



**PUBLIC ACCOUNTS COMMITTEE**  
THE STATES OF GUERNSEY

**LEGACY REPORT  
FOR THE TERM OF OFFICE  
MAY 2012 TO APRIL 2016**

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**JANUARY 2016**

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## 1. Executive Summary

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- 1.1. This report outlines the work undertaken by the Public Accounts Committee (The Committee) during this term. It highlights the issues faced, the progress made and achievements of the Committee over the last four years. This report also identifies areas that may be of interest to its successor, the Scrutiny Management Committee.
- 1.2. The Committee has had very limited resources during this term and has therefore had to use them wisely in order to be effective. This has resulted in a broader and more progressive approach to fulfilling its mandated financial scrutiny responsibilities through pressure on departments, the use of amendments to improve accountability and transparency, as well as public statements in the States Assembly. All these methods, in addition to the traditional value for money reviews have resulted in more visible and productive financial scrutiny.
- 1.3. Throughout this term, the Committee has constantly monitored the various ongoing financial processes including Post Implementation Reviews (PIRs) of capital projects, the annual external audit and accounts production process, analysis of the annual budget and the work of the Internal Audit Unit (IAU).
- 1.4. During this period, the Committee for the first time, managed, despite its limited resources, to undertake reviews using internal staff as well as commissioning expert reviewers for technically complex areas. At the time of writing, it was also preparing to undertake the first public hearing by a Public Accounts Committee in Guernsey.
- 1.5. The Committee is pleased that government has taken a positive approach in relation to the findings in its reports. As part of its work, it has monitored progress in terms of the action taken on its recommendations and it is evident that significant progress has been made in strengthening financial scrutiny, particularly in the area of risk management.
- 1.6. There are, as always, areas for improvement, most notably in the transparency of financial reporting and ensuring that lessons learnt on capital projects are disseminated throughout the States and not just within individual departments or committees. The Committee believes however, that financial scrutiny is in a better place than it was four years ago and that, as a result of the strengthening of the powers and resources of the Scrutiny Management Committee, which the Committee has contributed to establishing, there is a real opportunity to improve the effectiveness of financial scrutiny in the next term.

## 2. Background

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- 2.1. The lack of resources and powers severely limited what the Committee could accomplish from the outset.
- 2.2. Over the first few months following their election, the Chair of the Public Accounts Committee and the then Chair of Scrutiny worked together in anticipation of adopting the recommendations of the Belinda Crowe report into future scrutiny which recommended the creation of a single scrutiny function in the next term.
- 2.3. As a consequence, it was agreed to have a single Principal Officer with shared responsibilities across both scrutiny committees. This, together with at least one Committee Chair having been a member of its sister committee during this term, should assist in a smooth transition to the single Scrutiny Management Committee.
- 2.4. The ability to undertake financial scrutiny was further limited by a twenty per cent reduction in the Committee's budget in 2013. During a period of fiscal restraint, at a time when departments were being asked to find major savings under the Financial Transformation Programme, it was considered that it would be inappropriate to seek significant extra funding. Instead, a decision was taken to focus on ensuring that the scrutiny function under the new machinery of government would have the powers and resources to enable it to properly fulfil its mandate.
- 2.5. The limited level of officer support that has been available during this term has meant that considerable work has been undertaken by the Members of the Committee. They should all be thanked for their commitment and support and for having worked as a team. This has meant that the Committee has been both visible and influential throughout the last four years.

### 3. Reviews

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- 3.1. The Committee is tasked with ensuring that proper scrutiny is given to States' assets, expenditure and revenues and to ensure that States' bodies operate to the highest standards in the management of their financial affairs.
- 3.2. It has used a variety of methods to fulfil its mandate, but probably the most traditional, has been its undertaking of reviews in key areas of concern. Whilst the most visible aspect of a review is the published report, work does not stop there. It continues with ongoing monitoring of progress against recommendations and further follow-up reviews on specific aspects arising from findings, where this has been deemed necessary.
- 3.3. The majority of reviews this term have, by the very nature of the subject matter involved, been very technical. As such, the Committee has tried wherever possible and especially where work has been outsourced to technical experts, to ensure its final reports are accessible to the lay reader, to assist financial transparency.
- 3.4. A summary of the reports is provided in Appendix IV, whilst a background to the reviews and additional work undertaken, is given below.

#### **Fraud and Risk Management**

- 3.5. One month into the new term, it was announced that the States of Guernsey had been the victim of a £2.6m fraud. As a consequence, the Committee had to abandon any planned work and decide the approach it would take in investigating what was a very serious event.
- 3.6. Whilst the Committee wished to investigate the specific instance of fraud, it was advised that this was not possible whilst there was an on-going criminal investigation. As such, it focused on the level of financial controls and approach to risk management.
- 3.7. It became clear that government had not taken on board the findings of earlier reports commissioned by the previous Public Accounts Committee. Financial controls were still weak and there was an immaturity in relation to risk management, as there had been a persistent failure to appropriately prioritise and develop a States-wide approach to risk.
- 3.8. Since that report, the Committee has worked extensively in the States Assembly and in private hearings with the Treasury & Resources Minister, the States Treasurer, Chief Executive and Head of Assurance, to ensure that action is taken to rectify that position.

- 3.9. In 2014, the Committee commissioned Ernst & Young to review the financial controls following the implementation of SAP and the development of the Shared Transaction Service Centre (STSC). It was clear that significant progress had been made, although there was still scope for improvement, primarily in departments working together and the training of staff. The Committee is pleased that government has since responded to its original recommendations.
- 3.10. The States of Guernsey now has a much greater understanding of risk management and the importance of financial controls, due in part to the hard work of the Committee.
- 3.11. However, the Scrutiny Management Committee must continue to actively monitor this critical area, which impacts directly on States' expenditure.
- 3.12. Due to the ongoing legal process, it has not been possible, despite attempts to do so, to review the specific incident of fraud in 2012. This has been a frustration to the Committee, which firmly believes that this should be completed by the Scrutiny Management Committee.

#### **HSSD Financial Management**

- 3.13. Following the announcement of the resignation of the Board of Health & Social Services (HSSD) in 2012, the Committee undertook a review of the financial management within the department.
- 3.14. This was the first review undertaken wholly by Committee staff and it became apparent that the financial management within HSSD had been significantly under-resourced. Most importantly, it was considered that until there was a broad based review of the finances of the department, it would not be possible to know whether the public was getting value for money from the services provided.
- 3.15. Subsequent to that report, the Committee publicly recommended that a full review of HSSD funding should be undertaken which ultimately led to a Costing, Benchmarking and Prioritisation exercise commissioned by the Treasury and Resources Department (T&R) jointly with HSSD. As a result, the HSSD 2016 budget was calculated based in part on these findings and a transformation programme was begun within HSSD.
- 3.16. Progress will need to be monitored by the Scrutiny Management Committee as the programme will involve significant levels of risk, in what is the highest spending States Department.

## **Financial Transformation Programme**

- 3.17. The Committee spent a considerable amount of time this term, reviewing the progress of the Financial Transformation Programme (FTP), one of the most significant programmes of work ever undertaken by the States of Guernsey.
- 3.18. The Committee called in the Treasury and Resources Minister and members of the Programme Office at an early stage and questioned them over the process and the progress made. In addition, as a result of a successful amendment laid by the Chair on behalf of the Committee, quarterly progress reports were provided to the Committee. It was then evident that the actual reporting to the Policy Council was inadequate and Committee staff assisted the Programme Office with the development of improved reports.
- 3.19. As a consequence of receiving the quarterly update information, the Committee was able to review certain savings and question their validity. One particular saving, which comprised a transfer of £650,000 from revenue budget to the Guernsey Health Service Fund, was the subject of concern. The Committee formally requested that it be reversed as there was no saving to the taxpayer, despite the consultant receiving a significant payment. With no progress having been made, the matter was then raised by the Committee's Chair in the States Assembly. As a result of further discussions, whilst it was agreed by the Policy Council that the transfer could remain, the consultants repaid the commission on the 'saving'.
- 3.20. Towards the end of 2014, the Committee commissioned KPMG to undertake a cost/benefit review of the FTP. Whilst the review acknowledged that savings had been made and found evidence of some excellent initiatives, concern was expressed over some of the calculations and most importantly, whether certain savings would indeed be sustainable.
- 3.21. At the time of writing, the Committee expects to undertake a public hearing focussing on lessons learnt from the FTP and to ensure that these key findings were understood, prior to the next major exercise in public sector reform and transformation.
- 3.22. It will be essential for the Scrutiny Management Committee to continue to monitor the legacy of the FTP and ensure that the recommendations of the Committee are progressed.

### **Beau Sejour Leisure Centre Project**

- 3.23. This review, which was undertaken by Committee staff, considered the approach by which the Culture & Leisure Department (C&L) undertook the tendering of Beau Sejour Leisure Centre (BSLC). The review evaluated the business case and the tendering procedure, with a clear focus on establishing whether these processes resulted in the best value for money option.
- 3.24. The review also considered the project's business case, to analyse the financial costs and benefits identified, as well as the tendering procedure and evaluation criteria, to ensure that the decision making followed due process.
- 3.25. The review concluded that the correct decision had been taken in terms of the ongoing management of the Beau Sejour Leisure Centre and cast doubt on the ability to produce significant savings by commercialising the facility. However, it was the belief of the Committee that the project should have been terminated earlier.



## 4. Reviews in progress

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- 4.1. At the time of writing, there are two areas which are actively under review by the Committee and due to be completed by the end of this term.

### **Review of the Investments of the States of Guernsey**

- 4.2. When thinking about financial scrutiny thoughts generally turn to expenditure, whether revenue or capital. It is often forgotten that the States of Guernsey holds approximately £2bn of investments on behalf of the taxpayer. Therefore, how these investments are managed has an important part to play in the financial health of the States.
- 4.3. The previous Committee conducted a review of this area in 2009 which was undertaken by PricewaterhouseCoopers, to seek assurances that the funds held by the States were secure and safe, whilst maximising returns for the appropriate levels of risk.
- 4.4. In its own covering report in 2010, the previous Committee confirmed that it would “continue to monitor the progress made by the Departments against these recommendations in investing States’ funds safely and securely as part of its monitoring programme, following up from its past reviews.”
- 4.5. The Committee’s current review will provide assurance on the current position, whilst also reviewing how effectively States’ funds have been invested and managed since 2009.
- 4.6. The review is examining the political governance and the performance of the funds invested and the following areas are being considered:
- the methodology for appointing and monitoring investment managers, including performance benchmarking;
  - investment management fees paid, in particular the role of the custodian;
  - the suitability of the reporting mechanism of the fund’s performance and whether results are challenged;
  - whether the investments are being made in accordance with the individual funds legislation, directives, guidelines and rules and the adequacy of the monitoring of this the total funds invested by the States; and
  - the governance around the management of the funds including what the political oversight is of the actual asset allocation and how well briefed politicians are to be able to make a decision.
- 4.7. The outcome will be an independent report evaluating whether the States is investing the funds safely and securely, whilst maximising returns for appropriate levels of risk.

### **Review of the Financial Transformation Programme (Phase 2)**

- 4.8. The cost/benefit review of the FTP as highlighted in Section 3, was the first phase of what was intended to be a wider review of the Programme.
- 4.9. The second review will examine the roles played by those who had the senior political and governmental accountability for the implementation of the Programme. It is envisaged that this review will build upon the information contained within the KPMG report and the FTP Closure Report, whilst focussing on transformation and change management.
- 4.10. It will also examine the sustainability of ongoing savings, the value for money of the FTP implementation and its ongoing legacy. It will also consider whether lessons have been learnt for future transformational and cultural change programmes.
- 4.11. At the time of writing, the Terms of Reference of this review was under consideration by the Committee.

## 5. Monitoring and Influencing

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5.1. A considerable part of the Committee's role involves:

- reviewing Post-implementation Reports of capital projects;
- reviewing the reports of the IAU;
- reviewing progress made following previous Committee's investigations and reports;
- ensuring that recommendations from the Committee's Reports are implemented; and
- monitoring the external audit process.

5.2. A portion of this work is undertaken by the Committee's Audit Panel who then report back to the full Committee with their findings and recommendations.

### **Audit Panel**

5.3. The current Public Accounts Committee continued the previous practice of creating an Audit Panel to monitor specific elements of financial scrutiny.

5.4. The Audit Panel received regular progress updates from the IAU and the External Auditors of the States and reviewed audit reports and management letters on the annual States' Accounts, whilst also taking a lead role in the monitoring and assessment of the work of the External Auditors.

5.5. The Panel is currently conducting a review of the presentation of the States' Accounts on behalf of the Committee.

5.6. The Committee recommends that the Scrutiny Management Committee establish a similar standing panel in the next term.

### **Internal Audit**

5.7. As part of its ongoing monitoring function, the Committee continued to receive updates and reports from the IAU and followed up any areas of concern.

5.8. In addition, the IAU has been vital to the implementation throughout the States of Guernsey, of the Committee's recommendations in regard to risk management and prevention of fraud.

5.9. The Committee believes that its important relationship with the IAU has been influential in making positive change and would suggest that this be maintained by the Scrutiny Management Committee in the next term.

## **External Audit**

- 5.10. Although the External Auditors work closely with T&R, it is important that they report on their programme of work and findings, to an independent authority. In the absence of an Audit Committee, the Audit Panel has undertaken this role on behalf of the Committee.
- 5.11. The Audit Panel met regularly with the External Auditors, in order to be apprised of any issues arising during the annual audit of accounts for the States.
- 5.12. By liaising with all those who are audited, the Committee has annually assessed the performance of the External Auditors. It has then provided feedback to both the auditors and T&R in order to assist with the Audit Plan for the upcoming year.
- 5.13. There has been a more robust challenge to both the auditors and T&R during the annual process this term, due in large part to the financial experience of the Audit Panel members.
- 5.14. This challenge has helped to streamline the audit process both internally and externally and has also provided better value for money for the States of Guernsey from the external audit.

## **Post-implementation Reviews**

- 5.15. The Committee's function in relation to capital projects is to review PIRs to ensure efficiency and value for money has been achieved throughout the evolution of a particular project.
- 5.16. A PIR is an independent formal review of a programme or project, which is used to determine whether a particular capital project has achieved the aims and objectives originally set out and to ensure that lessons learned from that project are transferred effectively to other projects across the States.
- 5.17. In the States of Guernsey all capital projects over £1 million which commenced since 2009 and completed within the States approved Capital Programme, including all routine capital maintenance and refurbishments, must be subjected to an independent PIR.
- 5.18. The fundamental part of any project review is to make sure that lessons learnt on one project are transferred effectively to other projects, not just within the same Department, but to other projects across the States.
- 5.19. The Committee agrees the scope of the PIR prior to the department tendering for an external consultant to undertake the review. It will then consider the final report once received and determine what follow up action to take if applicable.

5.20. Listed below are the reports received by the Committee this term:

- Electronic Health and Social Care Record - Patient Administration System / Theatres and A&E (EHSCR Phase2)
- GILE Project (phase 1)
- St Peter Port School (Part One)
- Guernsey Water - Belle Greve Wastewater (Part One)
- Guernsey Airport Pavements (Part One)
- Guernsey Airport Terminal

5.21. The departments dealing with the forthcoming PIRs detailed below, have formally submitted 'Scope, Brief and Tendering' documentation to the Committee for its consideration and subsequent agreement and authorisation:

- The New Slaughterhouse
- The Harbour Berths 4,5 & 6
- SAP / Shared Transaction Service Centre
- Princess Elizabeth Hospital Phase 6b

5.22. It has also questioned Ministers and senior officials from the relevant Departments on any matters of concern or best practice raised and provided feedback to the respective Departments who coordinated the particular review.

5.23. The Committee was hopeful that many of the lessons learnt from the past, had been implemented throughout the States' and that the cases of the same issues re-occurring would have diminished. Whilst a few projects reviewed showed some areas of good practice, significant issues have still been encountered.

5.24. Problems have included projects where there was not a suitably qualified Project Board in place from the start of the project, planning consents not having been granted prior to commencement of build and work commencing with contractors and consultants under letters of intent without the formal protection of a contract being in place. All the above have resulted in avoidable costs.

5.25. The Committee has also observed that the level of contingency in the majority of projects appeared, on the basis of the commercial experience of members, to be set at a relatively high figure. At the same time, these allocations had been fully spent on a number of projects reported as being completed within budget. The Committee believes that contingencies should be aligned to a fully costed risk management process and as risks are analysed and on some occasions mitigated, the overall level of contingency should be reduced.

- 5.26. The Committee believes that PIRs provide invaluable insight into the successful operation of future projects. Therefore, it is important to ensure that the dissemination of lessons learnt works effectively. This Committee and its predecessors have, on numerous occasions, expressed their concern both to the Departments involved and the States Property Services, that PIRs for States Capital Projects are not routinely circulated throughout all States Departments.
- 5.27. It seems fundamental to the Committee that any Department looking to undertake a substantial capital project should be able to look back at the findings from relevant previous projects. This would ensure that any lessons to be learnt would be able to be taken on board prior to a new project commencing.
- 5.28. The Committee also believes that in the interest of openness and transparency, PIRs should be placed in the public domain.

### **Financial Transparency**

- 5.29. The Committee has placed considerable focus this term on improving financial transparency in the States of Guernsey. Current reporting of financial matters is not acceptable.
- 5.30. The States' Accounts do not conform to generally accepted accounting standards and are difficult to understand, even for those with a financial and accounting background.
- 5.31. Amendments to policy letters including the annual Budget have been used to improve financial transparency. These include instructing T&R to commence the move to internationally recognised accounting standards from 2016 and the setting aside of a specific States' meeting to debate the accounts. The Committee also managed to have the accounts of trading bodies, Guernsey Electricity and Guernsey Post debated each year in the States.
- 5.32. The Committee has also made recommendations to T&R on what improvements could be made in terms of disclosures in the accounts, such as for employee pay and numbers.
- 5.33. In addition, the Committee's Audit Panel is currently undertaking a more detailed review of the presentation of the States' Accounts on behalf of the Committee.
- 5.34. The States of Guernsey has a long way to go in providing greater financial transparency and the Committee recommends that the Scrutiny Management Committee monitor developments closely.

## **6. Principles of Good Governance**

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- 6.1. The Committee was responsible for introducing the Six Core Principles of Good Governance to the States of Deliberation in March 2011. The ethos of those principles is encompassed in all aspects of the Committee's work.

## 7. Conclusions

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- 7.1. The Committee believes that over the last four years it has played a major role in improving how States' bodies manage their financial affairs. It has done so, not just through traditional reviews but also and perhaps more importantly, through monitoring and influencing.
- 7.2. It has made considerable impact throughout this term and particular examples are given below:
- Its first review of Financial Controls and subsequent active scrutiny to ensure recommendations were actioned, has resulted in a significant cultural shift in the States of Guernsey's understanding of risk management and fraud;
  - The HSSD Financial Management Review recommendation which facilitated the BDO Costing, Benchmarking and Prioritisation Review. This targeted net savings of £5m with savings of potentially £24m identified;
  - Its ongoing analysis of the FTP led to the Committee challenging a £650k transfer which had been allocated as a saving. This encouraged the return from Capita of their contracted remuneration of c£42k;
  - Its annual robust challenge of the external audit process has resulted in a more robust annual audit and accounts production process, providing greater value for money for the taxpayer; and
  - The implementation of its advice and recommendations has considerably improved the States of Guernsey's financial and resource management policies and procedures.
- 7.3. By placing successful amendments, making statements in the Assembly, asking Rule 5 and Rule 6 questions, as well as making direct enquiries of departments and calling in senior officers and politicians on a range of issues, the Committee has continued to promote value for money and cost effectiveness.
- 7.4. Financial scrutiny is in a better place than at the start of this term, but the lack of powers and resources has been a major constraint for the Committee. It is hoped that, as a result of the decision of the States of Deliberation to address this fundamental issue, the new Scrutiny Management Committee can build on what has been achieved and take financial scrutiny to the next level.



## Appendices

## Appendix I – The Mandate of the Public Accounts Committee

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### **The Mandate of THE PUBLIC ACCOUNTS COMMITTEE**

Constituted with effect from 1<sup>st</sup> May 2004 by Resolution of the  
States of 31<sup>st</sup> October 2003

#### **CONSTITUTION**

- A Chairman, who shall be a sitting member of the States
- Four members, who shall be sitting members of the States
- Four members who shall not be sitting members of the States

#### **MANDATE**

- a) i) To ensure that proper scrutiny is given to the States' assets, expenditure and revenues to ensure that States' bodies operate to the highest standards in the management of their financial affairs.
- ii) To examine whether public funds have been applied for the purposes intended by the States and that extravagance and waste are eradicated.
- iii) To recommend to the States the appointment of the States External Auditors and their remuneration.
- b) To liaise with the Scrutiny Committee to ensure that there is appropriate coordination of the entire scrutiny process.
- c) To develop, present to the States for approval as appropriate, and implement policies on the above matters which contribute to the achievement of strategic and corporate objectives.
- d) To exercise the powers and duties conferred on it by extant legislation and States resolutions.

To be accountable to the States for the management and safeguarding of public funds and other resources entrusted to the Committee.

## **Appendix II – Public Accounts Committee Membership from May 2012 – December 2015**

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### **Full Committee elected as at May 2012**

Deputy H. J. R. Soulsby	Chair
Deputy M. K. Le Clerc	Vice-Chair
Alderney Representative E. P. Arditti	
Deputy S. A. James MBE	
Deputy P. A. Sherbourne	
Mr J. F. Dyke	
Mr P. A. S. Firth	
Mr P. D. H. Hodgson	
Mrs G.Y. Morris	

### **Changes to the membership through the term were:**

The late Alderney Representative E. P. Arditti was replaced with Deputy P. A. Harwood.

Deputy M. K. Le Clerc and Deputy S. A. James MBE were later replaced with Deputy R. A. Jones and Deputy R. Domaille, with Deputy P. A. Harwood becoming Vice-Chair.

### **Full Committee as at December 2015**

Deputy H. J. R. Soulsby	Chair
Deputy P. A. Harwood	Vice-Chair
Deputy R. Domaille	
Deputy R. A. Jones	
Deputy P. A. Sherbourne	
Mr J. F. Dyke	
Mr P. A. S. Firth	
Mr P. D. H. Hodgson	
Mrs G.Y. Morris	

## **Appendix III – Committee Member and Staff Professional Development received during the period May 2012 to December 2015**

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Since the current Public Accounts Committee was formed, a number of Personal Development activities have been undertaken by both elected members and staff. These are detailed below.

### **Professional Development for Committee Members & Officers**

The following training & development opportunities have been provided to the members of the Committee throughout the term of Office:

Of particular significance during this political term, delegates from the Public Accounts and Scrutiny Committees visited Westminster to evaluate its parliamentary scrutiny arrangements. The purpose of the visit was to assess the applicability of those processes within the States of Guernsey model. The visit was also intended to allow members to compare their existing practice in terms of political and financial scrutiny with Westminster custom and practice.

The visit helped the Committees to identify a number of potential improvements that could be implemented within the context of political and financial scrutiny in Guernsey. Key learning points of the visit are identified in the sections below.

The Head of Media and Communication Services (Select Committees), House of Commons, spoke to the members about the potential for using twitter as an additional communication channel. This was then discussed and the Committee agreed to use this technology channel in Guernsey. It has generally been seen to be a positive development.

The Chair of the Public Administration Select Committee spoke to the members at length about his work on modernising the work of the Civil Service in the UK, much of which is relevant in Guernsey. He also spoke on the potential applicability of Committee pre-appointment hearings for ministerial appointments to public office.

A National Audit Office Director spoke to the delegation about the organisation's approach to speeding up the production of reports and the techniques they employ.

The Chair of the Justice Select Committee (and the Liaison Committee) discussed the UK's relationship with the Crown Dependencies in the context of effective scrutiny of the law officers and the judiciary within a Guernsey context. He touched on the issues associated with compelling witnesses to attend hearings and the answers they provide to the Committees. This dialogue informed the two Committees submissions to the States Review Committee (SRC) on the future powers that are appropriate to support future political and financial scrutiny.

A Member of the Westminster Public Accounts Committee discussed the way that it can respond rapidly to events because they have access to MPs, facilities and staff in short-notice situations.

Attending a number of Select Committee hearings, the members observed a number of different styles of questioning and different approaches to managing the Committee interaction with witnesses. Specifically, this experience informed members in the questioning of future witnesses within the public hearing context.

Attending the meeting of the Communities and Local Government Select Committee on the Jay Report into Child Sexual Abuse in Rotherham, the members were able to observe the way Select Committees handle evidence from independently-appointed commissioners on a given topic.

The Chair of the Standards and Privileges Committee spoke to the members about the importance of them “leaving their politics at the door” when they work on the Standards and Privileges Committee and how disputes of this nature are dealt with in Committee. This was particularly important for the Committees in terms of formulating future operating procedures in the context of the revised arrangements that will result from the Committees submission to the SRC on the future powers that are appropriate to support future political and financial scrutiny.

Members spoke to numerous House of Commons staff & MPs, many of whom praised the quality of the research and statistical support available to MPs at Westminster which allowed them to act effectively in scrutinising government.

### *Training Courses*

PRINCE2 (an acronym for PROjects IN Controlled Environments) is a de facto process-based method for effective project management. Used extensively by the UK Government, PRINCE2 is also widely recognised and used in the private sector, both in the UK and internationally. All Officers are now accredited to at least the foundation level.

Managing Successful Programmes (MSP®) was developed as a best practice guide on Programme Management. MSP represents proven programme management best practice in the successful delivery of transformational change through the application of programme management. The Principal Officer and a Committee Officer have gained Practitioner level accreditation.

Covey Seven Habits of an Effective Manager is provided within the States of Guernsey as a standard package of management training. Officers have engaged with this in-house training programme.

## Appendix IV – Summaries of Reviews undertaken during the period May 2012 to December 2015

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### **Review of the States of Guernsey anti-fraud governance framework**

When it was announced in July 2012 that the States of Guernsey had been defrauded of £2.6 million of taxpayers' money, there was understandable shock and anger throughout the community. That such a fraud did occur only highlights the fact that we must have the necessary frameworks in place to defend against this type of threat.

Whilst the public clearly had an interest in the details of the specific incident of fraud, it was as important to find out whether there was an underlying problem that led to the States of Guernsey being exposed to this unacceptable risk of fraudulent activity. Ernst & Young were commissioned by the Public Accounts Committee to undertake that piece of work.

The report from Ernst & Young confirmed that prior to May 2012, the States of Guernsey had an inadequate risk management framework in place.

The Committee acknowledged that the States of Guernsey had taken steps to improve the framework in the period between May and December 2012 (the period which the Ernst & Young report covered) and that a number of workstreams remained in progress which should, if successfully implemented, improve the framework further.

However, it is clear that at that point in time the risk management framework of the States of Guernsey, which includes anti-fraud governance, remained inappropriate and further work was required.

The Ernst & Young report showed that the States of Guernsey had historically *“repeatedly failed to implement and embed a consistent, formal, comprehensive approach to general risk management”*. The Committee firmly believed that the implementation of such should be of the highest priority for the States of Guernsey during the current political term.

Subsequent to the review by Ernst & Young, the establishment of the STSC and the implementation of the new SAP system have been completed.

As the implementation of both the STSC and SAP had significant implications for financial management in the States of Guernsey, the Committee then commenced Stage 2 of its Review of Financial Controls, focussing on the financial controls which were in place.

Both the E&Y report and the Committee's covering report were released in May 2013 and can be accessed at:

- E&Y Link: <http://www.gov.gg/CHttpHandler.ashx?id=82947&p=0>
- PAC Cover Report Link: <http://www.gov.gg/CHttpHandler.ashx?id=82948&p=0>

## **Review of the HSSD Financial Management**

The purpose of the Committee's Review was to consider the standard to which the HSSD managed its financial affairs in 2012. Specifically, the circumstances which led to the Minister's statement in the November 2012 States Assembly with regard to HSSD's envisaged £2.5million revenue overspend.

The focus of the review was:

- HSSD's management of its financial affairs in 2012 against the allocated revenue budget;
- The financial management information produced;
- The financial oversight provided by T&R; and
- Identification of the reasons leading to the Minister's statement.

It should be noted that a full review of the HSSD financial function was not undertaken.

It was the intention of the Committee that the review should provide an independent, evidence-based account of circumstances leading to the Minister's statement, which took a considered view of the issues that had been identified.

The Committee acknowledged that its report was not produced in isolation, but in addition to the Finnermore, IAU and Health Systems Workshop reports into related areas. The Committee also acknowledged that HSSD had produced its own Financial Management Improvement Plan.

The complexity of the health and social care model in which HSSD operates and the direct impact this has on effective financial management, was taken into account during the Review. The Committee accepted that accurate financial forecasting in this area is complex and challenging. It also acknowledged that the nature of providing health and social care services means that very expensive services must, on occasions, be purchased at short notice.

The Committee also noted that HSSD did contain the increase in their expenditure, during the years 2009-2011.

However, a number of observations were made:

- The examination of the management of the allocated revenue budget did not give the Committee confidence that a satisfactory level of financial control, appropriate quantification of financial risk, and accurate forecasting, was present;
- The financial management and activity information produced at HSSD, did not meet the standards in terms of clarity, detail and accuracy, that the Committee would expect when managing a budget of this size and complexity; and

- The oversight provided by T&R did not fully mitigate the problems previously identified in HSSD financial management and that communication could be enhanced between the Departments.

In addition, the key report which advised the HSSD Board on the actions to be taken in December 2012 was limited and lacked rigour. Accordingly, the advice provided to the HSSD Board was not based on sufficiently robust evidence and analysis to enable appropriate decision making.

The Committee made a series of recommendations which can be summarised as follows:

- That any major decisions to significantly reduce the level of services must be undertaken after considering a detailed Business Case incorporating, as a minimum, strategic, financial and risk analysis, together with a detailed implementation plan;
- That the recommendations within the Finnamore and IAU Private Patient Income Reports are implemented along with the continued progress of HSSD's Financial Management Improvement Plan. Financial Board Reports should contain not only core data but appropriate insight and analysis;
- That the implementation of robust FTP projects is undertaken, in conjunction with the States Treasurer's Team;
- That T&R continue to provide an oversight role with a clear focus on continuing to enhance inter-departmental communication; and
- That during the transition of Board membership there is a need for focus on the process of knowledge transfer; specifically with regard to financial matters.

Furthermore, broader conclusions were drawn and the following additional recommendations made:

- That a review of the recruitment & retention of clinical staff within HSSD is considered, to establish a long-term sustainable model ensuring that the reliance on agency staff is reduced; and
- That the overall health and social care model merits a separate review to support HSSD in delivering a long-term sustainable financial model.

The report was released January 2014 and can be accessed at:

<http://www.gov.gg/CHttpHandler.ashx?id=85866&p=0>



## **Review of the Cost / Benefit Review into the Financial Transformation Programme**

The purpose of the Committee's Review was to consider a Cost/Benefit exercise on the major claimed savings within the FTP, incorporating an analysis of the resultant remuneration to the Consultant. KPMG were engaged to perform a financial review of a selection of FTP projects, including an analysis of each project's financial data, verification that the approved savings had been calculated in line with the financial rules and that the Consultant had been remunerated in line with the contracted terms.

The work of KPMG confirmed that the financial rules were not clearly documented at the beginning of the FTP. KPMG stated that a consequence of the lack of financial rules, '*... has led to uncertainty and debate as to whether certain savings and related Consultant reward fees can be approved*' and provided illustrations within their report of such uncertainties. As such, the Committee believed that it may be potentially advantageous for future Programmes of this complexity to consider specialist input when the contract and/or related documents are being drafted and that it would be worthwhile reviewing the approach to drafting such documentation of this type in the future.

KPMG identified that a total of £5.14m was paid to the Consultant throughout the duration of the contract. With regard to the reward fee element, the Committee acknowledged KPMG's finding that there was no significant difference based on the contract provisions.

The Committee acknowledged the examples of good practice identified within the report and noted the significant contribution to the General Revenue of many of these Projects. However, there were a number of issues highlighted within the report that raised concerns with the Committee, specifically whether:

- an advantageous clause in the contract should have been evoked by the Policy Council;
- future savings should have been approved;
- costs charged through non-General Revenue accounts or States owned entities should have been considered to be internal transfers ; and
- budget reductions should have been considered as a 'real' cash saving.

Furthermore, the Committee was concerned by KPMG's summation that ongoing monitoring of the benefits would be vital to ensure the sustainability of the benefits.

Inevitably for any programme of this scale, there were a number of lessons that must be learnt. The KPMG report established that there were examples of good practice, together with areas of concern which justified the need to maximise the learning process through this and other reviews into the FTP.

The report was released May 2015 and can be accessed at:

- KPMG Link: <http://www.gov.gg/CHttpHandler.ashx?id=95692&p=0>
- PAC Report Link: <http://www.gov.gg/CHttpHandler.ashx?id=95691&p=0>

### **Review of the Financial Controls within the implemented SAP System**

In September 2012, the Committee published its Terms of Reference for a broad review of the effectiveness of financial controls in place across the States of Guernsey to minimise the risk of fraud against the organisation and safeguard States' assets.

It was agreed that the review would take a staged approach and, in November 2012, Ernst & Young was announced as the independent expert reviewer for the initial stage. This was to focus on the appropriateness of the States of Guernsey's anti-fraud governance framework before and after the specific incident of fraud committed against the States, which had been reported in July 2012.

In May 2013, both Ernst & Young's report and the Committee's covering report for this initial stage were released.

The Committee also announced at that time its intention that Stage Two of its 'Review of Financial Controls' would focus on the controls in place following the establishment of the STSC and the completed implementation of the new SAP system.

The Committee also announced at that time its intention that Stage Two of its 'Review of Financial Controls' would focus on the controls in place following the establishment of the STSC and the completed implementation of the new SAP system.

*"As the implementation of both the STSC and SAP has had significant implications for financial management in the States of Guernsey, the Committee intends to commence Stage 2 of its Review of Financial Controls as soon as possible, focussing on the financial controls which are now in place."*

The review was intended to evaluate the level of financial control being exercised within the States of Guernsey, the quality of the financial management control systems provided by the SAP system and the procedures undertaken by the STSC, in relation to reducing the risk of fraud.

Ernst & Young was engaged in late 2013 to undertake the review on behalf of the Committee.

Following Stage One of the review in May 2013, the Committee stated that at the time of the occurrence of major fraud in July 2012, financial controls were weak and the concept of risk management was poorly understood. It also noted that the incident of fraud had been a catalyst for change and it was acknowledged that a significant amount of work had been undertaken following the incident to implement improvements. However, the Committee made it clear that momentum needed to be maintained.

The implementation of the SAP system and the creation of the STSC formed part of the FTP and was designed to centralise and streamline the back office functions. The Committee therefore felt that it was necessary to determine whether these changes resulted, not only in financial control arrangements which were fit for purpose, but also whether continuous improvement could be demonstrated.

Ernst & Young was engaged on behalf of the Committee, to undertake the review of financial controls in place within this environment. The review was to look specifically at the quality of the financial management control systems in place in relation to reducing the risk of fraud.

In summary, the report provides a reasonable degree of assurance that a good standard of financial control is now in place within the STSC and those processes have indeed reduced the risk of fraud across the States.

However, it did highlight two matters of serious concern.

Firstly, the lack of a current, documented and comprehensive set of financial rules and directives. This should have been in place customarily, but more importantly, should have been a specific requirement prior to The Hub going live.

Secondly, it seemed unclear who had overall responsibility for the financial management activities undertaken within the STSC.

In the Committee's opinion, the review also highlighted issues in terms of training within States departments, which may have resulted in the full benefits of the system not being realised at implementation. This should be considered as part of any future review into the SAP/STSC implementation.

The report was released July 2015 and can be accessed at:

<http://www.gov.gg/CHttpHandler.ashx?id=96892&p=0>

## **Beau Sejour Leisure Centre Review**

The purpose of the Committee's review was to evaluate whether the processes followed in the BSLC Project were appropriate and resulted in the best value for money option being pursued for its future management. The Review gave the Committee an important insight into the experience of implementing the FTP and has helped inform its broader work relating to it.

It was clear that throughout the review process a series of wide-ranging reports were undertaken. With the advantage of hindsight, it is now clear that the conclusions within the Alternative Management Operations Report, the initial major report, were robust.

It is perhaps understandable that the Policy Council wanted to ensure that the potential for outsourcing had been thoroughly pursued and determined '*once and for all*'.

It was also evident that significant tension developed within the Project Team during the latter stages of the project, which resulted in a fundamental disagreement as to the viability of the options for how BSLC should be managed. Undoubtedly, passions raised by this process were a reflection of both the genuine appetite for savings to be identified and a deep commitment to public service. This provides an example of how two groups of professional staff within, or supporting, one project team can fundamentally disagree on the same issue. However, perhaps more importantly, how sometimes they are unable to work together to reach a consensus of opinion.

The intervention of the Senior Responsible Officer, to invite a third party for an independent opinion, can now be judged as the salient action in this project and should be considered in the future if a similar situation arises.

From the information that was examined within this review, the Committee concluded that the process provided a robust challenge to the existing model of managing BSLC, albeit that the existing Strategic Partnership could be enhanced. It was also the view of the Committee that all groups associated with this project acted in good faith throughout. However, the Committee believed that the project should have been terminated earlier. This is not only due to the fact that TUPE was a major issue but also because of the significant but unquantifiable amount of staff time spent on the process.

The Committee acknowledged that C&L has since continued to consider potential efficiencies that could be accomplished within the existing management arrangements. The Committee noted the further efficiencies by C&L through '*Plan B*', with the most recent subsidy continuing to fall.

The report was released November 2015 and be accessed at:

<http://theoldsite.gov.gg/CHttpHandler.ashx?id=98975&p=0>