

# Summary of Responses

## Consultation on Implementing Generally Accepted Accounting Principles in the States of Jersey

XX September

### SUMMARY OF CONSULTATION DETAILS

The Department of Treasury and Resources published a consultation on Implementing Generally Accepted Accounting Principles in the States of Jersey. The consultation period was from 20 May to 31 July 2008.

The consultation paper outlined the benefits of the move to GAAP accounting, the approach to implementing GAAP in the States of Jersey, the standard setting process, the key differences between the current accounting regime and the proposed regime, and the impact of GAAP on the States of Jersey Financial Statements. It included the proposed Jersey Financial Reporting Manual, which details the standards that will be applied to the States of Jersey Financial Statements.

The consultation was designed to seek the views of interested parties on the application of UK GAAP to the States of Jersey.

### OVERVIEW OF CONSULTATION RESPONSES

Generally the respondents were in favour of the implementation of GAAP in the States of Jersey.

Responses were received from the Jersey Society of Chartered and Certified Accountants, Jersey Water and Senator Paul Routier, Minister for Social Security.

A common concern expressed was that the valuation method for valuing strategic investments at market value should be clearly defined, transparent and consistent.

The Minister for Treasury and Resources has considered the comments received during the consultation. A summary of these comments together with the Minister's response is provided below.

## **MINISTER'S RESPONSE TO CONSULTATION**

The Minister for Treasury and Resources has considered the results of the consultation. A final draft version of the Jersey Financial Reporting Manual will now be prepared and submitted to the Comptroller and Auditor General of the States of Jersey for an independent view, as detailed in the Consultation Document. After considering the views of the Comptroller and Auditor General, the Minister will prepare a final version of the Jersey Financial Reporting Manual and issue a Ministerial Order requiring the Financial Statements of the States of Jersey for the year ended 31 December 2009 to be compliant with the Jersey Financial Reporting Manual.

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## SUMMARY OF RESPONSES

Respondent's comment	Minister's response
<b>Jersey Society of Chartered and Certified Accountants</b>	
<p>The move by the States of Jersey to adopt an accounting framework that is in line with best practice and formulated accepted accounting standards is welcomed.</p>	<p>The Minister notes this point.</p>
<p>The importance of aligning budgeting and accounting is emphasised.</p>	<p>The importance of aligning budgeting and accounting regimes is recognised and is a key element of the overall project.</p> <p>The intention is to issue a separate consultation paper on the proposed budgeting changes, which will align accounting and budgeting in the States of Jersey.</p>
<p>Challenges in implementing financial reporting around fixed assets and pensions are highlighted - notably the issue of completeness in determining all assets of which the States have ownership as well as the values at which there are recorded in the financial statements - together with associated systems changes.</p>	<p>The implementation of fixed asset accounting has been recognised as one of the key elements of the project, and detailed implementation plans and procedures have been prepared and shared with external audit. External valuers have been appointed in order to obtain valuations for land and buildings, and some elements of the non-property assets.</p> <p>The States of Jersey is already accounting for its pension schemes under FRS 17. As such, there will be no change in this area when GAAP is implemented.</p> <p>System changes to support the introduction of GAAP have been identified and an implementation plan has been developed and assessed as adequate by internal audit. A further internal audit review on progress will be performed in October 2008.</p>
<p>Determination of market value for certain entities is a subjective matter and it is recommended that the basis of valuation is transparent, for example being fair value based upon a valuation model.</p>	<p>The States of Jersey Treasury is currently considering the valuation method to be used for States of Jersey 'Strategic Investments' (Jersey Post International Limited, Jersey Electricity Company Limited, Jersey New Waterworks Company Limited, Jersey Telecoms Group Limited), and is in discussion with the States of Jersey auditors on this matter.</p> <p>It is intended that the valuation method will be transparent and be based on fair value.</p>
<p>The required changes to the budgeting process, which are necessary alongside the adoption of GAAP, will require a cultural change in mind set. The importance of this and the determination of how States departments move their current focus of cash spent to accruals will be fundamental to the success of the</p>	<p>The Minister recognises that realising the benefits of the move to GAAP accounting requires more than just a change of accounting policies. Training, education and communication are at the heart of this project and work is on-going to bring about the necessary changes.</p> <p>A comprehensive training programme has been developed to accompany the implementation of</p>

<p>project. It is highlighted that this transition will take time to implement and that there will need to be an ongoing education process and accountability to ensure it is a success.</p>	<p>GAAP in the States of Jersey. This includes ongoing training post-implementation.</p> <p>Changes to budgeting will be addressed in a separate consultation exercise.</p>
<p>The standards proposed to be adopted, based on the UK GAAP framework, are likely to become an historic set of standards as both the UK and other jurisdictions develop public reporting standards based on International Financial Reporting Standards. In making the move to UK GAAP, consideration should be given as to whether this is a stepping stone to then implementing IFRS. Whilst this may provide earlier compliance it could result in further costs which should be compared to the cost of transitioning directly to an IFRS framework.</p>	<p>The decision whether to adopt UK GAAP or IFRS was considered at length at the outset of the implementation process. The consultation document sets out the key factors considered when deciding to implement UK GAAP. The consultation document also noted that the States of Jersey will continue to monitor the progress of the UK Treasury in implementing IFRS and it is the Minister's intention to reconsider the adoption of International Accounting Standards once the UK government has resolved any issues with implementing the international standards.</p> <p>The Minister believes it is preferable to implement UK GAAP rather than continue to operate under the current system of accounting until a set of established IFRS-based public reporting standards are available for four principle reasons:</p> <ul style="list-style-type: none"> <li>○ The implementation of GAAP based reporting is a specific States of Jersey Strategic Plan commitment.</li> <li>○ Many of the benefits that would be realised from a move to GAAP based standards would be achieved through either UK GAAP or IFRS.</li> <li>○ At the time of implementation, there was some uncertainty regarding the timescale for UK central government to implement IFRS (particularly given that the UK has since announced a delay in implementation of IFRS). It could therefore be several years before a set of established, proven set of IFRS public sector based standards are available.</li> <li>○ It is expected that the additional work (and associated cost) involved in moving to IFRS based standards from UK GAAP would be relatively small compared with the transition from existing financial reporting to UK GAAP based reporting.</li> </ul>
<p>There should be a continued programme for the development and training of individuals working within the States.</p>	<p>A comprehensive training programme has been developed to accompany the implementation of GAAP in the States of Jersey. This includes ongoing training post-implementation.</p>
<p>Procedures for the consideration of the framework and revised IFRS standards, once fully implemented in the UK, should also be in place to ensure that the most appropriate standards are being applied.</p>	<p>The Treasurer of the States will continue to monitor implementation of IFRS in the UK central government.</p>

<b>Jersey Water</b>	
<p>In favour of the adoption of GAAP by the States of Jersey, as it will help to enhance transparency and comparability in financial reporting and help the users of that financial information gain an understanding of the basis on which financial information has been prepared.</p>	<p>The Minister notes this point.</p>
<p>Agreement with the proposed group boundary.</p>	<p>The Minister notes this point.</p>
<p>Concerns with the statement that the independent subsidiaries (Jersey Post International Limited, Jersey Electricity Company Limited, Jersey New Waterworks Company Limited, Jersey Telecoms Group Limited) will be carried in the financial statements at 'Market Value', particularly:</p> <ul style="list-style-type: none"> <li>○ The methodology for determining market value needs to be clearly defined, objective, consistent and comparable.</li> <li>○ The source of information used for valuations would affect the valuation and information direct from the subsidiaries may be difficult to obtain due to issues associated with the provision of price sensitive information.</li> <li>○ Risk that the subsequent use of 'market values' derived for financial reporting purposes in decision-making processes may result in inappropriate decision making.</li> <li>○ Publishing market values may affect share prices and future sale prospects.</li> </ul> <p>For the above reasons the utmost care needs to be taken in determining how the independent subsidiaries are to be valued. The valuation methodology that is chosen needs to be robust, straightforward, objective and easy to apply consistently across all of the independent subsidiaries. The manner in which market valuations are used, disclosed and referred to outside of the financial statements needs to be carefully managed.</p>	<p>The Treasurer of the States is currently considering the valuation method to be used, and is in discussion with the States of Jersey auditors on this matter. It is intended that the valuation method adopted will be clearly defined, transparent and objective.</p> <p>The proposed valuation method will be discussed with the relevant companies.</p>

**Senator Paul Routier – Minister for Social Security**

Senator Routier noted the progress already made by the Social Security Funds (Social Security Fund, Social Security (Reserve) Fund and Health Insurance Fund), which will be UK GAAP compliant for the year ended 31 December 2007.

The Minister notes this point.

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