

# STATES OF JERSEY

## Public Accounts Committee Financial Directions

**MONDAY, 18th MAY 2015**

**Panel:**

Deputy A.D. Lewis of St. Helier (Chairman)

Deputy S.M. Wickenden of St. Helier (Vice-Chairman)

Deputy J.A. Martin of St. Helier

Connétable C.H. Taylor of St. John

**Independent Members:**

Mr. G. Drinkwater

Mr. R.J. Parker

Mr. M. Robinson

**Witnesses:**

Treasurer of the States

Chief Internal Auditor

**In Attendance:**

Comptroller and Auditor General

Clerk, Public Accounts Committee

[15:31]

[Introductions]

**Deputy A.D. Lewis:**

Okay, welcome. The purpose of today is to find out a bit more about your view of the C. and A.G.'s (Comptroller and Auditor General) report on *Financial Directions* so that we can then review it ourselves as a committee and then report back to the States. So, thank you very much for coming in today. We have a list of questions. We are going to go round the table and you will be asked different questions by different people and at any time you may well have people jumping in with supplementaries as well. We are going to start off with some questions about addressing the weaknesses in design of Financial Directions. I have it here. That is it. It is a good looking document and, as you can see, it is quite large and unwieldy and I am sure one of your things may well be to shorten it to make it easier to comprehend, but that is a matter for perhaps another day. Today we want to find out what the C. and A.G.'s view was and what is your view of her recommendations and where we are going to go with revising them and taking on board the recommendations. So, to start with, we are going to address the weaknesses in the design and we are going to kick off with a question on basically what is the core purpose of Financial Directions. Richard, perhaps you could address that one.

**Treasurer of the States:**

Okay. I can give you the accountant's answer to that one, text book answer to that one, although the C. and A.G. might have a different one. I regard Financial Directions as, in essence, the policies and procedures that embed the financial control framework for the States of Jersey. It is quite wide encompassing. In fact, I wrote down a list of all the things it covers but as you have it you will know what it covers.

**Deputy A.D. Lewis:**

I have read every page of it.

**Treasurer of the States:**

Good. That must have taken quite a while and you will have read the same thing over and over again. So that is, in essence, how I see it. In terms of accountants and the things the accountancy functions, finance functions, does in the States, it does control year-end processes so it is helpful that everyone has the same idea of when we close the year-end. It covers carry forwards. It covers when departments transfer funds from one another and many things in between, but in essence at the core of Financial Directions are those controls over expenditure, controls and guidance over expenditure, although it is fair to say there is far more of the former rather than the latter. It guides finance ... sorry, it guides accounting officers and should be the basis for which it guides budget holders as well.

**Deputy A.D. Lewis:**

Okay, that is a fair summary. The list of everything it does is on the front there. As you can see, it's quite a long one. Well, thanks for that. Robert, did you want to carry on with that theme?

**Mr. R.J. Parker:**

Yes. Richard, do you believe that the current Financial Directions are fit for purpose?

**Treasurer of the States:**

That tends to imply that I will give you a binary answer and that is probably not where I am. It is definitely not where I am. I regard the Financial Directions as much improved from where it was probably 5 years and before then. I think it does provide a framework. With whatever you have, though, there is always room for improvement. For me, the heart of the future of Financial Directions is the heart of the discussion around the future organisational structure and the culture of the organisation. I do not regard them as unfit for purpose in that I should send a message out telling everyone to ignore them tomorrow. I think, and I can say this from experience, they do provide a reference point for accounting officers and others to make decisions. Where I think there is room for improvement is in terms of ... and I can use a parallel in terms of where I have been spending the last 8 years, which is around being too over-prescriptive and to the extent that I think there is a danger that people follow them to the letter without understanding why they are following them, i.e. do they understand that there is a task or a process through which someone has to go to authorise something? Do they understand the risks that put that control in place in the first place? There is very often a disconnect between a control and the risk that was or should have been the very driver for that control to be put in place. So, if I scored them out of 5, I would say they are a 3. Do I ever think we will get to 5? It is always the aspiration but we certainly should be getting to 4.

**Deputy A.D. Lewis:**

So there is an element of training here, which we have a question on later on so we will talk to you about that ...

**Deputy S.M. Wickenden:**

Can I just add on there that we spoke ... the H.R. (Human Resources) Director told us earlier that ...

**Treasurer of the States:**

Sorry, just for the record, I am very deaf in my right ear and partially deaf in my left so I will need you to speak up.

**Deputy S.M. Wickenden:**

The H.R. Director told us earlier there is training course around the *Financial Directions* and it is probably one of the most popular and taken-up training courses across the Civil Service and that it gets a very good response for being a very good training programme. But it kind of goes against the idea that you think that people do not understand the process.

**Chief Internal Auditor:**

Is that the modern manager programme, to clarify?

**Deputy S.M. Wickenden:**

Yes.

**Treasurer of the States:**

No, what I said is that people do understand the process; they might not understand the risk that that process is there to mitigate. So people do understand ... well, do not always understand the process and the fact that they go on the training course means that before they were not ...

**Deputy A.D. Lewis:**

Is that not a module in the training course, though, talking about the risk?

**Treasurer of the States:**

I will have to remind myself of that training course. When I read the financial direction it does not necessarily bring forward the risk that that financial direction is there to mitigate.

**Deputy A.D. Lewis:**

It would not be in there, no, but what I mean is the interpretation in the training course, that will be the right setting for it. In other words, if you do not have a direction in there or you do not follow it correctly, this is the risk?

**Treasurer of the States:**

I would have to look through the training materials myself.

**Deputy A.D. Lewis:**

... this is the risk.

**Treasurer of the States:**

Yes. I would have to look through the materials myself.

**Mr. R.J. Parker:**

Right. So you are saying that someone can just follow these in a prescriptive manner and make mistakes which are not beneficial to the public sector without understanding because they are basically taking them literally?

**Treasurer of the States:**

Yes, you run the risk of having a purely process-driven set of controls which you could say at the end of the day if everyone follows those processes then the risks will be mitigated. My preference, and my preference in my last job, was for people to understand the purposes of those controls in the first place. So what it means is people become very process driven as opposed to understanding what it is that they are trying to mitigate. Do you know what? If they understand what they are trying to mitigate, they might come up with a better solution because they ...

**Deputy A.D. Lewis:**

Well, that comes on quite nicely to a question that Mike has about ...

**Mr. M. Robinson:**

Well, I think it is answered. I was going to ask if you had a different perspective on *Financial Directions* as a chief officer as opposed to working in the Treasury and now as Treasurer, but I think really you have probably answered that.

**Treasurer of the States:**

There were some financial directions that I did not come across on that regular a basis in Social Security, but the principles of *Financial Directions* are no different to the principles of trying to run a benefit system in that respect. So you put processes and you put controls in place that are supposed to be there to mitigate risks. In terms of ... yes, on many points - and some of those were in the Financial Management report rather than the Financial Directions report - is trying to stay consistent with your spots, I think is the way, and trying not to just change my spots overnight and not forget what it was like to be a chief officer on the receiving end of Financial Directions. My focus often, and this is probably where I make the point, is we would agree we were going to do something and then you would say: "Right, I want to make sure if we are going to do this he has ticked all the boxes on Financial Directions." That is not to say I was just tick-boxing but just to make sure that someone else's view afterwards, with hindsight, of your decision would stack up. It has been a long journey from Treasury to Social Security back to Treasury and I certainly think that I will have benefited in terms of how I will behave and execute as a Treasurer. I think had I not gone out there I would have been very centrist in my approach, very centre versus department. Now that I have been in the department I think I will have a far more corporate approach. You might not think that after 6 months but that is certainly the extent because I understand more clearly what it is like to be on the receiving end.

**Deputy S.M. Wickenden:**

I asked a question of the Chief Executive Officer earlier about exemptions. He raised the fact that there are exemptions if you cannot follow the Financial Directions to get to spend the money the way you want. I asked how many exemptions were seen. He could only answer from his department and he said there would be one or 2 every couple of months. Do you know how many exemptions are across the board?

**Treasurer of the States:**

Yes, I was told the number before and now I am to be reminded... I do know the exemptions in 2014 were ... well, the exemptions that I saw or came through and were declared were 119.

**Deputy S.M. Wickenden:**

Does that not show that maybe these needed more work if you had to go round the Financial Directions so often?

**Treasurer of the States:**

Well, I think we need to clarify firstly exemptions form part of Financial Directions, so if you have an exemption the problem I would have and what is more troublesome, and what I insisted would no longer happen, was retrospective exemptions. So I regard an exemption as something that is made upfront rather than something that is after the fact. So the Financial Directions allow for exemptions and they invariably have to come to me, but nevertheless it is built into the control process. There may be good reasons why you do not follow the full set of rules.

**Deputy A.D. Lewis:**

Exemption comes before rather than retrospective decision afterwards, so there are 2 very different things here, is there not?

**Treasurer of the States:**

So I have made the distinction now between what constitutes an exemption and what constitutes, if you like, a declared breach after the event. Exemptions will not be signed off all the way up now retrospective because that is not an exemption. That is trying to make good the paperwork after the event. So, there were 119 ...

**Deputy A.D. Lewis:**

Has that largely stopped now?

**Treasurer of the States:**

I will not sign off an exemption after the event. It will be recorded as a breach; feels like a fierce word.

**Deputy A.D. Lewis:**

Is that in your department or is that the same across the rest of the States?

**Treasurer of the States:**

I cannot talk for wherever it happens elsewhere but in terms of ...

**Chief Internal Auditor:**

Sorry to interrupt. Can I just explain that the exemptions ... 119 exemptions were given this year of which 90 per cent were procurement? So procurement ones specifically are things like ...

**Deputy A.D. Lewis:**

Commercial reasons.

**Chief Internal Auditor:**

... commercial reasons, so you would maybe ... for example, if you had a provision that more than £25,000 you should get 3 quotes, there may only be 2 suppliers on-Island so you would get an exemption, but to take that policy away would then maybe have additional risk attached to it. So, when you look at the exemptions, that 90 per cent are through procurement, then the others are specifically to do with grants, travel and accommodation, et cetera.

[15:45]

When the new Treasurer came in place, he did make a very right decision, in my view, that retrospective exemptions should not happen. If you have breached the *Financial Directions* it should be recorded as a breach. Myself, I keep a log of all these, of any breach of anything other than procurement, and the Director of Strategic Procurement keeps a log of any breaches and we all meet with the Treasurer on a regular basis to table any breaches and make him aware. Then obviously if there is a significant number of breaches then we need to look at is the exemption. Is the F.D. (financial direction) fit for purpose or is it a question of needing more training? That way you can look at... but I do completely agree with the Treasurer that retrospective exemptions should not happen and they need to be aware if there are breaches that they are monitored and controlled.

**Deputy A.D. Lewis:**

Do you think officers are then fearful of making decisions?

**Chief Internal Auditor:**

No, because I think the Treasurer has come from the other side, if you like, so I think he has a very good relationship with the other C.M.B. (Corporate Management Board) members and they can discuss and proactively ...

**Deputy A.D. Lewis:**

So they would come to him first for the exemption rather than end up with a breach, is that what is happening or you would like to see happening?

**Chief Internal Auditor:**

Yes, it should happen. Obviously, sometimes breaches do happen and people are not aware of them, so maybe not aware of the financial direction ...

**Deputy A.D. Lewis:**

Because of the interpretation maybe?

**Chief Internal Auditor:**

Yes. So interpretation or they are not aware of the financial direction and there are training needs, in which case then they should be recorded and taken forward so the training needs can be addressed, or the actual F.D. should be addressed and the Treasurer could table that policy to the Financial Advisory Board, which is a board of all financial directors, to make them aware of the new breach procedure. I hope that is not ...

**Deputy S.M. Wickenden:**

No, that is very much, thank you. Last year's ministerial response to the C. and A.G.'s report accepted most of the recommendations. It did so without sighting timetable for implementation or confirming where accountability lay for the action needed against each recommendation. Could you tell us why that was?

**Treasurer of the States:**

I will put it down to a learning curve. Firstly, we needed to get a response out. Secondly, at the point at which we responded I was a caretaker, if you like. The way that we do work in the Treasury on Financial Directions is that largely the team also do the year-end accounts. So we go through a period where they are doing accounts and nothing but accounts and then they come out of that and do the Financial Directions. At the same time, we also had vacancies. I would just like to say someone got promoted. The person who led that got promoted into what would be at that point, in my view, the best department in the world, into Social Security as finance director, which

left us without someone there and I knew that that would come through. I am trying to remember now whether that was before I knew or after. So we knew that we would reach this time of year and have to turn our attention towards the Financial Directions, so at that point it was not clear to me how much work would be involved and what sort of timescales would be there. You will see from my draft response on the financial management one we have given an indication of timescales. It was quite easy because timescales for M.T.F.P.s (Medium-Term Financial Plans) come through in 3-year blocks, 4-year blocks. But that was the case. We will turn it into or are turning it into - I know who is going to be doing the work now - something that will have clearer deliverables. So, we were accepting what was in the report but we know it is not going to be done overnight and given that the report arrived when it did and we then had some vacancies subsequently, it was not clear at that point when it would be achievable by.

**Deputy A.D. Lewis:**

When will it be clear then, the timescale?

**Treasurer of the States:**

So we are looking at a plan and I would expect by the end of ... subject to things that come in left field, which has a habit of happening in the last few months, so maybe law of averages will be on my side on the left-field front, but we intend to have a structure in place which will say: "This is our house style, if you like, of Financial Directions. This is how they are going to be formed" and hopefully we will have run those ... well, one of those Financial Directions that they would like us to put initial attention to as, if you like, prototype by the end of the year. That will probably be either purchases of goods and services, 5.1, or - and I forget the number - that one relating to crimes. At the end of 2016 the aim will have been to have gone through all Financial Directions and applied the recommendations to them.

**Deputy S.M. Wickenden:**

Within the C. and A.G.'s report, it says in one of the areas: "*Although the Treasury and Resources consults with other departments prior to issuing Financial Directions, the consultation is undertaken when there is a draft financial direction rather than at a more formative stage and is not structured around fundamental questions.*" You draft a financial direction and then you involve the people that will be using it. Would you look to try and get people involved at an earlier stage when you are looking at them now?

**Treasurer of the States:**

Yes, I knew that having gone on the Lean course would come in handy one day, and having been on the Lean course I am a fan of having customer, if you like, i.e. user, feedback before you design your process. So we fully intend to use users, firstly to form a view on the priorities for the

plan, but also in terms of what constitutes good financial direction and in building them. So I would probably say that what we need to do, it has been suggested that we need to have a small team of finance directors, people underneath finance directors, finance managers - something that scared me for a second - and budget holders, all working together on Financial Directions, informing them. I must say that at the end of the day I am going to have to be happy with it that it does what it is supposed to do in terms of internal control and delivering value for money, but I am very content for all users of those or representatives of all those users to be involved in developing them.

**Deputy A.D. Lewis:**

Okay. I think that that answers your ...

**Deputy J.A. Martin:**

It answers both my questions because you have put priorities, but just for a follow-up because we like to ... as you say, this was done quite ... not hastily but it agrees everything but no timescale, no priorities. If at a later date you could let our officers know priorities, structure and who is in charge of implementing across the board, it would be really helpful.

**Treasurer of the States:**

He is sitting behind me.

**Deputy J.A. Martin:**

Well, that is very good. [Laughter] That would be really helpful.

**Treasurer of the States:**

I was just checking he was still there.

**Deputy J.A. Martin:**

It would be something we could study and look at. Thank you.

**Chief Internal Auditor:**

In addition, Deputy Martin, there is a process of the Audit Committee. So the Audit Committee, as you are well aware, has independent members as well as the Greffier of the States of Jersey. The chairman of the Audit Committee approved new Audit Committee terms of reference in December 2014 and within that there has to be an annual review of Financial Directions which is to be provided by the Audit Committee. The Treasurer is due to present the paper to the Audit Committee in July of this year and the chairman wants to monitor as a key initiative of Financial Directions and, in addition, as Internal Audit we report on compliance with Financial Directions.

They get presented every quarter to the Audit Committee and they will be monitoring compliance and any recommendations on Financial Directions as well. So, in addition ... and there is scrutiny by an independent committee as well on Financial Directions, which I hope helps answer your question.

**Deputy J.A. Martin:**

This will incorporate all the recommendations ... the one that is being produced now for July will incorporate all the recommendations from the committee?

**Chief Internal Auditor:**

Yes, indeed. So the Audit Committee gets tabled all C. and A.G. reports and the improvement programme also get tabled with the Audit Committee and they will ... the Audit Committee will focus on Financial Directions as part of its terms of reference. As I say, the Treasurer will present to the Audit Committee in July upon progress against that.

**Deputy J.A. Martin:**

Thank you.

**Deputy A.D. Lewis:**

Okay, that takes us on to a question from Robert.

**Mr. R.J. Parker:**

Yes, as Chief Internal Auditor you are responsible for reviewing both the design and the implementation of the States system of internal control. Do you believe that the Financial Directions currently in place are fit for purpose?

**Chief Internal Auditor:**

It is a very good question. As you are aware, Internal Audit is the third line defence. So, first line of defence is to have good Financial Directions and governance procedures, not just from finance but on H.R. and I.T. (Information Technology) as well. So we will review process. That is the responsibility to have good governance. The second line of defence obviously is for management to use those directions and those procedures and codes of conduct and we will provide assurance, but it is never absolute. It is only reasonable assurance based on the transactions that we audit. We do recommend changes in Financial Directions during our audit work. So, for example, the creditworthiness check is a key one. So under Financial Directions you have to have a creditworthiness check done, but in Jersey the Companies House do not release records like they would do in the U.K. (United Kingdom) so you cannot do ones on going concerns. We have raised this a number of times so, therefore, the Chief Executive and the Treasurer are currently reviewing

the process to make sure that the actual process itself is more fit for purpose and using the information and, therefore, a complete review of the C. and A.G.'s report that Financial Directions should be principles based with guidance notes to ensure ... to help people to use them. Having them so prescriptive, there are over 42 travel and accommodation policies. We are doing a current audit on travel and accommodation. I cannot give you obviously the detail of that audit, but from a high level point of view it is very difficult to comply with 42 policies just in travel and accommodation and make sure that, you know, expenses and bookings are done properly. Also, there is a conflict sometimes. If the F.D. says you have to, for example, book using HRG but if you go on a course and a hotel is cheaper using the course, doing the course rates as in the course itself, technically you should get an exemption signed off by the Treasurer. The Treasurer has a heavy workload so signing off exemptions every 5 minutes for someone for £10 difference in a hotel is not good use of the Treasurer's time. Therefore, having such a prescriptive financial direction does not allow flexibility, does not allow for a modern workforce, and accounting officers should not be held to account and, therefore, the F.D.s need to move in a positive direction. I believe the Treasurer has embraced the C. and A.G.'s report and is putting in place progress to take those initiatives forwards to do it on a more principle-based approach to become more fit for purpose with a more commercial understanding and taking account of his previous role as accounting officer having to apply them to his department.

**Mr. R.J. Parker:**

So there is no umbrella that says the decisions you should be making are for the benefit of the public, efficiency, the most efficient cost, those things? It is very prescriptive and you have to follow those...

**Chief Internal Auditor:**

Yes.

**Mr. R.J. Parker:**

...so it drives you to make wrong decisions and it can be the position ... someone is doing a project or doing something whereby they, by following that, cannot see the wood for the trees because they are dealing with the prescriptive nature of the directives?

**Chief Internal Auditor:**

Yes. For example, F.D. 5.5 on grants, which is a key risk for us as Internal Audit given the nature of the grants issued by the States of Jersey, if, for example, quality milk payments are a subsidy and they get treated as a grant under the financial direction. The Financial Direction says that you cannot ... you should not give a grant to an organisation that can pay for it out of their own reserves. Well, you know, without looking at every single farmer's accounts in Jersey, I cannot

categorically say that but the majority of farmers have probably had those reserves to pay for it. So that would require for every single subsidy we give the exemption to be signed by the Treasurer because it is so prescriptive. The spirit of it, which is what I agree with the C. and A.G.'s report, the spirit of it is to subsidise the farmers if that is what the political decision is to do, but it is so prescriptive that it does not allow for flexibility.

**Mr. R.J. Parker:**

But it probably works in the other way related to the accountability. So if someone can tick the boxes and do something that is wrong as far as efficiency or cost, you know, basically good and - what is it - effective, you know, low cost ...

**Chief Internal Auditor:**

But I suppose from Jersey Finance it is a ... that is a grant but should that be treated more like an outsource provider and have key milestones and performance indicators? So there is ... yes, I do agree with you.

**Mr. M. Robinson:**

Is there any potential there for conflict with procurement if you are saying that there should be an economic-based decision on purchasing? So if you look at the most cost-effective item to purchase or service to purchase, there might be a diktat from procurement saying: "You will use this supplier."

[16:00]

**Treasurer of the States:**

I have a view on that in terms of either ... well, particularly corporate contracts as opposed to what we are talking about. It can happen on the corporate contracts but it could also happen for individual departments. There will often be the cases of individual transactions that might be, may be, – and often what I find is people say it and then do not provide the evidence – say you are looking at flight tickets; someone will not pick up that they think they could have got it easier or cheaper doing it themselves but it may well be a different sort of ticket. So it might be a ticket that you cannot change as opposed to a fully ... forgive me, a fully variable ticket, fully changeable ticket. So I think we do need to be looking on a regular ... I will not say frequent, I will say regular basis to ensure that corporate contracts are in the best interests of the States overall and you have to accept from time to time that may mean that on any individual transaction basis you may find somebody else to do it, but over the whole of the States that should not be the case. The other thing it is probably worthwhile talking in respect of that would be there are departments buying the same things from different sources and some of those departments you might regard as being the

exemplar for buying that particular product or they might buy much more of it than another department. It is Supply Jersey when you have finished implementing it and there is a degree to say that we have seen this already. We will make sure that it will give us much more sight of what we are buying, who we are buying it from and whether we could get it cheaper or whether some departments are getting it cheaper than others from the same supplier. So there is at this point not as much information as you need out there to be able to determine whether each department could have got it for the best value.

**Mr. R.J. Parker:**

But is that not something out, I would say, of a vested interest in travel and so forth, and when you deal with agencies, what you are effectively paying the supplier is paying them a commission; therefore, that is money that is going out of the Island. It would appear that, shall we say, certain contracts are based on supplying information but if the systems were better set up for management information there would not be that requirement. So there are ways in which there are quite a lot of things that could be gained by being more commercial for the benefit of the Island.

**Treasurer of the States:**

Yes, and I see Supply Jersey as an important step on that. The States sometimes does not think about the full cost of what it does and the typical one on that would be capital costs that will be built into the costs of services. But I think in particular here if you have an administrator looking at a screen all day to try and find the best flight and they save £20 on that flight, then that is not really good value for money because you are paying them far more on a salary to have claimed that we could have got that flight cheaper by £20, looking all day to prove that point. But that is not to say that you should not review your corporate contracts on a regular basis and you should take into account all the costs of providing the alternative. But yes, I am not a particular fan of money going out of the Island for no good reason.

**Deputy A.D. Lewis:**

Just on that last question on that section, Robert, you were going to ask about ... to the Internal Auditor, 1.8.

**Mr. R.J. Parker:**

Sorry, yes. Did Internal Audit ever report its belief that Financial Directions were not fit for purpose and, if not, why not?

**Chief Internal Auditor:**

As a general question?

**Mr. R.J. Parker:**

Yes.

**Chief Internal Auditor:**

Internal Audit, when we do our reviews, we do report whether we think there should be amendments or changes to Financial Directions and we do make recommendations on individual financial directions within our Internal Audit reports. We then send these to management, to the Treasurer, and it is for management to decide on their comment and their implementation of any Financial Directions that Internal Audit makes. So we will review each individual audit and make recommendations on Financial Directions as we see fit. So, for example, I spoke to you about creditworthiness checks on procurement. We are currently doing one on travel and accommodation and, you know, 42 policies is not fit for purpose and should that even be ... whether or not that should be a financial direction or should that be an H.R. policy. Anyway, that is another debate to be had, which is for management to decide, not for us to decide, it is for us to recommend. Management grants, we review management grants. So, for example, if you issue a number of grants to one institution, should you aggregate them up and, therefore, should you be receiving audited accounts if that is the case between different departments? Management grants as well, for example, a lot of things in health have changed that were provided through family nursing - for example, supply medical consultations and advice - and we recommended whether that should be treated as a grant or an S.L.A. (service level agreement). They have been treated now as an S.L.A. under 5.1 rather than as management grants because it is more fit for purpose. So, we do make recommendations within that and we do table to the Audit Committee recommendations to change Financial Directions where we see it to be more appropriate.

**Mr. R.J. Parker:**

So is there a change now that you have a new Treasurer related to looking at these things and considering the efficiencies going forward by changing them and being more commercial?

**Chief Internal Auditor:**

From a culture point of view across the whole of the States of Jersey I think things are changing anyway. I think the new Treasurer in place has a plan to review Financial Directions and to look at them to make them more appropriate and more user ... and to make sure they are more in line with commercial reality to drive best value for money. You want to make sure that someone who is booking, for example, a flight ticket books it as best value for money rather than just to comply with a policy. Financial Directions can change behaviour and they are very powerful things for changing culture in the States of Jersey. I believe that culture is starting to change and I think the Treasurer's plan, if implemented, will change that further.

**Deputy A.D. Lewis:**

Okay. That leads us on to cultural change quite neatly and the cultural issues affecting compliance with Financial Directions. There was a lot of talk about cultural change in the States I remember with the changes that need to happen with government reform to be able to afford the public sector we currently have. So, we have a few questions about cultural issues. I think we will kick off with Chris on the first one.

**The Connétable of St. John:**

How would you describe the current culture of the States of Jersey?

**Treasurer of the States:**

Right. How would I describe the culture?

**Deputy A.D. Lewis:**

Polite answers only.

**Treasurer of the States:**

Yes. **[Laughter]** I remember being at the Council of Ministers recently and I said it was not the most cultured of people, but I said “cultural” and I think it worked, they missed it. How do I describe the culture? Broadly, although I think it has changed in the last few years, it is a largely risk-averse culture. I think ...

**Deputy A.D. Lewis:**

Do you think this is making that happen, the current Directions, making people risk averse? Fear of not complying I mean.

**Treasurer of the States:**

I think an important lesson you learn from business is what business always says, and I think there is something in it here, is that you will never move forward if you have a fear of making a mistake. People need to ... it is difficult for a Treasurer to say. You don't want to say “*be free to make mistakes*” because it is not what I mean, but what I mean is that you do not want to set them up to make mistakes. They need to make the right decisions. However, there will from time to time be mistakes.

**Deputy A.D. Lewis:**

So you are saying better to make a decision and make a wrong one than make no decision at all?

**Treasurer of the States:**

Yes, it is far better to do something that might turn out to be wrong 5 times out of 100 or one time out of 100 or whatever it is than to make 10 decisions only. So there is a deal of risk aversion. I think that is changing with support from above and that has to come from politicians as well as from chief officers. It has to go all the way through. It cannot just stop at chief officers. It cannot stop below that. So there is a culture of risk aversion to a degree. I think there is more a culture of “can do” than I have previously seen. So we are looking for solutions now across departments rather than within departmental silos. In the past people have – and will still to a degree but far less the case – they may hide behind departmental silos. They look at services rather than from the customer’s perspective. So there is a move towards more of a “can do”. It is still running up against the risk aversion culture but there is far more willingness to do things, I feel, now than there has been in the past and only time will tell. I suppose the tester will be - and I will remind you at some point - about when someone makes a mistake what happens to them. It is important that we learn from whatever mistakes are being made but it is important that we look to those on the front line to innovate to a degree and to come up with solutions that people have not previously thought of. The one that I think about quite a lot is solutions across the States as opposed to solutions within the silos. It is difficult. You know, I have been in 2 departments on 3 different occasions now, but you sometimes will find silos within departments that you find quite difficult to break down, but eventually you do. You do not break them down by force, you break them down by convincing people, but you also break them down by listening to the ideas that they have. So they will often think of an idea as to how another silo might help them. They often might not pick up on how they might help someone in another silo.

**Deputy S.M. Wickenden:**

So it is about informed risk rather than reckless risk?

**Treasurer of the States:**

Yes, it needs to be managed. You need to have ... because you need to say what profile of risk you are willing to accept and in part of Treasury operations, you know, we are very used to talking about that in investment management. You have to clearly articulate the degree of risk which we would ... which we, politicians and the Minister, will adopt. So it is going in the right direction and the tester will come, I am sure, further down the line, but I feel there is a more managed culture across departments rather than in the silos but it still has a long way to go.

**Deputy A.D. Lewis:**

Mike, do you want to ask that last question?

**Mr. M. Robinson:**

**Mr. M. Robinson:**

Do the current *Financial Directions* facilitate the culture you would like to see within the States and, if they do not, what needs to change?

**Treasurer of the States:**

There is an important balance to be struck. So when I look at how this works elsewhere in big government, if you like, they issue principle-based financial control framework but you might find that departments further down the line ... and when I am talking about departments in the U.K., their departments that are bigger than the States of Jersey may put their own rules in place. You will often find that people want to have the rules. Sometimes they will want the rules because they just want to know that they are doing the right thing, so there is an important balance to be had. You ought not to make them entirely principle based and to give people ... I would regard it as guidance as opposed to mandatory steps. Accounting officers are ultimately responsible for their department spend alongside or up against Financial Directions. I think there is some improvement to make because being over-prescriptive they almost delegate decisions upwards, if you see what I mean. They say: *"I look to see what the set of rules say in making my decision"* rather than necessarily, as you talked about, principles of efficiency and effectiveness. So I think there is room to allow people to make their own decisions around and based on principles and giving them some guidance as to typically how they make that decision. So they do not really allow for too much empowerment of people in the organisation is how I feel. It is more a tightly controlled environment and Catherine has talked about over-prescription.

**Mr. M. Robinson:**

How do you feel they could be changed then to allow that, more freedom of choice, freedom for making ...

**Treasurer of the States:**

Well, I think an important aspect is to start talking about what risks that they are there to mitigate and the principles that arise out of that, whichever financial direction you are talking about. We need to simplify. If we have so many steps within a financial direction that it makes it impossible to comply with, we need to simplify that, but what we also need to do is to be very clear about... there will be cases where we have to give very solid rules, very clear rules, as to what can and cannot happen.

[16:15]

But the rules beneath that I regard should be guidance, so you have clear principles, you have the rules you cannot break, the rules that are there for someone else to exercise, and you have guidance. So if you are faced with making a decision, if you understand the principle, you have the guidance, you can ask yourself: *“Well, do I want to follow the guidance by the letter or do I think there is another way of achieving the principle?”*

**Mr. M. Robinson:**

Okay, thanks.

**Deputy A.D. Lewis:**

That takes us on a bit to monitoring and compliance for Financial Directions, which is fairly key. You need to monitor how they are working. You have mentioned quite a few times things like silos and how it works across the different departments and even within the departments the silos that might exist there. So, how do you get assurance that Financial Directions have been complied with consistently across the piece?

**Treasurer of the States:**

I suppose that is far easier where you have a very prescriptive environment for people to say that.

**Deputy A.D. Lewis:**

Yes, exactly. How do you get that balance where some departments will comply less consistently than others for good reason perhaps sometimes? So, how do you get that consistency?

**Treasurer of the States:**

Well, partly that is driven by the fact that we have very different businesses in the States of Jersey. So often one size will not fit all and there are parts of Financial Directions that are more relevant than others. In terms of how we do monitor compliance, if you like, we use the outcomes of Internal Audits, of external audits and the like and even the work of the C. and A.G., before I forget, to come up with a risk-based internal audit plan and that will go through myself and the Chief Executive. It will also obviously have quite a bit of scrutiny from the Internal Audit Committee, which is an internal body consisting largely of non-executives and will entirely be non-executives. So we do that. The other thing that we introduced off the back of the recommendations was the compliant inter-governance statement, declarations of compliance against the Financial Directions. Now clearly that is only when people know they have not been in compliance with Financial Directions, you cannot necessarily say when you are not in compliance with the Financial Directions if you do not know. The other thing I am in favour of is not necessarily reinventing wheels. There are a lot of organisations around the world, be they government or otherwise, that have these frameworks in place, so part of informing what we do in

the future will be to see what works elsewhere and not just looking at what was set up elsewhere but looking to see whether there has been audits of how that performs elsewhere and therefore to learn from that. So, you could use the system that they use in the U.K. but what I am conscious of in the U.K. is it is a bigger place, you have got to make sure that you do not leave departments scrambling around, therefore, writing their own set of prescriptive rules. We need to strike the balance and it is not going to be easy to strike that balance but we need to. So we have self-compliance statements through governance statements issued by accounting officers, we have the outcomes of internal audits which is a cyclical model, if you like, because that informs where we are going to look again next year with an internal audit programme. So if you find an issue in one area within a department and you want to know whether it is systemic across the whole of the organisation or whether it is just an issue within that department, that will inform the travel and accommodation; are we going to have a programme of travel and accommodation audits? That will then feed into whether you redesign Financial Directions. That is not too dissimilar to what happens now, we just need to take a slightly different approach which is not to believe that the remedy is to come up with ever more prescriptive steps that someone has to apply.

**Deputy A.D. Lewis:**

It sounds as though a bit of training here might be required.

**Mr. M. Robinson:**

Yes, thank you. Training obviously will be an issue here for compliance with the Financial Directions. How satisfied are you that training is delivered consistently throughout the organisation? Or are you not satisfied that it is?

**Treasurer of the States:**

I think an important move forward, although we can always do better and we will, is through the Modern Manager Programme. I regard the Modern Manager Programme - whatever people may say about it - as a good step forward and that included a good step forward in terms of financial management. All things can be improved. The way that we cascade, if you like, Financial Directions or the way that we have done and the way that we will continue to do to a degree, is largely through the finance function so we will ... obviously the way we are going to do it now is make all F.A.B. (Finance Advisory Board), that was my doing last time I was in the Treasury, the Finance Advisory Board which is finance directors and the financial managers' review group; review or reporting group. They receive sessions on new financial directions and you rely strongly upon them cascading them into departments. Do I know the extent to which that happens in the time that I have been ... am I doing? I need to find out the extent to which it is cascaded down but it is clearly for finance directors to then cascade it down within their departments. I think there are opportunities offered by I.T. if we are ever to get there, in terms of online training for Financial

Directions and of course there is the ability to go to the intranet and look up Financial Directions. But the first thing is to ... something we need to look at is just not necessarily training but communicating with all budget holders so they know it is there. Financial Directions, unless you are using a particular one day in, day out, you just need to have in the back of your head somewhere a checklist that says: "There might be a financial direction on this I need to go and look at it" rather than regret afterwards not having looked at it 3 months down the line certainly. Some of it is just about communicating it is there because if you are not using it day in, day out, a training course is not really going to help. It is being aware that it is there but also expecting finance directors, and they are the custodian, if you like, of the training but also the custodian of the knowledge within a department to ensure that budget holders go to them is very important.

**Mr. M. Robinson:**

Do you think it is a function of the Treasurer or a function of the H.R. Director to ensure that that training is being delivered?

**Treasurer of the States:**

I think it is one in partnership but I would say that ultimately ... well, can I say the Treasurer and accounting officers as opposed to H.R. H.R. should be the facilitator through which that training is delivered but if it were not delivered it would ultimately be the Treasurer unless the Treasurer ... well, the Treasurer and accounting officers. It is important that that cascades through them as well. But we are a team.

**Mr. M. Robinson:**

It might be something that the H.R. Director is directed to deliver or to structure.

**Treasurer of the States:**

Yes, it might but I would hope that he would talk to the finance function in delivering that training course early but we have talked in the past about ... and I talked there about using web-based learning for some of this and I think that is something that we need to look at.

**Deputy A.D. Lewis:**

Talking about non-compliance.

**Mr. R.J. Parker:**

Yes. When there is non-compliance with Financial Directions what action is taken?

**Treasurer of the States:**

It would depend upon the severity of that non-compliance but the important thing if it is, say if it is a minor item under a less major item, if I could describe it in that way, under travel and accommodation, a lesson to learn from that and a good explanation. So if you had an individual who was wilfully, in full knowledge, breaking Financial Directions on a regular basis that would become a disciplinary matter. Where we have instances of not necessarily breaking Financial Directions but internal audits that have low scores, and I would know myself, it becomes part of the performance review and appraisal for that individual chief officer or if you were in a department and you were to find that someone else in your department was breaking Financial Directions on your behalf then you would expect it to seek explanations and to be part of whether an assessment ... sorry, an assessment to be made as to whether it is wilful neglect or whether it is a training issue. So, before we jump to conclusions that somebody is reckless you need to identify whether they have been trained in the first place.

**Mr. R.J. Parker:**

And do you get any instances where, say, someone does not follow the spirit but compliance with prescription?

**Treasurer of the States:**

A test that I would always use is a question of how it all was posed when you were incurring the expenditure is, how would you read of this if it was on the front page of the J.E.P. (Jersey Evening Post)? The second question might well be, would you do that if it were your own money? Now, obviously people are put into positions where they would not be making certain decisions with their own money, but for me that is a good tester. But I am not sure that answers your question.

**Mr. R.J. Parker:**

No, I think it is ... because that is probably part of the new principles base.

**Treasurer of the States:**

Yes, it is. Sometimes people might not quite think like that or might not have thought that through as with incurring the expenditure but I find that when challenged people do say: *"I had not thought of it that way but that is right."* And it is few and far between when it happens but people when they are forced to think that way do more clearly understand the importance and value of money in a public sector organisation.

**Mr. R.J. Parker:**

I think the second part of this you have answered but another thing is how important do you see modernising I.T. in relation to your management reporting in relation to changes you foresee in Financial Directions?

**Treasurer of the States:**

There is clearly an important aspect in terms of automating controls but you will want to make sure before you automate them that you are automating the right controls. I see Supply Jersey as an important step forward in that, basically that we will have clearer sight of where we spend our money. I think I have spoken previously about where it might be that we can save money in some departments by using catalogues that are being used by others. It will embed segregations of duties in the ensuring that we are following some kind of direction so that it will be embedded into the system or the controls that will be, but in particular in terms of goods when they are received making sure you have got the whole order, making sure that that order has been appropriately authorised. We have got a way to go there but that is clearly a huge step forward and not least because the management information will be available and the reporting of exceptions from that control environment. There are other aspects where we use different systems and we have to reconcile systems together, so the H.R. and the payroll system being constantly ... well, it is the finance system and the H.R. system constantly having to reconcile in terms of the number of roles there are throughout the organisation. That is a very important - but quite simple, actually - remedy to put it all in one place so we are putting it in the H.R. imperial system that will cover both rather than having separate systems. A short answer to the question whether the spinning off examples would be I think it is highly important. So Supply Jersey and payroll. I think it goes beyond that though, so we can talk about benefits and tax administration where you can deliver greater savings and provide much greater management information through more modern I.T.

**Deputy A.D. Lewis:**

We will have some questions about I.T. later on. We had a session obviously earlier on with John Richardson and the I.T. Director was going to come along, so that was quite revealing ... well revealing to the extent that the lack of I.T. systems or modern I.T. systems is perhaps hampering you in doing what you really want to do with the systems you currently have. Does that worry you in the short term to get it right and avoid things going wrong with directions that you have to follow?

**Treasurer of the States:**

It would worry me if we were not looking to change it.

**Deputy A.D. Lewis:**

Of course but are you worried about the speed of change? We were told earlier that it is unlikely that major change will occur until 2017 because of budgetary constraints and the sheer volume of work that has got to be done to get the system in.

**Treasurer of the States:**

If I talk about a tax system that has not been ...

**Deputy A.D. Lewis:**

That was talked about earlier and that is fundamental, I think, in getting this change.

**Treasurer of the States:**

Yes. When I talk about systems that have not been significantly changed, there has been a, you know, gradual change over a period of time as opposed to significant change. I realise 2017 is very close as compared to the period that has gone before.

**Deputy A.D. Lewis:**

It is if you are starting from now because we have been talking about this for 3 years already.

**Treasurer of the States:**

Well, if you are talking ... you are talking e-Government, are you?

**Mr. R.J. Parker:**

Yes.

**Treasurer of the States:**

I think in terms of my view of e-Government is that there have been a number of important moves forward on e-Government. We understand a great deal more about what e-Government can do for us and in actual fact understand a great deal more about the various data we have in a number of different systems than we ever did. So I think the journey so far on e-Government, it is not really right to talk about it being wasted money or aborted ... an aborted project because there is a great deal that we have learnt from where we have been from the process so far that will help and we will use to implement e-Government. I rather favour the approach we have now to be concentrating fully ... I cannot remember what we call these now. I think they had said fast track and slow track; that is not what we mean, we mean big and complicated as opposed to quick and simple. Where we are concentrating the effort on the major changes, I favour concentrating on those areas that will be high volume. Those areas are principally tax and social security from a transactional basis. Yes, there are customer interactions with Health but the majority of those transactions in taxes and social security can be facilitated much better through I.T. But at the same time I like the approach of also having a number of quick wins that do not take quite the scale of delivery that changes to the taxes system in particular but also the social security system will require.

[16:30]

So I think it is important to show that you can deliver changes that improve customer service and hopefully deliver savings at the same time, and then further down the line you will have those bigger system changes which, I have to say, having done some bigger changes to I.T. systems, are the things that do keep you awake at night. Changing I.T. systems are notorious across the piece and getting it right is important and of course not rushing to get it wrong. I remember when we went live with income support was the same time that Terminal 4 crashed, almost to the same day, I did not sleep that night and was relieved to not see a whole queue of people with their suitcases outside the front door of Social Security.

**Deputy A.D. Lewis:**

I think that is a point well made. Right, where are we? Chris, you were going to ask a question about the audit plan.

**The Connétable of St. John:**

Yes, to the Chief Internal Auditor. How does the current internal audit plan cover the design and operation of Financial Directions?

**Chief Internal Auditor:**

Thank you for your question, Constable Taylor. The internal audit plan is done on a risk-based approach. It is not to give absolute assurance on every single transaction, on every single financial direction that is issued. So we review the contract on a risk-based approach so key financial transactions, for example, grants, we will do every year. So we will review that every year. Other ones are not necessarily deemed as high risk so, for example, travel and accommodation we would not do every single year. We would do it every 2 or 3 years depending ... and however, if we found a lot of exemptions coming through, if we found a lot of concerns being raised then we might do it earlier. So we will update the audit plan on a risk-based approach. So, as part of the audit plan itself we interview all accounting officers' and F.D.'s (finance directors) and we look at the Financial Directions, then we compile the audit plan. That gets presented to the Chief Executive and the Treasurer for initial consultation and they will provide feedback. It will then go to the chairman of the Audit Committee who will provide feedback. It will then go to the actual Audit Committee itself and they will challenge and tweak it and question it in certain areas; is it high rated? Should that be high rated? What about this area, should that be medium or high? I will then revise it and I will re-present to the Audit Committee a final audit plan. I then formally report to the Audit Committee every quarter and the Audit Committee terms of reference about progress against the internal audit plan as well as any high recommendations that are raised, and in addition all our audit reports go to the chairman of the

Audit Committee, the C. and A.G. and External Audit as well. We will then look at follow up. So we initiated a large project picking up recommendations over the past 3 years, so prior to me coming in that was not ... there was a need to do a big project. We have found from reviewing the recommendations of the past 3 years that there are some systemic themes coming from various departments. We do not ... if we audit all departments for travel and accommodation and we find points, we do not need to audit those 6 departments, that is not good use of resources, is to take those points, table them at C.M.B. and F.A.B. and say: *"These are concerns we have raised, please can you address them in your own department as well?"* Then we will do a follow up and the follow up is very, very important as well as the actual orders themselves, (a) to ensure from a cultural point of view people are listening to recommendations, they are following, they are acting upon them and also to drive better management and better practice and to address the risks and make sure it does not happen again. So that is very important. I addressed your previous committee on how the audit plan gets combined. I have some slides on how the audit plan gets to drive... which I presented to your previous committee, which I am happy to forward on to yourselves if you wish as well and to have more detail.

**The Connétable of St. John:**

Give us, yes, more background and so on.

**Chief Internal Auditor:**

But I mean I can give you them along with lecturing notes if you wish but the slides may help you answer any questions. But please do revert back if you have any further questions or if you want to ask any further questions on what I have just said.

**The Connétable of St. John:**

No, I think that covers it all. Yes, thank you.

**Deputy S.M. Wickenden:**

In December 1994 the States capital programme allocated £600,000 for rehoming the Sea Cadets. The public has been asking whether the money was lost in the system for years and then wasted on the Port Galots scheme. How confident are you that the Port Galots scheme was progressed in full accordance with *Financial Directions* and how confident are you that the current *Financial Directions* would prevent any capital programme monies allocated from then onwards getting lost?

**Treasurer of the States:**

I would have to say I would struggle to go back to 1994 and go through everything that has happened since. I would say that we have included this year within the internal audit plan a review of Port Galots or Les Galots; I do not know which is the right name.

**Deputy A.D. Lewis:**

We have gone back through, it is about 2 files like that but it might supersede it. For probably last 9 years of ministerial government, where you have all the controls in place, we are interested to know why we got to where we are now, what impact Financial Directions should have had and may not have had.

**Treasurer of the States:**

I am sure there were financial directions that we should have followed and perhaps did not but those are things that are easy to conclude in hindsight. I think your question was around whether or not capital budgets - and I am not saying whether it did or did not go unnoticed for a long period of time - we have far more rigorous monitoring of capital spend now than we did. We have a quarterly report that goes all the way to the Council of Ministers that identifies progress on capital spend and also identifies it by individual project. So, I was in fact at the Council of Ministers last week with the March quarter capital monitoring report which was in addition to one of the revenue reporting pack and I think under the previous Treasurer that was moved forward by quite some considerable margin. So, going back to 1994 is something if I had a lot of time I could go and do. I am more interested about moving forward. I would imagine ... I would not imagine, I would find it hard to contemplate or even imagine a scheme sitting there for such a long period of time. Part of the monitoring is in actual fact obviously to hold people to account for capital projects and funds that they were given and had they been spent in accordance with the States approval that was given. But the other one is in terms of Treasury monitoring whether the reason for the decision to spend the money in the first place still stands and whether that money could not be better transferred back to central funds, and by that I do not mean to the Treasury, for the Treasury to spend, I mean for future States decisions on spend. So we have been doing quite an extensive exercise recently to identify any monies on capital votes that have gone unspent for a period of time and the question was then asked ...

**Deputy A.D. Lewis:**

Was that as a result of this particular incident?

**Treasurer of the States:**

I can give you the names of projects.

**Deputy A.D. Lewis:**

Was it a trigger? This incident, was that a trigger to ...

**Treasurer of the States:**

Well, you would look to see whether there has been like, one, do we think a project that money was there for has been closed or has been completed? If we had a view that it had been completed, is there a further piece of work that that department thinks needs to be done to improve, say, a capital project. But also we need to have some challenge when some department may want to use that for something else, and in particular around States Members approved the capital programme. They approve capital projects line by line other than minor capital and some of the rolling expenditure or T.T.S. (Transport and Technical Services). It is not right that that money then gets used for another project without some oversight. So there is far more monitoring than we previously had in place. The other aspect of that monitoring is from an economic perspective. I know it is an entirely different topic but when part of the reason - secondary reason perhaps - but very important for the timing of capital spend is that you get it right into the economy where you intend to get it into the economy. A capital spend can have some quite considerable effects upon the economy, not just in terms of employment but in terms of inflation in the local construction industry. So that is important as well but from the aspect of a capital vote sitting there for a long period of time there is a great deal of challenge; there is sometimes a great deal of challenge comes back from departments with reasons as to why it should be returned. But it would be clearly there.

**Deputy S.M. Wickenden:**

I know there was no Financial Directions until 2005, I think, the first one was said by the Chief Executive Officer earlier. Within Port Galots, do you feel that that met the Financial Directions when they picked it up again and started a new report?

**Treasurer of the States:**

Again, the way that I will find that out is to have the internal audit completed to find out whether there were any shortcomings. I would probably argue that would have to be against the financial directions that were in place at that point in time rather than perhaps a set of rules that were in place subsequently. But we would look to see whether if - and it is an if - making any adjustment on the Port Galots scheme and I should probably add that those individuals who have been involved in the Port Galots scheme in more recent years, I have a great deal of professional respect for and they have done a very good job over a number of years. So, when I know that they are associated with it I automatically associate it, hopefully, with a job better done than otherwise. But if there is a problem and if we identify that that might not have been mitigated by the existing controls or the existing Financial Directions then that will be a reason to change Financial Directions going forward. But they are big ifs.

**Deputy A.D. Lewis:**

I mean you can understand the public outrage with a figure that starts at £600,000 and ends up with just a couple of hundred thousand. It looks to the public as if financial controls have not been in place to ensure that that money was used for the purpose it was intended in an appropriate manner. It has been obviously used for Port Galots but with expenditure that perhaps was not considered when it was originally applied for back in the 1990's.

**Treasurer of the States:**

Well, as I understand it, an earlier version of it went all the way to a planning position and then ... or design position and then it was decided that the money was not available within the budget to deliver that particular proposal, which is why we have then moved on to coming up with a different way of trying to deliver the original intent for which the monies were intended. You would have to go all the way back I think to figure out whether the money that was originally voted was ever going to deliver what it was intended to in terms of being sufficient. Obviously you could build a shed with that amount of money but I would have to go all the way back through. Yes, I do understand that questions have been asked. I think my job, I suppose, is - I know more than suppose - to do our best to make sure that such an outcry would not come again but much of the outcry more recently relates to whether it was the right project to go in that location which is a different matter than Financial Directions albeit as wide in the Financial Directions.

**Deputy A.D. Lewis:**

I would not wish to have a planning debate today that is way outside our remit.

**Treasurer of the States:**

No.

**Deputy A.D. Lewis:**

No, our interest really is in the handling of public funds obviously and whether those funds are applied appropriately.

**Treasurer of the States:**

No. So, do I take it seriously? Yes, I do, if it were shown that something went wrong but as you have said we did not have Financial Directions pre-2005.

**Deputy A.D. Lewis:**

Yes.

**Treasurer of the States:**

So lots of those rules were not there, overly prescriptive as they might have been then.

**Deputy A.D. Lewis:**

But they are now and so we will look forward to seeing ...

**Treasurer of the States:**

Sure, we will look to see whether ...

**Deputy A.D. Lewis:**

... your reports on that.

**Treasurer of the States:**

My initial response is that the monitoring that is in place would have known there was something sitting there for such a long extended period of time and questions would have been asked many times along the way to say: "Well, what is it being used for now?"

**Deputy A.D. Lewis:**

So it will have become apparent at some stage that that £600,000 was nowhere near sufficient to develop something that was planned in 1994. So at that point somebody must have made a decision: "*Well, we need to do it a different way.*" I am just curious to know as to whether that met Financial Directions and whether it was appropriate to carry on at that point.

**Treasurer of the States:**

That is right.

**Deputy A.D. Lewis:**

Your Chief Executive earlier suggested that at some point an accounting officer somewhere should have said: "*Stop*" and nobody did. So we are just curious to find out why that did not happen.

**Treasurer of the States:**

Yes. So we will do the internal audit. Often you look at these things with hindsight it is far easier than when you are in the midst of it at that point in time. Other than design it seemed like a not sensible proposal.

[16:45]

**Deputy A.D. Lewis:**

And a solution to the problem of inflation.

**Treasurer of the States:**

Yes.

**Deputy A.D. Lewis:**

Okay.

**Treasurer of the States:**

If "unsensible" is a phrase.

**Chief Internal Auditor:**

Just to reiterate, the Treasurer has asked for an internal audit to be done and it will be done and part of our scope is to do an analysis whether that was index linked or not.

**Deputy A.D. Lewis:**

Well, there was a committee minute apparently that is linking it. It was not a proposition but it was in the minutes of the original Sport, Leisure and Recreation Committee.

**Chief Internal Auditor:**

But we will report to the Treasury, the States and to the Audit Committee as recommendations or breach of past directions though a significant breach of past directions would be a higher rated and it will go to the Audit Committee and they will try and do it ...

**Deputy A.D. Lewis:**

So Audit will investigate it.

**Chief Internal Auditor:**

... if it is appropriate and they will provide scrutiny where appropriate.

**Deputy A.D. Lewis:**

Okay. There is a final question on automatic withdrawal but I think we have covered that, Robert.

**Mr. R.J. Parker:**

I think so.

**Deputy A.D. Lewis:**

We are running a little bit over and I think, unless anybody else has any further questions, that covers the rest of our questions. Your Chief Executive and H.R. were in earlier, as you know and we covered a lot of similar questions so we feel that we have received a lot of additional information that we have got over and above the Board's ...

**Treasurer of the States:**

Let us hope I gave the same answers.

**Deputy A.D. Lewis:**

Very similar. Yes.

**Chief Internal Auditor:**

Just to reiterate: the recommendation process that we are undertaking, there are over 700 internal recommendations over 3 years so it is a large project and we are updating the Chief Executive and the Treasurer on progress on that, and we are doing ... classifying thematic approaches in which to see where those thematic breaches of Financial Directions are and then to see the Corporate Management Board to address them going forward and make sure any concerns are.

**Deputy A.D. Lewis:**

I know there is going to be a complete rewrite of this but as a result will there also be some kind of performance improvement plan as to how they are implemented against what you were doing before?

**Chief Internal Auditor:**

Yes. What we have found is that the departments are more similar than they are different rather than different than they are similar and that is, you know, everyone has people in the department so, you know, they will ... the themes will be addressed to C.M.B. so they can take them to their own department even if it was a recommendation raised for an individual department and will then follow up on that.

**Deputy A.D. Lewis:**

Thank you very much. Thank you very much for coming in. Very useful.

**Treasurer of the States:**

Thanks very much.

**Deputy A.D. Lewis:**

We see this process as a 2-way so we will be feeding back to you at some stage on that report and looking for your comments on that. So thank you very much.

**Chief Internal Auditor:**

If you need further information from us in the interim please let us know. Or a lecture on audit ...

**[Laughter]**

[16:49]