Tynwald Auditor General/ Ard Scruteyder Tinvaal

Annual Report for the period ended 31 March 2024

A report to Tynwald under section 12(2) of the Tynwald Auditor General Act 2011

1 July 2024

Introduction

1. I took up office as the first Tynwald Auditor General on 1 May 2023 with responsibilities relating to both financial and performance audit of public sector bodies in the Isle of Man. I am pleased to present my first Annual Report to Tynwald.
2. Section 12 of the Tynwald Auditor General Act 2011 requires that I lay before Tynwald an Annual Report on the general exercise of my functions including
   - any general recommendations that that I have arising from the exercise of my functions in the year; and
   - a list of the requests that I have received under sections 6 and 10 of the Tynwald Auditor General Act 2011 and the action that I have taken in respect of those requests.
3. In preparing my report I have also had regard to the resolution of Tynwald of November 2020 prior to the passing of the Tynwald Auditor General Act 2011 that established my Office.
4. In the remainder of this report I consider:
   - establishing the operations of the Office of the Tynwald Auditor General;
   - financial audit and assurance;
   - performance audit; and
   - exercise of other powers.

Establishing the operation of the Office of the Tynwald Auditor General

5. I am establishing an audit office from scratch. It has therefore been necessary to determine a business model for my Office and to start to implement it.
6. I have a key working relationship with the Public Accounts Committee. Under section 8(2) of the Tynwald Auditor General Act 2011, I have a statutory duty, when requested by the Public Accounts Committee, to:
   - attend meetings of the Committee; and
   - provide such advice and assistance to the Committee as is practicable.

Actions taken

7. I met with key parties in the bodies subject to audit by me and with the auditors and assurance reviewers for the appointment of whom I am responsible. I also familiarised myself with my statutory powers and duties.
8. As a result of that work I:
   - developed a business model for my Office. The team will be small: I plan to be supported by an Assistant Tynwald Auditor General and an Executive Officer. I also plan to be supported by secondees and self-employed contractors with relevant expertise and skills;

- secured some short-term secondments from the United Kingdom National Audit Office (NAO) and commenced discussions on the potential for other secondments;
- embarked on a recruitment campaign for the position of Assistant Tynwald Auditor General;
- entered into a lease for office accommodation in Douglas.

9. Since I took up office I have attended meetings of the Public Accounts Committee, including public hearings, and provided advice to the Committee in respect of its work. I have also provided a series of training sessions to the Committee on accounting and auditing.
10. Public audit institutions can gain much from each other, sharing experiences and learning. The Office applied for and was granted Associate Membership of the European Organisation of Regional Audit Institutions (EURORAI).

Actions planned

11. I plan to:
    - appoint an Assistant Tynwald Auditor General following interviews scheduled for August 2024. This is a key position as the Assistant Tynwald Auditor General, providing support and challenge for me and having the knowledge and credibility to act in my absence;
    - recruit an Executive Officer to support the operations of the Office;
    - explore further secondment opportunities;
    - establish a website for the Office to ensure that its work is accessible to the public;
    - prepare accounts for the Office for the 11 months ended 31 March 2024 in accordance with paragraph 17 of Schedule 1 of the Tynwald Auditor General Act 2011;
    - continue my attendance at meetings of and support for the Public Accounts Committee;
    - where useful to the Office, attend events organised by the EURORAI; and
    - develop internal processes to reflect the requirements of applicable international pronouncements.

Financial audit and assurance

12. A major focus has been the discharge of my statutory responsibilities for:
    - the appointment of auditors and assurance reviewers of some 50 public sector bodies in the Isle of Man;
    - determining the fees payable for audits and assurance reviews undertaken by audit firms appointed by me; and

- in the case of audit engagements, issuing a certificate having satisfied myself of the quality of work undertaken by auditors that I appoint.

Actions taken

13. The relevant Isle of Man legislation is complex and I undertook an exercise establish the bodies where I have a statutory responsibility to make appointments and the nature of my responsibilities. I sought the advice of the Attorney General as necessary.

14. My work identified a number of issues to resolve, for example:

    - bodies that were subject to audit or assurance review by auditors or assurance reviewers appointed by me but no account had been prepared or appointments previously made;
    - a body had mistakenly been treated as subject to audit under the Audit Act 2006;
    - bodies where audit appointments had previously mistakenly been made by the bodies in question rather than the Treasury.

15. I discussed my findings with officers in the Treasury. Those discussions led to various Orders and Directions, for example to bring Manx Sea Transport Guernsey Limited within the scope of the Audit Act 2006 and therefore subject to audit by an auditor appointed by me.

16. I also:

    - entered into discussion with the Treasury and audit firms previously contracted by the Treasury leading to:
        - novation of two contracts for undertaking audits and assurance reviews from the Treasury to me; and
        - agreement of a new contract with a firm previous contracted by the Treasury;
    - entered into a contract for the audit of a body where the contract was previously with the body itself;
    - agreed contract variations as necessary;
    - established arrangements for communication with the audit firms that I appoint, including holding a planning meeting in advance of audits and assurance reviews for the year ended 31 March 2024;
    - provided support for the audit firms I appointed, including by commissioning a third party to provide expert advice in respect of pension assets and liabilities reflected in the accounts of bodies participating in the Local Government Superannuation Scheme;
    - established arrangements for obtaining and reviewing information necessary for me to issue my certificates on completed audits; and
    - established arrangements for determining audit and assurance review fees, including the necessary consultation before determining those fees at the conclusion of audits and assurance reviews.

17. I am concerned to satisfy myself of the quality of audits and assurance reviews undertaken by firms that I appoint. I therefore:

- engaged the Institute of Chartered Accountants in England and Wales to undertake file reviews of three completed audit engagements; and
- via a secondee from the NAO, undertook file reviews of one audit and two assurance review engagements.

18. Periodically it is necessary to procure audit and assurance review services via a competitive process. I have:

- undertaken market engagement in advance of a procurement exercise;
- liaised with other parties responsible for the procurement of auditors for public sector bodies; and
- developed a procurement approach for audits for the year ending 31 March 2025 and subsequent years.

Actions planned

19. I plan to:

- complete the processes for:
    - issuing certificates for audits for the year ended 31 March 2023; and
    - determining fees for audits and assurance reviews for the year ended 31 March 2024;
- continue to provide support for the firms that I appoint, including through provisions of written guidance;
- collate learning from the file reviews of completed engagements for the year ended 31 March 2023 and discuss the findings with audit firms to promote audit and assurance quality;
- undertake a programme of file reviews for engagements for the year ended 31 March 2024; and
- complete a procurement exercise to appoint auditors and assurance reviewers for the year ending 31 March 2025 and subsequent years.

Performance audit

20. A distinguishing feature of public audit is performance or ‘value for money’ audit. Under the Tynwald Auditor General Act 2011 I have a power:

- under section 6, to carry out a value for money inspection to determine whether a body is discharging its functions, and using its resources, economically, effectively and efficiently; and
- under section 10, at the request of a member of the public, Tynwald or a member of Tynwald, to investigate any matter relating to the performance

of a body's functions or the economic, effective or efficient use of resources.

21. Both sections refer to the 'three Es':
    - **Economy:** minimising the cost of resources used or required – spending less;
    - **Efficiency:** the relationship between the output from goods or services and the resources to produce them – spending well; and
    - **Effectiveness:** the relationship between the intended and actual results of public spending – spending wisely.
22. In 2010 Tynwald expressed the view that my Office should identify savings covering the cost of the Office from its third year onwards.

Actions taken

23. In accordance with section 8 of the Tynwald Auditor General Act 2011, I consulted the Public Accounts Committee on draft criteria to take into account in order in deciding whether to agree to a request to undertake an investigation under section 10. I have now finalised those criteria.
24. I have received requests for investigations under section 10:
    - from Tynwald for an annual review of responses to whistleblowing across central government; and
    - from two members of the public in connection with decisions of the Manx Utilities Authority relating to sewage treatment facilities.
25. Having considered those requests I have formed the view that I should:
    - undertake a review of arrangements for responding to whistleblowing; and
    - undertake a short, focussed review relating to option appraisal for sewage treatment facilities by the Manx Utilities Authority.
26. In order to develop and deliver a performance audit programme I have commenced a series of meetings with senior officers.

Next steps

27. A major focus for the next year is the development and delivery of a performance audit programme. To this end I shall:
    - shortly issue project briefs for the two section 10 investigations referred to above;
    - complete my planning meetings with senior officers;
    - develop an initial performance audit programme. In respect of reviews under section 6, this shall reflect the following principles:
        - the programme will be based on a risk assessment;

    - the programme shall aim to avoid review of an activity when it is being subject to review by another independent party;
    - across the annual programme there shall be a focus on all of the three Es – economy, efficiency and effectiveness;
    - there shall be an appropriate balance between review of corporate services and services in individual departments;
    - over time all government departments shall be subject to review; and
    - reviews will seek to quantify any cashable and non-cashable savings identified; and
- develop and publish an approach for identifying and quantifying cashable and non-cashable savings.

Exercise of other powers

28. Section 12(5) of the Tynwald Auditor General Act 2011 empowers me to lay before Tynwald reports with respect to the exercise of my functions as I see fit.

Action taken

29. An appropriate framework for public audit, reflecting recognised international standards, is the bedrock for high quality public audit. I therefore prioritised a review of the framework on the Isle of Man and am today laying before Tynwald a report entitled 'Public Audit in the Isle of Man'. This reviews the framework in the Isle of Man, including against the pronouncements of the International Organisation of Supreme Audit Institutions (INTOSAI) and legislation in other jurisdictions. It makes a significant number of recommendations for change, many of which can only be addressed by legislative change.
30. I recognise that there are resource implications in making such changes but, in my view, there are significant benefits from making the changes that I recommend.

Next steps

31. If requested, I shall provide support and guidance to support the Public Accounts Committee and government in consideration of my recommendations for the public audit framework in the Isle of Man.

Stephen Warren
Tynwald Auditor General/ Ard Scruteyder Tinvaal