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# STATES OF JERSEY



## **FINANCIAL DIRECTIONS (R.121/2014): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES**

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**Presented to the States on 16th October 2014  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

**FINANCIAL DIRECTIONS (R.121/2014): RESPONSE OF THE MINISTER  
FOR TREASURY AND RESOURCES**

**General response**

The Treasury recognises the vital importance of an effective system of Financial Control, which is supported in the States through the issue of Financial Directions. The Treasury's current project to review and update all Financial Directions, and issue new ones, has made significant progress in developing a Financial Control Framework that supports robust financial control without causing unnecessary work for departments or the central function. However, we recognise that further work is required to embed Financial Directions within the culture of the States, and welcome the feedback provided by this report. The Treasury will look to incorporate the agreed recommendations of the report into its ongoing work plan to further develop and strengthen existing procedures.

<b>C&amp;AG Recommendation</b>	<b>Response</b>	<b>Comments</b>
<b>R1:</b> Following implementation of the detailed recommendations in this report, strengthen the States' overall system of internal control by developing 'Directions' to cover other areas, such as information management and human resource management.	Agreed in principle	<p>The scope of Financial Directions (FDs) is specified by the Public Finances (Jersey) Law 2005 as the proper administration of that Law. However, the States also produces policies in the other key internal control areas mentioned.</p> <p>Human Resources (HR) Policies are issued by the HR Department, and cover a range of HR Management issues. It is proposed that a legislative change is taken to the States with the aim of replicating a similar process to that for FDs, whereby Codes of Practice would be introduced for core HR areas such as recruitment and training. These Codes would continue to be supported by policy documents.</p> <p>IS policies are issued by the Information Services Department (ISD), and document how ISD manages the States Information Technology and Communications estate. They are used to ensure the States has a controlled environment upon which it can build applications and services for users.</p>
<b>R2:</b> Review the mechanisms for engaging with departments to ensure that valuable insight into the practicality of existing and proposed Financial Directions is sought, demonstrably considered and, where appropriate, acted upon.	Agreed	<p>The Treasury recognises that consultation with departments is vital to the successful implementation of Financial Directions, and user feedback is a key mechanism to ensure that Directions produced are practical, and this is incorporated into the current programme.</p> <p>An overall review of the current process for the production of Financial Directions</p>

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		will be carried out, including consideration of practice in other jurisdictions and sectors and the views of users. As part of this review, consultation and other engagement mechanisms will be considered.
<p><b>R3:</b> Review and amend the current standard format for Financial Directions to ensure that all Financial Directions contain –</p> <ul style="list-style-type: none"> <li>• a clear statement of the control risks being addressed;</li> <li>• a direct and accessible ‘house style’; and</li> <li>• a clear linkage of mandatory requirements to control risks.</li> </ul>	Agreed	The format used for Financial Directions will be reviewed in line with the recommendation, and a plan to implement any changes in the format across the Financial Control Framework produced.
<p><b>R4:</b> Update quality assurance procedures for Financial Directions to ensure that revised corporate standards for drafting Financial Directions are complied with.</p>	Agreed	<p>An overall review of the current process for the production of Financial Directions will be carried out, including consideration of practice in other jurisdictions and sectors and the views of users.</p> <p>As part of this review, the existing quality assurance procedures will be developed to ensure that Financial Directions are clear and unambiguous.</p>
<p><b>R5:</b> Adopt an appropriate platform for Financial Directions, using readily available software, which facilitates effective updating, navigation, searching and cross-referencing.</p>	Agreed	<p>Financial Directions are currently published on the States Intranet, which is accessible to most States Employees. They include cross-referencing as far as allowed by the format, including hyperlinks to related Financial Directions and other relevant documents.</p> <p>The Treasury will continue to work with the Information Services Department to explore ways in which new solutions could be used to enhance the delivery of Financial Directions.</p>
<p><b>R6:</b> Develop a communications and training plan to ensure that relevant staff are aware of the requirements of and changes to Financial Directions.</p>	Agreed, current process to be further developed	The Treasury recognises the need to embed Financial Directions across the organisation, and the key role that effective training and communication will have in ensuring that this is the case. The Treasury already takes steps to communicate to key individuals such as Accounting Officers and Finance Directors, and places reliance on these

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		<p>individuals to put into place systems to communicate to their finance teams and operational staff.</p> <p>On appointment, Accounting Officers sign a letter acknowledging their responsibilities, including those relating to Financial Directions. Accounting Officers, Finance Directors (through the Finance Advisory Board) and Finance Managers (through the Financial Management and Reporting Group (FMRG)) receive e-mail notification of all new Directions, together with a summary of key control requirements (both new and changes to previous). Finance Managers attending the monthly meeting of FMRG also receive a verbal update on all new Financial Directions and ongoing work on the Framework.</p> <p>In addition, delegates on the Modern Manager Programme (MMP) receive an overview of the Financial Direction Framework and associated assurance processes as part of the MMP Finance Module, and departments provide training to their budget-holders on relevant Financial Directions.</p> <p>However, the Treasury recognises that there is more work to do in this area, and will seek ways in which to improve the communication to both finance and, in particular, non-finance staff.</p>
<p><b>R7:</b> Include an explicit statement on compliance with Financial Directions in the Annual Governance Statement, linking issues of non-compliance to individual Financial Directions.</p>	<p>Agreed in principle</p>	<p>The Annual Governance Statement in the published Financial Report and Accounts already includes a summary of the States of Jersey internal control environment and specific references to significant control weaknesses that have arisen during the year. These include those resulting from non-compliance with Financial Directions.</p> <p>The Annual Governance Statement also refers to the work of Internal Audit is in providing assurance on the financial controls and processes in the States.</p> <p>The Treasury will work with the C&amp;AG to explore the reasons for non-compliance identified in her review and decide on</p>

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		appropriate actions, including how to report any significant non-compliance with Financial Directions.
<b>R8:</b> Identify and implement systems-based controls now and in the future as systems are introduced or changed. The aim should be to automate controls where possible to assist in ensuring compliance with all Financial Directions efficiently.	Agreed	The Treasury recognises that system-based controls form an integral part of the overall system of financial control, and when drafting Financial Directions will continue to seek to reflect the systems in place where strong system controls exist.
<p><b>R9:</b> Undertake an annual review of Financial Directions following the preparation of the Annual Governance Statement to –</p> <ul style="list-style-type: none"> <li>• consider the coverage and content of Financial Directions;</li> <li>• balance the need to manage risk with the costs of compliance with Financial Directions; and</li> <li>• identify areas for corrective action.</li> </ul>	Agreed, current practice to be developed	<p>There is a detailed work plan for the development of the Financial Control Framework, which includes forward planning for the drafting of additional Financial Directions and the update and improvement of current Financial Directions (through a process of continuous improvement). This work plan will be reviewed in line with the recommendations of this report, and the outcomes of the planned review of the production of Financial Directions.</p> <p>Feedback from the Public Accounts Committee, the Comptroller and Auditor General, Internal Audit and departments will be fed into this work plan in identifying the key areas on which to focus, adopting a risk-based approach. Exemptions requests received and reported instances of non-compliance will also be assessed. A process by which departments can report non-compliance on an ongoing basis is also currently being developed with Internal Audit, allowing action to be taken on a continuing basis.</p> <p>Internal Audit is currently undertaking a project to ensure management has taken action to carry out agreed audit recommendations. Once the project has been completed, Internal Audit will present key themes on non-compliance to the Audit committee and Financial Advisory Board. These results will also be communicated to FACT to inform the ongoing work plan.</p>

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<p><b>R10:</b> Align requirements for record-keeping with mandatory requirements of Financial Directions so that it is possible to test compliance with all mandatory requirements of Financial Directions.</p>	Agreed	<p>How to align requirements for record-keeping to mandatory requirements will be considered as part of the review of the format of Financial Directions. This could include a general requirement to ensure that adequate documentation is retained to demonstrate compliance with Financial Directions in the planned Accountabilities Financial Direction.</p> <p>Whilst any particular documentation needed is referred to in a Direction, the Treasury would expect departments to exercise professional judgement in determining what level of evidence is appropriate. The Treasury is also mindful that more stringent requirements in this area could lead to an increased administrative burden on departments, and will seek to minimise this where possible.</p>
<p><b>R11:</b> Minimise the volume of mandatory requirements when drafting Financial Directions.</p>	Agreed	<p>The Treasury accepts the principle of ensuring that mandatory requirements are clear and easy to understand, and that Mandatory Requirements and Guidance are clearly differentiated. Once the review of the format and drafting process is complete, existing directions will be assessed against the revised corporate standard.</p>
<p><b>R12:</b> Clearly distinguish between mandatory requirements of Financial Directions and supporting guidance on implementation.</p>	Agreed	<p>The Treasury will review the format of the Financial Directions to ensure that Mandatory Requirements and Guidance are clearly differentiated, and the modified approach rolled out across Financial Directions as part of the updated work programme.</p>
<p><b>R13:</b> Undertake a sense check of the practicality of all mandatory requirements of Financial Directions, including through engagement, particularly of frontline users, before Financial Directions are finalised.</p>	Agreed, current process to be developed	<p>An overall review of the current process for the production of Financial Directions will be carried out, including consideration of practice in other jurisdictions and sectors and the views of users.</p> <p>As part of this review, consultation and quality assurance procedures will be developed to ensure that the requirements of Financial Directions are practical.</p>