



Invitation to Comment: Updated Proper Practices for Category 2 Authorities (England)

1 September 2026

Jointly published by the **Smaller Authorities Proper Practices Panel** with:



Contents

Invitation to comment.....	3
1. Introduction	3
2. The consultation process.....	4
Section A – Annual governance statement.....	5
3. Annual governance statement	5
3.1 Ordering of the assertions.....	5
3.2 Assertion 3 and the guidance on reserves	6
3.3 Changes to the requirement of Assertion 6	7
3.4 Parish meetings	8
Section B – Code of Practice for Internal Audit of Category 2 Authorities (England)....	9
4. Code of Practice for Internal Audit of Category 2 Authorities (England) (Code of Practice).....	9
4.1 The Code of Practice	9
4.2 Proportionate improvements to the requirements of internal audit	10
Section C – The Statement of Accounts.....	12
5. The Statement of Accounts	12
5.1 The new requirements of the Statement of Accounts	12
5.2 Reconciliation of balances carried forward (income and expenditure basis only)	15
5.3 Reconciliation between reserves and balances carried forward	15
Section D – Any other comments	17

Invitation to comment

1. Introduction

1. Smaller Authorities are defined in the [Local Audit and Accountability Act 2014](#) as relevant authorities whose income or expenditure (whichever is highest) does not exceed a specified limit for three consecutive years. This limit was raised from £6.5m to £15m for financial years starting 1 April 2025.
2. Proper practices are the standards of governance and accounting that Category 2 Authorities must follow when preparing their accounting statements and completing the Annual Governance and Accountability Return.
3. The [Smaller Authorities' Proper Practices Panel](#) (SAPPP), formerly known as the Joint Panel on Accountability and Governance (JPAG), is responsible for issuing these standards annually in the form of the [Governance and Accountability for Local Councils: A Practitioners' Guide \(England\)](#) (The Guide).
4. As the current proper practices have been in place for more than ten years, SAPPP unanimously agreed that a full review was necessary. This was a good opportunity to reflect on and update the existing guidance to ensure it meets the needs of the 21st century public sector.
5. SAPPP and [Smaller Authorities' Audit Appointments Ltd](#) (SAAA), the body responsible for appointing external auditors to Smaller Authorities, engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out this critical review.
6. The government fully supports this review, led by SAPPP, in line with the commitment outlined in its response to the [Local Audit Reform Strategy and Consultation](#) to ensure that audit regimes support transparency and accountability in a proportionate way.
7. During the summer of 2025, CIPFA carried out a detailed evaluation of the Guide and provided SAPPP with a report detailing the issues found. Several areas were identified where improvements could be made, and a consultation was held to enable clerks and other stakeholders to provide their views.
8. We are now seeking views on the updated document titled 'The Proper Practices Code for Category 2 Authorities in England' to determine whether it is fit for purpose.
9. Alongside that document is the Code of Practice for Internal Audit of Category 2 Authorities (England). This document aims to strengthen internal audit in line with the results of the first consultation. We will also be inviting views on this document.
10. Following the consultation, we will produce the Proper Practices Code for Category 2 Authorities (England) Guidance Notes (the Guide). This will be a set of user-friendly guidance notes, model answers and diagrams to support users. References to the Guidance Notes may already appear in the Proper Practices Code, but this consultation will help shape their final content.
11. Additionally, the AGAR is being digitised. The proposed proper practices will be fed into the digital AGAR as appropriate.
12. During the process of updating the documents detailed within this consultation, the [English Devolution and Community Empowerment Act 2026](#) was passed. Section 96(2) states that "In any regulations, guidance or other instrument made or issued

under that [Local Audit and Accountability Act 2014] Act before this section comes into force, any reference to a smaller authority is to be read, in relation to matters arising after this section comes into force, as a reference to a category 2 authority.” Therefore, the reference to Smaller Authorities has been replaced by Category 2 Authorities across all proper practices-related documents.

2. The consultation process

13. This invitation to comment (ITC) sets out issues with the current Guide and potential solutions anticipated for inclusion in the 2027/28 Guide, which will apply to accounting periods commencing 1 April 2027.
14. Specific consultation questions have been included in the ITC. CIPFA/SAPPP also welcomes general comments on the proper practices.
15. Responses to this ITC will be considered part of the public record and may be included in analysis published on any or all of the core bodies’ websites.
16. Once the consultation has closed, CIPFA will analyse the results and present the findings to SAPPP for comment.
17. This review of the proper practices may lead to changes in the limited assurance review process, which could have implications for the associated charging structure.
18. In order for comments to be considered by CIPFA/SAPPP in time to inform possible implementation, responses are required by 31 October 2026.
19. Please submit responses through the online survey which you can access on the [CIPFA website](#).

Section A – Annual governance statement

3. Annual governance statement

20. Category 2 Authorities are required through the Accounts and Audit Regulations 2015 to conduct an annual review of the effectiveness of the system of internal control and prepare an annual governance statement (AGS) in accordance with proper practices in relation to accounts.
21. The purpose of the AGS is for an authority to report publicly on its arrangements for ensuring that its business is conducted in accordance with the law, regulations and proper practices and that public money is safeguarded and properly accounted for. The AGS consists of a series of questions, known as assertions, that require a **“Yes”** or **“No”** response. Each response must be supported by appropriate evidence.
22. Through the review of the current Guide, it was determined that the assertions remained relevant overall. However, responses to the first consultation identified opportunities to strengthen them.
23. Additional information required to support the assertions will be documented within the Proper Practices Guidance Notes, which will be produced following this consultation.

3.1 Ordering of the assertions

24. As part of the update to the Practitioners' Guide, and with the aim of making it more user friendly, the assertions have been reorganised so that users can work through them in a more logical order. The revised order first confirms that the authority is acting lawfully and securely, then demonstrates that its financial arrangements and public accountability duties are sound, and finally shows that its risk, control and assurance mechanisms are operating effectively.
25. The reordering also makes the document easier to navigate by grouping related matters under broader thematic sections, rather than presenting the assertions as a list that users must cross-reference with different sections of supporting guidance. This has also enabled duplicate requirements to be removed.
26. The revised structure is intended to help users understand the purpose behind each requirement and how the different elements connect. For example, the accounts-related requirements can now be read together as a clearer set of instructions for preparing the AGAR, while governance, risk management and internal control are brought together as closely linked principles. This reduces duplication, improves the flow of the document and makes it easier for users to understand not only what they need to do, but why it matters. The clearer structure should also help authorities identify the evidence or processes they need in place to support a positive response.
27. Specific details of the change in order are analysed below.

Current assertion	Previous assertion	Title
1	3	Compliance with laws, regulations and proper practices
2	10	Information governance and data security

Current assertion	Previous assertion	Title
3	1	Financial management and the preparation of the statement of accounts
4	8	Significant events
5	4	Exercise of public rights
6	7	Governance (previously reports from auditors)
7	5	Risk management
8	2	Internal control
9	6	Internal audit
10	9	Authorities that manage trust funds

Annual governance statement order	
Q1	Do you agree that assertions are now in a more logical order?
Q2	If you answered “no” to Q1, please explain your answer.
Q3	Are there any assertions where you would require further clarification within the document on how to satisfy the requirements?
Q4	If you answered “yes” to Q3, please provide details to support your answer, particularly stating which assertion you would not be able to follow.
Q5	Does the Proper Practices Code provide enough information/detail to enable the user to satisfy the requirements of the assertions?
Q6	If you answered “no” to Q5, please provide details to support your answer, particularly stating which assertions you would like more detail.
Q7	Do you have any other comments on this topic?

3.2 Assertion 3 and the guidance on reserves

28. Feedback provided in the previous consultation highlighted the need for clearer and more practical guidance on reserves, covering the establishment and use of specific reserves, the setting of appropriate levels of general reserves and the role reserves play in supporting effective cashflow management.
29. The new Proper Practices Code highlights clearer requirements for the restricted reserves. This will be supported by detailed guidance for clerks/RFOs in the Proper Practice Guidance Notes.

Reserves strategy	
Q8	Do you support the requirement for authorities to have a reserves strategy?
Q9	Do you support the removal of the general reserve levels as detailed in paragraph 5.34 of the 2026/27 Practitioners' Guide?
Q10	If you answered "no" to Q8 and/or Q9, please provide details to support your answer.

3.3 Changes to the requirement of Assertion 6

30. Assertion 6, now titled 'Governance', replaces 'Reports from auditors'. The assertion requirements remain similar.
31. The changes to Assertion 6 were made in response to feedback from the previous consultation, which highlighted strong overall support for strengthening transparency and oversight through the AGAR process. In the previous consultation, most respondents agreed that both the internal audit report and the external auditor's certificate should be reviewed at a public meeting of the authority.
32. Respondents also widely supported publishing audit reports online to improve accountability and meet transparency expectations.
33. There was strong agreement that authorities should be required to prepare and publish an action plan in response to issues raised by internal or external auditors.
34. Some respondents emphasised that action plans are only effective when they are actively monitored throughout the year, while others noted that simple actions recorded in minutes may be sufficient in low-risk cases.

Assertion 6 Governance	
Q11	Do you agree that the changes made to Assertion 6 will improve transparency and oversight around auditor reports?
Q12	If you answered "no" or "partially" to Q11, please provide details to support your answer.

3.4 Parish meetings

35. Parish meetings are generally smaller and less complex than most Category 2 Authorities. In some cases, legislation does not apply to them in the same way as it does to other authorities. However, they remain subject to key requirements, including the rules on exemption from a limited assurance review where applicable, completion of the Annual Governance and Accountability Return (AGAR) and the requirement to have an internal audit.
36. The first consultation highlighted that parish meetings were not always clear about when they were required to follow the Practitioners' Guide. To support parish meetings, Appendix A summarises the exceptions from proper practices and sets out the alternative legislative requirements that apply specifically to them.
37. All exceptions that apply only to parish meetings have been removed from the Proper Practices Code and summarised in Appendix A. Where proper practices still apply to parish meetings in specific circumstances, those requirements remain in the main document.

Parish meetings	
Q13	Is it clearer where parish meetings are not expected to follow the Proper Practices Code?
Q14	If you answered "no" or "partly" to Q13, please provide reasons for your response.
Q15	Do you have any other comments?

Section B – Code of Practice for Internal Audit of Category 2 Authorities (England)

4. Code of Practice for Internal Audit of Category 2 Authorities (England) (Code of Practice)

38. In the first consultation on issues with the Practitioners' Guide, SAPPP asked whether there was a need to improve internal audit competency. In response, 71% of respondents agreed, and a further 14% partially agreed, that internal audit should be undertaken by individuals who are appropriately competent, ethical and experienced, with a clear understanding of the governance, risk and control environment in which Category 2 Authorities operate.
39. The proposed Code of Practice responds directly to that feedback by bringing together clearer expectations for the quality, consistency and effectiveness of internal audit. It sets out the principles that should support effective internal audit arrangements, including competence, ethics, experience and independence, while recognising the operating environment of Category 2 Authorities.
40. SAPPP considered that publishing the Code of Practice as a standalone document, separate from the main *Proper Practices Code*, would raise the profile of internal audit by making its role, purpose and value more visible. It would also provide authorities with a clearer framework for appointing, supporting and evaluating their internal audit arrangements. This approach is reinforced by the requirement under Assertion 9 for authorities to comply with the Code of Practice, thereby strengthening the connection between the annual governance statement and the authority's responsibility to ensure an effective internal audit function.

4.1 The Code of Practice

41. Assertion 9 has been updated to state "We (the authority) have undertaken an effective internal audit to evaluate the effectiveness of governance, risk management and control, in line with the requirements of the Code of Practice for Internal Audit of Category 2 Authorities (England)" Therefore, authorities that follow the Code of Practice will satisfy the requirements of Assertion 9 Internal Audit.
42. The Code of Practice also supports wider improvements to governance and accountability. It links to the changes under Assertion 6 Governance by making clearer how internal audit reports should be received, considered and acted upon by the authority, which was an agreed outcome from the first consultation.
43. The Code of Practice reinforces that internal audit is not simply an annual compliance exercise, but an important source of assurance over governance, risk management and internal control, especially for smaller Category 2 Authorities that are exempt from a limited assurance review.

Code of Practice for Internal Audit of Category 2 Authorities (England)

Q16	Do you agree that introducing a separate Code of Practice for Internal Audit is an appropriate way to strengthen internal audit arrangements for Category 2 Authorities?
-----	--

Q17	If you answered “no” to Q16, please explain why and identify any alternative or additional measures you think should be considered.
Q18	Do you agree that authorities should be expected to consider the Code when appointing, reviewing and supporting their internal audit arrangements?
Q19	If you answered “no” to Q18, please explain why and identify any alternative approach you think should be considered.
Q20	Does the Code of Practice provide enough information/detail to support the authority in applying it?
Q21	If you answered “no” to Q20, what additional information would you require?
Q22	Do you have any other comments on the Code of Practice for Internal Audit?

4.2 Proportionate improvements to the requirements of internal audit

44. Although the first consultation showed support for improving internal audit standards, respondents also raised concerns about affordability, auditor availability, market capacity and the risk of unintentionally excluding experienced practitioners, particularly in smaller authorities. The Code of Practice is written as a proportionate first step. It clarifies expectations without introducing immediate formal qualification requirements or a more prescriptive regulatory model. This allows standards to be strengthened while recognising the wide variation in size, complexity and risk across Category 2 Authorities.
45. SAPPP is interested in whether respondents consider that the proposed approach strikes the right balance. We welcome views on whether the Code goes too far in strengthening expectations for internal audit, or whether it does not go far enough to improve consistency, quality and assurance across Category 2 Authorities.

Proportionate improvements to the requirements of internal audit	
Q23	Do you agree that the Code takes a proportionate approach that recognises the different sizes and levels of complexity of Category 2 Authorities?
Q24	If you answered “no” to Q23, please explain where you consider the Code is not proportionate.
Q25	Are there any parts of the Code that may be difficult to apply in practice because of cost, auditor availability, market capacity or local circumstances?
Q26	If you answered “yes” to Q25, please identify the areas that may be difficult to apply and explain why.

Q27	Should the authority determine the scope of the internal audit, or should this be the responsibility of the internal auditor?
Q28	Should the internal auditor provide a written report setting out their findings, or is completion of the internal audit section of the AGAR sufficient?
Q29	Do you agree that the internal auditor should provide the authority with an audit plan or scoping document?
Q30	If you answered “no” to Q29, please explain how the authority would plan and scope the internal audit work. If you answered “yes” to Q29, what information would you expect the audit plan or scoping document to include? For example, this might include the expected time required, the areas to be reviewed and the type of testing to be undertaken.
Q31	Should the internal auditor be expected to provide evidence of relevant experience and/or references?
Q32	If you answered “no” to Q31, please provide details to support your answer.
Q33	Do you agree that internal audit could be carried out at any point throughout the financial year and not necessarily at year-end?
Q34	If you answered “no” to Q33 please provide details to support your answer.

Section C – The Statement of Accounts

5. The Statement of Accounts

46. The changes to the Statement of Accounts were prompted by feedback received through the first consultation, which highlighted a need for clearer reporting, greater transparency and better alignment between the AGAR and the accounting basis (receipts and payments or income and expenditure) used by each authority. Respondents also identified areas where the existing presentation could be simplified or improved, particularly where information was difficult to interpret or where the current format created unnecessary uncertainty for preparers and users of the accounts.
47. Following responses made in the first consultation and changes made to the proper practices, there is now a separate AGAR for authorities reporting on an income and expenditure basis and those reporting on a receipts and payments basis. The Proper Practices Code also details the accounting treatment under both bases to support completion of the AGAR.

5.1 The new requirements of the Statement of Accounts

48. Sections of the proper practices have been split out into these reporting bases to make it easier to know which parts are applicable for which accounting basis.
49. The following table outlines what the AGAR will now contain, noting that the digital AGAR includes section titles and not lines.
50. As detailed in the table, a new section has been added to the AGAR 'Borrowing' enabling authorities to show separately any income/receipts that have arisen during the year as a result of taking out loans. It is hoped that this additional line will increase transparency and provide better information to the users of the accounts about the sources of income into the authority.
51. SAPPP decided to remove staff costs as a separate total on the AGAR because it was considered to provide limited value, while creating an unnecessary burden for clerks in determining what should be classified as staff costs.
52. This was particularly relevant for smaller authorities with few staff, or only one member of staff, where a separate figure could potentially be linked back to an individual. For these reasons, staff costs have been incorporated into all other expenditure and payments.

Previous AGAR line number	Section title	Notable changes	Other notes
1	Balances brought forward	No changes	
2	Precept	No changes	
N/A	Borrowing	This is a new section previously included in all other payments.	

Previous AGAR line number	Section title	Notable changes	Other notes
3	Total other income/receipts	This has been split to read all other income on the I&E basis AGAR and all other receipts on the R&P basis AGAR.	
4	Staff costs	This has been removed. Staff costs are now reported with all other expenditure/payments.	
5	Loan interest/capital repayments	No changes.	
6	All other expenditure/payments	This has been split to read all other expenditure on the I&E basis AGAR and all other payments on the R&P basis AGAR.	
7	Balances carried forward	No change.	
8	Total value of cash and short-term investments	No change.	
N/A	Debtors and prepayments	This is a new section, not previously included on the AGAR.	I&E basis AGAR only
N/A	Creditors, receipts in advance	This is a new section, not previously included on the AGAR.	I&E basis AGAR only
N/A	Reconciliation of balances carried forward and total value of cash and short-term investments	This is a new section, not previously included on the AGAR.	I&E basis AGAR only
9	Total fixed assets plus long-term investments and other non-current assets	No change.	
10	Total borrowing	No change.	
N/A	Restricted reserves carried forward	This is a new section, not previously included on the AGAR.	
N/A	General reserves carried forward	This is a new section not previously included on the AGAR.	
N/A	Long-term treasury management investments	This is a new section not previously included on the AGAR.	

Previous AGAR line number	Section title	Notable changes	Other notes
N/A	Total reserves carried forward	This is a new section not previously included on the AGAR.	

Statement of Accounts	
Q35	Do you agree that by including new balances already held but not reported, these new requirements will not cause a significant amount of additional work to produce the AGAR or cause burdens disproportionate to an authority's size?
Q36	If you answered "no" to Q36, please detail which requirement would cause significant work to obtain and why.
Q37	Do you agree that the changes proposed will provide greater transparency to members, the community and other stakeholders?
Q38	If you answered "no" to Q37, please provide details.
Q39	Do you agree that showing income/receipts from borrowing on a separate line will lead to greater transparency in the AGAR?
Q40	Do you hold the information to be able to report income/receipt from borrowing on a separate line without causing an extensive burden on the preparers of the accounts?
Q41	If you answered "no" to Q39 or Q40, please provide additional details.
Q42	Do you believe there is a need to report on staff costs separately?
Q43	If you answered "yes" to Q42, please provide reasons.
Q44	Are there any areas within the Statement of Accounts section where you would like, or need, further guidance to help you complete the work?
Q45	If you answered "yes" to Q44, please provide details of the areas where you would like to see further guidance included within the supporting guidance document.

5.2 Reconciliation of balances carried forward (income and expenditure basis only)

53. For those preparing on an income and expenditure basis, accruals balances will now be required. This strengthens the legal requirement for authorities to produce a statement of balances per paragraph 11(2b) of the Accounts and Audit Regulations 2015.
54. The information provided on accruals will be used to reconcile the cash figure back to the balances carried forward, which will provide greater transparency and understanding to the public and other users of the accounts about the relationships between the bank balance and the carried forward balances.
55. This requirement will not be included on the AGAR for those preparing on a receipts and payments basis.

Reconciliation of balances carried forward to cash and short-term investments (I&E basis only)	
Q46	Do you hold the required accruals information?
Q47	Do you hold any short-term investments that are not in the form of high interest or callback accounts?
Q48	Do you believe there is any reason/situation why your cash and short-term investment figure wouldn't reconcile to your balances carried forward figure using the following formula: cash and short-term investment plus debtors and prepayments less creditors and receipts in advance equals your balances carried forward figure?
Q49	If you answered "yes" to Q47 or Q48, please provide further details.

5.3 Reconciliation between reserves and balances carried forward

56. The results of the first consultation showed an appetite for additional transparency without placing a disproportionate burden on the authority.
57. A new requirement to show the levels of reserves split between restricted reserves and general reserves would provide important transparency on the nature of the authority's reserves.
58. As existing requirements are to hold a general reserves policy and review all and purpose of all restricted reserves (from existing proper practices), it is expected that authorities will hold this information and providing it will aid transparency without causing excessive burden on the authority.
59. In splitting out the restricted reserves balances it has raised the question of treasury management activity which impacts cash flow but should not impact the availability of reserves.

60. It is recognised that all relevant items flow through the AGAR and form part of the balances carried forward. A reconciliation is therefore required to explain the difference between the reserves figure and balances carried forward where long-term treasury management investments have reduced balances carried forward but are not allocated to reserves.
61. New lines for long-term treasury management activity and a reconciliation between balances carried forward and reserves have been added.
62. It is expected that this will not cause a burden on smaller authorities who are less likely to hold long-term treasury management investments.
63. For the avoidance of doubt, treasury management investments in this context refers to those investments that arise from the organisation's cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business. This is opposed to other long-term investments made for commercial purposes (ie held primarily for financial return and not linked to treasury management activity) or investments held primarily for the provision and purposes of delivering public services.
64. Fixed asset purchases are **not** considered investments for the purposes of this section.

Reserves and reconciliation between reserves and balances carried forward	
Q50	Do you hold long-term treasury management investments?
Q51	Do you hold any long-term investments that are not for treasury management purposes? (eg commercial or service investments)
Q52	If you answered "yes" to Q51, please provide examples of the kinds of long-term investments that are not for treasury management purposes – eg share capital in a subsidiary.
Q53	If you answered "yes" to Q50 or Q51, are you confident in knowing which of your investments would classify as "treasury management activities" for these purposes?
Q54	If you answered "yes" to Q50 or Q51, do you hold a treasury management strategy?
Q55	If you answered "yes" to Q50 or Q51, do you hold an investment strategy?

Q56	Do you believe there is any reason why your reserves wouldn't reconcile to your balances carried forward using the following formula: restricted reserves plus general reserves less your treasury management long-term investments equals balances carried forward?
Q57	If you answered "yes" to Q56, please provide details.
Q58	Do you agree that any additional burdens are unlikely to be disproportionate to an authority's size?
Q59	If you answered "no" to Q58, please provide details that support your answer.
Q60	Do you agree with the approach outlined to avoid treasury management investments from negatively impacting reserves?
Q61	If you answered "no" to Q60, please provide additional details, including any alternative approaches.

Section D – Any other comments

65. Thank you for taking part in this consultation. SAPPP would welcome any other comments that you would like to make on the updated Proper Practices Code or the Code of Practice for Internal Audit.
66. Although comments were welcomed throughout the consultation on areas where you would like to see additional guidance in the Proper Practices Code for Category 2 Authorities (England) Guidance Notes, please take this opportunity to detail any specific areas within the AGAR where you would like more instruction/guidance.

Any other comments	
Q62	Do you have any other comments, concerns or issues that you would like SAPPP to consider before publishing these documents?