



12 January 2017

## **SIGNIFICANT FAILINGS IN THE JERSEY INNOVATION FUND**

### ***Comptroller and Auditor General issues latest report***

Comptroller and Auditor General (C&AG) Karen McConnell has today (12 January 2017) published her report into the Jersey Innovation Fund.

There has been considerable public interest in the Fund which was established in 2013 when the States Assembly agreed to transfer £5 million into the Fund. Subsequently, seven loans totaling over £2 million have been made to six borrowers. At the end of December 2016 only 26% of payments due had been received and one borrower was the subject of a winding up order. The provision for doubtful debts was £692,000 at 31 December 2015 increasing to £1,383,000 at 31 December 2016.

The C&AG has undertaken a review of the operation of the Fund as a whole, informed by her detailed consideration of the individual loans advanced.

She concluded that the arrangements for the Fund were inadequate from the outset:

- there was a confusion about and poor articulation of roles and accountabilities;
- the objectives of the Fund were not translated into measurable outputs with associated targets (such as local jobs created per pound spent);
- key policy matters were either confused (the risk appetite of the Fund) or not addressed (the parameters to inform the setting of interest rates);
- internal resource requirements were underestimated;
- the potential financial performance of the Fund was not adequately considered;
- despite risk management arrangements for individual loans, there was insufficient focus on managing risk for the Fund as a whole;
- success criteria were not clearly articulated;

- mechanisms for securing upside gains from successful loans were not developed; and
- arrangements for aftercare were underdeveloped.

She also concluded that the operation of the Fund was deficient in many respects. In particular:

- there was poor compliance with many of the provisions of the Operational Terms of Reference;
- external expertise was not drawn upon as envisaged in the Operational Terms of Reference and it could have proved valuable;
- documentation was not always sufficient to support the recommendations and decisions made about advancing loans and, in instances, it is difficult to understand the basis for recommendations made to the Minister responsible;
- monitoring of performance of loans granted was inadequate; and
- reporting of performance of loans granted was late, incomplete and inaccurate.

As a result the States cannot demonstrate that good governance was in place, good internal control demonstrated and value for money secured from the Fund.

The report emphasises the role of the Accounting Officer for the Fund and concludes that he could and should have done more to ensure that public money was protected. It also expresses concern about the role of the Advisory Board and action taken by the Treasury and Resources Department.

**Karen McConnell said:**

"The Jersey Innovation Fund was a new scheme which required an entrepreneurial approach. Such an approach requires an excellent understanding of good governance consistently applied in practice. That has not been demonstrated.

In addition, when weaknesses in arrangements were identified prompt and effective action should have been taken to address those weakness. Again, that did not happen.

Weaknesses in governance and internal control create an environment in which any conduct of loan applicants and recipients that falls below expected standards, is less likely to be detected. From my work I have identified concerns about the conduct of third parties that I am considering reporting to the Attorney General.

It is important that States Members are provided with relevant and high quality information when asked to take decisions. In my view that did not happen. More information could and should have been provided on the potential costs falling on the Fund, including the potential scale of any losses.

As I believe that the current arrangements are not fit for purpose, I strongly recommend that no further loans are made unless and until the very significant failings identified in my report are addressed. I support recent steps taken by the Chief Executive in ensuring proper and effective management of existing loans.”

The report will be available on the Jersey Audit Office’s website from 0930 on 12 January at ([www.jerseyauditoffice.je](http://www.jerseyauditoffice.je)).

**ENDS**

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**Notes to Editors:**

- The Office of Comptroller and Auditor General (‘C&AG’) was established in 2005 and operates under the Comptroller and Auditor General (Jersey) Law 2014
- The remit of the C&AG includes the audit of financial statements and wider consideration of public funds, often expressed as ‘value for money’
- Karen McConnell was appointed in 2013 and the term of office was extended in 2014 to December 2019
- Formerly of the UK Audit Commission (‘the Commission’), Karen held a variety of senior positions, including leading the Audit Practice
- The Office of Comptroller & Auditor General is known as the ‘Jersey Audit Office’
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- Press releases will be published by the Jersey Audit Office to accompany the publication of each report
- Embargo times will be set at 0001 hours on day of publication - for both press releases, reports, and all other information pertaining to the publication date
- Other press releases/ statements may be made on an occasional basis, and not necessarily dependent upon the publication of a report. They will be subject to the same embargoes
- With any report issued, the opportunity is available for members of the press to request factual clarification, by email, of points contained therein
- Any comments made additional to any reports, will be included within any press release(s) as issued by the Jersey Audit Office, in the form of a quotation by the C&AG. These comments will be available for publication; but there will not be any supplementary live or pre-recorded interviews offered or undertaken by either Karen McConnell or the employees of the Jersey Audit Office
- The C&AG is prepared, on an occasional basis, to provide articles for publication in the local media, following a specific request and consideration of the relevant topic
- All public information, including press releases and reports, are accessible on the Jersey Audit Office website at [www.jerseyauditoffice.je](http://www.jerseyauditoffice.je)

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