

**11. Public Accounts Committee –
Third Report 2020-21: Audit Advisory Division –
Report received and recommendations approved**

The Chairman of the Public Accounts Committee (Mr Speaker) to move:

That the Public Accounts Committee Third Report for the Session 2020-2021: Audit Advisory Division [[PP No 2021/0099](#)] be received and the following recommendations be approved:

Recommendation 1

That the forward work plan for the Audit Advisory Division, and subsequent audit reports, should include information about the risk profile.

Recommendation 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.

Recommendation 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.

Recommendation 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.

[[GD No 2021/0047](#)] is relevant to this Item.

The President: We move to Item 11, Public Accounts Committee. I call upon the Chairman of the Public Accounts Committee, Loayreyder, to move.

The Chairman of the Public Accounts Committee (The Speaker): Gura mie eu, Eaghtyrane.

Hon. Members, your Committee chose to undertake an inquiry into the work of the Audit Advisory Division to raise awareness of the very important role that it plays in Government's risk management framework and consider the effect of its work. The Public Accounts Committee receives copies of all assurance reports the team produce. These reports summarise reviews undertaken across Government which assess risk and any mitigation already in place. The reports provide an overall level of assurance about how well risk controls are designed and operated and where applicable recommend improvements designed to reduce risk.

These reports have provided us with helpful information about areas where risks are not being well managed but we had become concerned that there was no differentiation of risk. All risks were treated equally, and the overall assurance levels did not always seem to reflect the findings. It seemed to be possible to get a positive assurance rating even when few of the controls were designed or operating effectively. At a more strategic level we also wanted to know how the areas for audit review were selected, as there was no pattern that we could discern. Whilst low-value, low-risk services should not be ignored, we did not see the focus we would have expected on high-value, high-risk services.

We welcome the Government response, which confirms that improved clarity will be added to AAD processes and reporting to raise awareness of how risks are assessed both financially and operationally in the future. As the Government response has responded to the conclusions drawn and accepts the four recommendations the Committee has made, there is only one further point I wish to make.

There are four opinions which can be given as an overall assurance level following an audit. They are substantial and adequate, which are considered as positive opinions, and limited and unacceptable, which are considered negative opinions. We are concerned that although these are opinions used in the International Standards for the Professional Practice of Internal Auditing, the allocation of a positive opinion sometimes appeared to be out of step with the audit findings. Where a number of controls were found not to be robust or were being poorly operated we would have expected to see a negative opinion and the actions that flowed therefrom. This was not the case in a sufficient number of instances for us to flag it as a concern. We noted only one instance of an unacceptable assurance rating in the five-year period, but a number of reports we thought would have actually ... that would have been the appropriate opinion.

Now Hon. Members will be pleased to hear that I intend to restrain my natural enthusiasm for the topic, and beg to move.

The President: I call upon Mr Hooper.

Mr Hooper: Thank you very much, Mr President. I beg to second and reserve my remarks.

The President: I call upon Mr Shimmins.

Mr Shimmins: Thank you, Mr President.

I would like to thank the Standing Committee for their Report on the Audit Advisory Division. The Report contains seven overall conclusions and four recommendations, and the Treasury are broadly supportive of the recommendations. As a result of the conclusions and recommendations in the Report, the Audit Advisory Division have committed to amend their communications and reporting so that more information regarding risk profiles is included. This will improve awareness and understanding. A planned external quality assurance review of the Audit Advisory Division was delayed due to COVID, and we will be looking to reschedule this review as soon as possible.

Whilst there is not an overall audit committee-type function across Government, the Audit Advisory Division report to audit committees at the Isle of Man Post Office, Manx Care and the Manx Utilities Authority. Audit Advisory Division will also continue to promote the best practice of a standard risk-management framework across Government.

Thank you, Mr President.

The President: I call upon Mr Thomas.

Mr Thomas: Thank you, Mr President, and I thank Mr Speaker and the Committee for this excellent piece of work.

I just would like very much to hear the answer to a question which relates in terms of the subject matter, rather than the recommendations specifically. It is a sort of synchronous approach to this.

So basically, the terms of reference of the Public Accounts Committee include considering 'any financial matter relating to a Government Department or statutory body as may seem fit to the Committee', and they also include, 'consider such matters as the Committee may think fit in order to scrutinise the efficiency and effectiveness of the implementation of Government policy'. Well, it often seemed to me, my perception was, that in Government we would often try to work out what the Public Accounts Committee would look at, and as a backbencher I also often think to myself what is it they are trying to look at and what will they be doing next.

So I think to me it is a difficult question, but I would quite like to know how the Public Accounts Committee goes about this process itself, that it has made recommendations to the auditor. I am sure Mr Speaker will give an initial answer today, but to me that is quite an important question that we all need to ask ourselves as we begin to set up for the next administration. **(Mr Shimmins: Hear, hear.)**

So in summary, how does the Public Accounts Committee scope its work and structure its work in terms of prioritisation? How does it choose what topics to look at and to what extent it involves the public, Members, Government Departments themselves and so on. To me, it would be very helpful to go through that process and I would very much like today to hear some of these recommendations, how they actually apply to the work of the Public Accounts Committee itself.

The President: I call on the Chairman to respond.

The Chairman: Gura mie eu, Eaghtyrane.

Firstly, responding to Mr Shimmins, we welcome the response from Treasury and, as set out, the Government response about increased information and the external review of Audit Advisory, which has been delayed unavoidably because of the pandemic.

I think where we hope to see some real changes is about some explanation in the internal audit plan as to why they have gone about their work – which leads neatly on to Mr Thomas’s question later – about how they have looked at the risk environment of Government and the financial risks and other risks within that, and then how they have gone about prioritising their work. One of the things that we really found to be a frustration was the spending a lot of time on the nickel and dime stuff, the ... okay, the skipping ropes, Mr Robertshaw! *(Laughter)*

But really it was things such as devolved financial management in schools, which was a classic case: tens of thousands of pounds being looked at routinely, systematically across the entire primary school suite, whereas actually there are far bigger risks to Government elsewhere, in the tens of millions of pounds. We talked about, just yesterday, the approach that has been taken to procure major capital projects – that has not been looked at. That is costing us tens of millions, whereas we are talking about tens of thousands in devolved financial management of schools. So there was not that logic, to the Committee, to see how they were determining their work schedule.

Which brings me to Mr Thomas’s question: how we determine *our* work schedule. Well, what I cannot do, Mr President, is to talk to how it always has been done and how it always will be done because this is a very much political process. In my first term it was very much reactive, when I was on the Public Accounts Committee 2006-11. It was very much a matter of political judgement. In the previous administration, during which I was a Minister, it seemed very much to be about how to best pick a fight with the Department of Infrastructure, seemed to be the priority basis, and at the start of this administration, the Committee sat down and thought, what are the biggest risks to Government actually succeeding in terms of its efficiency and effectiveness? That was why we picked Noble’s Hospital as our starting point and I think that has been borne out by experience to be something that actually was a boil that needed lancing and is something that has led to that with Sir Jonathan Michael’s report and the reforms in Manx Care that have come afterwards.

What I cannot do though, unfortunately, is say that in September, when there is a new Public Accounts Committee and a new Chairman, how they will prioritise their work. It is a political process. But it is *delightful* to know that the Council of Ministers actually worry about what we are going to look at. It means that maybe we are doing it right at the moment. *(Laughter)*

Thank you, Mr President.

A Member: Hear, hear.

The President: Item 11, that the Public Accounts Committee Third Report for the Session 2020-2021: Audit Advisory Division be received and all recommendations be approved. All those in favour, please say aye; those against, please say no. The ayes have it. The ayes have it.