

**Audit (Amendment) Bill 2015 –
Second Reading approved**

Mr Teare to move:

That the Audit (Amendment) Bill 2015 be read a second time.

The Speaker: Item 4, Bill for Second Reading. The Audit (Amendment) Bill, and I call on the mover, the Hon. Member for Ayre, Mr Teare.

Mr Teare: Thank you, sir.

Mr Speaker and Hon. Members, this Bill confirms Treasury's commitment to promoting more proportionate and cost effective approaches to financial governance.

The Audit Act 2006 currently requires all public bodies, subject to the audit, to bear accounts and be audited in accordance with the Act. However, it does not currently make provision for the Treasury to be able to exempt certain of those relevant bodies from the required statutory audits.

Following the consideration of issues raised by the local government sector and acknowledging the very significant improvements in financial compliance that have been achieved by the sector over the recent years, the Treasury went out to public consultation in December 2013 in relation to the audit and accounting framework applicable to that sector.

As part of our consultation Treasury also had a very constructive, open meeting, to which all the local government bodies were invited. There were three key proposals made in that consultation that are particularly relevant to this Bill.

Firstly, that a three-tier risk-based assurance framework be adopted for the external inspection of a relevant body's accounts: namely: (1) an independent examination by a suitably qualified examiner; (2) an assurance advisory review by a Treasury appointed qualified auditor; (3) a statutory audit by a Treasury-appointed qualified auditor, as is currently the case.

Secondly, whilst Treasury consider that such a framework could be adopted via its existing powers, by making conditional exemptions, it considered that this may lead to unhelpful ambiguities, particularly in relation to the ongoing rights and responsibility of inspectors. Consequently, the consultation proposed that Treasury powers under the Act should be clarified to enable a more explicit and direct implementation of the framework.

Finally, having identified that the existing primary legislation would not permit such a framework to be adopted for the 17 burial ground authorities amongst the smallest bodies audited under the Act, it was proposed that Treasury's powers should also be so extended.

Approximately 55% of the 52 local government bodies responded to the written consultation and they were very supportive of these proposals. Consequently, they were implemented in part by the Audit (Local Government) Direction Order 2014, which has subsequently led to over £40,000 of annual cost savings for this sector.

Following on from the consultation, Treasury further noted that the annual accounts timetable applicable to the burial authorities seemed unnecessarily onerous. It is the Burials Act 1986 that currently stipulates the year end as 31st December with the final submission of the audited accounts by 30th April. However, rates collection information, a primary source of income for the burial authorities, is not finalised until shortly after 31st March. Accordingly, this timetable appears to be unrealistic both for the burial authorities and for the auditors required to audit them. Consequently, as the officers of the burial authorities are church wardens, the Treasury also directly consulted with the Lord Bishop on this issue, who proposed a change in the accounting year-end date applicable to them. Therefore, the Bill also proposes to amend the Burials Act to change the burial authority year end to 31st March, and it is intended that the Appointed Day Order will be used to facilitate the transition between the year ends via the adoption of a 15-month year-end immunity following the Bill's implementation.

In summary, it is the intention of the Bill to provide Treasury with the powers to ease the regulatory burden, where appropriate, for all relevant bodies brought within the scope of the Audit Act 2006, with particular consideration being given in future to the burial authorities; to ease the accounting timetable for the burial authorities; and to make the proportionate assurance framework currently adopted, via supportive legislation, more clearly defined and robust within the primary legislation.

Mr Speaker, I beg to move that the Second Reading of this Bill now be taken.

The Speaker: Hon. Member, Mr Houghton.

Mr Houghton: I beg to second, sir.

The Speaker: Hon. Member for Onchan, Mr Quirk.

Mr Quirk: Thank you, Mr Speaker, and I thank the Minister for his comments.

I am quite supportive of the Audit (Amendment) Bill as it comes forward because I think it is quite sensible regarding the burial grounds, but I am drawn to my feet more to do with the... He says it will bring in all public bodies. My concern there is... and it is probably my fault for not actually responding to the consultation, but at the end of the day this is what we are for. Could I ask the Minister, regarding a number of local authorities coming together for civil amenity purposes – that is civic amenity sites – and specifically the case where Douglas Corporation administer a civic amenity site in Douglas, which is the largest conurbation and the largest expenditure. I know for a fact that when Members... or I have asked for accounts and some clarity, openness and transparency on what happens at the particular civic amenity site regarding the published accounts, but it is very difficult to get hold of them.

The other issue I have with the DoI is that, as taxpayers for the whole of the Isle of Man, they are funding I think it was something in the region of £20,000 a year for the lease of the site. We had a Question this morning for our colleague who is Minister for DEFA, who says Government is progressing the polluter-pays policy, and I just wonder how does that fit in with Government's policy when the rest of the Island is actually subsidising... the taxpayers are subsidising the civic amenity site through the DoI and then the rest of us are getting the benefit of that – but hey-ho, everybody in the Isle of Man can actually dump stuff at the civic amenity site, which seems wrong to me from an accountancy point of view.

My other concern is I would love to get more experience regarding the three-tier assessment on that. I am not an accountant.

The other issue I do have regarding just generally accounts of local authorities, is that there are auditors' reports and auditors... I forget what the word is now. They do report on their strengths and weaknesses and so forth, but I know when you actually ask for sight of this particular report, which in my opinion should be in the public domain – because Government's ones are – it should be available to ratepayers, because at the end of the day the ratepayers are funding that local authority for the services, and if they are going wrong it needs to be brought up. I am considering whether to take some advice on whether to put maybe a small amendment in, unless the Minister can give me some assurance that we will have full and open transparency on those issues.

The Speaker: Hon. Member for Douglas South, Mrs Beecroft.

Mrs Beecroft: Thank you, Mr Speaker.

I wonder if the Minister could tell us whether any consideration has been given to having a panel of auditors that are approved by Treasury, such that local authorities could actually select from that panel one that suits them, giving them more control over the audit, rather than having one company doing all of the audits all over the Island for all local authorities? I am aware that this can create

some timing problems for different authorities, and also the cost – it is quite possible that authorities can get the audit done cheaper than what Government have negotiated through the tender process for doing all of the authorities. I am just wondering what consideration has been given to that and whether any local authorities submitted any comments during the consultation process on this.

The Speaker: Hon. Member, Mr Thomas.

Mr Thomas: Thank you, Mr Speaker.

This Bill seems commendable. I have just got two questions. The first one is: if there is reorganisation of local authorities, will this Bill allow for it? In other words, another way to address the issue of accounts is to consolidate the accounts into just one in the north and one in the west and so on, so will this Bill be sufficiently flexible to allow any reorganisation that local authorities, commissioners, burial commissioners and all the other types of bodies involved choose to make in coming months or perhaps years?

Secondly, I notice that this Bill has already been through the Legislative Council. Given that the Attorney General is sitting there and given that three Treasury Members were sitting there at the time, can we not assume that this Bill is already perfect when it comes into the Keys?

The Speaker: Hon. Member, Mr Karran.

Mr Karran: Vainstyr Loayreyder, I would just like to follow on from the Member for Doolish Jiass, South Douglas. Could the Shirveishagh just make sure that we have that flexibility to make sure that we do not end up with a situation that some might call, outside this House, an abusive monopoly, allowing for the fact that often with other auditing jobs they have to have done some auditing work as far as local authorities are concerned, and I just would be interested in the mover's reply, as Shirveishagh Tashtee, the Minister for the Treasury, Vainstyr Loayreyder.

The Speaker: I call on the mover to reply. Mr Teare.

The Minister: Thank you, sir.

First of all, I would like to thank my seconder for seconding it.

The Hon. Member for Onchan, Mr Quirk, was supportive, especially for the burial grounds. He asked whether it would also include combination authorities – yes, it would – and expressed the view that at present the actual accounts are not easy to obtain and the whole process is somewhat opaque. Local authority accounts, if my memory serves me right, are included in the Orange Book and they are published. I must admit they are like a doorstep when they do come, but the information is there already. If that is not correct, then I will certainly come back to this Hon. House. The issues that he raised were really policy matters going forward, but I will have a look at *Hansard* and see whether there is anything else that we need to do. He did ask for my comments on the three-tier assessment. What I would say is those assessments are intended to be proportionate. Where you have, for example, a burial ground with very little turnover – quite literally all the assets are in the ground – really you would not want a fully-fledged £1,000-plus audit. What you would want would be an assurance that proper books and records were being kept and that the financial information provided accorded with those books and records. And then, as you move further up the hierarchy, where there is more money involved, then you would have to devote more resources to actually conducting an assurance adviser service of the accounts.

The Hon. Member for South Douglas, Mrs Beecroft, asked about a panel of auditors – will it be possible to introduce them. We have just tendered for the Government audit contract, as I mentioned in response to a Question in another place last week. I am quite open to a panel of auditors and I will certainly have a look at it from a policy point of view. Did the local authorities

submit any comments? I will clarify that at the clauses stage, but I have not got that information in front of me, as the Hon. Member may expect.

The Hon. Member for West Douglas, Mr Thomas, asked whether this legislation would be sufficiently robust and flexible to allow for any changes to local authority structure, and yes it will; but if you take, for example, a small authority with a turnover of less than £100,000, if that was merged with a bigger authority then that might move the merged group into another insurance advisory category, so that would be something they would have to consider at the time they were talking through the merger. He also asked whether it had been scrutinised by the Legislative Council: yes, it has. It was introduced into Council by my colleague, Mr Henderson, so from a technical point of view yes, we are content with it, but there may be other policy issues that may come out during the movement of this legislation through this House.

The Hon. Member for Onchan, Mr Karran, asked whether the legislation was flexible. As I mentioned before, yes it is. He was of the view that the present system of auditorships is in danger of setting up a monopoly, but it is tendered every five years. We have to acknowledge too that the audit contract is a big contract which has to be delivered in a fairly short space of time, so those institutions which have the resources to be able to do that are fairly limited. But, going back to Mrs Beecroft's comments, maybe a panel of auditors would help that.

With that, Mr Speaker, I beg to move the Second Reading of this legislation.

The Speaker: Hon. Members, I put the question that the Audit (Amendment) Bill be read for the second time. Those in favour, please say aye; against, no. The ayes have it. The ayes have it.