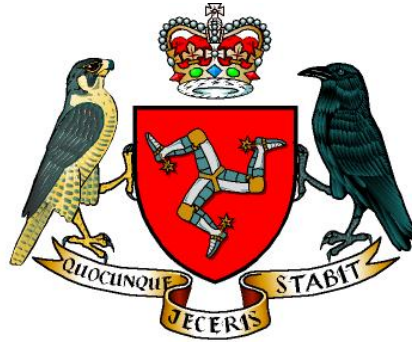


GD 2021/0047



Council of Ministers
Response to the Standing Committee of Tynwald
on Public Accounts
Third Report for the Session 2020-21
Audit Advisory Division

July 2021

To the Hon Steve Rodan OBE, BSc (Hons), MRPharmS, MLC, President of Tynwald, and the Hon. Council and Keys in Tynwald assembled.

Foreword by the Treasury Minister

The Council of Ministers welcomes the Third Report for the Session 2020-21 from the Standing Committee of Tynwald on Public Accounts on the Audit Advisory Division.

The Committee's report contains seven overall conclusions and four recommendations. The Council of Ministers acknowledges the conclusions and is broadly supportive of the recommendations. As many of the matters raised in the report are procedural, they will be considered when assessing the Audit Advisory Division's methodology and approach.



The principles of risk profiling and risk assessments linked to recommendations 1 and 2 are being followed by the Audit Advisory Division (AAD). Going forward, improved clarity will be added to AAD processes and reporting to raise awareness of how risks are assessed, both financially and operationally.

I would like to express my thanks to the Standing Committee for their diligence in examining the Governance and processes in place for the Audit Advisory Division.

**Hon. Alfred Cannan MHK
Treasury Minister**

Background and Context

The AAD provide a shared service to designated bodies to enable them to fulfil their related statutory obligations under the Audit Act 2006. In addition to this, the AAD also provide core support to the Treasury in relation to some of its core responsibilities under the Treasury Act 1985.

AAD aims to support Government in the accomplishment of its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In addition to the recommendations detailed in the attached pages, the Standing Committee report included seven conclusions.

The first conclusion was that the level of oversight regarding value for money assessment is insufficient because there is no evidence that the value for money of particular services is being reviewed, there is no benchmarking to assess whether our public services deliver more or less than elsewhere and how costs compare. However, we note that now the Tynwald Auditor General Act is in force the Auditor General will undertake this review work in the future which should address the issue raised.

However, it should be noted that whilst AAD audits are often of a systematic nature, focusing on key risks, benchmarking information is obtained and reviewed where available and of a comparable nature. Where recommendations are made that have the potential to improve cost effectiveness, reference is made to these figures, with recent examples being reports on healthcare. AAD reviews are designed to add value and improve operations by providing independent and objective assurance.

A further conclusion was that the divisional plan of audits to be undertaken does not appear to take sufficient account of financial risk, and that information about the risk profile for each audit is not included in subsequent reporting; this can make it difficult to understand why a particular audit is being undertaken.

This conclusion is also noted and it is acknowledged that improved clarity can be added to the audit planning process to raise awareness across Government of how risks are assessed when considering the annual programme of reviews. Whilst financial risk is a significant consideration when assessing risk, it should be noted that there are other types of risks that may not always translate into financial values, such as reputational risk, and these risks are also considered by AAD when they assess risk profiles and audit needs.

A third conclusion was that where all of the controls are assessed as not being designed correctly, or not operating correctly, or both, it is not helpful to give any indication of positive assurance; to do so may mean the Department fails to afford the recommended actions a sufficient priority.

This conclusion is noted. AAD reviews are conducted in line with the International Standards for the Professional Practice of Internal Auditing (Standards) and an overall opinion of adequacy is included

in the audit reports to provide an indication of the level of assurance provided by the system of controls in place. The four opinions in place of substantial, adequate, limited and unacceptable are designed in line with the Standards.

Another conclusion stated that because the current audit process treats all identified risks as equal, the current follow up and escalation processes are insufficient. Significant risks to service delivery/staff/the public or Government's reputation could be ignored and the lack of executive oversight of the highest risks is both a concern and a missed opportunity.

This conclusion goes on to state that we have considered audit approaches to this problem, and believe that previous experience and other controls should be considered in assessing the reputation, service delivery and financial impact which should be weighed up alongside the probability, into a high/medium/low category of risk.

The conclusion is noted. AAD testing is performed using a risk based approach which focuses on high risk and high impact areas, awareness of this approach will be raised during the audit process.

A conclusion states that the absence of the independent oversight of an audit committee places the Audit Advisory Division at risk of criticism regarding how their work is prioritised. This conclusion is noted. It is understood why the Committee have raised this issue and the governance framework is due to be reviewed as part of the delayed External Quality Assessment.

The use of an audit committee type function has been one that has been considered for several years with no satisfactory outcome. However audit committees have been in place for the Manx Utilities Authority and the Isle of Man Post Office for several years and AAD attend meetings of these committees to provide support and present findings.

Two further conclusions stating the following are noted:

- Self-assessment, without some form of moderation, is too subjective to be an effective process to use if the Statement of Internal Control is to be relied on.
- The appointment of a Tynwald Auditor General will change the way in which this Committee works with the Audit Advisory Division and we look forward to developing the new processes in the coming months.

The Council of Ministers' response to the recommendations are set out below:

1	That the forward work plan for the Audit Advisory Division, and subsequent audit reports, should include information about the risk profile.
Commentary	Council of Ministers' response This recommendation is fully supported and is consistent with the methodology already in place in AAD. Improved clarity will be brought to communications for audit planning and reporting to raise awareness of risk profiles.
Response	Accept
2	That risks should be assigned an overall risk rating of high, medium or low in line with the classification used in the Statement of Internal Control which reflects the likely impact on service delivery/staff/the public or Government's reputation should recommendations not be completed.
Commentary	Council of Ministers' response This recommendation is accepted and in line with the methodology already in place in AAD. A definition of the audit approach followed for each review will be included in future reports to communicate the rating of risks identified and assessed.
Response	Accept
3	That Council of Ministers should receive a quarterly report detailing all high risks, where a fundamental or significant audit recommendation is made, to include recommended corrective actions, the anticipated resolution date and an update from the responsible Accountable Officer if this date has been breached.
Commentary	Council of Ministers' response The intention for oversight is noted.
Response	Accept
4	That a standard risk management framework is adopted for use across Isle of Man Government Departments, Boards and Offices and that training in how it is applied to the assessment of risk is delivered to all officers who are required to undertake that work as part of their role.
Commentary	Council of Ministers' response This recommendation is accepted. AAD will continue to provide support across Government to promote best practice of a standard risk management framework.
Response	Accept