Changes to inspection arrangements for local government bodies

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

2 July 2026

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.

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Background

1. The accounts of local government bodies are subject to inspection under the Audit Act 2006. The Act provides for three forms of inspection:

   - an audit to provide 'reasonable assurance' in accordance with applicable auditing standards;
   - an assurance review to provide 'limited assurance' in accordance with a recognised international standard; and
   - an independent examination in accordance with Regulations made by Tynwald.

2. The form of inspection is an audit unless the Treasury directs otherwise. The Treasury had previously directed forms of inspection based on gross income or expenditure (See Exhibit 1).

Exhibit 1: Previous 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
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

3. In September 2025 I submitted a report to Tynwald entitled *Delays in completion of audits and assurance reviews of local government bodies*[1]. Amongst other things I highlighted that, in my view:

   - the thresholds above which audits were required were low compared with other jurisdictions and other types of entities; and
   - there was limited understanding of and compliance with the applicable standard for assurance reviews.

4. I recommended that the thresholds for inspection of local government bodies were reviewed with a view to obtaining meaningful assurance at proportionate cost.

Engagement with the Treasury

5. Subsequent to the publication of my report I engaged with the Treasury on potential changes to the inspection arrangements for local government bodies. I welcome the constructive response of the Treasury.

6. As a result of those discussions, in February 2026 the Treasury made the Audit Act 2006 (Inspection of Accounts) (Local Authorities, Etc.) Directions 2026.

7. The Directions:

   - significantly reduced the number of bodies subject to an audit in accordance with auditing standards;
   - removed all local government bodies from the assurance review regime; and
   - introduced three different tiers of independent examination with the range of procedures specified in the Directions.

8. I assisted the Treasury in proposing the scope and nature of procedures for the different tiers of independent examinations.

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[1] TAG 2025/0001

9. The impact of the Directions on the inspection arrangements for local government bodies is set out in Exhibit 2.

Exhibit 2: New types of inspection and thresholds

Type of inspection	Nature of work	Bodies	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.	Braddan District Commissions Castletown Town Commissioners Douglas City Council Onchan District Commissioners Peel Town Commissioners Ramsey Town Commissioners	6
Independent examination - enhanced	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 having regard to Schedule 1 of the Audit Act 2006 (Inspection of Accounts) (Local Authorities, Etc.) Directions 2026.	Northern Parishes Refuse Collection Board Northern Swimming Pool Board Garff Parish District Commissioners Port Erin Village Commissioners Port St Mary Village Commissioners Southern Civic Amenity Board Southern Sheltered Housing Joint Board Southern Swimming Pool Board Western Civic Amenity Board Western Swimming Pool Board	10

Type of inspection	Nature of work	Bodies	Number of inspected bodies
Independent examination - intermediate	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 having regard to Schedule 1 of the Audit Act 2006 (Inspection of Accounts) (Local Authorities, Etc.) Directions 2026.	Arbory and Rushen Parish District Commissioners Malew Parish Commissioners Peel & Western District Housing Committee Ramsey & Northern Districts Housing Committee	4
Independent examination - basic	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 having regard to Schedule 1 of the Audit Act 2006 (Inspection of Accounts) (Local Authorities, Etc.) Directions 2026.	All other bodies	27

10. In my view the arrangements put in place are appropriate and proportionate:

- only the larger local government bodies are subject to an audit in accordance with auditing standards;
- the poorly understood assurance review is no longer used; and
- the tiered approach to the independent examination is designed to ensure that meaningful procedures proportionate to the size and risk of a body are undertaken.

The impact

11. I am responsible for the appointment of auditors and assurance reviewers whereas bodies subject to independent examination are responsible for the appointment of their own independent examiners.
12. In order to evaluate the financial impact of the changed arrangements, I requested local government bodies to provide me with details of the quotations they received for independent examinations with the quotations that I had previously obtained from audit firms for audits and assurance reviews. I obtained this information for 16 of the 25 bodies moving from audit or assurance review to independent examination.
13. Where I did not obtain information from a body moving to independent examination, I estimated the independent examination fee based on the quotations obtained by comparable bodies.
14. I estimate that the financial impact of the new arrangements is over £100,000 per year (see Exhibit 3). The saving applies from the 2024/25 financial year in the case of a move from an assurance review to independent examination and from the 2025/26 financial year in the case of a move from an audit to an independent examination.

Exhibit 3: Financial impact of move to new inspection arrangements

Change in type of inspection	Number of bodies	Cost of inspection – previous arrangements	Estimated cost of inspection – new arrangements	Estimated savings
From audit to independent examination	8	£96,200	£43,800	£52,400
From assurance review to independent examination	17	£85,400	£37,000	£48,400
	25	**£181,600**	**£80,800**	**£100,800**

15. Looking at a typical period of a financial services contract of five years, I estimate the cumulative savings from the new arrangements to be £504,000.
16. Looking at a representative period for a policy change of this type of 10 years, I estimate the cumulative savings from the new arrangements to be £1,008,000.

Next steps

17. There are a small number of central government bodies subject to audit where, in my view, the form of assurance is inappropriate for the nature of the entity. I am in discussions with the Treasury about the extension of the independent examination regime to such bodies.

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