

Review of States Annual Report & Accounts 2019

Public Accounts Committee

24 July 2020

P.A.C. 2/2020



States of Jersey
States Assembly



États de Jersey
Assemblée des États

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Section 1 - Public Accounts Committee Membership

Senator Sarah Ferguson, Chair PAC



Connétable John Le Bailly, Vice-Chair PAC



Deputy Inna Gardiner



Deputy Rowland Huelin



Non-States Members (independently appointed):

Mr Adrian Lane

Mr Tim Rogers

Ms Moz Scott

Section 2 - Chair's Foreword

The Public Accounts Committee (PAC) seeks to ensure that the expenditure of public finances is undertaken efficiently, effectively and economically, delivering value for money for the people of Jersey. I am firmly of the view that the public should know how its money is spent by those who are entrusted to spend it. The public deserves accurate, timely and high-quality annual reports and accounts which present clearly the Government's aims, activities, functions and performance. The Government (and its officers) should conform to the highest standards of practice and provide clear and concise explanations for how funding has been used to achieve objectives. This is crucial to enable the public to challenge how effectively and efficiently taxpayers' money is being spent and also how well public sector bodies are delivering services for the public.

The PAC considers that several factors had the potential to impact adversely on the quality or timeliness of the 2019 Annual Report and Accounts, not only the Covid-19 pandemic, which delayed its presentation to the States Assembly. In 2019, the Comptroller and Auditor General (C&AG) appointed Deloitte LLP who took over from PwC as the new external auditor and it was reasonable to expect that the firm would need more time to familiarise itself with the complex States Accounts. There had also been extensive restructuring within the Treasury and Exchequer department and the recent introduction of new legislation including the [Public Finances \(Jersey\) Law 2019](#) and the [Public Finances Manual](#) in 2019, as well as the adoption of a new version of the Jersey Financial Reporting Manual (JFReM) in March 2020. The PAC was also aware that the Risk and Audit Committee, which provides oversight, advice, support and constructive challenge in order to help the Chief Executive and Treasurer of the States (amongst others) to discharge their responsibilities for monitoring and reviewing the Annual Report and Accounts, had been inquorate for several months during 2019.

In order to satisfy itself (and the public) that the Government is pursuing excellence in its preparation of the Annual Report and Accounts, the PAC held private briefings with the Risk and Audit Committee Chair and representatives of the external auditor appointed by the C&AG, Deloitte LLP, in 2019 and 2020. It also held private briefings, public hearings and correspondence exchanges with the Chief Executive Officer (ultimately accountable for the budgets), the Treasurer of the States and other senior Treasury and Exchequer Officers.

The PAC recognises the success of delivering an enhanced Annual Report and Accounts with an unqualified audit opinion far earlier than in previous years, despite the challenging circumstances outlined above. It details its findings and recommendations for improvement in the body of this report, but is pleased to note that the Chief Executive has acknowledged that there are areas to be improved, including:

- Early confirmation of JFReM, accounting policies and critical judgements
- Early confirmation of the structure and content of the primary statements and notes
- Embedding process improvements
- Better engagement with the auditor



Senator Sarah Ferguson
Chair, Public Accounts Committee

Section 3 - Key Findings and Recommendations



FINDING 1

The distinction between when it is appropriate to use the terms 'States of Jersey' and 'Government of Jersey' had not been adequately considered and the branding of documents with 'Government of Jersey' logos causes confusion.



RECOMMENDATION 1

The Chief Executive should ensure that the branding of key States documents is clear and demonstrates recognition that the terms are not interchangeable.

FINDING 2



The Committee found that, although the faster closing of accounts had not directly led to increased external auditor fees, the level of disclosure errors was high and this affected the amount of work to be done by the external auditors.

RECOMMENDATION 2



- a. The weaknesses in systems and processes should be identified at an early stage so that they can be remedied in good time and not impede the faster close of accounts for 2020;
- b. Every effort should be made to significantly reduce the number and extent of disclosure errors;
- c. There should be effective timetabling and effective contingency timetabling to enable all parties to have sufficient time to comment on versions of the Annual Report and Accounts and to enable officers to respond more completely and more effectively to the comments that are raised.

FINDING 3



The requirement for the Chief Executive to sign off the Performance Report within the States Annual Report and Accounts has been removed from the Jersey Financial Reporting Manual (JFreM).



RECOMMENDATION 3

The Committee concludes that it should be reinstated for the 2020 Performance Report, in accordance with best practice as it demonstrates public ownership and accountability for the data contained within the performance report.

FINDING 4



There has been a failure to include performance data at the beginning of the process.



RECOMMENDATION 4

Baselines should be established at the outset, so that performance improvement can be meaningfully measured and reported for the 2020 Annual Report and Accounts.

FINDING 5



The Committee found that there had been an unacceptable delay in presenting to the States Assembly, the Annual Report and Accounts 2019.

RECOMMENDATION 5



If disruptions to briefings and presentations should occur again, the laying of the States Annual Report and Accounts should still be expedited as soon as practicable after the audit is complete and the Comptroller and Auditor's certificate has been issued.

Section 4 - Introduction

Background

1. The Public Accounts Committee (PAC) seeks to ensure that the expenditure of public finances is undertaken efficiently, effectively and economically, delivering value for money for the people of Jersey. The PAC consider it imperative that the public should know how its money is spent by those who are entrusted to spend it. The PAC is firmly of the opinion that the public deserves accurate, timely and high-quality annual reports and accounts which present clearly the Government's aims, activities, functions and performance. They should conform to the highest standards of practice and provide clear and concise explanations for how funding has been used to achieve objectives. They should align items of spending with clear outcomes and provide coherent linkage to the areas of income and expenditure reported in the financial statements. This is crucial to enable members of the public, the [Comptroller and Auditor General \(C&AG\)](#) and the PAC to challenge how effectively and efficiently taxpayers' money is being spent and also how well public sector bodies are delivering services for the public.

Purpose of the PAC Report

2. The PAC considers that several factors had the potential to impact adversely on the quality or timeliness of the 2019 Annual Report and Accounts, such as the appointment of new external auditors, the recent introduction of new legislation including the [Public Finances \(Jersey\) Law 2019](#) and the [Public Finances Manual](#) in 2019¹, the adoption of a new version of the Jersey Financial Reporting Manual in March 2020², and a non-quorate Risk and Audit Committee³ for some of 2019. The PAC held private briefings with the Risk and Audit Committee Chair⁴ and representatives of the external auditor⁵ appointed by the C&AG, Deloitte LLP, in 2019 and 2020. It also held private briefings, public hearings⁶ and correspondence exchanges with the Chief Executive Officer (ultimately accountable for the budgets⁷), the Treasurer of the States and senior officers, in order to scrutinise the preparation of the Annual Report and Accounts of 2019. This report sets out its comments on the process of that preparation and suggestions for improvement.

¹ The [Public Finances Law](#) prescribes the mandatory elements that must be complied with by all States Bodies to (amongst other things) achieve a consistent standard of accountability and financial reporting. The [Public Finances Manual](#) forms a key part of the requirements for regularity i.e. spending public money for the purposes that funding was allocated by the States Assembly. It provides the framework within which all States financial transactions must take place.

² [Accounting Standards to be adopted for the States of Jersey's Annual Financial Statements 2019](#) (presented to the States by the Minister of Treasury and Resources on 19th March 2020) - This includes a new version of the Jersey Financial Reporting Manual which sets the Generally Accepted Accounting Principles (GAAP) -based accounting standards to be adopted in preparation of the [Annual Report and Accounts 2019](#).

³ The Risk and Audit Committee is a stand-alone body that provides oversight, advice, support and constructive challenge in order to help the Principal Accountable Officer, Treasurer of the States, and Accountable Officers to discharge their responsibilities for monitoring and reviewing the Annual Report and Accounts, governance, risk and control processes. The Committee provides oversight of the work of external audit, internal audit and corporate risk functions. In 2019 the membership of the Risk and Audit Committee comprised an Independent Chair and at least two other independent members, with a requirement of two members being present for the meeting to be quorate.

⁴ 11th November 2019

⁵ 11th November 2019, 9th March 2020, 20th April 2020

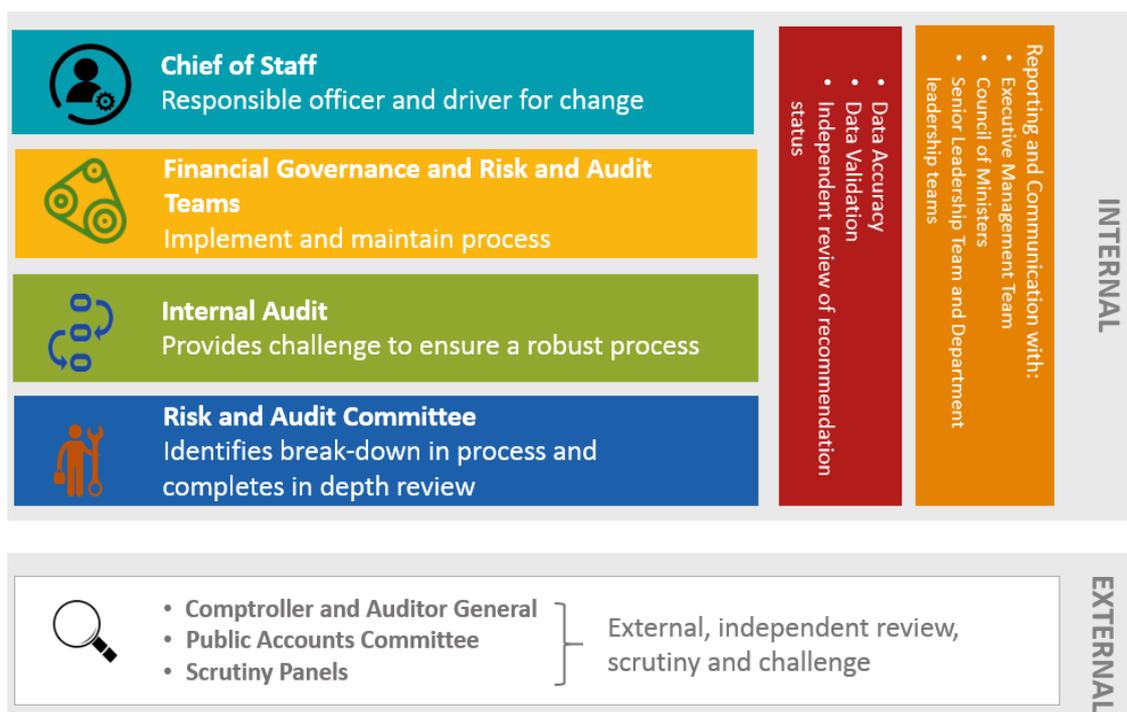
⁶ 9th December 2019 11.5.20 videoconference: https://www.youtube.com/watch?v=dnCCWEm_Kk.

⁷ The new [Public Finances \(Jersey\) Law 2019](#) came into force in June 2019 and retained the amendments to the previous Public Finances Law - [Machinery of Government \(Miscellaneous Amendments\) \(Jersey\) Law 2018](#) which made the Chief Executive, as Principal Accountable Officer, legally and financially accountable for the decisions and budgets of the Government of Jersey, with appropriate delegation of accountability to the Accountable Officers (Directors General) for departments.

Section 5 – Overview of the Report

Internal and External Audit Functions

3. The Committee considers that robust internal and external audit processes are necessary to ensure the preparation of high-quality annual accounts. Throughout this report there is reference to the ‘external auditor’, which is the auditor appointed by the Comptroller and Auditor General, currently Deloitte LLP. The following diagram illustrates the elements of the internal (Government) processes and external audit functions:



4. The Risk and Audit Committee, although part of the internal control environment, is a stand-alone body that provides oversight, advice, support and constructive challenge to aid the Principal Accountable Officer (Chief Executive), Treasurer of the States and Accountable Officers (usually Directors General) discharge their responsibilities for governance, risk and control processes. It acts as an internal assurance body and plays an added value role in reviewing the arrangements put in place to provide adequate and appropriate assurance to enable the Government and States of Jersey to report accurately in the public domain through the Annual Report and Accounts. In 2019, the membership of the Risk and Audit Committee comprised an Independent Chair and at least two other independent members, with a requirement of two members being present for the meeting to be quorate. The table below shows the membership of the RAC:

Name	Position	Appointment date
Vineeta Manchanda	Chair (Risk and Audit) / Independent Member	01/10/2018 – to date
Daragh McDermott	Independent Member	28/11/2011 – 28/11/2019
Steven Austin-Vautier	Independent Member	14/12/2015 – 01/02/2019
Ian Wright	Independent Member	14/12/2015 – 09/07/2019
John Kent	Independent Member	28/11/2019 – to date
David Smith	Independent Member	28/11/2019 – to date
Bastian Hertstein	Independent Member	28/11/2019 – but subsequently resigned in January 2020

- The Committee was concerned that the RAC had not been quorate for several months during 2019, but at a private briefing with the Chair of the Audit Committee in November 2019⁸, the Chair of the RAC assured the Committee that recruitment for members was going ahead to ensure quoracy going forward⁹.
- At a separate briefing¹⁰, the Committee asked the external auditor about Deloitte's relationship with the RAC and was advised that the lack of a full RAC until near the end of 2019 had presented challenges. However, at a later briefing in April 2020¹¹, the external auditor advised that he had provided regular briefings to the Risk and Audit Committee Chair during the course of the audit and had provided a written report to the RAC in February 2020, identifying areas of challenge to the Government around key estimates, accounting treatment for pensions and divergence from IFRS¹² (International Financial Reporting Standards), as well as whether the end of February was realistic for signing off on the accounts. The Committee was content that, notwithstanding there had been issues with recruitment of members, the Risk and Audit Committee had taken sufficient steps to ensure proper oversight of the internal audit of the States Accounts.

Branding of Annual Report and Accounts

- With reference to the States Annual Report and Accounts, it should be noted that the term, 'States of Jersey' encompasses more than the Government departments headed by Ministers, it also includes non-Ministerial departments such as the Judicial and States' Greffes, funds (such as the Social Security funds) and certain wholly States-owned Arms'-Length Organisations (ALOs) (or 'States-controlled subsidiary entities' as referenced in the 2019 Annual Accounts)¹³, such as Andium Homes. However, the PAC had noted an increasing use of 'Government of Jersey' branding of documents, including in the presentation of the Annual Report and Accounts of 2019. It raised this issue at a Quarterly public hearing with the Chief Executive and senior Treasury and Exchequer Officers.¹⁴ A senior officer explained that, "*There has been some confusion to some extent around the distinction with States of Jersey and Government of Jersey when they are colloquially referred to but I can confirm they are States of Jersey accounts as referenced on the websites and reports of the States Assembly ... with the legal nuances between the 2 it is*

⁸ 11th November 2019, PAC private briefing with Chair of Risk and Audit Committee

⁹ At the time of writing this report, in July 2020, there was still one member vacancy

¹⁰ 11th November 2019, PAC private briefing with Craig Wisdom, Partner, Deloitte.

¹¹ PAC private briefing via videoconference with Craig Wisdom, Partner, Deloitte, 20th April 2020

¹² [IFRS](#) - accounting standards issued by the IFRS Foundation and the International Accounting Standards Board.

¹³ [Annual Report and Accounts 2019](#)

¹⁴ 11.5.20 videoconference: https://www.youtube.com/watch?v=dnCCWOEm_Kk, [transcript](#)

accepted that some readers may conflate the 2 but we have tried to clarify that...”.¹⁵

8. The PAC notes that there are several instances where the wording contained in important reports and documents, which were produced by the Government but applied to the States as a whole, have referred to non-Ministerial departments as part of the Government of Jersey. For example, certain provisions in the [Public Finances Manual](#) (which provides assurance that departments have implemented appropriate systems to ensure compliance with the [Public Finances \(Jersey\) Law 2019](#) had been applied inappropriately to non-Ministerial Departments. There are a number of places in the Annual Report where there are incorrect references to the Government of Jersey rather than the States of Jersey. The Committee determines that the distinction between when it is appropriate to use the terms ‘States of Jersey’ and ‘Government of Jersey’ had not been adequately considered and the ubiquitous branding of documents with ‘Government of Jersey’ logos causes confusion. It urges the Government to provide clarity on key documents in recognition that the terms are not interchangeable.

FINDING 1



The distinction between when it is appropriate to use the terms ‘States of Jersey’ and ‘Government of Jersey’ had not been adequately considered and the branding of States of Jersey documents with ‘Government of Jersey’ logos causes confusion.



RECOMMENDATION 1

The Chief Executive should ensure that the branding of key States documents is clear and demonstrates recognition that the terms are not interchangeable.

¹⁵ Head of Group Reporting, videoconference: https://www.youtube.com/watch?v=dnCCWOEm_Kk, [transcript](#)

Section 6 - Risks and Concerns

Faster Closing of Accounts

9. The PAC had been concerned that for the closing of accounts in 2019, the preparation time had been further reduced from 2018¹⁶, even though there was extensive restructuring within the Treasury and Exchequer department and a new external auditor had been appointed (which could reasonably be expected to need more time to familiarise itself with the States Accounts). In its [Report on Financial Management](#) (February 2020), the PAC had recommended that, given the findings of a confidential PwC Report to ‘Those Charged with Governance on the 2018 Accounts’, that the States should not seek to advance the timetable further for the preparation of the 2019 accounts, the Treasurer and the Chief Executive should set out a detailed justification in relation to faster closing.¹⁷ The Executive had previously told the Committee in January 2020¹⁸, that PwC (the former external auditor firm) gave their view, ‘... *based on some specific conditions that have been addressed for the 2019 Accounts. A report was provided to the (Risk and Audit Committee) towards the end of last year addressing each point from the PwC report specifically*’. The PAC was keen to assess whether each point had been addressed, and how.

Potential Additional Costs

10. As part of his [Executive Response](#) of March 2020, the Chief Executive maintained that the ‘faster close’ project was providing financial information on a more timely basis, improving its relevance to decision makers and other stakeholders, by moving activity to the period before the year end and improving the quality, rigour and standard of the production and project management of the process of delivering the financial statements. He stated that once embedded as ‘business as usual’, there were ‘*no additional costs to an early close. There will be costs in closing and there will be additional costs in raising the quality but that does not necessarily arise from the planned closure date. The Faster Close project aims to change the timing of when work is performed, rather than increasing the amount of work undertaken.*’¹⁹
11. The Committee held a private briefing with senior officers of the Treasury and Exchequer²⁰ in April 2020. The Committee asked the Group Director - Performance, Accounting and Reporting if there had been a financial consequence due to the faster closing of accounts, and he maintained there had not. When asked why Deloitte had requested additional fees in auditing the 2019 Accounts, he advised that it was because the external auditors had undertaken more detailed work than anticipated. However, he added that he expected to see an eventual decrease in costs because a faster closing of accounts would mean staff could be moved onto different projects earlier. When the Committee raised the issue of additional fees with the external auditor²¹, the representative (a Partner at Deloitte LLP) explained that they were requested mainly to cover the time spent on a major change in

¹⁶ 2017 Accounts closed by 31st May 2018, 2018 Accounts closed by 17th April 2019, 2019 Accounts closed by 17th March 2020.

¹⁷ As part of the handover process from PwC to Deloitte, in 2019, PwC auditors wrote the confidential report to ‘Those Charged with Governance on the 2018 accounts’, which included the view that the States should not seek to advance the timetable further for the preparation of the 2019 accounts.

¹⁸ by email on 31 January 2020, to a draft version of the [February 2020 PAC Report on Financial Management](#).

¹⁹ [Recurring Themes: Financial Management \(P.A.C.1/2020\) – Executive Response 30 March 2020](#)

²⁰ PAC private briefing via videoconference with Steven Mair, Group Director - Performance, Accounting and Reporting, Kevin Hemmings, Head of Financial Governance, Mike Thomas, Director, Risk and Audit, and Peter Styles, Head of Financial Performance, from the Treasury and Exchequer, and Anuschka Muller, Director of Corporate Planning and Performance, Community and Constitutional Affairs, 20th April 2020

²¹ PAC private briefing via videoconference with Craig Wisdom, Partner, Deloitte, 20th April 2020 and email correspondence of 2nd and 4th May 2020.

accounting policy (part of the convergence plan with international accounting standards) related to personal tax but also '*...changes made, new processes and the challenges that we brought as new auditors did identify areas which required additional time to investigate and resolve*²².

Risks of Faster Closing

12. The PAC wanted to make sure that the faster closing of accounts had not led to an increase in mistakes. The Chief Executive had advised²³ that the following actions had been implemented to mitigate against that risk:

- A three-stage Quality Assurance process with specific guidance for each element of the accounts;
- The involvement of the whole of the service to bring greater resilience and resource to this key requirement;
- Standardised working papers ensuring quality is addressed in all places;
- A re-work of working papers as at 31/12/18 to provide a quality assured base from which to prepare the 2019 accounts;
- Regular communications and training for all staff;
- Project management disciplines and reporting;
- A review of the accounts to streamline unnecessary content;
- Process reviews to remove duplication and processes which do not add value such as lengthy governance returns and signed off returns for numbers held in the ledger; and
- 'Lessons learned' workshops from 2018 accounts.

13. The Committee queried how the process for faster closure of the 2019 States' Accounts had worked and the external auditor advised²⁴ that overall, it had been a positive experience, with the timetable set out by the Government in line with good practice. He advised he approved of a faster close in principle, because identifying the income and spend for Government as soon as possible assisted the Government in running its services but also highlighted weaknesses in systems and processes so they could be identified and remedied.

14. The external auditor explained that the plan for faster closing of the 2019 accounts initially proposed by the Government had been 'aspirational' in that a number of items contained in that plan had not come to pass, especially at the interim audit 'hard closing' of accounts in September 2019. He told the Committee that meant a smoother year-end close was not possible and that issues were not identified as early as they could have been. However, he stated that the issues identified were not unusual for a first-year audit by Deloitte LLP, as the organisation had been very thorough. He advised the Committee that the Government had tried to centralise the knowledge base and that a huge amount of effort had been put in to improve the systems and processes.

15. Shortly after its public hearing²⁵ with the Chief Executive, in May 2020, the PAC asked him to evidence his assertion that risk management had improved²⁶, and to demonstrate the weighting and score system by which risk was assessed. He responded on 28th May 2020, by way of a confidential letter, setting out the risk management strategy and

²² Confidential letter to PAC chair via email 6th May 2020

²³ [Recurring Themes: Financial Management \(P.A.C.1/2020\) – Executive Response 30 March 2020](#)

²⁴ PAC private briefing via videoconference with Craig Wisdom, Partner, Deloitte, 20th April 2020

²⁵ Videoconference: [PAC public hearing 11th May 2020](#)

²⁶ The Chief Executive was asked about risk management in general terms, not specifically about faster closing.

methodology²⁷, and advising that the risk team would be rolling out a programme of improvements later in 2020. The PAC will continue to monitor this.



FINDING 2

The Committee found that, although the faster closing of accounts had not directly led to increased external auditor fees, the level of disclosure errors was high and this affected the amount of work to be done by the external auditors.



RECOMMENDATION 2

- a. The weaknesses in systems and processes should be identified at an early stage so that they can be remedied in good time and not impede the faster close of accounts for 2020;
- b. Every effort should be made to significantly reduce the number and extent of disclosure errors;
- c. There should be effective timetabling and effective contingency timetabling to enable all parties to have sufficient time to comment on versions of the Annual Report and Accounts and to enable officers to respond more completely and more effectively to the comments that are raised.

Reporting Performance

16. The PAC notes that a number of changes were made to the Jersey Financial Reporting Manual ('the JFRm') throughout the period of the audit. One of the changes was to remove the requirement for a signature to be attached to the Performance Report within the 2019 Annual Report and Accounts. The UK FRm requires the performance report of public sector bodies to be signed and dated by the relevant accounting officer or chief executive. The PAC considers this to represent best practice as it demonstrates public ownership and accountability for the data contained within the performance report.
17. The PAC considers that in order for the Government to demonstrate that its strategies and services are contributing positively to Islanders' sustainable well-being, as required by the [Public Finances \(Jersey\) Law 2019](#),²⁸ there must be in place a comprehensive way to measure and manage the performance of Government and non-Ministerial departments. Historically, most formal 'performance' training had concentrated on staff appraisals and each department had developed different systems over time. The Committee recalled it had received a private briefing on 20 January 2020 from senior Government officers²⁹ to discuss the progress of the [Jersey Performance Framework](#)³⁰ which had been designed to deliver a consistent and robust approach to performance throughout the organisation. It was assured that the Treasury and Exchequer would incorporate the below key principles of good performance measurement, including benchmarks, targets, historical information and data validation in its preparation of the Annual Report and Accounts 2020.

²⁷ The scoring matrix has five impact and five likelihood criteria which are multiplied to produce a risk score total of 25 – Risks scoring 15 or more are deemed high risk and given greater attention by Senior Management.

²⁸ [Public Finances \(Jersey\) Law 2019](#) requires the Council of Ministers to take into account the sustainable wellbeing of current and future generations as they developed the [Government Plan](#), including the making of policy decisions and designing public services.

²⁹ Assistant Director of the Chief Minister's Department and the Director of Corporate Planning and Performance (Community and Constitutional Affairs)

³⁰ Published on 17 January 2020

	Performance measurement Services should be able to produce recorded evidence of performance, balanced across different aspects of performance.
	Data quality Ensure data is accurate, up-to-date and relevant.
	Benchmarking Stimulate improvement through comparisons with baselines, standards, targets and/or other places, as appropriate.
	Management oversight Performance should be discussed in management teams, at all levels, at least quarterly.
	Alignment Establish a 'golden thread' between different tiers of performance reporting.
	Informed decisions Develop the organisational capacity and capability required to deliver effective performance management.
	Partnerships Work across organisational/sector boundaries to build performance capacity and capability.

18. The Committee notes that the only way to undertake a meaningful comparison of performance against previous performance, is to first establish baselines. Accurate data should be inputted for each performance measure and outcome indicator. Developing statistically robust baselines and understanding when movements in the data become significant are prerequisites to other forms of performance comparison such as targets, standards and other jurisdictions. The performance metrics should then be linked to the accounts in a meaningful way, to ensure reporting 'tells the story' in a clear and comprehensive manner.
19. However, at a follow-up private briefing in April 2020³¹, (following the presentation to the States of the Annual Report and Accounts on 1st April 2020), the Director of Corporate Planning and Performance admitted that there had been gaps in the data being gathered on performance. She advised that in future, the impact of Covid-19 on KPI performance would need to be separated from 'business as usual' and that there would have to be a re-baselining on the KPIs. Targets would be set to recover from that period and other jurisdictions would be studied in respect of their response to Covid-19. She advised that the results would be used in the Government Plan and next Annual Accounts reporting. However, the Committee was concerned that there had been an acknowledged failure to include performance data at the beginning of the process and therefore wanted to know how, if baselines had not been established at the outset, performance improvement could be meaningfully measured.
20. At its public hearing of 11th May 2020, the PAC questioned the Treasurer of the States and the Chief Executive on this matter. The Treasurer stated that, *"... when we started using more of the performance statistics within the (Annual) Report, the Director General on the project set about putting in place an assurance framework and a sign-off process by which those indicators were recorded and therefore reported so that we could see full accountability through to the officers concerned with putting those numbers together ... we have the development of a consistent method of reporting planned through the Jersey Performance Framework, which will see statistics and key performance indicators reported on a much more real time basis, on a regular basis throughout the year."*³²
21. The Treasurer commented that the level of reporting had already improved significantly, but that there had been some slippage because of officers' responding to Covid-19. The

³¹ PAC private briefing with Assistant Director of the Chief Minister's Department and the Director of Corporate Planning and Performance (Community and Constitutional Affairs) on 20th April 2020 by videoconference.

³² 11.5.20 videoconference: https://www.youtube.com/watch?v=dnCCWOEm_Kk, transcript

Chief Executive added that there was, “quite a small team working on the performance arrangements and the data necessary for reporting on that ... because the team was quite small and the potential for some weaknesses in the single point of failure, we have identified that we need to probably just deal with a bit more than we have potentially thought about. The other bit that will help is the automation of the process will therefore be less people-reliant on the performance system and more about the quality of the data that is going into the system ... using the technology platforms that we are going out to develop over this year.”³³

22. The Committee notes that the accuracy and timeliness of the States Annual Report and Accounts depends on good governance and rigorous project and programme management throughout, with regular meetings and mitigating actions to ensure that baseline data can be established and therefore improved upon, year on year. It urges the Chief Executive to include benchmarks, targets, historical information and data validation in future accounts reporting.

FINDING 3



The requirement for the Chief Executive to sign off the Performance Report within the States Annual Report and Accounts has been removed from the Jersey Financial Reporting Manual (JFreM).

RECOMMENDATION 3



The Committee concludes that it should be reinstated for the 2020 Performance Report, in accordance with best practice as it demonstrates public ownership and accountability for the data contained within the performance report.

FINDING 4



There has been a failure to include performance data at the beginning of the process.

RECOMMENDATION 4



Baselines should be established at the outset, so that performance improvement can be meaningfully measured and reported for the 2020 Annual Report and Accounts.

Consolidation of Controlled Entities (Subsidiaries) in States Accounts

23. The Committee had concerns that there was a divergence on the way to account for net assets, between the Jersey Financial Reporting Manual³⁴ (JFreM), which sets out accounting standards to be adopted in the preparation of the States of Jersey Financial Statements and [IFRS](#) (international accounting standards), whereby the group boundary defined in the JFreM excludes strategic investments. The external auditor³⁵ had agreed that the divergence was likely to be ‘material’, but that it would be impossible to quantify without preparing information under revised accounting policies. The Committee notes that one of the key areas under revision would be the consolidation of the States’ interests in public corporations (such as the JT Group) currently accounted for as investments within

³³ 11.5.20 videoconference: https://www.youtube.com/watch?v=dnCCWOEm_Kk, transcript

³⁴ The [Accounting Standards to be adopted for the States of Jersey's Annual Financial Statements 2019](#) (presented to the States by the Minister of Treasury and Resources on 19th March 2020) includes a new version of the Jersey Financial Reporting Manual (JFreM) which sets the Generally Accepted Accounting Principles (GAAP) -based accounting standards to be adopted in preparation of the [Annual Report and Accounts 2019](#).

³⁵ Confidential letter dated 17th March 2020, from the external auditor to the Government on the signed accounts, together with his report to the Risk and Audit Committee of February 2020.

'Strategic Investments.' The Committee notes a 'Lessons Learned'³⁶ report from the Chief Executive attached to his letter of 6th May 2020, which, amongst other things, confirmed that there was a 'planned consolidation of the four entities (subsidiaries) currently held as strategic investments.

24. The consolidated subsidiaries (or entities) maintain local ledgers under FRS 102³⁷ or IFRS (as appropriate) rather than in accordance with JFReM. As a result, adjustments need to be posted to ensure that the subsidiaries' reporting is compliant with JFReM and therefore suitable for consolidation onto the States Accounts. The Committee noted that a full audit trail of those adjustments had not been kept and therefore needed to be reconstructed by management (with residual unanalysed differences). The process for elimination in the JD Edwards system (in the Treasury and Exchequer) had not been sufficiently rigorous, with some adjustments which were no longer relevant and some adjustments which had not been performed for the current year. However, the Committee notes that the adjustments were largely in respect of transactions between departments not the consolidation of subsidiaries. In the 'Lessons Learned'³⁸ report from the Chief Executive attached to his letter of 6th May 2020, he also accepted that the adjustments had been identified as a point of weakness and that improvements would be made.

Valuations of Assets

25. At a private briefing with senior officers of the Treasury and Exchequer in April 2020³⁹, the Committee queried the operation of the estimation and judgemental processes including the valuation of investment in non-consolidated subsidiaries (Jersey Telecom, Jersey Electricity, Jersey Water, and Jersey Post). The Head of Group Reporting confirmed that the Treasury was aiming to align with IFRS accounting standards and consolidate these entities into the accounts in future. Subsidiaries such as Andium Homes and Ports of Jersey had been consolidated. He advised that the faster timing for valuations had meant utilising different comparable companies than usual, but a materially correct valuation within acceptable parameters had been reached. When asked about transactions *in specie* (distributing an asset in its present form, rather than selling it and distributing the cash proceeds), he advised that such transactions, for example, dividends, were treated in the same way from an accounting perspective.

26. The Committee notes that some assets and investments are held at valuations different to their original cost. On infrastructure assets, it notes that the external auditor, Deloitte LLP, had used its own valuers and had made some findings but not any that would significantly impact on the valuations⁴⁰. In respect of social housing, it noted that this was valued on 'rent roll' basis, potentially increasing the valuation due to the high level of social housing rent but that the embedded liability for payment of housing benefits did not get recorded in the accounts. The PAC also notes that although the external auditor had audited and challenged the overall valuation basis for the Accounts of 2019, for various classes of asset the details of the asset base were looked at in detail in 2018 by the previous auditors

³⁶ 'Lessons Learned' confidential report attached to confidential letter to PAC chair via email 6th May 2020

³⁷ Section 16 of the (UK GAAP) accounting standard *FRS 102* sets out accounting and reporting requirements or investments in land or buildings. The *FRS 102* glossary defines investment property as: 'Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of business.

³⁸ 'Lessons Learned' confidential report attached to confidential letter to PAC chair via email 6th May 2020

³⁹ PAC private briefing via videoconference with Steven Mair, Group Director - Performance, Accounting and Reporting, Kevin Hemmings, Head of Financial Governance, Mike Thomas, Director, Risk and Audit, and Peter Styles, Head of Group Reporting, from the Treasury and Exchequer, and Anuschka Muller, Director of Corporate Planning and Performance, Community and Constitutional Affairs, 20th April 2020

⁴⁰ Confidential a letter dated 17th March 2020, from the external auditor to the Government on the signed accounts, together with his report to the Risk and Audit Committee of February 2020.

as part of the cyclical revaluation. These details were not revisited in the interim valuation and so in 2019 there was no further testing of those inputs.⁴¹ The PAC accepts that the techniques used in valuation judgments are within acceptable parameters of good practice.

⁴¹ This sentence has been reworded to more accurately reflect the external auditor's actions as per a confidential email 8 July 2020.

Section 7 - Impact of COVID-19

Impact of Covid-19 on Valuations

27. At the public hearing of 11th May 2020⁴², the Treasurer advised that it was “too early to say” what the impact of COVID-19 might have had on the valuation of assets on the balance sheet, including, social housing, strategic investment and financial assets. He stated that the external valuers were continuing to assess the enduring impact, but that, *“States of Jersey social housing through Andium Homes; that is valued on a rental value basis and clearly is underpinned by the income support system, it is on the longer-term basis of 90 per cent of market values for equivalent properties ... there may be some change in valuations but largely as rent is underpinned through income support we do not expect that to drop off in the meantime. With regard to strategic investments, the Government or States-owned entities, they are largely trading fairly well (except for) Ports of Jersey through the airport in particular ... On the investment portfolio, obviously (investments) took quite a hit across the globe but the estimate between the end of year and 31st March was about a 13 per cent drop off, which was a lot less than seen on certain markets. Indeed during April we have seen up to an 8 per cent, is our estimate, recovery”*.

Impact of Covid-19 on Revenue Estimates

28. At the public hearing of May 2020⁴³, the Committee questioned the Chief Executive and Treasurer on the recent change to income tax policy. It noted that the policy was changed to recognise all income tax in the year in which the underlying income tax was earned, not the year the tax return was due. The [Annual Report and Accounts 2019](#) show over £350 million of ‘accrued income tax’ recognised but not received, as well as an additional £114 million ‘income tax receivable’ not collected. The Head of Group Reporting stated that the change *“was absolutely the right thing to do from an accounting perspective and in itself does not pose a risk by recognising the tax in that way.”* He commented that there was always an inherent risk to recovery of debts, and particularly in light of the coronavirus pandemic’s potential impact on employment and earnings, the risk could be perceived to be greater. However he advised that it was too early to understand what the percentage impact was likely to be, but that the market sectors that are worst affected were not where the greatest proportion of income came from. Furthermore, the payroll co-funding scheme had been supporting the worst-affected sectors, which allows income to flow through the system and support the income tax payments.

29. The Treasurer of the States agreed that, leaving aside the pandemic, the figures up to March were holding up broadly similar to the figures for March for previous periods: *“Government employees (are) still being paid and they are paying their I.T.I.S. (Income Tax Instalment System) applied ... people will receive tax bills at the end of the year, those amounts would still be due and ... it will all be about whatever policy we have in place at the end of the year as to how long people have to pay that tax that is due (and was on 2019’s earnings).”*⁴⁴ The Committee accepts that the change to the income tax policy in estimating income (rather than waiting for the final assessments) was aligned with generally accepted accounting practices (GAAP). It also accepted that the risk on the ‘recoverability’ might have increased but that this was due to the coronavirus impact on the economy and earnings more widely.

⁴² [PAC public hearing 11th May 2020](#) by videoconference, with Chief Executive, Treasurer of the States and others.

⁴³ [PAC public hearing 11th May 2020](#) by videoconference, with Chief Executive, Treasurer of the States and others.

⁴⁴ [PAC public hearing 11th May 2020](#) by videoconference, with Chief Executive, Treasurer of the States and others.

Delay in Publication

30. Article 12(5) of the [Comptroller and Auditor General \(Jersey\) Law 2014](#) places a duty on the Minister for Treasury and Resources to present the Annual Report and Accounts to the States Assembly as soon as practicable after the audit is complete and the Comptroller and Auditor's certificate has been issued. Given that the Government had emphasised the value of faster closing of the [Annual Report and Accounts 2019](#), the Committee was surprised to note that there had been a delay in publishing them. It notes that they had been signed off on 17th March 2020 but not presented to the States or published until 2nd April 2020. At its public hearing in May 2020, the Group Director - Performance, Accounting and Reporting stated that the delay had been as a consequence of the coronavirus outbreak, and that he had made a judgement in reallocating officers to higher priority matters in response to it. The Head of Financial Performance explained some of the normal procedures around the presentation to the States Assembly such as prior briefings to States and Scrutiny members could not be arranged. However, the Chair of the PAC reminded the Treasury officers that the [Annual Report and Accounts 2019](#) had eventually been presented and published directly in any event. She expressed dissatisfaction with the delay, querying why they could not have been presented immediately after sign-off with an explanatory note stating why the usual briefings and presentations could not be undertaken. The Committee is still of the opinion that laying such an important document before the Assembly and making it public should have been made a priority.



FINDING 5

The Committee found that there had been an unacceptable delay in presenting to the States Assembly, the Annual Report and Accounts 2019.



RECOMMENDATION 5

If disruptions to briefings and presentations should occur again, the laying of the States Annual Report and Accounts should still be expedited as soon as practicable after the audit is complete and the Comptroller and Auditor's certificate has been issued.

Section 8 - Conclusion

31. On 1 January 2020 the States moved from a financial structure based on Financial Directions, to the adoption of the [Public Finances Manual](#) as part of the Jersey Financial Compliance Framework, under the new Public Finances (Jersey) Law. The PAC considers that the successful embedding of the new approach into the States' operations and financial processes will be important for ongoing sound financial practice in line with the responsibilities of the Chief Executive, Treasury and Exchequer and Directors General and Accountable Officers in administering public finances.
32. The Committee notes that the main IFRS-divergent issues were around the non-consolidation of certain subsidiaries. It is pleased to note that the Jersey Financial Reporting Manual (JFRm) (which set out the accounting standards to be adopted in the preparation of the States of Jersey Financial Statements) would be updated and that the IFRS-divergent accounting practices of the States of Jersey would be remedied. It considers that the audit trail should be made more robust. It also considers that further standardisation of templates throughout different departments would help with information flow and speed up processes and systems.
33. The PAC is aware that the final clearance processes towards the end were extremely condensed and created significant pressures on all sides. There were a number of last-minute judgements that had to be made regarding what were or were not material issues, particularly in terms of disclosure errors. Deloitte LLP provided a long list of audit points. Although the PAC accepts that judgement should be applied to balance the full list of technical disclosure requirements in the accounting standards with the clarity and 'understandability' of the document for end users, it does not consider it acceptable that many disclosure deficiency points would remain on the list, if they had been judged to be immaterial or inconsequential to the understanding of the accounts. Although Deloitte LLP concluded there were no material (i.e. significant) errors, the PAC stresses the importance of the Government continuing to strive to achieve technical excellence in disclosures.
34. Going forward, the PAC urges that lessons should be learned in respect of more effective timetabling and effective contingency timetabling to enable all parties to have sufficient time to comment on versions of the Annual Report and Accounts and to enable officers to respond more completely and more effectively to the comments that are raised. The PAC is pleased to note that the Chief Executive has acknowledged that there are areas to be improved⁴⁵ such as:
- Early confirmation of JFRm, accounting policies and critical judgements
 - Early confirmation of the structure and content of the primary statements and notes
 - Embedding process improvements
 - Better engagement with the auditor
 - Improved documentation
35. The PAC recommends that, when nearing the close of accounts, the external auditor have weekly discussions with the Group Director - Performance, Accounting and Reporting and at least quarterly discussions with the Chief Executive and the Treasurer. The PAC intends to scrutinise the preparation for the 2020 Annual Report and Accounts, to ensure the improved practices are embedded.

⁴⁵ 'Lessons Learned' confidential report attached to confidential letter to PAC chair via email 6th May 2020

