



ACCOUNTABILITY IN SMALL GOVERNMENT BODIES

1 September 2025

ICAEW welcomes the opportunity to submit written evidence to the Committee of Public Accounts (PAC) [inquiry into accountability in small government bodies](#) based on the National Audit Office (NAO) [value for money report on accountability in small government bodies](#) dated 25 June 2025.

We endorse the NAO's conclusions on accountability in small bodies

- We support the creation of a proportionate 'small body reporting regime'.
- We also support flexibility to adapt compliance requirements aimed at much larger bodies.

Please don't reinvent the wheel

- There are several existing small organisation financial reporting frameworks – just pick one.
- Keep it simple with streamlined checklists.
- We do not recommend exempting small bodies from external audit unless they are tiny.
- An alternative option to merging small bodies is to share back office functions.

We believe there is a need for accountability events for all public bodies, however small

- AGMs are essential for all public interest organisations.

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This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 14,000 in ICAEW's Public Sector Community.

ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

We would be very happy to discuss our feedback in more detail if the Committee believes that would be of assistance. Please contact us at representations@icaew.com quoting REP 59/25.

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ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

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Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

WE ENDORSE THE NAO'S CONCLUSIONS ON ACCOUNTABILITY IN SMALL BODIES

We support the creation of a proportionate 'small bodies reporting regime'

1. We concur with the NAO's recommendation for a 'small bodies reporting regime' set out in its report into accountability in small government and small Parliamentary bodies.
2. We think the NAO is right to identify the disparity between a reporting regime designed for government departments and other public bodies spending many billions of pounds of public money each year and what is appropriate for small bodies spending a mere fraction of those amounts. There is a need for good financial reporting, but it should be proportionate to the scale of the organisations concerned and appropriate to the needs of Parliament.
3. We also concur with NAO's view that there is a need to go beyond the existing 'comply and explain' framework to permit small bodies to ignore reporting requirements that are not relevant. There should be no need to explain how compliance with hundreds of individual requirements that are not really appropriate to small bodies in the first place is not necessary.
4. We therefore agree that there is a strong case for a more appropriate and less onerous reporting framework for small bodies. We believe that this can be done in way that provides Parliament with assurance that public money is being spent appropriately and that still enables small bodies to be held accountable to Parliament in a proportionate way.

We support flexibility to adapt compliance requirements aimed at much larger bodies

5. The NAO report highlights how the principles and key elements of the functional guidance provided to public bodies is still relevant and helpful to small bodies as well as larger ones.
6. However, the report also details the difficulties that small bodies find in complying with the full guidance. For example, guidance designed for much larger organisations often assumes that functions or subfunctions comprise teams or even multiple teams of people, while in a small body those functions or subfunctions might comprise just one or two people.
7. We therefore support the ability of small bodies to adapt compliance requirements to their particular circumstances and to the much smaller amounts of public money that they are responsible for.

PLEASE DON'T REINVENT THE WHEEL

There are several existing small organisation financial reporting frameworks – just pick one

8. There are several existing financial reporting frameworks for smaller organisations available under International Financial Reporting Standards (IFRS) and UK Generally Accepted Accounting Practice (UK GAAP).
9. These principally comprise:
 - **FRS 101:** a standard that reduces the disclosure requirements of subsidiaries of companies that follow UK- or EU-compliant IFRS.
 - **FRS 102:** an accounting standard for non-listed companies in the UK that are not required to apply IFRS. It is broadly aligned with IFRS accounting requirements but contains fewer disclosures than IFRS, simplifying accounting requirements in a proportionate way based on the size and scale of the organisation and associated user needs.
 - **FRS 105:** an accounting standard for very small companies that apply the micro-entities regime, with very limited disclosure requirements.
 - **IFRS for SMEs:** an accounting standard for small and medium-sized enterprises that replaces 43 full IFRS standards and 20 interpretations with a single text with simplified accounting requirements and fewer disclosures.
10. We do not believe that FRS 105 would be an appropriate accounting standard for any public body in the UK, even the very smallest. This is because it contains extremely limited

disclosure requirements designed for small private companies where there is no or very limited public interest in providing much disclosure at all. This is not the case with even the smallest of public bodies accountable to Parliament where the guiding principle must be one of transparency by default. There are also issues around the ability of an external auditor to provide a 'true and fair' audit opinion on a set of FRS 105 financial statements given the lack of disclosures that may be necessary to provide a true and fair representation of the financial performance and position of the organisation being reported on.

11. There is an argument for applying FRS 101 to small government bodies, but in practice this would provide limited relief compared with the objectives set out in the NAO report. This is because while it would reduce some of the burden of disclosure, it would not reduce the requirement to comply with the full suite of IFRS standards and interpretations.
12. Both FRS 102 and IFRS for SMEs locate accounting and disclosure requirements within a single accounting standard, and each are substantially aligned with international generally accepted accounting practice under IFRS as adopted by government departments and in the Whole of Government Accounts.
13. We therefore think there are merits in permitting small bodies to adopt either **FRS 102** or **IFRS for SMEs** together with a limited set of additional UK public sector specific reporting requirements specified by HM Treasury as endorsed by the UK government's Financial Reporting Advisory Board (FRAB). We believe that either would provide reporting arrangements that are proportionate to scale of the organisations concerned while still meet the needs of Parliament to hold them to account.
14. Our marginal preference would be for small government bodies to report under FRS 102, as this would align the reporting regime with that used by non-listed companies in the UK. This would provide benefits in terms of the ability to share reporting experience between sectors for example. However, FRS 102 is primarily designed for companies reporting under the Companies Act 2006, which does not apply to most public bodies and there is also merit in adopting IFRS for SMEs, which has global application.
15. For simplicity, we do not believe that FRS 102 section 1A further reductions in disclosure requirements for what it describes as 'small entities' should be adopted. This is because it exempts certain reporting requirements such as a statement of comprehensive income and expenditure that we believe are important for public bodies to disclose. Rather than adopt FRS 102 section 1A and then add in a list of additional reporting requirements, we think it would be more straightforward to adopt FRS 102 with public sector specific adaptations similar to those adopted for full IFRS.
16. We also believe that, subject to our comments on external audit below, there should be just one financial reporting framework for small bodies rather than having multiple tiers with differing requirements as adopted by some other jurisdictions.
17. In particular, we do not believe that cash-based reporting (ie receipts and payments) is appropriate for public bodies accountable to Parliament just because they are small or 'tiny'.

Keep it simple with streamlined checklists

18. We suggest that the best approach is for HM Treasury in conjunction with FRAB to prepare streamlined checklists for small and tiny bodies.
19. Such streamlined checklists should be maintained and kept up to date in conjunction with the checklists for large public bodies to avoid divergence or confusion.

We do not recommend exempting small bodies from external audit unless they are tiny

20. We believe that Parliament and the public both need to be able to trust the numbers that are reported to them by all public bodies. Assurance in the form of a rigorous and independent external audit is one of the best ways to ensure that trust.
21. However, we acknowledge that there are circumstances where the level of effort and cost required to undertake an external audit may be excessive in the context of the assurance gained. Existing examples in the private sector include the exemption from external audit of

micro-entity and small company financial statements, while in the public sector smaller authorities such as parish councils spending between £25,000 and £6.5m a year are subject to agreed-upon-procedures by independent internal auditors and limited assurance reviews by external auditors.

22. We believe that there is a case for small government and Parliamentary bodies with expenditure below a specific threshold ('tiny' bodies) to be exempted from the requirement for external audit, with a more limited type of assurance similar to the agreed-upon-procedures and limited assurance reviews adopted by smaller authority internal and external auditors respectively.¹
23. In effect, this would result in a three-tier proportionate approach for financial reporting and audit for government and Parliamentary public bodies:
 - **Government departments and large and medium-size public bodies:** Full annual financial reports incorporating audited financial statements prepared in accordance with UK-compliant IFRS.
 - **Small bodies:** Reduced disclosure annual financial reports incorporating audited financial statements prepared in accordance with FRS 102/IFRS for SMEs.
 - **Tiny bodies:** Reduced disclosure annual financial reports incorporating unaudited financial statements prepared in accordance with FRS 102/IFRS for SMEs together with a 'parish council style' agreed-upon-procedures report and limited assurance review report from independent internal and external auditors respectively.
24. Such an approach would still permit small and tiny bodies to adopt full IFRS if they wished, or if they were asked to do so by ministers, and for 'tiny' bodies to opt for a full external audit where preferred or where there are considered to be specific risks requiring a full audit to be undertaken.
25. There would need to be a method for transitioning between levels, which we believe should permit some flexibility. For example, small bodies might be allowed to continue reporting under FRS 102/IFRS for SMEs where a one-off grant or programme of expenditure puts them temporarily above the threshold. Similarly, in the reverse circumstances, a larger body should be permitted to continue reporting under full IFRS where it drops below the threshold in a particular financial year but is expected to return above that level in subsequent years.

Another option to merging small bodies is to share back office functions

26. The NAO reports that the government is considering whether it can merge small government bodies into larger more viable bodies or absorb them back into government departments.
27. We agree that this is likely to make sense in many circumstances, and there is an opportunity to both reduce the number of small bodies overall and to reduce the number of smaller small bodies.
28. However, there are many public interest reasons why small bodies are created and why they continue to exist. So, while 'pruning' them back from time to time makes sense, the prospects are that quite a few will be retained, while it is also likely that this and future governments will establish new small bodies in the future.
29. There is therefore some merit in considering alternative approaches to the compliance 'overload' experienced by some small bodies.
30. For example, we think there is the potential for more small bodies to share some back office functions. Not only should this approach (at least in theory) provide economies of scale through the sharing of systems and capabilities but it should also provide an opportunity for more in house expertise to be available to support compliance with reporting and other requirements.

¹ A randomly selected example is Red Lodge Parish Council in Suffolk: [Annual Internal Auditor Return 2023/24](#), [Internal Audit Report 2023/24](#) and [External Auditor Limited Assurance Review 2023/24](#).

WE BELIEVE THERE IS A NEED FOR ACCOUNTABILITY EVENTS FOR ALL PUBLIC BODIES, HOWEVER SMALL

AGMs are key to accountability in all organisations

31. Although we concur with the NAO's overall recommendation for reducing the compliance burden on small bodies, we continue to believe that there is an accountability gap that affects most central government bodies, irrespective of size.
32. This is the lack of:
 - an annual results presentation to Parliament and the public following the end of each financial year at which management set out the financial results and position of their public body and answer questions from MPs, peers, stakeholder groups and the general public on its strategy and finances; and
 - an annual general meeting at which the annual financial reporting incorporating audited financial statements are formally adopted on behalf of Parliament and at which MPs, peers, stakeholder groups and the general public are able to ask questions about them.
33. These two accountability events are key elements of the accountability process for listed companies and many other organisations outside of the public sector.
34. They provide a means by which management routinely holds themselves accountable to their direct and indirect stakeholders, as well as enabling those stakeholders to routinely hold the organisation concerned and its management to account for their stewardship for financial and other resources over the course of each financial year.
35. We believe that AGMs or equivalents should be part of the minimum required of all public bodies. AGMs are an accountability process that hundreds of thousands of charities, societies and companies undertake each year that is not being undertaken within much of the public sector. This is, in our view, a weakness in the accountability framework for public bodies.
36. Such meetings would, we believe, be complementary to the more detailed but less frequent scrutiny hearings undertaken by select committees and the Committee of Public Accounts. Especially as such AGMs would ideally provide an opportunity for stakeholder groups, service users, and the public to ask questions of management teams in addition to other MPs and peers who may be interested.
37. We think that annual results presentations to Parliament and the public following the end of each financial year should be delivered by all government departments and large public bodies. Voluntary presentations by small and tiny bodies should be permitted but not required.