effectively.

2.3 Many central government bodies are legally required to prepare and publish an ARA every year. Advisory bodies such as working groups, expert committees and advisory non-departmental public bodies do not manage their own resources and do not prepare an ARA. Most other government bodies are required to prepare an ARA. Most public sector ARAs include:

- a *performance report*, which provides details of the organisation's performance in the year;
- an *accountability report*, which sets out the organisation's governance, remuneration, and how its spending compares with the amounts approved by Parliament; and
- the *financial statements*, which provide details of the organisation's income, expenditure and cash flows during the year, and of the resources that it held (such as property) and the obligations that it owed (such as debts) at the end of the year.

2.4 HM Treasury's (HMT's) *Government Financial Reporting Manual* (FReM) sets out the requirements that the ARAs of central government bodies should comply with. While legislation mandates many public bodies to prepare an ARA, HMT specifies the format of their ARAs through an accounts direction and mandates compliance with the FReM. The requirements set out in the FReM include an adaptation of the UK-adopted international accounting standards (based on the IFRS Accounting Standards, a set of accounting standards widely adopted by publicly listed companies around the world) to the UK public sector. The FReM also includes requirements that are unique to government bodies, such as a statement about the use of the functional standards. These requirements may stem from legislation, recommendations made by Parliamentary select committees, or best practice drawn from the private sector in the UK or abroad. The FReM is updated twice a year.

2.5 Some organisations need to comply with additional requirements. For example, HMT may require some ALBs to comply with additional guidance it issues annually in the form of Public Expenditure System (PES) papers. Likewise, ALBs which are companies or charities should also follow the requirements of the Companies Act 2006, charity legislation, or the *Charities Statement of Recommended Practice*, which gives guidance on financial accounting and reporting for charities.

2.6 HMT, sponsoring departments and the National Audit Office (NAO) have roles in supporting small bodies to prepare ARAs or assuring them. Sponsoring departments and HMT provide guidance, advice and signpost good practice. The NAO audits the financial statements of all central government departments and ALBs. It assesses whether they are free from material misstatements (that is, incorrect statements that may affect the decisions of the users of the ARAs), and whether audited bodies have used their resources in the way Parliament intended (**Figure 8** on pages 25 and 26). The NAO does not set the standards which it follows in its audits. It conducts its audits in accordance with International Standards on Auditing adopted for use in the UK (ISAs (UK)), which are issued by the Financial Reporting Council, and with Practice Note 10, which contains guidance on the application of these standards to the audit of public sector bodies in the UK.¹⁰

¹⁰ Practice Notes are intended to assist auditors in applying auditing standards of general application to particular circumstances and industries, with Practice Note 10 being for the audit of Public Sector Financial Statements specifically.

Figure 8

Responsibilities for setting, implementing and assuring the requirements for annual reports and accounts of central government bodies

A wide range of organisations are involved in setting requirements, implementing requirements and assuring annual reports and accounts

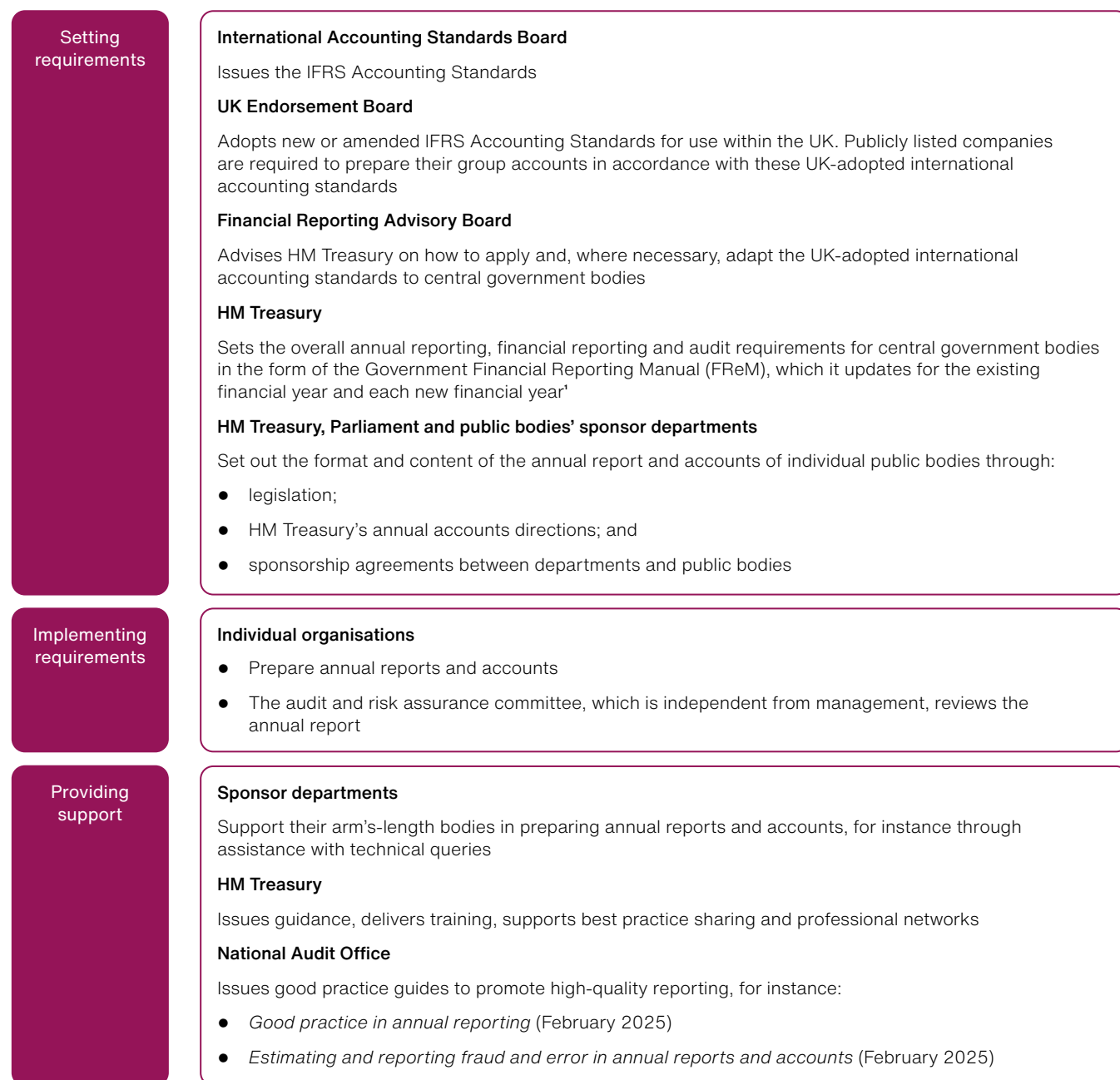
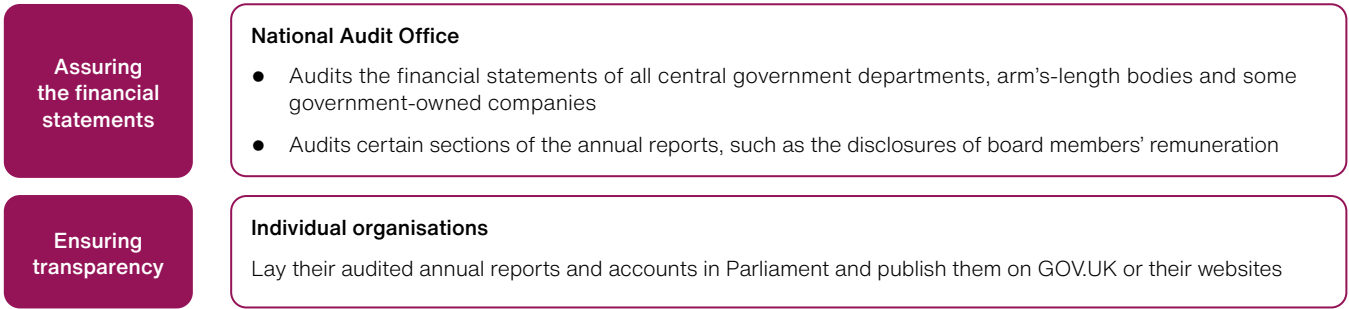


Figure 8 *continued*

Responsibilities for setting, implementing and assuring requirements for the annual reports and accounts of central government bodies



Note

1 The Welsh Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly set the requirements for devolved administration bodies.

Source: National Audit Office analysis of government documents

Application of financial reporting requirements to small bodies

2.7 The requirement to prepare, every year, an ARA that complies with the FReM and other HMT requirements applies to organisations of all sizes, complexity and level of risk, including many small bodies. Excluding the government bodies that are out of scope for this report (ministerial departments, companies, charities, funds and devolved administration bodies), at least 119 central government or Parliamentary bodies published an ARA in 2022-23.¹¹ They range from very large organisations such as HM Prison and Probation Service, which spent over £6 billion and had over 60,000 full-time equivalent (FTE) employees in 2022-23, to very small bodies such as the Office of the Registrar of Consultant Lobbyists (ORCL), which spent around £326,000 and had three FTE employees in 2022-23.

2.8 Many small bodies produced ARAs compliant with the FReM and other HMT requirements in 2022-23. 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. ORCL is the only central government body among those within our study scope which prepared a FReM-compliant ARA in 2022-23 and would be regarded as a micro-entity based on the classification criteria for private sector companies.¹² The government has announced that it intends to reduce duplication in ALBs. This may result in a reduction in the number of small bodies.

11 This is the last year for which a list of public bodies is available.

12 Micro-entities are companies with annual revenue up to £1 million, gross assets (the value of the resources that they own or control) up to £500,000 and up to 10 FTE employees. We have assumed that, if this definition were applied to central government bodies, the £1 million revenue threshold would be replaced with a £1 million expenditure threshold.

2.9 Small central government bodies in the UK are largely subject to the same financial reporting and external audit requirements as large bodies. This is partly because, unlike most private companies, central government bodies are entrusted with public money, and errors or misappropriation of funds, even in small bodies, may damage public trust. While the FReM includes optional elements, such as best practice disclosures on diversity and inclusion, many requirements are compulsory and apply to organisations regardless of their size.

2.10 Some organisations are allowed to prepare a simplified set of accounts, which do not follow the UK-adopted international accounting standards, such as the Official Custodian for Charities. These are rare among small bodies.

2.11 Unlike central government bodies, small companies and charities in the UK 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 (**Figure 9** on pages 28 and 29). Only publicly listed companies are required to adopt the UK-adopted international accounting standards, and only for their group accounts. Many companies follow the UK financial reporting standard FRS 102, which involves simpler requirements than the UK-adopted international accounting standards.

2.12 Internationally, small central government bodies in countries such as New Zealand and Portugal benefit from exemptions and simplified requirements. In New Zealand, central government bodies which are not financial institutions and have low levels of expenditure may be allowed to publish fewer disclosures and simplified financial statements and, in some cases, to use cash accounting.¹³ Cash accounting is simpler than accruals accounting, which is required by the UK-adopted international accounting standards (**Figure 10** on page 30).

Increase in requirements

2.13 The number and level of detail of disclosures has increased over time. HMT undertook a project to simplify and streamline ARAs in 2013-14. Following this, HMT expressed the intention not to introduce new mandatory reporting requirements in 2018.¹⁴ Nevertheless, the number and level of detail of the disclosures required has increased since then. The disclosure checklist that the preparers of ARAs and auditors use to check if the performance and accountability reports comply with the FReM has more than doubled in length between 2018-19 and 2023-24.

¹³ We have not assessed which of these financial reporting regimes is preferable and whether differences in constitutional arrangements, how budgets are set or who is accountable for public spending make a financial reporting regime preferable in one country, but not the other.

¹⁴ House of Commons Public Administration and Constitutional Affairs Committee, *Accounting for Democracy Revised: The Government Response and Proposed Review*, Session 2017-19, HC 1197, June 2018.

Figure 9
Financial reporting and assurance requirements for companies and charities in the UK, June 2025

Several reporting and audit exemptions are available for small and medium-sized companies and charities

Private sector companies			Charities		
Size	Annual reporting and accounting	Assurance required	Size	Annual reporting and accounting	Assurance required
Micro-entities , that is, companies that meet at least two of these criteria: <ul style="list-style-type: none">annual turnover up to £1 million;gross assets up to £500,000; andup to 10 employees on average	<ul style="list-style-type: none">Accruals basedOnly required to prepare two primary financial statements, rather than five (a balance sheet and a profit and loss account), in an abridged form	None, unless requested by shareholders or as a condition of borrowing capital by a lender	Gross income under £25,000	Receipts and payments accounts ² (cash based; only available to non-company charities)	None, unless required by the charity's governing document or the wishes of a donor
	<ul style="list-style-type: none">Simpler requirements for measuring assets compared with larger companiesReduced disclosure requirementsMay choose to follow FRS 105 – The Financial Reporting Standard applicable to the Micro-entities Regime		Gross income between £25,000 and £250,000	Receipts and payments accounts (cash based; only available to non-company charities)	
Small companies , that is, companies that meet at least two of these three criteria: <ul style="list-style-type: none">annual turnover up to £15 million;gross assets up to £7.5 million; andup to 50 employees on average	<ul style="list-style-type: none">Accruals basedRequired to prepare at least two primary financial statements, and five statements in some casesMay choose to present the financial statements in a statutory (non-abridged) or abridged formSame requirements for measuring assets as larger companiesReduced disclosure requirements	None, unless requested by shareholders or as a condition of borrowing capital by a lender	Gross income between £250,000 and £500,000	<ul style="list-style-type: none">Accruals basedNot required to prepare a statement of cash flowsExemptions on content in the trustees' annual report	Independent examination by a professional accountant
Medium and large non-listed companies that opt to follow the UK financial reporting standard 102 (FRS 102), rather than the UK-adopted international accounting standards ¹	<ul style="list-style-type: none">Accruals basedRequired to prepare all five primary financial statements in a statutory (non-abridged) formRequirements for measuring assets and for disclosures are greater than for small companies, but reduced compared with the UK-adopted international accounting standards	Independent audit	Gross income between £500,000 and £1 million	Accruals based	Independent examination by a professional accountant
Listed companies	<ul style="list-style-type: none">Required to follow the UK-adopted international accounting standards in their group accounts; these standards involve more complex requirements for measuring assets and for disclosures than FRS 102May choose to follow either the UK-adopted international accounting standards or FRS 102 in single-entity accounts	Independent audit	Gross income over £1 million, or gross income over £250,000 and gross assets over £3.2 million	Accruals based	Independent audit

Notes
1 UK-adopted international accounting standards are based on the IFRS Accounting Standards.
2 Receipts and payments accounts are simpler to prepare than accrual based accounts.

Figure 10
Reporting requirements for small central government bodies in New Zealand and Portugal

Small central government bodies in New Zealand and Portugal may make reduced disclosures, present their financial statements in a simplified format and, in some cases, adopt cash accounting

Tier	Criteria	Requirements
New Zealand		
Tier 1	Annual expenditure over 33 million New Zealand dollars (NZD) (around £14.7 million as of June 2025); or has public accountability ¹	Accruals accounting, based on a national adaptation of the International Public Sector Accounting Standards
Tier 2	Annual expenditure up to 33 million NZD; and does not have public accountability; and elects to be in Tier 2	Accruals accounting Reduced disclosure requirements
Tier 3	Annual expenditure up to 5 million NZD (around £2.2 million); and does not have public accountability; and elects to be in Tier 3	Accruals accounting Simplified financial statements format
Tier 4	Is allowed by law to use cash accounting; and elects to be in Tier 4	Cash accounting Simplified financial statements format
Portugal		
Large entities	Annual expenditure over 5 million euros (around £4.2 million as of June 2025) in the last two years	Accruals accounting, based on a national adaptation of the International Public Sector Accounting Standards
Small entities	Annual expenditure over 1 million euros (around £840,000) and up to 5 million euros in the last two years	Accruals accounting Simplified requirements for measurement, recognition and disclosure
Micro-entities	Annual expenditure up to 1 million euros in the last two years	Only required to publish the organisation's budget, asset register and inventory

Notes

- 1 The organisations deemed to have public accountability for financial reporting purposes are primarily financial institutions, such as banks, insurers and issuers of stocks and bonds.
- 2 We have chosen New Zealand and Portugal as examples because, like the UK, they have adopted accruals accounting for public sector financial reporting, and unlike the UK, they require central government bodies to comply with increasingly more complex and comprehensive financial reporting requirements as they grow in size.

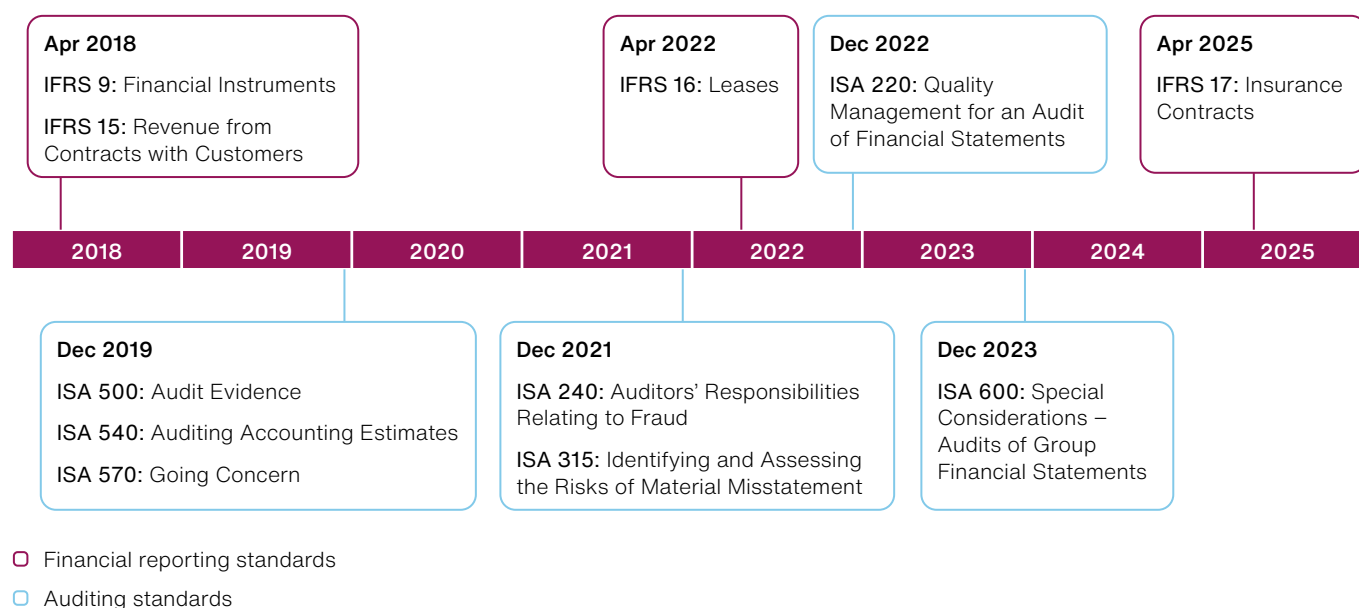
Sources: National Audit Office analysis of External Reporting Board [New Zealand], *New Zealand Accounting Standards Framework*, updated April 2024; Comissão de Normalização Contabilística, *Sistema de Normalização Contabilística para administrações públicas – SNC-AP*, approved in September 2015

2.14 The increase in disclosures is due to new disclosure requirements for annual reports and to changes to the accounting standards. HMT told us that several new disclosure requirements for annual reports were introduced in response to recommendations made by Parliamentary select committees. For instance, the requirement to provide information on complaints to the Parliamentary Ombudsman was introduced in response to a recommendation by the Parliamentary Administration and Constitutional Affairs Committee. New accounting standards regarding financial instruments, revenue and leases have resulted in disclosures which are often longer and more technically complex than the disclosures required under the previous standards, and take longer to prepare and to audit (**Figure 11**).

Figure 11

Changes in accounting and auditing standards in the UK, 2018 to 2025

There have been numerous changes to the accounting and auditing standards



Note

- 1 The figure shows the dates from which new or revised auditing standards (International Standards on Auditing (ISAs), adopted for use in the UK) are effective and the dates from which new accounting standards (IFRS Accounting Standards (IFRSs)) are implemented in the UK public sector. UK-adopted international accounting standards are generally implemented in the UK public sector within one to four years of their effective date.

Source: National Audit Office analysis of International Financial Reporting Standards and International Standards on Auditing

2.15 Due to changes in disclosure requirements, ARAs have become longer, even for small organisations with simple operations and a low level of risk. For example, 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. Longer ARAs take more time to prepare, and they risk being less useful as it is usually harder to identify the most important information in a longer document than in a shorter one. It is now possible to quickly review many long ARAs to identify trends and common themes by using artificial intelligence (AI), either by using one of the generally available large language model chatbots, or by setting up bespoke AI tools. However, the usefulness of an AI tool's output depends on the usefulness of the information included in the underlying ARAs.

2.16 In recent years, the external audits of organisations in all sectors have increased in scale and cost. Several factors influence the length and cost of each individual audit, including changes in the operations of audited bodies and the quality of the draft ARAs submitted for audit. Audits across the public and private sector alike cost more due to the increase in length and complexity of ARAs, changes to the auditing standards and increased regulatory expectations for audit quality. For instance, the 2019 revision of International Standard on Auditing (ISA) 315 *Identifying and Assessing the Risks of Material Misstatement* requires auditors to carry out a more granular risk assessment. 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). There was also a median increase of approximately 30% in the cost of internal audit for seven of our sampled bodies which were charged for internal audit work over the same period (in 2023-24 real terms).¹⁵ One of the small bodies we spoke to reported that, during interim and final audit, servicing the audit involved up to 40% of the finance team's time, 15% of the HR team's time and 15% of other teams' time.

2.17 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 more constrained. Small bodies told us that this limits their ability to pursue other valuable work, including delivering frontline services and pursuing their organisational objectives, and brings limited benefits (**Figure 12**).

¹⁵ The percentage increase in external and internal audit costs has been provided for illustrative purposes only. The sample is not statistically significant. To some extent, most organisations' activities and transactions change from year to year. This may impact upon audit costs. Some small bodies were not charged for internal audit work because this was covered by the fee charged to their sponsoring organisation.

Figure 12

Examples of challenges identified by small public bodies in preparing their annual reports and accounts (ARAs) and providing evidence for audit

Several small public bodies we spoke to find preparing ARAs time-consuming and questioned the benefits of some disclosures

“The ARAs are probably too long to be digestible for an average person. Most users will look at some of the front end, the research highlights, few people will look at the governance statements, very few people will look at the financial statements. Only around 20 people downloaded our ARA over the last year.”

“It feels that we are supposed to report as if we were a hundred times bigger.”

“The disclosure checklist is very long and, even when certain requirements can be marked as not applicable, coming to the conclusion that they are not applicable can take time. This is a wasteful use of our limited resources.”

“It takes a long time to prepare the disclosure for IFRS 16 *Leases* in the ARA and to make the necessary budgetary adjustments, even though our leases are straightforward.”

“Where should our resources be best spent to get best value for us, as an organisation? They have to be in our frontline services and in what we're required to do, and about our statutory objectives. If you're putting too much effort into your compliance structures to the deficit of delivery, then I worry about the balance. It is always a question of proportionality.”

Notes

- 1 We interviewed representatives from a sample of 11 small public bodies we identified as part of our study on accountability in small central government bodies. These interviews took place between September 2024 and April 2025.
- 2 This figure also includes views from a small public body interviewed by the National Audit Office (NAO) in January 2025 as part of the NAO's annual audited body feedback process. The quotes taken from this interview were part of a discussion of the proportionality of audit on small public bodies.

Source: National Audit Office interviews with public bodies

2.18 Small bodies told us that that it can be hard to access support from the centre of government. They told us that, while finance professionals in large organisations can specialise in specific areas and can easily draw on the expertise of their peers, in small organisations one or two people need to be familiar with all aspects of financial reporting and be able to cover the basics and technical areas alike. Small bodies told us that they would benefit from more signposting of existing resources, easier access to technical support from the centre of government, faster responses to financial reporting queries, and more guidance on core processes and technical areas alike (**Figure 13**). HMT 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.

Developments

2.19 HMT and the NAO are working to improve financial reporting and audit arrangements for small bodies. HMT is considering what changes in the requirements for ARAs might improve accountability for small bodies. The NAO is supportive of this work. It is also part of a working group which is developing guidance for auditors on performing smaller audits.

Figure 13

Examples of views from small public bodies on the support available to them for preparing annual reports and accounts

Small public bodies we spoke to said that accessing the right support and expertise is difficult, and would welcome more, readily available support

“ There is useful material available, the issue is more around signposting. ”

“ The support is there if you go begging for it, but it is not easily available for you to tap into. If you are member of an arm's-length body network there is a network for you to go, but unless you are invited to a specific network, it can be tricky [to access support]. ”

“ Getting support from centres of excellence can be difficult. They tend to be geared toward more unusual, knotty problems than to basic questions. ”

“ When we seek support from the centre of government as a small body, it can be hard to know who to reach out to and response times can be long. ”

Note

1 We interviewed representatives from 11 public bodies we identified as part of our study on accountability in small central government bodies. These interviews took place between September 2024 and April 2025.

Source: National Audit Office interviews with public bodies

Appendix One

Our audit approach

Our scope and definition of small body

1 The scope of this report includes central government bodies and Parliamentary bodies. We follow the Office for National Statistics' definition of central government as including all administrative departments of the state and other central agencies whose competence extends normally over the whole economic territory, such as government departments, executive agencies and non-departmental public bodies (NDPBs). Parliamentary bodies are organisations that are accountable to Parliament but are not responsible to an executive arm of the government (such as a government department or a minister), for instance the Electoral Commission. Although Parliamentary bodies are not strictly part of the government, we have included them in our scope because the same issues regarding accountability and proportionality of requirements that apply to small central government bodies also apply to them.

2 The scope of this report excludes:

- organisations that do not produce a separate set of financial statements;
- organisations set up as charities or companies, which are subject to specific sets of requirements;
- organisations that do not require staff to carry out their functions, such as funds and trusts;
- local government and devolved administration bodies, which are not within the National Audit Office's (NAO's) remit; and
- ministerial departments, because they are either large (such as the Cabinet Office), or pertain to the devolved administrations (such as the Wales Office), or do not produce a separate set of financial statements (the Attorney General's Office).

3 Based on data from the Cabinet Office, the Whole of Government Accounts and the GOV.UK website, there were at least 119 remaining organisations in 2022-23. Each is represented as a dot in **Figure 14**. They belong to five categories: non-ministerial departments, executive agencies, non-advisory NDPBs, Parliamentary bodies and statutory office holders.

4 There is no formal definition of a small public sector or central government body or segmentation of public bodies by size in government guidance, standards and requirements. Small and large central government bodies are mostly subject to the same requirements. Central government bodies are not clustered around two or three typical sizes, representative of large, medium and small bodies, but are on a continuum of sizes from billions of expenditure and thousands of employees, to less than a million of expenditure and fewer than 10 employees.

5 To determine which of the 119 remaining organisations should be considered small bodies for this study, we reviewed the Cabinet Office's *Public Bodies Handbook*, the data underpinning the Cabinet Office's landscape analysis *Public Bodies 2023*, the 2022-23 Whole of Government Accounts and the GOV.UK website, and the thresholds for reporting and assurance requirements for private sector companies, charities and local authorities. We also engaged with government officials and experts from the NAO.

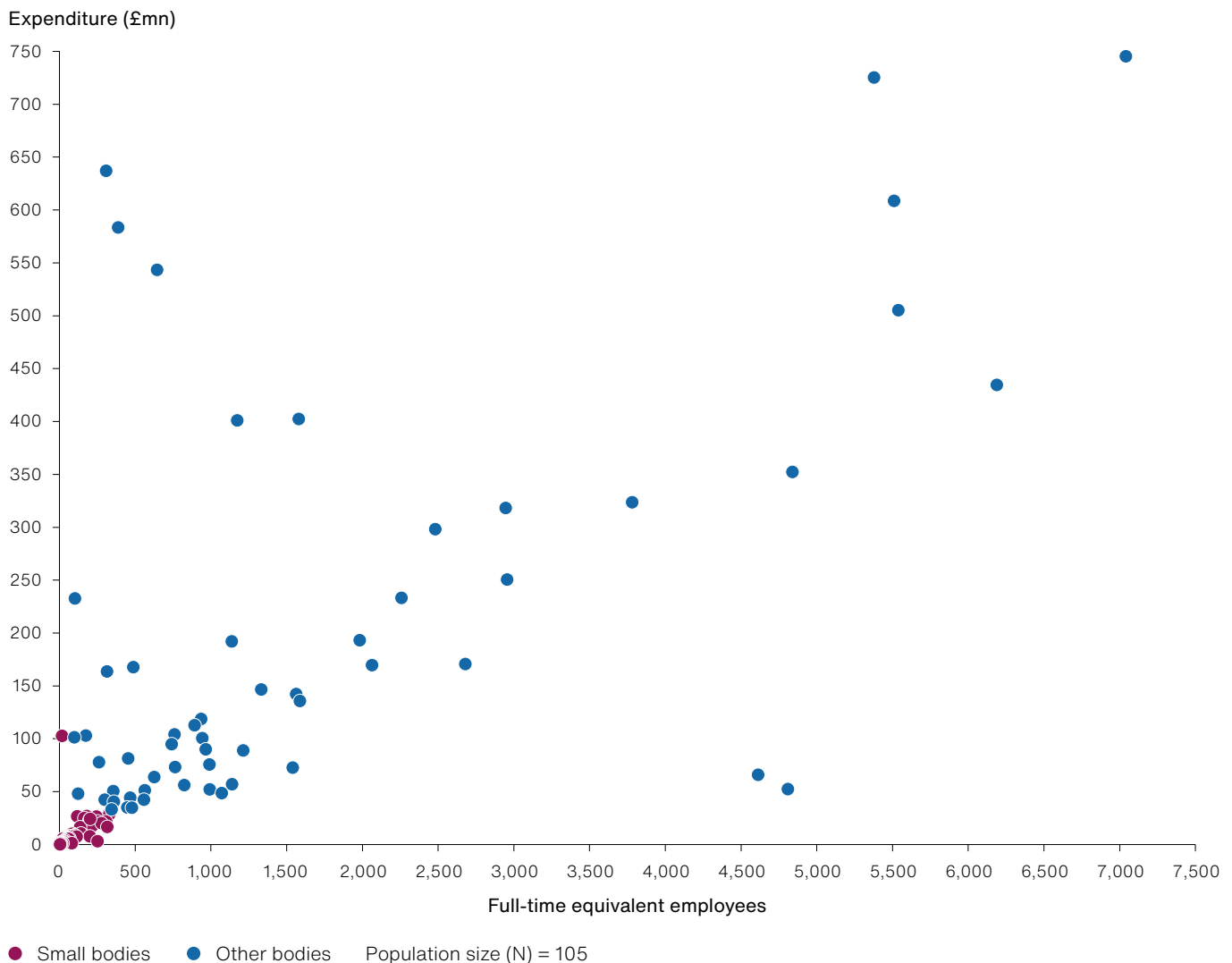
6 Based on this work, we regard organisations that spent up to £30 million in 2022-23 (based on budget expenditure which, unlike accounting expenditure, includes capital spend) or had up to 50 full-time equivalent employees on 31 March 2023 as small for the purpose of this study. There are at least 48 such organisations. They are represented by the purple dots in Figure 14. HM Treasury has not endorsed this small body threshold and told us that it may use a different threshold in the future.

7 The data that we used to identify those 48 organisations are the expenditure and staff data underpinning the Cabinet Office's landscape analysis *Public Bodies 2023*, except for Parliamentary bodies and most statutory office holders, which are not included in the landscape analysis, and for a small number of other organisations, for which the expenditure figure included in the landscape analysis was much lower than the expenditure recorded in their financial statements. For those organisations, we used the expenditure figure reported in their annual reports and accounts. We used the budget expenditure figure published in their Statement of Parliamentary Supply, except for the organisations which do not publish budget expenditure in their annual reports and accounts because they are funded directly by parent departments rather than through Parliamentary supply. For these organisations, we used accounting expenditure.

Figure 14

Full-time equivalent employees and annual expenditure of central government and Parliamentary bodies, 2022-23

Out of 119 central government or Parliamentary bodies, we have classified 48 as small bodies for this study



Notes

- 1 This chart excludes: organisations that do not produce a separate set of financial statements, organisations set up as charities or companies, local government and devolved administration bodies, ministerial departments, and organisations which do not require staff to carry out their functions, such as public funds and trusts. There were at least 119 remaining organisations in 2022-23. The population size, that is, the number of dots that appear in the chart, is 105 rather than 119 because the chart excludes, for presentational purposes, 14 organisations that had expenditure over £1 billion in 2022-23.
- 2 The chart shows the number of organisations' full-time equivalent employees on 31 March 2023.
- 3 We have classified organisations that spent up to £30 million in 2022-23 or had up to 50 full-time equivalent employees on 31 March 2023 as small. The expenditure figures that we used for most organisations are based on budgetary classifications and therefore include both day-to-day and capital expenditure. For a small number of organisations, no budgetary expenditure figures were available. We used the accounting expenditure figures published in their 2022-23 annual reports and accounts. We used 2022-23 figures because this is the last year for which a list of public bodies with expenditure and employee data is available.

Source: National Audit Office analysis of Cabinet Office, *Public Bodies 2023*; HM Treasury, *Whole of Government Accounts 2022-23*, November 2024, HC 289; GOV.UK website; and public bodies' 2022-23 annual reports and accounts

Our evidence base

8 We reached our independent conclusions on accountability in small central government bodies based on our analysis of evidence collected primarily between September 2024 and April 2025.

Interviews

9 We interviewed representatives from 11 small central government or Parliamentary bodies to understand the impact of the requirements placed upon these organisations, their perspectives on whether these requirements are proportionate, and to identify examples of good practice (**Figure 15**).

10 We identified the small bodies to interview through purposive, qualitative sampling. As a primary sampling criterion, we selected at least two organisations for each of the five categories of public body mentioned in paragraph 3 (non-ministerial departments, executive agencies, non-advisory NDPBs, Parliamentary bodies, and statutory office holders). With regard to statutory office holders, the bodies that we selected are NDPBs that support the office holders. This is because functional standards, financial reporting requirements and audit requirements often apply to the NDPBs that support the office holders, rather than to the office holders themselves. We monitored our sample to ensure that it included organisations with a range of different sponsoring departments, purposes, and sizes. This is a judgemental sample and is not statistically representative.

11 To identify how the impact of the requirements, and government bodies' perceptions of these requirements, differ across small and large bodies, we interviewed senior officials from three larger government bodies. These were the British Transport Police Authority, the Government Internal Audit Agency and the Maritime and Coastguard Agency. We also interviewed officials from the Department for Business & Trade, the Department of Education and the Ministry of Justice's Arm's-Length Bodies Centre of Excellence.

12 To understand the perspective of the centre of government on the requirements placed upon small bodies, we interviewed officials from the Cabinet Office, HM Treasury and the Project Delivery Function, and held a meeting with working-level officials from six government functions. We presented our work in progress to the Small and Medium Department Finance Director Network and to heads of government functions.

13 All interviews were semi-structured and held remotely.

Figure 15

Small bodies interviewed during our fieldwork, September 2024 to April 2025

We interviewed a range of government and Parliamentary bodies as part of our work on accountability in small government bodies

Organisation	Type	Sponsoring department	Expenditure in 2022-23 (£mn)	Full-time equivalent employees on 31 March 2023
Government Actuary's Department	Non-ministerial department	HM Treasury	24.4	202
Supreme Court of the United Kingdom	Non-ministerial department	None	5.6	57
Forest Research	Executive agency	Department for Environment, Food & Rural Affairs	22.0	308
Teaching Regulation Agency	Executive agency	Department for Education	10.4	82
Civil Service Commission	Non-departmental public body (NDPB)	Cabinet Office	1.8	15
Horserace Betting Levy Board	NDPB	Department for Culture, Media & Sport	102.9	16
Social Work England	NDPB	Department for Education	26.4	243
Immigration Advice Authority ²	NDPB supporting a statutory office holder	Home Office	5.5	60
Office of the Children's Commissioner	NDPB supporting a statutory office holder	Department for Education	3.0	29
Electoral Commission	Parliamentary body	None	27.0	180
Local Government Boundary Commission for England	Parliamentary body	None	2.4	22

Notes

- 1 Expenditure figures are based on budgetary classifications, rather than International Financial Reporting Standards, and therefore include both day-to-day and capital expenditure, except for the Horserace Levy Betting Board, for which the expenditure reported is accounting expenditure per the 2022-23 Annual Report and Accounts. We used 2022-23 figures because this is the last year for which a list of public bodies with expenditure and employee data is available.
- 2 The Immigration Advice Authority adopted this name in January 2025 and was formerly known as the Office of the Immigration Services Commissioner.

Source: National Audit Office analysis of Cabinet Office, *Public bodies 2023*, public bodies' 2022-23 annual reports and accounts, and data provided by public bodies

Document review and data analysis

14 The NAO carries out annual surveys and interviews with the organisations that we audit to understand how our stakeholders perceive the NAO and our work. We reviewed the 2023 survey and interviews to understand how the organisations that we audit view the proportionality of financial audits.

15 We analysed data from audited bodies' annual reports and accounts, the Government Internal Audit Agency and the NAO on the cost of internal and external audits and the length of annual reports.

16 Where we have converted financial figures relating to prior years to 2023-24 prices, we have used the GDP deflator series published by HM Treasury in December 2024.

Engagement with experts

17 As part of our quality assurance and internal consultation procedures, we engaged with NAO experts in financial audit, business case appraisal, financial management, risk management and major project delivery, and with the NAO's Financial Controller.

Appendix Two

Support and guidance for small bodies

1 This appendix lists resources that small bodies can use to support meaningful compliance with the functional standards and with financial reporting and audit requirements.

Functional standards

2 There is detailed guidance on the functional standards on the GOV.UK website. This includes:

- the [letter from HM Treasury](#) that requires departments and arm's-length bodies to comply with the standards;
- introductory guidance on [government functions](#) and the [functional standards](#) (with links to each function's webpage and standard);
- guidance on implementing the standards for [arm's-length bodies](#) and [senior leaders](#);
- guidance on [developing and maintaining documentation](#); and
- guidance on using the standards for [continuous improvement](#) and for [audit and assurance](#).

3 The Government's Risk Centre of Excellence, which is housed in HM Treasury, has published the [Central Government's Assurance Directory](#) alongside its Risk Control Framework (Part 2 of the *Orange Book*). The Directory includes self-assessment questions for all functional standards and for a wide range of other requirements.

Annual reports, financial statements and external audit

4 HM Treasury's guidance on annual reports and accounts includes the [Government Financial Reporting Manual](#) (FReM), application guidance on [IFRS implementation in the public sector](#), and [best practice examples in annual reporting](#).

5 The Government Finance Function's website, OneFinance, includes toolkits, an information hub and jargon busters. The Government Finance Function coordinates a range of networks and centres of excellence, such as the Arm's-Length Bodies Finance Leaders Network, the Small and Medium Departments Network and the Government's Risk Centre of Excellence.

6 The Ministry of Defence leads the Technical Accounting Centre of Excellence for Government, which aims to improve the quality of financial accounting and to share best practice across government.

7 The National Audit Office regularly publishes good practice guides and lessons learned reports to support high-quality financial reporting in government. These include:

- Good practice in annual reporting (February 2025);
- Estimating and reporting fraud and error in annual reports and accounts (February 2025); and
- a series of good practice guides on financial management in government; a guide on reporting processes will be published as part of this series in Autumn 2025.

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