

Oversight of Arm's Length Bodies

Project Specification

Background

Modern government relies on delivery of services not only directly by Ministerial departments but indirectly through other bodies. Such bodies may be:

- controlled by government
- established by government
- substantially funded by government; and/or
- given a statutory power to levy charges to cover some or all of their costs.

There are good reasons why government may determine that it is more appropriate to establish or to fund bodies rather than undertaking activities directly:

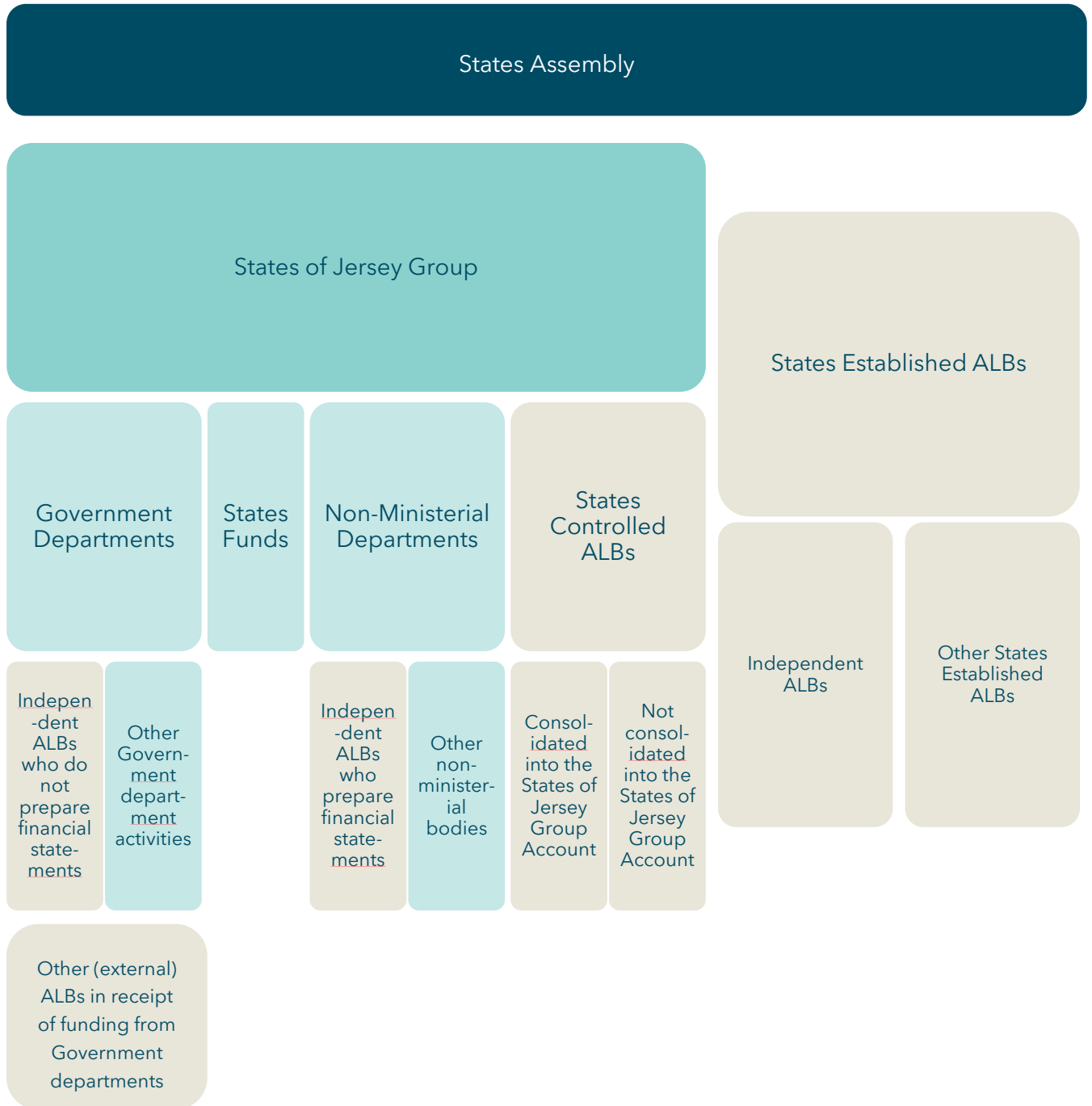
- to demonstrate independence from political influence, as in the case of certain regulatory functions
- to draw different skills and outlooks into managing an activity; and
- to leverage additional sources of funding that would not be available to government.

However, the establishment or funding of such Arm's Length Bodies (ALBs) is not without potential costs and risks. These include:

- inefficiencies arising from running smaller organisations, each of them with their own administrative and back office functions
- the costs of governance of separate organisations, including relating to the operation of a board and preparation and audit of annual accounts
- the costs of oversight of the activities of ALBs with a view to providing assurance that bodies are delivering what the States expected them to deliver; and
- increased barriers to securing changes in patterns of service delivery.

Exhibit 1 shows how ALBs fit into the landscape of entities in Jersey with ALBs shown in cream boxes.

Exhibit 1: States of Jersey ALBs



The States of Jersey have established several ALBs which operate, to varying degrees, on an independent arm's length basis. In some instances, the establishment of these ALBs on an arm's length basis is a matter of policy choice. In other instances, the activities undertaken by the ALBs include those of a regulatory, audit, oversight or challenge nature. These, by their nature, need to operate with an element of independence from the Government of Jersey.

In addition, the Government of Jersey funds a number of ALBs to undertake services which may otherwise fall to Government to provide. In some instances, the funding from Government is the most significant income stream for that entity.

The Public Finances Manual defines an Arm's Length Organisation as 'an organisation which fulfils a role or function the States of Jersey would otherwise perform (this definition does not extend to organisations which receive funding from the Government of Jersey of less than £75,000 per year).'

The establishment or funding of an ALB does not relieve the States of Jersey from a responsibility for ensuring that good governance is being demonstrated, effective internal control is in place and value for money is being secured. The Government of Jersey has established an Arm's Length Bodies Oversight Board (ALBOB) that seeks to provide governance oversight of ALBs.

Where funding flows from Government to an ALB, the relevant Accountable Officer has responsibility for the application of public funds. Ultimately, the relevant Minister has a political responsibility and is accountable to the States Assembly for the performance and policy framework of their ALBs.

The Functions of the Comptroller and Auditor General (C&AG)

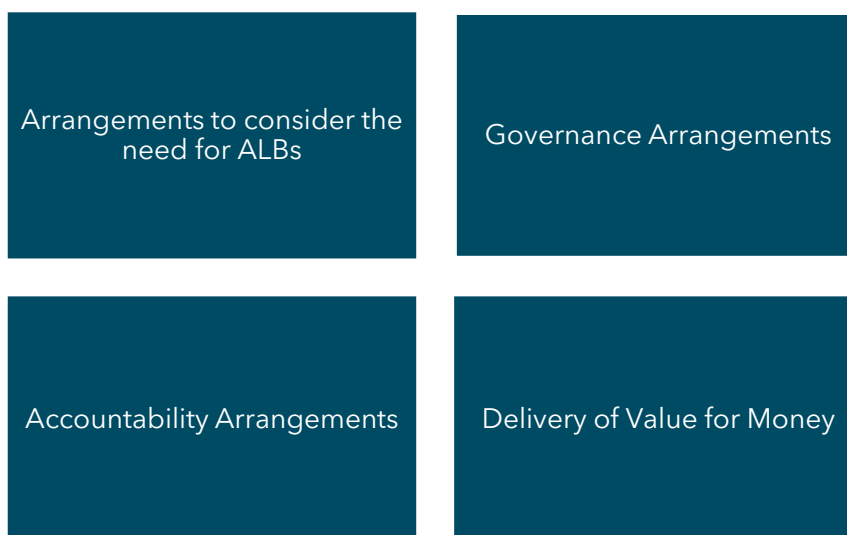
Article 11 of the Comptroller and Auditor General (Jersey) Law 2014 requires the C&AG to:

- provide the States with independent assurance that the public finances of Jersey are being regulated, controlled, supervised and accounted for in accordance with the Public Finances (Jersey) Law 2005
- consider and report to the States on:
 - the effectiveness of internal controls of the States, States funded bodies and funds
 - the economy, efficiency and effectiveness in the way the States, States funded bodies and funds use their resources; and
 - the general corporate governance arrangements of the States, States funded bodies and funds; and
- make recommendations to bring about improvement where improvement is needed.

Objectives of this review

The review will evaluate the effectiveness of arrangements for the four areas of oversight of ALBs shown in Exhibit 2. The review will consider the specific arrangements for oversight across a sample of six relevant ALBs.

Exhibit 2: Areas considered in this review



Scope

Governance, funding and operation of ALBs have been considered to different extents in previous Comptroller and Audit General (C&AG) reviews.

- In 2014 the then C&AG (my predecessor) issued a report *The States as a Shareholder - Jersey Telecom* (July 2014)
- In 2017 she published two relevant reports:
 - *Oversight of Arm's Length Organisations* (June 2017); and
 - *Grants and Subsidies* (December 2017)
- In 2018, she published *Arm's Length Organisations - Visit Jersey* (December 2018)
- In 2019, my predecessor published two relevant reports
 - *The States as a Shareholder - Follow Up* (March 2019); and
 - *Remuneration of Board Members* (October 2019)

- In 2020, I published my report on the *States of Jersey Development Company* (June 2020)
- In 2022, I published *Governance and Accountability of Independent Bodies and Office Holders: A Thinkpiece* (December 2022).

In addition, in each year since 2020 I have reviewed the annual reports of specific Jersey entities (including ALBs) against best practice. In each year I have published reports of my findings as well as Good Practice Guides.

The scope of this review will include a follow up of all previous relevant C&AG recommendations from the reports listed above.

The review will consider the specific arrangements for oversight across a sample of six relevant ALBs from the following categories of ALBs:

- States controlled entities (where the States are a shareholder) - the sample will include Andium Homes, Jersey Post and Jersey Development Company.
- ALBs who receive significant funding from the States of Jersey - the sample will include Jersey Finance, Jersey Employment Trust and Citizens Advice Jersey.

The review will not consider the effectiveness of the commissioning of services from ALBs. I am currently undertaking a separate review of commissioning of services.

Audit approach

This audit will use a combination of a result-oriented and system-oriented approach. It will consider:

- what results have been achieved from the arrangements in place
- whether the States of Jersey are meeting their objectives
- whether there are good monitoring and oversight systems in place
- whether roles, responsibilities and accountabilities are clear; and
- whether processes are reviewed and evaluated effectively on a periodic basis.

The review will commence with an initial documentation request. The findings of the document review will be followed up by interviews with key officers and potentially with other stakeholders.

The fieldwork for the review will commence in January 2024.

The detailed work will be undertaken by affiliates engaged by the C&AG.

Audit criteria

To assess relative performance during our audit, we will use best practice criteria that the Jersey Audit Office will develop based on past C&AG recommendations and observable practices in other similar jurisdictions.



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