TAG 2025/0001

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AUDIT VANNIN
Office of the Tynwald Auditor General

Delays in completion of audits and assurance reviews of local government bodies

A report to Tynwald under section 12 (5) of the Tynwald Auditor General Act 2011

25 September 2025

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About the Tynwald Auditor General / Ard Scruyteyder Tinvaal

Tynwald established the Office of Tynwald Auditor General / Ard Scruyteyder Tinvaal (TAG) in the Tynwald Auditor General Act 2011. This Act, combined with the Audit Act 2006, creates the statutory framework under which the TAG carries out their functions.

The TAG is an officer of Tynwald and is therefore independent of the Isle of Man Government. He is not a civil servant and exists to serve Tynwald first and foremost.

The general functions of the TAG are to:

- carry out value for money inspections;
- consider matters referred to them by members of the public, Tynwald or members of Tynwald;
- appoint auditors and assurance reviewers under the Audit Act 2006;
- consult with and support the Tynwald Public Accounts Committee (PAC); and
- identify matters that may be appropriate for investigation by the Tynwald PAC.

The TAG is supported by two Assistant Auditors General/Ard Scrudeyter Coonee Tinvaal (AAG) by an Office Manager/Reireyder Offish. The Office operates under the name Audit Vannin.

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Foreword

I am pleased to be able to present this report under section 12(5) of the Tynwald Auditor General Act 2011.

In this report I consider the timeliness of financial reporting across local government on the Isle of Man, which has deteriorated significantly over the past two years.

This report considers the reasons behind the ongoing delays in completing local government audit and assurance reviews and identifies potential measures to reduce delays in future years.

Stephen Warren

Tynwald Auditor General / Ard Scruyteyder Tinvaal

25 September 2025

SECTION 1: Introduction, objectives, scope and approach

Introduction

1. Financial statements and assurance about those financial statements in the form of an audit or assurance review are of greatest value when they are published in a timely fashion. Timely reporting is crucial to effective decision making and is in line with the core principles of transparency and accountability in the public sector. It also assists the wider public in its engagement with, and trust in, the public sector:

   - allowing the public to see how their tax is being spent; and
   - better enabling citizens to hold public sector organisations accountable for their financial decisions.

2. In relation to local government, there have been substantial delays in completion of local government audits and assurance reviews for 2022/23 and 2023/24. Exhibit 1 below shows the position for 2023/24.

Exhibit 1: Timeliness of local government inspection delivery for 2023/24

	Audits	Assurance Reviews	Total
By 31 October 2024 (statutory date)	1 (7%)	2 (12%)	3 (10%)
Between 1 November 2024 and 31 March 2025	1 (7%)	10 (59%)	11 (35%)
On or after 1 April 2025	12 (86%)	5 (29%)	17 (55%)

3. At its 19 December 2024 meeting, the Treasury Audit (Consultative) Committee considered progress in completing prior year engagements and I highlighted an intention to consider undertaking further work to identify the reasons and the steps that could be taken to reduce delays.
4. Subsequently I confirmed that I would undertake a review of this area. This report to Tynwald under section 12(5) of the Tynwald Auditor General Act 2011 follows completion of this work.

Objectives

5. The objectives of this review were to identify:

    - the reasons behind the ongoing delays in completing local government audit and assurance reviews; and
    - potential measures to reduce delays in future years.

Scope

6. The review covered all local government bodies subject to an audit or assurance review.
7. The review did not extend to other bodies within the scope of my functions, including:

    - Local Government bodies subject to independent examination where I do not make the appointment;
    - Government Departments, Statutory Boards and Offices of Government; and
    - Government-owned companies and their subsidiaries.

Approach

8. The review involved:

   - consideration of the underlying legislation and guidance relevant to the production of statutory accounts, audits and assurance reviews;
   - surveying audit firms to understand their views on the reasons for the delays in completing audits and assurance reviews;
   - surveying local government bodies to understand their views on the reasons for the delays in completing audits and assurance reviews;
   - meeting with a firm that is engaged by several local government bodies to assist with accounts preparation and the Department for Infrastructure; and
   - follow-up discussions with and/or requests for information from audit firms and/or local government bodies where necessary.

Consultation

9. On 30 July 2025 I issued my draft report to consult on my provisional findings, proposed recommendations and planned actions to:

   - all local government bodies which are currently subject to an assurance review or audit;
   - both firms that currently carry out assurance reviews and audits of local government bodies;
   - the Cabinet Office, the Treasury and the Department of Infrastructure.

10. I also presented my initial findings to a meeting of the Local Authority Finance Officers Group (LAFOG) on 7 August 2025.

11. Formal responses were received from seven local government bodies, both firms and the Department of Infrastructure. On behalf of the rest of Government, the Treasury responded

that it had no issues with the factual accuracy of the draft report and would respond to the recommendations in due course.

12. A summary of consultation responses is shown in Appendix 1 of this report: respondents were broadly supportive of my proposed recommendations and actions. I have reflected consultation responses in this final report as I deemed appropriate.

SECTION 2: Views on issues leading to delays in concluding local government inspections

Views expressed by local government bodies

13. Seventeen local government bodies completed the survey, though not all responded to every question. Survey responses from the local government bodies that responded highlighted issues around:

- the timing of the appointment of the TAG, the subsequent introduction of new oversight arrangements and the increased scrutiny of inspection work;
- the capacity and local government knowledge of the inspection teams;
- responding to the same queries multiple times to different members of inspection teams;
- specific accounting issues, notably in relation to property valuations, pensions and confirmation of housing deficiency funding balances;
- their own teams' capacity and sickness absence of key personnel; and
- draft accounts and working papers.

Views expressed by Firms undertaking local government inspections

14. Survey responses from the two firms that undertake the audit and assurance reviews highlighted issues around:

- the capacity of finance teams and sickness of key personnel;
- delayed responses from local government bodies;
- specific accounting issues, notably in relation to property valuations, pensions, confirmation of housing deficiency funding balances and going concern-related issues; and

- their own teams' capacity, where initial slots were missed and/or team members left during the inspection.

Section 3: What I think can be done to improve the timeliness of local government completion

15. Having considered the information gathered from the surveys, follow-up discussions and my own Office's experience in undertaking reviews before issuing my certificate, I have summarised my findings and recommendations into the following areas:

- format and content of accounts;
- inspection thresholds;
- forms of inspection;
- technical accounting issues that have an inspection consequence; and
- improved joint working.

16. My review has also identified several actions that I will take to seek to improve the future timeliness of local government inspections, which are dealt with in the sections that follow.

Format and content of accounts

17. In my report to Tynwald in July 2024 'Public Audit in the Isle of Man'[1], I highlighted that the Accounts and Audit Regulations 2018 include a tight definition of 'proper practices' for the preparation of financial statements that precludes, for example, the preparation of financial statements on a 'receipts and payments' basis that might be appropriate and proportionate for smaller bodies. In my report I recommended that:

- a wider definition of 'proper practices' for financial reporting was introduced; and

[1] Tynwald Auditor General, 'Public Audit in the Isle of Man', July 2024, https://www.tynwald.org.im/business/opqp/sittings/20212026/2024-TAG-0001.pdf

- legislation is amended to permit the preparation of accounts on a receipts and payments basis and reporting by the inspector on accounts that does not require giving a 'true and fair' view.

18. In my view, allowing some smaller bodies to prepare accounts on a receipts and payments basis would further ease the financial and administrative burden on smaller bodies.

Recommendation to the Treasury	
R1.	Consider the recommendations contained within my July 2024 'Public Audit in the Isle of Man' report to Tynwald, specifically in relation to the potential for smaller bodies to prepare accounts on a receipts and payments basis.

Inspection thresholds

19. Section 1(1) of the Audit Act 2006 (the 2006 Act) specifies that, subject to subsection (2), the accounts of the following bodies shall be inspected in accordance with this Act:

- every local authority; and
- every body established by or under any statutory provision and consisting of or including persons appointed by one or more local authorities.

20. Section A1 of the 2006 Act empowers the Treasury to 'direct' the accounts of bodies subject to inspection to be:

- audited;
- subject to an assurance review; or
- subject to independent examination.

21. This provides for three different levels of inspection based upon the level of income and expenditure of each local government body.

22. The Audit Act 2006 (Inspection of Accounts) (Local Authorities, etc) Directions 2024 (the 2024 Directions) specify the type of inspection based upon gross income and gross expenditure

levels. The thresholds in the 2024 Directions are shown in Exhibit 2 along with the number of bodies subject to each type of inspection in 2023/24.

Exhibit 2: Current types of inspection and thresholds

Type of inspection	Nature of work	Threshold	Number of inspected bodies
Audit	Audit of financial statements conducted in accordance with international standards on auditing as those standards have effect in the United Kingdom.	Gross income or expenditure (whichever is greater) of more than £1,200,000 in the relevant accounting year (or the accounting year immediately preceding the relevant accounting year)	14
Assurance review	Review of such matters in connection with an account and conducted in such manner and by such person as the Treasury may direct. The reviewer must comply with International Standards on Review Engagements ("ISREs") issued from time to time by the International Auditing and Assurance Standards Board ("IAASB").	Gross income or gross expenditure (whichever is greater) is £125,000 or more, but less than £1,2000,000, in the relevant accounting year (or the accounting year immediately preceding the relevant accounting year)	17

Type of inspection	Nature of work	Threshold	Number of inspected bodies
Independent examination	Examination conducted in such manner as the Treasury may direct and by an examiner approved by the Treasury. An examination must be in accordance with Schedule 2 of the Accounts and Audit Regulations 2018.	Gross income or gross expenditure (whichever is greater) is less than £125,000 in the relevant accounting period (or the accounting year immediately preceding the relevant accounting year)	16

23. In contrast, the criteria for companies audit on the Isle of Man vary depending on whether the company is incorporated under the Companies Act 1931 or the Companies Act 2006.

24. For companies incorporated under the Companies Act 1931, audit exemption is available if:

- the company is not a public company;
- the company is not a banking or insurance company;
- the company is not a member of a group that is required to prepare consolidated group accounts (or would be so required save for any applicable exemption); and
- the company satisfies two out of three conditions relating to its turnover, balance sheet total and number of employees:
    - the company's turnover in that year does not exceed £5.6 million;
    - the company's balance sheet total does not exceed £2.8 million at any time during that year;
    - the company employs no more than 50 persons at any time during that year.

25. Companies incorporated under the Companies Act 2006 do not require an audit under company law. However, there may be other reasons they require an audit.

26. In England the Government has determined that a lower level of assurance than that provided by a statutory audit is appropriate for those local authorities with gross income and gross expenditure of under £6.5 million per annum.

27. The majority of local government bodies on the Isle of Man are small with teams that can lack the capacity and expertise to:

- prepare financial statements that fully comply with FRS 102 and the requirements of the Accounts and Audit Regulations 2018; and
- manage the inspection process alongside the need to undertake routine daily business.

28. In 2023/24, 14 local government bodies were subject to an audit. If Isle of Man Companies Act 1931 requirements were applied to local government bodies on the Isle of Man, only three local government bodies would be subject to audit. If English requirements were applied to local government bodies on the Isle of Man, only two local government bodies would be subject to an audit (see Exhibit 3).

Exhibit 3: Number of bodies subject to audit using alternative thresholds

Type of assurance	**Number of inspected bodies**		
	Current position	Isle of Man Companies Act 1931 requirements applied	English local government requirements applied
Audit	14	3	2
Assurance review	17	28	29

29. In 2023/24, 17 local government bodies were subject to an assurance review. If the threshold was doubled to £250,000, i.e. in line with those used to determine whether a charity requires an independent examination, seven of these local government bodies would only require an independent examination to be undertaken (see Exhibit 4).

Exhibit 4: Current and potential future inspection thresholds

Type of assurance	**Number of inspected bodies**	
	Current position	Threshold doubled
Assurance review	17	10
Independent examination	16	23

30. Clearly obtaining a certain level of assurance must be balanced with the cost of obtaining that assurance to ensure best value is obtained from the inspection process. This balance is important to ensure that public bodies are not overpaying for unnecessary features while not skimping on essentials that could compromise accountability and transparency. However, late assurance is less valuable assurance given the importance of timely financial reporting in effective decision making. In my view, increasing the thresholds would ease the financial and administrative burden on smaller bodies exceeding the threshold for audits and assurance reviews and reduce the backlog of unaudited accounts in future years. Uplifts would keep smaller local government bodies out of a system disproportionate to the level of risk.

31. Any revision to thresholds would also potentially reduce the costs associated with managing the inspection process and fees payable to inspectors.

Recommendation to the Treasury

R2. Review the thresholds contained within the Audit Act 2006 (Inspection of Accounts) (Local Authorities, etc) Directions 2024 in light of the level of complexity and risk inherent in smaller local government bodies' financial statements.

Form of inspection

32. As highlighted in paragraph 20 above, Section A1 of the 2006 Act empowers the Treasury to 'direct' the accounts of bodies subject to inspection to be audited, subject to an assurance review or subject to an independent examination, providing for three different levels of inspection based upon income and expenditure.

33. Although the Treasury is empowered to issue Directions to supplement statutory requirements for assurance reviews and independent examinations it has not done so.

34. My experience from undertaking quality control reviews of assurance review engagements suggests that an understanding of, and compliance with, the requirements of International Standard on Review Engagements (ISRE) 2400 (ISRE2400) requires significant improvement. In my view this is not helped by a lack of Treasury Directions to supplement this standard.

35. In my report to Tynwald in July 2024 under section 12(5) of the Tynwald Auditor General Act 2011 I highlighted that an engagement under ISRE2400 by its nature provides limited rather than reasonable assurance. The use of the words 'be satisfied' and 'nothing that would indicate' in Paragraph 2 of Schedule 1 creates potential confusion as to the responsibilities of the assurance reviewer and the level of assurance provided.

36. In this report, I highlighted a similar issue in relation to paragraph 2 of Schedule 2 that applies to independent examinations requires an independent examiner to 'be satisfied' that there is 'nothing that would indicate' that the accounts have not been prepared to give a true and fair view and the accounts give a true and fair view and comply with statutory requirements.

37. I have repeated the relevant recommendations from my July 2024 report below.

Recommendations to the Treasury

R3. Adopt statutory wording for the responsibilities of an assurance reviewer consistent with the level of assurance provided by an engagement under ISRE2400.

R4. Explicitly require assurance reviewers to comply with ISRE2400.

R5. Ensure that the statutory responsibilities of an independent examiner are consistent with the nature of an agreed upon procedures engagement.

38. In response to my 2024 report, the Treasury has agreed for a separate ‘Audit Reform Bill’ to be developed, consulted upon and introduced during this calendar year.

39. This represents an opportunity to review and clarify the level of assurance sought in relation to inspection of smaller local government bodies and the responsibilities of assurance reviewers and independent examiners in undertaking their work.

40. One option to consider would be to adopt a tiered approach to the scope of work required based on ISRS 4400 (Revised) Agreed-Upon Procedures Engagements (ISRS4400), issued by the IAASB.

41. Using the principles of ISRS4400, legislation and Treasury Direction(s) could be used to clarify:

- the stated purpose for an engagement;
- the identification of the information to which the agreed-upon procedures will be applied i.e. the financial statements of the relevant year;
- the nature, timing and extent of the specific procedures to be applied e.g. analytical review and sample testing; and
- the anticipated form of the report of factual findings.

42. Using this standard would allow for the nature, timing and extent of specific procedures to be determined based upon size and/or risk e.g. additional procedures and/or higher sample sizes for larger and/or riskier local government bodies. It is important that the procedures and tests are sufficiently detailed, clear and unambiguous. This would allow users of each

report to assess the factual findings for themselves based on the procedures performed and draw their own conclusions.

43. Adopting such an approach would allow the Treasury unambiguously to specify the work that must be undertaken at smaller bodies. It would be likely to ease the financial and administrative burden on those smaller bodies. In my view it would also facilitate a reduction in the backlog of late accounts in future years.

44. Such an approach would potentially reduce the costs associated with managing the inspection process and fees payable to inspectors.

Recommendation to the Treasury

R5. Review the potential use of ISRS4400 for smaller local government bodies in future years.

Technical accounting issues that have an inspection consequence

Valuation of fixed assets

45. Generally Accepted Accounting Practices allow certain fixed assets to be valued at either historic cost less accumulated depreciation or at a measure of current value. In the corporate sector the choice of policy is a matter for the preparer and most adopt a historic cost measure which is simpler but conveys less information to the reader.

46. In the context of local government bodies, a revaluation model is mandated. Schedule 4 of the Account and Audit Regulations 2018 states that, ‘where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period’. It further states that ‘valuations shall be carried out at intervals of no more than five years’.

47. From the evidence gathered in undertaking this review, and my routine work on reviewing local government financial statements where the body is subject to audit, many local government bodies have interpreted this to mean that revaluations are only required once every five years. In my view this interpretation is incorrect: local government bodies have to undertake sufficient work to satisfy themselves that there has been no material movement in the valuation of fixed assets in the year which would necessitate a revaluation. The quality of information provided to inspectors to justify not undertaking a revaluation has also been mixed. This has led to significant additional work on the part of inspectors and local government bodies, causing delays as:

- inspectors have challenged bodies' justification for not revaluing their assets despite market evidence suggesting potentially significant changes in current value;
- local government bodies have had to commission revaluation exercises at a late stage of the inspection process;
- local government bodies have had to revise their financial statements to take account of these revaluations; and
- the revaluation and revised financial statements have been subject to additional work by inspectors.

48. All of this has led to increased cost both in staff time, the costs associated with commissioning a revaluation exercise and additional inspection fees.

49. In England the requirement to revalue fixed assets has contributed to:

- significantly increased costs for local authorities in terms of the costs of commissioning valuations and in additional audit fees; and
- significant delays in the publication of audited accounts.

50. In my view there is a need for a more proportionate approach to operational property valuations within the public sector in the context of a much lower level of risk to the finances

of public bodies funded by national or local taxation. The recently published CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom for 2025/26 reflects this and addresses issues related to the valuations, including the use of indexation.

51. Remeasurements of operational property are, in most cases, not linked to the revenue that a local government body receives or affect its expenditure directly, in contrast to investment properties or other non-current assets held for their ability to generate income. Consequently, they typically do not impact outturn against budget, are of relatively limited use for decision-making and are of less interest to users of accounts.

52. Despite this, it remains important that operational properties are recognised in financial statements in accordance with accounting standards and that disclosures provide sufficient information to users to understand how they are measured in the balance sheet.

53. The use of a standard centrally determined Government index to update asset values in future financial statements would reduce the burden on both preparers of financial statements and inspectors, whilst still providing sufficiently relevant information to users. Introducing such an approach would generate savings in terms of the costs associated with commissioning revaluations and in inspection fees.

Recommendation to the Treasury

R6. Develop proposals to amend the existing framework to introduce the use of a standard centrally determined Government index to update asset values in future local government financial statements.

Pensions

54. Employees of many local government bodies are eligible for membership of the statutory Isle of Man Local Government Superannuation Scheme (LGSS). The key characteristics of the scheme are:
    - employees and employers make contributions to the Scheme;
    - those contributions are invested by Douglas City Council, the administrating authority for the Scheme;
    - pensions and other benefits, linked to final salary and period of service, are paid by the Scheme;
    - employer contributions are reassessed every three years to ensure that they remain adequate to meet the costs of future benefits; and
    - employers stand behind the Scheme to ensure that benefits are paid.
55. The LGSS is accounted for as a multi-employer defined benefit pension scheme meaning that there are complex accounting and estimates so that employers recognise in their accounts:
    - their liability to pay future benefits; and
    - their share of the assets held by the Scheme.
56. Given the complexities involved in making the necessary estimates, actuaries are engaged to undertake the necessary work.
57. Obtaining assurance about accounting for defined benefit pension schemes is also complex. Auditors need to:
    - engage with fund managers, custodians and actuaries;
    - assess internal controls;
    - evaluate assumptions used by actuaries; and
    - test transactions.

58. In previous years, the complexity associated with auditing the LGSS has seen delays in the audit of the LGSS that have caused knock-on delays in the audit of local government bodies with material pensions related items in the financial statements. Furthermore, the auditors of local government bodies have had difficulties in obtaining sufficient assurance in relation to certain areas.

59. In 2023/24 I instructed PwC's actuarial team to provide some central assurance to address some of the issues faced. Once again, I have instructed PwC to undertake work in this area in 2024/25, including consideration of:

- the actuary's approach to determining the value of any pension asset in line with requirements to determine an "asset ceiling" for this year; and
- the actuary's approach to calculating the share of the Scheme's assets recognised by each employer.

60. In aggregate the assets in the actuarial report for each participating employer should equal the total assets of the Scheme. However, individual firms cannot check that this is the case as they do not have access to the actuarial reports for other employers. I have identified that I can undertake work to provide information to firms to allow them to undertake this check.

Actions taken or planned by the TAG

A1. Commission an annual report designed to provide guidance for auditors when assessing the competence and objectivity of, and assumptions and approach adopted by the relevant actuary when producing FRS 102 figures in respect of the LGSS including consideration of:

a. The calculation of 'asset ceilings'; and

b. The approach to calculation of the share of the Scheme's assets.

A2. Issue an annual schedule setting out the total assets held by the LGSS and each local government body's share of LGSS scheme assets.

Housing deficiency funding

61. Thirteen local authorities and joint boards provide rented social housing on the Island, the income and expenditure in respect of which are included in their financial statements.

62. Section 52 of the Housing Act 1955 makes provision for Government contributions towards the provision of local authority housing:

'(1) The Treasury shall, out of moneys provided by Tynwald make, or undertake to make, such contributions to local authorities for the purposes of this Act as the Department shall, subject to the approval of Tynwald, determine.

(2) Contributions shall be either by way of a grant in aid or by annual contributions of such amounts for such periods and subject to such conditions as may be determined by the Department and approved by Tynwald.'

63. Section 47A of the Housing Act 1955 provides that Local Authorities providing or intending to provide housing:

- shall operate a housing revenue account in a form approved by the Department;
- shall only charge to the housing revenue account items of expenditure of a description approved by the Department;

- may only borrow money for the purpose of capital expenditure on housing accommodation with the consent of, and on terms approved by, the Treasury; and
- shall have their annual revenue and capital expenditure estimates approved by the Department.

64. A Tynwald resolution of October 1999[2] led to Government underwriting all funding gaps ('deficiency') between income generated (through rent) and borrowing for capital works, subject to the local authorities meeting certain terms and conditions.

65. Deficiency support is based on three elements:

    - income i.e. gross rents minus an allowance for voids;
    - allowances for administration and maintenance; and
    - borrowings.

66. The amount of deficiency funding each local authority receives from Government is reflected in notes to the financial statements in relation to Housing Revenue Income and Expenditure and Deficiency Grant. Consequently, in auditing the financial statements of local authorities that provide social housing, where material, audit work is required in relation to housing deficiency funding disclosed in notes in relation to Housing Revenue Income and Expenditure and Deficiency Grant.

67. The Department of Infrastructure (DoI) published a "Guideline for Housing Deficiency Estimates, Grants and Payments (General Stock)" (the Guideline) in August 2019 to introduce a transparent and consistent proactive approach to all local authority housing providers for the effective management of deficiency estimates and claims for public sector general housing stock. There are separate guidelines for Older Persons (Sheltered) stock, which is managed using a separate, though similar, process.

[2] Tynwald Court, Wednesday 20th October 1999 (T125 – T129)

68. The two firms which undertake audits and assurance reviews of local government bodies adopt different approaches to inspecting housing deficiency funding balances contained in several local government bodies' financial statements. One firm performs procedures on the annual movements disclosed in the relevant disclosure notes e.g. housing rents and borrowing to obtain sufficient assurance over the year-end balance. The other firm requests a third-party confirmation from the DoI over the housing deficiency for the prior year and confirmation they are content with the basis of calculation in the current year. However, the DoI does not carry out any verification work on the numbers provided by local authorities and instead relies on the figures contained within the audited financial statements. Therefore, seeking third-party confirmations from the Department of Infrastructure does not, appear to me, to provide appropriate assurance.

69. I intend to publish guidance in this area, which firms will have to have regard to in carrying out their work in future years to encourage consistency of approach in this area.

Action taken or planned by the TAG

A3. Issue guidance on inspecting housing deficiency funding balances that firms should have regard to in carrying out their work in future years.

Going concern

70. Under the going concern basis of accounting, financial statements are prepared on the assumption that an entity is a going concern and will continue its operations for the foreseeable future. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

71. Management is required to assess an entity's ability to continue as a going concern and make the related financial statement disclosures. This involves management making a judgment,

at a particular point in time, about inherently uncertain future outcomes of events or conditions.

72. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

73. In relation to assurance engagements carried out under the ISRE2400, the level of work carried out by the inspector is less than that for an audit. Nevertheless, inspectors still need to consider and conclude on whether a material uncertainty related to going concern exists and the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

74. Local government bodies are established in statute and are mostly funded through raising rates and other income locally, with deficiency funding provided by Government where necessary. The application of going concern in the public sector context has, however, come under focus in the UK in recent years due to the continuing financial pressures within local government. In turn this has led to increased work by inspectors in this area, often towards the end of the inspection process, placing additional demands on local government bodies and inspection teams.

75. The relevant auditing standard covering going concern is ISA (UK) 570 (Revised September 2019) (Updated May 2022) - Going Concern. The Statement of Recommended Practice – Practice Note (PN) 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) (PN10) sets out the interpretation of going concern for non-trading entities within the UK public sector.

76. Recognising the need to provide guidance in this area, the UK National Audit Office (NAO) issued supplementary guidance to auditors of local government and NHS bodies in England

in relation to Going Concern in November 2024. Whilst this guidance does not replace auditors' own procedures or fetter an auditor's exercise of his or her discretion, auditors must have regard to this guidance in their assessment of going concern on audits of financial statements of local health and local government bodies.

77. My expectations on how auditors approach going concern are based upon the principles and guidance set out within PN10. My contracts with the firms require them to have regard to PN10 and any other guidance issued by me.

78. In my view, PN10 provides helpful interpretations and guidance on the application of ISA (UK) 570 in relation to public sector bodies and appears relevant to the work undertaken in relation to local government bodies on the Isle of Man. I therefore intend to issue guidance on Going Concern to inspectors of local government financial statements which firms must have regard to in undertaking their work.

Actions taken or planned by the TAG

A4. Issue guidance on how auditors should approach their work in respect of going concern in the context of local government bodies and the wider public interest.

Improved joint working

The certificate

79. Existing legislation requires me to issue a certificate on audit engagements having been satisfied with the quality of work undertaken by auditors I appoint. Whilst the nature of the work necessary for me to obtain such satisfaction is not specified, I currently undertake a range of procedures in relation to each audit before issuing this certificate. Experience shows that this process is not proactively managed, and my office frequently receives information to review from the firms at the end of the process with limited notice. This means that any issues identified from my review are only dealt with at a very late stage of the audit process

leading to delays when I identify issues not previously identified or considered by the local government bodies and/or inspection firms.

80. In my report to Tynwald in July 2024 under section 12(5) of the Tynwald Auditor General Act 2011[3] I highlighted that, in my view, more value and insight is secured through detailed file reviews of a sample of audit engagements. I have now engaged the Institute of Chartered Accountants in England and Wales (ICAEW) to undertake such reviews each year with three files reviewed in 2022/23 and a further two reviews underway in relation to completed 2023/24 inspections.

81. I have repeated the relevant recommendations from my July 2024 report below.

Recommendations to The Treasury

R7. Remove the requirement for the Tynwald Auditor General to issue certificates in respect of audit engagements.

R8. Impose on the Tynwald Auditor General a duty to take reasonable steps to obtain assurance about the quality of the work undertaken by the inspectors that he appoints.

More proactive programme management

82. Whilst the requirement to issue a certificate remains, feedback from local government bodies, the firms and my own experience highlight the importance of effective programme and project management arrangements. It is important that the firms, the local government bodies, and my Office liaise more closely to more proactively manage the inspection process to ensure all parties are clear on what is expected of them and when. I shall continue to work with all parties to improve the effectiveness of these arrangements.

[3] TAG 2024/0001: Tynwald Auditor General, 'Public Audit in the Isle of Man', July 2024, https://www.tynwald.org.im/business/opqp/sittings/20212026/2024-TAG-0001.pdf

Action taken or planned by the TAG

A5. Work with local government bodies, inspection firms and TAG to create a clear programme and timetable for undertaking reviews so that all parties are clear on expectations and timings for work.

APPENDIX 1: Summary of consultation responses

Responses to my draft report were received from 10 organisations, including both audit firms and the Department of Infrastructure (see Exhibit 5). An interim response from the Treasury on behalf of the Chief Executive's Office, Cabinet Office and the Treasury did not highlight any factual inaccuracies in the report.

Exhibit 5: Summary of consultation responses

	Recommendation	Agree	Partially agree	Disagree
1	Consider the recommendations contained within my July 2024 'Public Audit in the Isle of Man' report to Tynwald, specifically in relation to the potential for smaller bodies to prepare accounts on a receipts and payments basis.[4]	6	2	0
2	Review the thresholds contained within the Audit Act 2006 (Inspection of Accounts) (Local Authorities, etc) Direction 2024 in light of the level of complexity and risk inherent in smaller local government bodies' financial statements.	10	0	0
3	Adopt statutory wording for the responsibilities of an assurance reviewer consistent with the level of assurance provided by an engagement under ISRE2400.	10	0	0
4	Explicitly require assurance reviewers to comply with ISRE2400.	9	1	0
5	Ensure that the statutory responsibilities of an independent examiner are consistent with the nature of an agreed upon procedures engagement.	9	1	0
6	Review the potential use of ISRS4400 for smaller local government bodies in future years.	10	0	0
7	Develop proposals to amend the existing framework to introduce the use of a standard centrally determined Government index to update asset values in future local government financial statements.	8	2	0
8	Remove the requirement for the Tynwald Auditor General to issue certificates in respect of audit engagements.	9	1	0

[4] Two organisations did not provide a response in relation to Recommendation one.

	Recommendation	Agree	Partially agree	Disagree
9	Impose on the Tynwald Auditor General a duty to take reasonable steps to obtain assurance about the quality of the work undertaken by the inspectors that he appoints.	9	1	0

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