

## 6.1. Audit (Amendment) Bill 2015 – Clauses considered

Mr Teare to move.

**The Speaker:** Hon. Members, we turn to Item 6, the clauses stage.

Firstly, the Audit (Amendment) Bill 2015. I call on the mover, the Hon. Member for Ayre, the Treasury Minister.

**Mr Teare:** Thank you, sir.

Mr Speaker and Hon. Members, as I highlighted at the Second Reading, this Bill confirms Treasury's commitment to promoting a more proportionate and cost-effective approach to financial governance.

The main aims of the Bill are to implement into primary legislation the policy, currently adopted via subordinate legislation, of a three-tier risk-based approach to the external inspection of a public body's accounts.

The Bill will also make the required amendments to existing legislation to enable the Island's burial ground authorities, who are amongst the smallest bodies covered by the Audit Act 2006, to also adopt the same independent audit and assurance framework as the rest of the local government sector.

Mr Speaker, at the Bill's Second Reading in this House a couple of queries were raised that I was unable to respond to fully at that time.

Firstly, the Hon. Member for Onchan, Mr Quirk, sought reassurance surrounding the ongoing openness and transparency surrounding the accounts and audit reports of local government bodies. I can again confirm that nothing in the proposed amendments dilutes the current arrangements, which are and will continue to be established via regulations approved by Tynwald. The current regulations require that all local government bodies' accounts and their corresponding independent audit assurance reports will be open to public inspection. However, I have to make a minor correction to a statement I made in relation to the inclusion of these accounts in the Orange Books: they are actually submitted annually to Tynwald in a separate publication produced by the Department of Infrastructure.

The Hon. Member also sought clarification of the three-tier system and I am happy to take this opportunity to summarise the proposal. For the largest bodies a statutory audit by a qualified auditor will continue to be required. For medium-sized bodies an assurance review by a qualified auditor will be required. The existing regulations require these to be undertaken in accordance with the international standards on review engagement issued by the International Auditing and Assurance Standards Board. For the smallest bodies an independent examination similar to that required by Manx-registered charities will be required.

At the Second Reading I also confirmed that there was nothing within the legislation that will prevent Treasury adopting a policy of appointing a panel of auditors for subsequent selection by local authorities. The Hon. Member for South Douglas, Mrs Beecroft, also asked whether local authorities had submitted any comments in relation to this during the consultation. I can confirm that some local authorities did respond, suggesting a more flexible approach for the appointment of auditors' inspectors. As I confirmed at the Second Reading, I am open to further consultation on this from a policy viewpoint. However, I would also highlight that the principle has already been adopted by the existing secondary legislation for the smallest authorities to appoint their own examiners subject to Treasury approval, and this principle is also included within the proposed Bill.

In summary, then, 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 by subordinate legislation more clearly defined and also robust within the primary legislation.

Mr Speaker, turning to the Bill itself, this Bill is divided into three parts and contains 26 clauses. With your permission, sir, I will take the first three clauses together. Thank you, sir.

Part 1, clause 1: this is the short title of the Act, the Audit (Amendment) Act 2015.

Clause 2: this is the commencement section. The Act, other than sections 1 and 2, will come into operation on such day or days as the Treasury may by order appoint. As highlighted previously, it is intended to utilise section 2(2) to introduce the required transitional provisions in relation to the changes to the burial authority accounting period.

Clause 3: this is the expiry clause. After the amendment Act has been amended, the required legislation will expire.

I beg to move clauses 1, 2 and 3 do stand part of this Bill, sir.

**The Speaker:** Hon. Member for Rushen, Mr Watterson.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** I put the question that clauses 1, 2 and 3 stand part of the Bill. Those in favour, please say aye; against, no. The ayes have it. The ayes have it.

Clause 4, please.

**Mr Teare:** Thank, you, sir.

Clause 4 introduces the amendments to the 2006 Act and I beg to move that clause 4 do stand part of the Bill.

**The Speaker:** Mr Watterson.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** I put the question: clause 4. Those in favour, please say aye; against, no. The ayes have it. The ayes have it.

Clause 5.

**Mr Teare:** Thank you, sir.

Clause 5 inserts section A1 at the beginning of the 2006 Act, introducing the three forms of inspection: examination, assurance review or audit.

The default requirement is still for accounts to be audited unless Treasury otherwise directs. It clarifies that references to 'inspection', etc. refer to any of these forms of inspection.

Mr Speaker, I beg to move that clause 5 do stand part of this Bill.

**The Speaker:** Mr Watterson.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Hon. Member, Mr Quirk.

**Mr Quirk:** Thank you, Mr Speaker.

Just to clarify a little bit, if I could, Minister, and I thank for looking at those other issues I had some time ago, can I just seek an assurance then that we will have an approved list of auditors, an approved list of assurance reviewers and examinations, so that if there are three categories, they are in three things.

The minor one I was just thinking about too was if a company from another jurisdiction wanted to do auditing, would they be allowed on the list, or would they have to be a registered Manx company?

**The Speaker:** Mover to reply.

**Mr Teare:** Certainly my understanding is that it would not be necessary for them to be an established Manx company, as long as they were suitably qualified. But Treasury will have the power to appoint a person and as we said in the introductory remarks, it would be in effect a panel prepared by Treasury.

So with that, sir, I beg to move this clause.

**The Speaker:** I put the motion, clause 5: those in favour, say aye; against, no. The ayes have it. The ayes have it.

Clause 6.

**Mr Teare:** Thank you, sir.

Clause 6 amends section 1 of the Act to reflect that although all the bodies to which the 2006 Act applies will be subject to some form of inspection, it will not necessarily be an audit, i.e. it amends 'audit' to 'inspecting', etc.

Clause 6(3)(a) expands Treasury's existing power exemption to all bodies brought into the scope of the Act by section 1. This effectively continues the option to introduce what is effectively a fourth tier to the assurance framework. The ability to fully exempt relevant bodies or specific sets of account from the requirements of the Act.

Mr Speaker, I beg to move that clause 6 stand part of this Bill.

**The Speaker:** Mr Watterson.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Mr Quirk.

**Mr Quirk:** Thank you, Mr Speaker.

Just for clarification, when a number of local authorities come together to combine, like civic amenity sites, will they be subject to audit? I just want confirmation of that.

Would they also be subject to scrutiny from the general public or the ratepayers of those districts?

**The Speaker:** Mr Teare to reply.

**Mr Teare:** This is a point which has been raised by the Hon. Member before. It depends on the actual turnover of the combination authority, so it could be that one of the authorities on their own would in effect be an assurance advisory; but it would then go up to over £100,000 turnover, and then it would go into the category above.

As for openness and transparency, yes, these accounts should definitely be available for the public.

With that, sir, I beg to move that clause 6 do stand part of this Bill.

**The Speaker:** Clause 6: those in favour, please say aye; against, no. The ayes have it. The ayes have it.

Clause 7.

**Mr Teare:** Thank you, sir.

Clause 7 makes a similar consequential amendment to section 2, changing reference from 'audited' to 'inspected'.

Mr Speaker, I beg to move that clause 7 do stand part of this Bill.

**The Speaker:** Mr Watterson.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 7: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 8, please.

**Mr Teare:** Thank you, sir.

Clause 8 amends section 3, which deals with the appointment of auditors.

In particular, this clause restructures the Act by removing the restrictions on persons eligible to be avoided as auditors, as these restrictions are now required to be applied to all inspectors. Accordingly reaches these restrictions have been relocated from section 3 to the new section 4B.

Mr Speaker, I beg to move that clause 8 stand part of this Bill.

**The Speaker:** Mr Watterson.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 8: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 9.

**Mr Teare:** Thank you, sir.

Clause 9 introduces sections 3A and 3B, which set out the required qualifications for assurance reviewers and examiners in relation to accounts.

Assurance reviewers are required to be qualified auditors, appointed by the Treasury, similar to existing provisions in relation to auditors.

Examiners are appointed by the body and approved by Treasury. They must hold the same qualifications as those required by independent examiners for charity accounts. These sections, together with section 3, are subject to the new section 4B which, as highlighted above, is the relocation of the existing independence requirements but for all inspectors.

Mr Speaker, I beg to move that clause 9 stand part of this Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 9: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 10.

**Mr Teare:** Clause 10 inserts section 4A which describes the general statutory duties of both assurance reviewers and examiners. These duties are the same for both types of inspection. However, the new section A1 above also provides for the Treasury to make further directions as to the detail each of those requirements.

The clause also inserts section 4B, which as highlighted earlier, is the relocation of existing section 3, and it relates to the disqualifications for acting as an inspector of any sort. There is also a minor amendment to clarify the applicability in relation to relevant subsidiary companies.

Mr Speaker, I beg to move that clause 10 stand part of the Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 10: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 11.

**Mr Teare:** Thank you, sir.

Clause 11 generalises references to the 'audit' and 'auditors' in section 5, replacing them with references to 'inspection' and 'inspectors'.

I beg to move that clause 11 stand part of this Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 11: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 12, please.

**Mr Teare:** Clause 12, again, generalises references to section 6 to replace them with the more generic terms, 'inspection' and 'inspectors'.

Mr Speaker, I beg to move that clause 12 stand part of the Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 12: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 13.

**Mr Teare:** Clause 13 again generalises references, this time in section 7.

Mr Speaker, I beg to move that clause 13 stand part of the Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 13: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 14, please.

**Mr Teare:** Clause 14 again generalises references, this time in section 8. This clause also clarifies that the special report obligations will also apply to assurance reviewers and examiners. However, matters will only be made public, following a full audit.

Where concerns have been raised by assurance reviewers and examiners, the provision permits the relevant authority to direct that a full audit be then undertaken.

Mr Speaker, I beg to move that clause 14 stand part of the Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 14: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 15.

**Mr Teare:** Thank you, sir.

Clause 15 makes similar reference amendments to the majority of section 9. Similarly, section 9(5)(c) which concerns requirements to give public notice of the issue of a warning notice will continue to be restricted to accounts which have been subject to audit.

I beg to move that clause 15 stand part of the Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Mr Quirk.

**Mr Quirk:** Thank you, Mr Speaker.

Just on the warning notice, then, where will that be placed in the consequence of a small organisation? Will that be the public noticeboard or their website, or even their Facebook site, I suppose?

**The Speaker:** Mover to reply.

**Mr Teare:** Thank you, sir.

The warning notice will be with the local authority, and I think that is only fair in the first instance, because the local authority has to be given an opportunity to correct any failings or perceived failings and if they are then confirmed, then it is up to the local authority to take it further. There is also oversight provisions with the Department of Infrastructure as well.

**The Speaker:** I put the motion that clause 15 stand part of the Bill. Those in favour, please say aye; against, no. The ayes have it. The ayes have it.

Clause 16.

**Mr Teare:** Clause 16 amends section 11 so as to ensure the continuation of the reserved power to order an extraordinary audit to any accounts which are liable to any sort of inspection under the Act. Mr Speaker, that clause 16 stand part of this Bill.

**Mr Watterson:** I beg to second, sir, and reserve my remarks.

**The Speaker:** Clause 16: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 17.

**Mr Teare:** Thank you, sir.

Clause 17 amends section to extend the Treasury's existing power to make regulations under the Act to cover inspections and not merely audits.

Mr Speaker, I beg to move that clause 17 stand part of this Bill.

**Mr Watterson:** I beg to second, sir, and reserve my remarks.

**The Speaker:** Clause 17: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 18.

**Mr Teare:** Clause 18 amends section 13 to extend the Treasury's existing power to give directions to all classes of accounts to be inspected.

I beg to move that clause 18 do stand part of this Bill.

**Mr Watterson:** I beg to second, sir, and reserve my remarks.

**The Speaker:** Clause 18: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 19.

**Mr Teare:** Clause 19 makes consequential amendments to section 14 dealing with fees to be charged under the 2006 Act. The Treasury will itself fix the fees for an audit or an insurance review, but the body whose accounts are being examined will agree the fee with the examiner.

The clause also allows for the required changes to this section on the appointment of a Tynwald Auditor General and at that time would transfer Treasury's responsibilities under the section to the Tynwald Auditor General.

Mr Speaker, I beg to move that clause 19 do stand part of the Bill.

**Mr Watterson:** I beg to second, sir, and reserve my remarks.

**The Speaker:** Mr Quirk.

**Mr Quirk:** Thank you, Mr Speaker.

Just on the Tynwald Auditor General there, I take it then that matters that may be for ratepayers or businesses within a district could refer those matters to the Tynwald Auditor General. I just wonder when you think the Tynwald Auditor General, if this legislation was to be improved, will come into being.

**The Speaker:** Mover to reply.

**Mr Teare:** At the moment, sir, I am unable to give any indication as to a likely timescale, when the Auditor General legislation will have an appointed day order.

**The Speaker:** Clause 19: Those in favour, please say aye; against, no. The ayes have it. The ayes have it.

Clause 20.

**Mr Teare:** Clause 20 generalises references to audit and auditor in section 15, replacing them with references to 'inspection' and 'inspectors'.

Mr Speaker, I beg to move that clause 20 stand part of this Bill.

**Mr Watterson:** I beg to second, sir, and reserve my remarks.

**The Speaker:** Clause 20: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 21.

**Mr Teare:** Clause 21 again generalises references to 'audit' and 'auditor', this time in section 16, replacing them with references to 'inspection' and 'inspectors'.

Mr Speaker, I beg to move that clause 21 stand part of this Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 21: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 22.

**Mr Teare:** Clause 22 again is consequential amendments, this time to section 18 in relating to the broadening of references and application of the Act to 'inspection' and 'inspectors'.

Mr Speaker, I beg to move that clause 22 stand part of the Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Mr Quirk.

**Mr Quirk:** Mr Speaker, yes, I am sorry to be such a pain, but that's the way ...

I just wonder whether the Minister could explain the situation regarding ‘inspectors’ to ‘inspection’ – the difference and what sort of powers that particular person has to report back, or does one follow the other, an inspection and an inspector, or the other way round?

**The Speaker:** Mover to reply.

**Mr Teare:** A way of explaining would be that ‘inspection’ is the role carried out by the ‘inspector’. It is a function. So one is the title and then the other is actually what they do. So with that, sir, I beg to move clause 22.

**The Speaker:** Clause 22, those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 23.

**Mr Teare:** Clause 23 provides for directions by the Treasury under section 13 to be laid before Tynwald after they are made.

I beg to move that clause 23 stand part of this Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 23: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 24.

**Mr Teare:** Thank you, sir.

Clause 24 amends section 21 to insert new definitions which flow from the introduction of the concept of inspection.

Mr Speaker, I beg to move that clause 24 stand part of this Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Clause 24: those in favour, say aye; against, no. The ayes have it. The ayes have it. Clause 25 and the schedule, Mr Teare.

**Mr Teare:** Thank you, sir.

Clause 25 makes consequential adjustments to other legislation to amend references from ‘audit’ to ‘inspection’.

In addition to the consequential amendments in relation to references, paragraph 8 of the referenced schedule introduces required changes to the Burials Act 1986, to change the burial authorities’ year-end from 31st December to 31st March.

Mr Speaker, I beg to move clause 26 and the attached scheduled as part of this Bill.

**The Speaker:** Mr Watterson.

**Mr Watterson:** I think we are moving clause 25?

**Mr Teare:** Sorry, clause 25.

**Mr Watterson:** I beg to second clause 25, Mr Speaker, and reserve my remarks.

**Mr Teare:** That was wishful thinking! *(Laughter)*

**The Speaker:** Clause 25 and the schedule: those in favour, say aye; against, no. The ayes have it.  
The ayes have it.  
Finally, clause 26.

**Mr Teare:** And now we have clause 26 – the one we have been waiting for!  
Clause 26 repeals the now spent elements of section 11 (2) of the Casino Act 1987.  
Mr Speaker, before moving clause 26, I would like to thank my seconder for the work that he has put into this.  
I now beg to move that clause 26 do stand part of this Bill.

**Mr Watterson:** I beg to second and reserve my remarks.

**The Speaker:** Mr Quirk.

**Mr Quirk:** Thank you, Mr Speaker.  
I would just maybe get an opinion from the Treasury Minister. There is a requirement under the ... if an organisation or charities do a tombola, you normally have to have an auditor. So I assume – I am quite happy if the Minister wants to write to me or tell me later on – you can then substitute one of the others, then – the examiner or the assurance reviewer as a certified person to sign off.  
*(Interjection by Mr Watterson)*

**The Speaker:** Mover to reply.

**Mr Teare:** Sorry, that is a completely different section of legislation, sir –

**The Speaker:** This is not related to clause 26, is it, Hon. Member? *(Interjection by Mr Quirk)*  
However, you may deal with it.

**Mr Teare:** So the circumstances that he has delineated would stand outside this proposed legislation, sir.

**Mr Watterson:** Hear, hear.

**The Speaker:** I put the motion that clause 26 do stand part of the Bill. Those in favour, say aye; against, no. The ayes have it. The ayes have it.  
Thank you, Hon. Members, that concludes the Audit (Amendment) Bill.