



Scrutiny Management
Committee

REVIEW OF THE PRESENTATION OF THE STATES OF GUERNSEY ANNUAL ACCOUNTS

JUNE 2017

CONTENTS

1. Executive Summary
2. Background
3. Findings
4. Recommendations

“During the last political term, the Public Accounts Committee raised concerns on more than one occasion, both publicly and privately to the then Treasury & Resources Department, that the States of Guernsey’s annual accounts had not made significant progress to comply with the International Public Sector Accounting Standards (IPSAS) and highlighted its disappointment at the presentation of the accounts themselves.

The Committee utilised the extensive commercial and financial experience of its Members, to put forward suggestions where improvements could be made to the public facing document.

The recommendations detailed in this report are the culmination of the work of the PAC’s Audit Panel and the Financial Scrutiny Panel of the Scrutiny Management Committee and would I believe provide additional financial transparency for the States of Guernsey.

Early sight of this report was provided to Policy and Resources Committee in January and the Scrutiny Management Committee welcomes the inclusion of some of its recommendations in the current set of accounts. However, it hopes that all of the report’s recommendations will be wholly embraced by the Policy and Resources Committee.

In closing, I believe that by improving the external communication of the information within the accounts, a greater number of the public would be afforded the opportunity to understand the Island’s finances.”

Mrs Gill Morris
Financial Scrutiny Panel Lead
Scrutiny Management Committee

1. Executive Summary

- 1.1.** The previous Public Accounts Committee (PAC) reviewed the annual accounts and budget of the States of Guernsey to meet its mandated responsibility to ensure that management of the States' financial affairs met the highest operational standards.
- 1.2.** Throughout the previous political term, the then PAC consistently expressed its desire to improve the overall clarity of the annual accounts. It decided to undertake a comparative review of similar jurisdictions and UK government departments to identify examples of best practice in the production of those entities' annual accounts.
- 1.3.** A number of positive themes arose throughout the accounts reviewed. Taken together, they highlighted how complex organisations such as the States of Guernsey, can produce annual accounts that are clear and concise, but also include relevant detailed information.
- 1.4.** The SMC completed this review and are pleased to note that following early sight of the report to Policy and Resources Committee, some steps have already been taken to improve the presentation of the 2016 accounts, in particular:
 - i) the removal of the individual departmental financial detail from the main report to the appendices of the accounts;
 - ii) the improved States Treasurer's Report narrative which includes additional information on the investment strategy and the States of Guernsey bond issue;
 - iii) the inclusion of an additional disclosure detailing the potential effects of moving towards the International Public Sector Accounting Standards (IPSAS) on the financial statements;
 - iv) the change to include each Committee's mandated responsibilities in the individual narratives; and
 - v) a new Appendix which reports all health service related expenditure in a consolidated statement
- 1.5.** The PAC and subsequently the Scrutiny Management Committee (SMC), which assumed the role of the PAC, believe that the current Policy and Resources Committee can further improve the presentation of the accounts and therefore enhance the openness and transparency of the States' financial reporting, by fully considering the suggestions within this report.

2. Background

- 2.1.** The PAC's responsibilities in relation to the oversight of the spending of public funds were formally laid down by the States of Deliberation in 2004. These responsibilities have now been assumed by the SMC.

- 2.2. These were: *“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.”*
- 2.3. The PAC complied with a portion of these responsibilities by reviewing the annual accounts and budget of the States of Guernsey (SOG) through its Audit Panel (the Panel), which benefitted greatly from the considerable current commercial and financial experience of its members.
- 2.4. The Committee believed that the overall clarity of the content within these important government documents was poor.
- 2.5. The complex nature of the current presentation of the accounts was seen as unnecessary and since the beginning of the previous term, the Panel sought to persuade the then Treasury and Resources Department (T&R) to revise the format and presentation of the annual accounts, to improve the clarity of the financial information.
- 2.6. This issue of unnecessary complexity was raised annually from 2013 within the PAC Chairman’s annual statement to the Assembly during the accounts and budget debates and also in the Panel’s meetings with the States Treasurer.
- 2.7. During the Budget debate in October 2014, the T&R Minister acknowledged the PAC’s frustrations and confirmed that his department would welcome recommendations to assist them in improving the presentation of the accounts.
- 2.8. This prompted the PAC through the Panel, to undertake a more formal review of how similar jurisdictions and other large organisations produce their annual accounts. By examining how these entities delivered their annual reporting, the PAC hoped that it would be able to provide T&R with recommendations that should be helpful and constructive.
- 2.9. The SMC Members have since reviewed the report and the research material and agree fully with the suggested recommendations.

3. Findings

- 3.1. Whilst the Panel considered the accounts of multiple organisations, the review gave main consideration to the annual accounts of comparable jurisdictions and UK governmental departments and in particular:

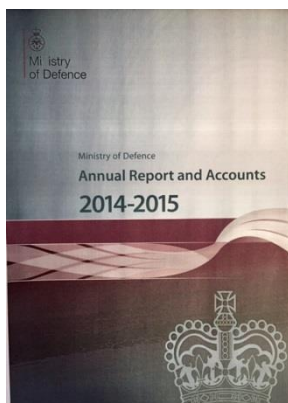
The States of Jersey



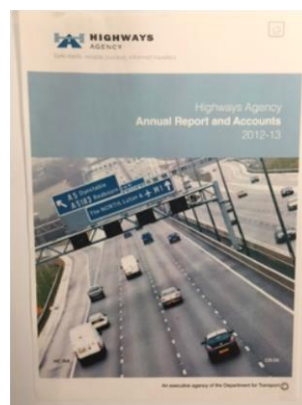
The Isle of Man Government



The UK Ministry of Defence



The UK Highways Agency



For full reports of the above, see appendices.

Best Practice

- 3.2. A number of common positive themes arose throughout the accounts reviewed and all demonstrated how organisations similar in scale and complexity to the SOG can produce annual accounts that are clear and concise, whilst still including detailed pertinent information.
- 3.3. Information which appears in the accounts reviewed, but not currently in the SOG accounts included:

(i) **Post Balance Sheet events**

Also referred to as subsequent events, these are events occurring after the date of the balance sheet, but prior to the date that the balance sheet is actually released. Items if significant will likely require a disclosure in the notes of the financial statements.

(ii) **Detailed statement of accounting policies**

The first note or footnote in a company's financial statements should disclose the significant accounting policies of the organisation; for example, how and when revenues are recognized, how property is depreciated and how inventory and income taxes are accounted for.

(iii) **Investment Strategies**

This is the opportunity for the organisation to present its strategies and long term aims for each of its investment funds.

(iv) **Fixed Assets**

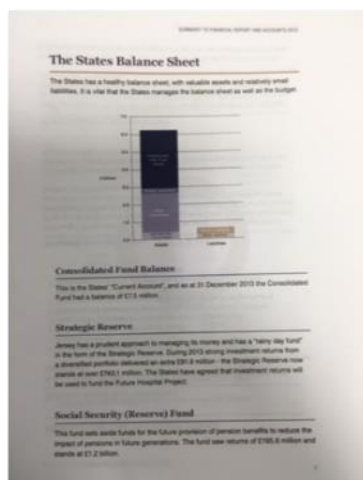
Fixed assets are an organisation's tangible, noncurrent assets that are used in its business operations. A common example of fixed assets is an organisation's buildings and equipment. The word *fixed* indicates that these assets will not be used up, consumed, or sold in the current accounting year. The amount of a company's fixed assets is normally reported in the noncurrent (or long-term) asset section of the balance sheet under the header *Property, plant and equipment*.

- 3.4. In addition to the above, a statement of Internal Control and Governance should be included which describes the effectiveness of internal controls within an organisation and is personally signed by the relevant Accounting Officer/s.
- 3.5. The Internal Control statement included within the SOG's accounts is extremely short on detail and appears to be unchanged since 2008. This is disappointing when compared with the States of Jersey's Governance Framework detail for example, which occupies 28 pages.
- 3.6. In the majority of the accounts reviewed, a detailed statement of Accounting Officer's responsibilities is also included. Currently, this is covered in one paragraph in the SOG's offering. It is hoped that following the machinery of government changes and the appointment of departmental/committee Accounting Officers, this will become more detailed.
- 3.7. UK central government departments also prepare a 'Statement of Parliamentary Supply' explaining their expenditure against the funds voted by Parliament. This statement is integral to the department's financial governance and something which their external auditor gives an opinion on within the annual audit of the department's accounts.

Including all of the above in the SOG accounts, would strengthen the governance and financial management surrounding the end of year process and provide more relevant information than is currently being published.

Innovation

- 3.8. In addition to the standard governance statements mentioned previously, the annual reports reviewed also provided innovative additions that the SOG should consider for the future:



The States of Jersey

Produces a clear and concise visually interesting summary in addition to the full accounts, written in plain English, explaining how the States of Jersey is attempting to balance its books. It also highlights with photographs, some of the capital expenditure undertaken within the fiscal year, or due to be undertaken in the coming year.

The full annual accounts include any changes made to the investment funds in the year, with a graph of the performance of the Common Investment Fund included, along with a forecast for the coming year.

Senior roles within the States are identified, with accompanying detailed pay costs for senior staff.

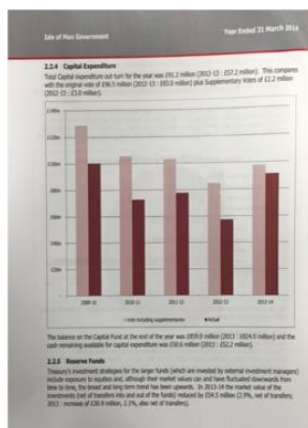
There is also a multiple page overview of the Scrutiny and Risk Management function within the States of Jersey. This explains the remits of the Audit Committee, Internal Audit, the Public Accounts Committee, Scrutiny Panels and the Chairmen's Committee along with any hearings undertaken and reports published.

The information above is publicised with a very clear and informative Press Release from the Jersey Treasury and Resources Department.

Isle of Man Government

Produces detailed Government accounts as per the States of Guernsey. However, they are written in a much more understandable language and include an introduction which explains what the different sections comprise of.

The IOM Bond Issue details the specific purposes that the amounts 'loaned on' are for, with interest rates charged and anticipated repayment dates.



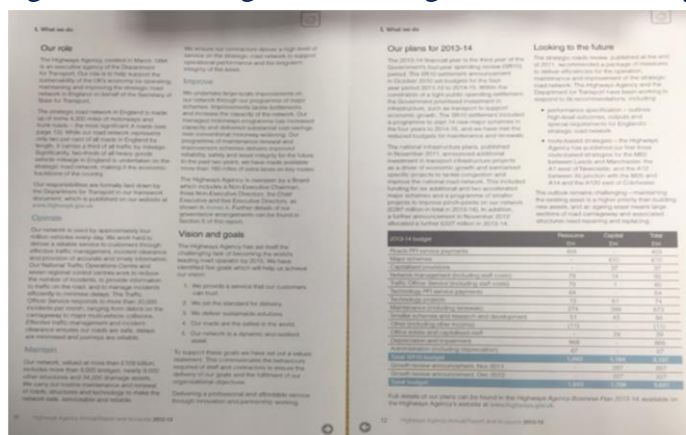
There is a summary of all invested funds, details of the income and expenditure of each fund and when, why and how the fund was established.

It also includes the annual Capital Expenditure with the overall amount approved and actual spend, explained graphically.

There is also a summary of current assets/liabilities by each Department/Committee included.

UK Highways Agency

These accounts include an interesting overview of the Purpose and Benefits of the organisation. The goals of the organisation are clearly detailed.



There is a simple summary of income and expenditure with detailed notes available in the appendix.

An overview of Internal Audit and Risk Management and Assurance is also included.

UK Ministry of Defence

Notes to the accounts are detailed but clear, as are the numbers, with only six pages of actual figures required.

Departmental priorities with current ongoing projects are detailed.

The image shows a page from the Defence Board Salaries, Allowances and Taxable Benefits-in-Kind report. It contains a table with columns for Name, Position, Salary, and Allowances. The table lists various members of the Defence Board and their respective compensation details.

Name	Position	Salary	Allowances
Mr. [Name]	Chairman	£100,000	£10,000
Mr. [Name]	Member	£80,000	£8,000
Mr. [Name]	Member	£70,000	£7,000

There are also breakdowns of the Defence Board salaries, in addition to Ministerial salaries and allowances.

All of the above could significantly improve the presentation of the accounts of the SOG by enhancing the openness and transparency of the States' financial reporting.

4. Accounting Standards

- 4.1. In March 2012, the States resolved and agreed funding of £1.3m to initiate a programme intended to lead to the introduction of recognised Accounting Standards¹. The implementation of this extant resolution would result in a robust and tested accounting framework, which is essential to effectively budget, report and plan in a sophisticated financial environment such as the States of Guernsey.
- 4.2. Such a framework not only facilitates these activities, but enables stakeholders, both internal and external, to evaluate how effectively and efficiently the States has performed. It enables year on year comparison and, because the recommended framework is recognised externally, also enables comparisons across similar jurisdictions. It also, importantly, allows the true cost of services delivered to be determined through the recognition of the existence and continued use of our valuable assets.
- 4.3. At the time of writing, the SOG accounts still do not fully adhere to current accounting standards. Despite attestations by the then T&R Department to the former PAC in this regard in the last term, the move to modern financial reporting standards is being fulfilled very slowly.
- 4.4. The SMC in common with its predecessor, believe it is essential that this work is undertaken to improve the overall clarity of the SOG accounts. To that end in July 2015, the previous PAC Chairman laid a successful amendment to the Second Policy Letter of the States Review Committee to insert a further proposition as follows:
- “To agree that the accounts of the improved committee system shall be prepared under recognised Accounting Standards and that the Treasury & Resources Department shall formally commence the phased implementation of recognised Accounting Standards, as resolved by the States in March 2012, with effect from 1 January 2016.”*
- 4.5. The initial funding to enable this change to take place, was made available from the Fundamental Spending Review Fund and the SMC note that in the 2017 Budget there are still substantial funds allocated for ‘the introduction of resource accounting and budgeting’. Therefore, the SMC would hope that this transition is undertaken as expeditiously as possible.

¹ An accounting standard is a guideline for financial accounting and sets out how an organisation should prepare and present its business income and expense, assets and liabilities. The Generally Accepted Accounting Principles (GAAP) is comprised of a large group of individual accounting standards which apply to financial reporting worldwide.

5. Recommendations

1) The governance and financial management surrounding the end of year process should be strengthened by the inclusion of the following in the States of Guernsey's annual accounts:

- (i) A Statement of Parliamentary Supply;
- (ii) Any post Balance Sheet events;
- (iii) A detailed statement of accounting policies;
- (iv) The Investment Strategies of the States of Guernsey funds;
- (v) A statement of Internal Control/Governance;
- (vi) A detailed statement of Committees' Accounting Officers responsibilities;
- (vii) Fixed Assets.

2) In order to enhance the openness and transparency of the States' financial reporting, the following should be included as a minimum by the 2016 accounts:

- (i) An overview of the Purpose and Benefits of each new Committee following the machinery of government changes;
- (ii) Individual Committee priorities with current ongoing projects;
- (iii) The annual Capital Expenditure with the overall amount approved and actual spend explained (represented graphically);
- (iv) Any substantive changes made regarding investment funds in the year, with a performance graph, along with a forecast for the coming year;
- (v) Details of the Bond Issue including: the specific purposes of the amounts 'loaned on', interest rates charged and anticipated repayment dates;
- (vi) An overview of the Financial Scrutiny, Internal Audit, and Risk Management functions within the States of Guernsey;
- (vii) Senior roles within the States identified, with accompanying detailed pay costs (over 80k per annum).