THE PROPER CONDUCT OF GOVERNMENT

PRINCIPLES AND PRACTICE OF CORPORATE GOVERNANCE FOR THE STATES OF JERSEY

INDEX

1. INTRODUCTION

1. At a time when the States of Jersey is the subject of ever-closer external scrutiny and external criticism of its machinery of government, and growing claims of internal mis-management from the media and Island residents, the principles, standards and practice of good corporate governance should receive the highest attention.

2. For the machinery of government to have proper credibility and increase public confidence, the Commission believes that the States' vision, aims and objectives must be supported by **a robust framework of corporate governance** in order to achieve the "high standard of public service" promised in the Strategic Policy Report "2000 and Beyond". Positive action is required, together with a firm commitment, to ensure that the States' administration is directed and controlled in accordance with best practice.

3. This report proposes such a framework, built on sound principles and standards outlined in the reports of the Cadbury, Greenbury, Hampel and Nolan, Committees, and most recently the Turnbull Report, and Codes of Best Practice published by H. M. Treasury (for implementation in U.K. Central Government Departments) and the NHS Executive. It recognises, in particular, the rather unique style and organisation of the States' administration, and incorporates those features which will enhance the administration of the Island's affairs and support the achievement of the States' strategic objectives. **The States Audit Commission strongly recommends the adoption of the principles of a corporate governance framework at the earliest possible opportunity, and would urge the States to require the relevant Committee to bring forward a proposition to implement such a framework as a priority.**

4. Whilst it can be argued that the issue of corporate governance goes beyond the boundaries of the Commission's remit of value for money issues and advising on matters relating to the audit of the States Accounts, it can be counter-argued that the three fundamental principles of corporate governance i.e. openness, integrity and accountability, are also an integral requirement when demonstrating to the taxpayer that value for money is being achieved and that the States Accounts are meaningful. This report, therefore, is an important step in the States Audit Commission's strategy to promote a value for money culture in government administration. The Commission believes that success will only be possible if the required standards of corporate governance are adopted by all involved in providing government services.

States Audit Commission.

2. EXECUTIVE SUMMARY

5. This report examines the principles of corporate governance - **openness, integrity, and accountability** - and those standards which are now widely recognised as being applicable to the public service, and to the conduct of all involved in public life.

6. It analyses current practice within the States of Jersey, compared to these standards, and whilst finding a fair degree of compliance with best practice, also finds that there is a need for the States of Jersey to further examine compliance with the standards, and to adopt a States of Jersey Code of Corporate Governance. This positive response would help to mitigate some of the current public disquiet with the performance of government.

7. The Commission proposes the adoption of such a code, which should govern the activities of all States Committees and other public bodies established by Act of the States, in order to ensure that the States "direct and control their activities". The code is as follows:-

States of Jersey Standards of Corporate Governance.

"The States of Jersey require all States Committees, and other public bodies appointed by Act of the States, to direct and control their activities in accordance with the Statement of Intent, and to establish and maintain effective arrangements which will ensure:

that public funds are properly safeguarded, are used economically, efficiently and effectively, and in accordance with statutory authority;
that their roles, objectives and performance are clearly and fully communicated;
the full and effective control of their activities;
openness in their public affairs, subject only to a proper and appropriate level of confidentiality;
that a balance of power and authority is maintained;
that all appointments are based on merit;
that systems of internal control and risk management are effectively maintained, and are subject to independent review;
that conduct is not influenced by prejudice, bias or conflicts of interest;
that an annual statement of compliance with this Code can be made;
that the Annual Report and Accounts of the States of Jersey can state that effective systems of internal control and risk management are established and maintained."

Framework of Roles and Responsibilities.

"The States of Jersey wishes to establish a strong framework of responsibilities for corporate governance, with clear roles established, as follows:

the House Committee will review its code of conduct for members, and will arrange appropriate induction training for new members;

the Establishment Committee will issue appropriate guidance to all Committees on a code of conduct for staff;

all Committees will have their operations subject to scrutiny by an Audit Committee;

an independent body (currently the States Audit Commission) will have responsibility for monitoring the adequacy of internal and external audit , monitoring compliance with this code and making recommendations thereon, and the publication of appropriate performance measures;

the annual statements of compliance with this code and effective internal control and risk management systems will be subject to review by the States Auditor, who shall report thereon in the annual Report of the States Auditor;

any legislative changes required by this code will be put into effect by the relevant Committees at the earliest opportunity."

8. The whole question of corporate governance is wider than the financial accountability issue, and thus falls within the remit of the Policy and Resources Committee, although the financial aspects do mean that the Finance and Economics Committee also has a strong interest and should support the Policy and Resources Committee in taking a lead in proposing the adoption of the standards, and the creation of a framework within which they can be applied in practice. The States Audit Commission believes that it also has a role to play in supporting and endorsing a code of corporate governance, and monitoring progress towards implementation and compliance in practice. The adoption of a code will require the support of all States Members and Chief Officers, and endorsement by the Policy and Resources and Finance and Economics Committees.

9. The Commission hopes that this report is the first step towards the adoption of corporate governance principles throughout the States of Jersey. It is intended to encourage debate on an issue which it is believed is currently significant for good government and will provide long term benefit.

3. PRINCIPLES OF CORPORATE GOVERNANCE

10. The Cadbury Report on *"The Financial Aspects of Corporate Governance"* defined corporate governance as "the system by which organisations are directed and controlled". Whilst the Cadbury Committee examined corporate governance in the context of public companies, there is growing support for the view that its findings and recommendations are as relevant to public sector bodies, both elected and appointed.

11. Cadbury identified the three fundamental principles of corporate governance as:

openness	Openness is required to ensure that stakeholders can have confidence in the decision-making processes and actions of public service bodies, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication of full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny.
integrity	Integrity comprises both straightforward dealing and completeness. It is based upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of public funds and management of a body's affairs. It is dependent on the effectiveness of the control framework and the personal standards and professionalism of the individuals within the body. It is reflected both in the body's decision-making procedures and in the quality of its financial and performance reporting.
accountability	Accountability is the process whereby public service bodies, and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

12. These three fundamental principles, defined above in terms of public sector bodies, have been refined to include the findings and recommendations of the Nolan Committee on Standards in Public Life. Nolan identified and defined seven general principles of conduct which should underpin public life, and recommended that all public service bodies should draw up codes of conduct incorporating these principles.

13. Nolan’s “principles of public life” are:

selflessness
integrity
objectivity
accountability
openness
honesty
leadership

14. All these fundamental principles are reflected in each of the three dimensions of corporate governance in public service bodies:

organisational structures and processes

how the top management within organisations is appointed and organised, how its responsibilities are defined, and how it is held accountable.

financial reporting and internal controls

how the top management of the organisation demonstrates its financial accountability for the stewardship of public money and its performance in the use of resources.

the network of various internal controls established by the top management of the organisation to support it in its corporate policy-making role and to oversee operational management.

standards of behaviour

how the management of the organisation exercises leadership in determining the values and standards of the organisation, which define the culture of the organisation and the behaviour of everyone in it.

15. Within these dimensions, and based on the fundamental principles, a set of 29 standards of corporate governance have been proposed by the Chartered Institute of Public Finance and Accountancy[1], detailed in the next section.

4. STANDARDS OF CORPORATE GOVERNANCE

ORGANISATIONAL STRUCTURES AND PROCESSES

Statutory Accountability

16. **Standard 1**.
Public service bodies should establish effective arrangements to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice.

Accountability for Public Money

17. **Standard 2**.
Public service bodies should establish appropriate arrangements to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively, and in accordance with the statutory and other authorities that govern their use.

Communication with Stakeholders

18. **Standard 3**.
Public service bodies should establish clear channels of communication with their stakeholders on the body's roles, objectives and performance, and appropriate processes to ensure that they operate effectively in practice.

19. **Standard 4.**
Public service bodies should make an explicit commitment to openness in all the activities of the body, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

20. **Standard 5.**
Public service bodies should report publicly the processes for making appointments, and should make publicly available the names of all members, together with their relevant other interests.

Roles and Responsibilities

21. Standard 6.
There should be a clearly defined division of responsibilities at the head of public service bodies to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

22. Standard 7.
Public service bodies should meet regularly, retain full and effective control over the body, and monitor the executive management.

23. **Standard 8.**

To ensure that the direction and control of the body is firmly in their hands, public service bodies should establish and maintain a framework of strategic control (scheme of delegated or reserved powers), which should include a formal schedule of those matters specifically reserved for their collective decision.

24. **Standard 9.**

To support them in carrying out their duties, public service bodies should establish clearly documented and understood management processes for policy development, implementation and review and for decision-making, monitoring, control and reporting, and formal procedural and financial regulations to govern the conduct of their business.

25. **Standard 10.**

Public service bodies should establish appropriate arrangements to ensure that they have access to all such relevant information, advice and resources as is necessary to enable them to carry out their role effectively.

26. **Standard 11.**

Where a public service body is responsible for making appointments, it should establish a formal process to ensure that such appointments are made in accordance with specified criteria and on the basis of merit and the individual's ability to carry out a defined role within the organisation. Such appointments should be a matter for the body as a whole.

27. **Standard 12**.

The role of chairman should formally be defined in writing, to include responsibility for providing effective strategic leadership and for ensuring the successful discharge of overall responsibility for the activities of the body as a whole.

28. **Standard 13**.

Non-executive members of public service bodies should provide an independent judgement on issues of strategy, performance, resources and standards of conduct. They should be independent of management and free from any other relationships which may materially interfere with their role. Their duties, terms of office, remuneration and its review should be clearly defined.

29. **Standard 14**.

Where a public services body is responsible for making appointments of non-executives, appointments should be for fixed terms and re-appointment should not be automatic, but subject to a formal appraisal by the chairman against a set of specific objectives given on appointment and the current and future requirements of the body.

30. **Standard 15.**

The chief executive should have line responsibility for all aspects of executive management. They are accountable to the public service body for the ultimate performance and implementation of the body's policy.

31. **Standard 16**.

A senior executive, should be made responsible to the public service body for ensuring that appropriate advice is given to it on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.

32. **Standard 17**.

A senior executive, should be made responsible to the public service body for ensuring that its procedures are followed and that all applicable statutes and regulations, and other relevant statements of best practice are complied with.

33. **Standard 18**.

Public service bodies should establish remuneration committees, comprising non-executive members, to make recommendations on the remuneration of top executives.

FINANCIAL REPORTING AND INTERNAL CONTROLS

Annual Reporting

34. **Standard 19**

Public service bodies should publish on a timely basis an annual report presenting an objective, balanced and understandable account and assessment of the body's activities and achievements, and of its financial position and performance.

35. **Standard 20**

Public service bodies should include in their annual report a statement explaining their responsibility for the body's accounts.

36. **Standard 21**

Public service bodies should include in their annual report a statement confirming that they have complied with relevant standards or codes of corporate governance.

Internal controls

37. **Standard 22**

Public service bodies should ensure that systems of internal control are established and continue to operate in practice, and should include in their annual report a statement on their effectiveness.

38. **Standard 23**

Public service bodies should ensure that effective systems of risk management are established as part of the systems of internal control.

39. **Standard 24**
Public service bodies should ensure that an effective internal audit function is established as part of the systems of internal control.

Audit Committees

40. **Standard 25**
Public service bodies should establish an Audit Committee, comprising non-executive members, with responsibility for the independent review of the systems of internal control and of the external audit process.

External Auditors

41. **Standard 26**
Public service bodies should ensure that an objective and professional relationship is maintained with the external auditors.

STANDARDS OF BEHAVIOUR

Leadership

42. **Standard 27**
Members of public service bodies should exercise leadership by conducting themselves in accordance with high standards of personal behaviour, as an example and role model for others within the organisation.

Codes of Conduct

43. **Standard 28**
Public service bodies should develop a formal code of conduct defining the standards of personal behaviour, to which individual members and all employees of the body should be required to subscribe.

Impartiality and objectivity

44. **Standard 29**
Public service bodies should establish appropriate mechanisms to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest.

5. CORPORATE GOVERNANCE IN PRACTICE

45. The twenty-nine standards of corporate governance defined in the preceding section represent best practice. They have, however, been couched in general language to make them applicable to any type of public sector organisation, and need further clarification before a framework can be developed from them for the States of Jersey. In particular, the term " public service bodies", representing top management responsible for corporate governance issues, does not easily translate into any recognisable body within the States administration. For ease of application, however, the ultimate authority rests with the States, and suggestions are made as to the various bodies to whom responsibility for implementation can be delegated.

46. The organisational structure of the States of Jersey, (whereby the States is the legislative and policy making body and States Committees are delegated executive functions), is sufficiently robust to support a best practice corporate governance framework. The States represents both the supervisor and regulator, yet at the same time also fulfils an essentially political advocacy and representational function on behalf of the Island's electorate. It is the elected body to whom the States Committees, responsible for day to day management and administration of services, are accountable and by whom their performance is appraised. The adoption of best practice on corporate governance will only serve to strengthen the relationship between the States and its committees.

47. The sections that follow represent the main topics addressed by the standards, and are ordered in that way, with each bold number representing one of the 29 standards. Each standard is considered in terms of its relevance and application to the States of Jersey.

Statutory accountability

48. **Standard 1** deals with the issue of Committees' compliance with the directions of the States. States Committees have been established for specific purposes, with laid down terms of reference, with sometimes their appointment, and powers and duties, being a statutory one. Appropriate mechanisms are required to ensure that they do not exceed their powers or functions, and that they comply with the obligations placed upon them.

49. Whilst the States is advised by Law Officers and the States Greffier in this regard, the mechanism could be improved upon to prevent the possibility of breaches occurring. All members of States Committees must have a sufficient awareness, understanding and acceptance of their committee's powers, duties and obligations. Every States Committee should give a senior executive officer specific responsibility for ensuring that appropriate advice is given to them on compliance, and that all new committee members are given basic introductory information about the Committee's role, powers and responsibilities.

Accountability for Public Money

50. **Standard 2** deals with safeguarding and use of public funds. Accountability can be secured by having effective systems of internal control, and be discharged by timely, objective, balanced and understandable financial reporting. Consistently this is achieved throughout the public sector by giving a senior executive the specific responsibility, and in Jersey this is done by the appointment of the Treasurer of the States. There is also in place specific financial legislation incorporating the features necessary for accountability for public money.

51. Whilst this standard may be said to be met, the adequacy of the financial legislation, the respective roles and responsibilities of the Treasurer of the States, other financial executives, and the relationship between them, may need to be addressed to ensure that the current arrangements continue to meet this standard sufficiently.

Communication with stakeholders

52. **Standard 3** deals with those stakeholders who have a legitimate interest in the activities of the States. These include providers of resources, users of services, employees and the wider community. The standard is one of the cornerstones of the "best value" initiative of the Labour government in the U.K. in that stakeholders are best placed to judge the value of the services provided.

53. In order to achieve this standard, the States should require the following actions:

All States Committees should establish and publish formal standards and measures of performance, and report actual performance against them. These should not lie dormant in unpublished Business Plans but should be actively communicated from a central source. The States have allocated responsibility for the latter to the Corporate Strategy Unit. As performance monitoring is also an integral part in ascertaining if value for money is being achieved, the States Audit Commission and Audit Committees would maintain a monitoring role.

Committees should inform stakeholders of their rights to information and services, and how to seek redress should they need it. This is not just concerned with freedom of information, but also with being pro-active in publishing information.

Leaflets to ensure that stakeholders are informed. All service committees should produce, to a consistent standard, leaflets for display in public buildings, available free to the public, together with modern electronic means of communication. The Employment and Social Security Committee have been most active in the latter respect.

Develop and publish formal procedures for dealing with enquiries and complaints, and ensure that they are dealt with promptly and efficiently. All States Committees could achieve this in the same manner as outlined above, the key issue being that the procedures are published and are supported by adequate arrangements at department level.

Adequate arrangements are required to investigate external complaints, where internal complaints procedures have failed to deal with them to the satisfaction of the complainant. The existing arrangements in the States may need to be improved upon to satisfy this standard. In most public administrations this is achieved by the appointment of an independent ombudsman, and there is merit in investigating this proposal.

Finally, clear procedures are required for employees to voice concerns or complaints about maladministration, breaches of the law or ethical concerns, in an environment where they will be supported and protected from reprisals. There should be a clear route to escalate concerns upwards from line management. All Employing Committees should publish this information to staff, using guidance which the Establishment Committee would be the most suitable committee to provide.

54. **Standard 4** deals with the question of openness and freedom of information. There should be an assumption that as much information as possible about the activities, including policy decisions and actions, of the States and its committees will be in the public domain, with information only being withheld when it falls within strictly defined criteria. This reflects the two fundamental principles of corporate governance and the principles of public life identified in the Nolan report. This has been recognised by the States, and a Freedom of Information Committee has now reported on this issue. This standard may therefore be met in the near future, subject to the decision of the States.

55. **Standard 5** concerns appointment of members, the way in which they are made, and giving publicity to the names of appointees, and their interests. The election of members to the States may not be of concern since the process is publicly known. There are, however, other public bodies established by the States where the processes for making appointments may not be publicly known, although they are confirmed as States' appointments. The application of this standard to such appointments may require further investigation.

Roles and Responsibilities

56. **Standards 6 - 18,** concerning roles and responsibilities are not all directly relevant in the States of Jersey context. The checks and balances on power and authority are present within the current structure of Government and the States' administration (**Standard 6**).

57. **Standard 7** concerns the control exercised by the States, and the corporate responsibilities which all members have for:

the strategic direction of the States

defining annual and long term objectives and action plans

monitoring performance

establishing an effective system of corporate governance

safeguarding the public reputation of the States.

58. These corporate responsibilities must be recognised and accepted by all States members.

59. **Standard 8** concerns the delegation and reserving of powers. Powers are delegated to States Committees, with certain matters reserved for the collective decision of the States. There may also be delegation of powers from Committees to Chief Officers in some instances. Improvement could be made in that not all delegation and reserving of powers are sufficiently clear, and further investigation should take place to clarify this issue.

60. **Standard 9** concerns issues that will normally be part of an effective system of internal control which is examined in more detail in paragraphs 70 to 75.

61. In order to meet **Standard 10** which deals with access to information, advice and resources, it is important that all States members receive induction training, and have access to independent advice where necessary. The Nolan report recognises the need for more guidance and training, in particular induction training, to promote and reinforce standards of conduct in public life. It recommends specifically that new members should make a commitment to undertake induction training "*which should include awareness of public sector values, and standards of probity and accountability*".

62. **Standards 11 to 14** are not applicable to the States, except for those public sector bodies established by the States as public boards or similar e.g. W.E.B..

63. **Standards 15 to 17** concern those senior executives who are responsible for the functions of chief executive, director of finance and compliance officer. The standard concerning the chief executive does not apply, and nor does the absence of such an officer prevent the States from implementing corporate governance. The responsible financial officer should be a qualified accountant and a member of a recognised accountancy body. Membership of such a body will require compliance with professional, ethical and technical standards. This standard is met by the States, through the appointment of the Treasurer of the States. The compliance officer role is carried out by the Greffier of the States and the Law Officers, and this standard is met.

64. **Standard 18** concerning remuneration of senior executives is met by the activities of the Establishment Committee.

Annual reporting

65. **Standards 19 to 21** concern the need to establish effective reporting arrangements to demonstrate proper accountability for the stewardship of public money, financial performance, and to support

corporate policy setting and the overseeing of management activities.

66. **Standards 19 and 20** are met, as they are required by the Finance Law. However **Standard 21** requires that the States demonstrate commitment to high standards of corporate governance by the inclusion in the annual report of a statement of compliance with relevant standards or codes of corporate governance, identifying those standards not complied with in the period and giving reasons for non-compliance. The *"compliance statement"* should be subject to independent audit review.

Internal controls

67. **Standard 22** concerns internal control, the normal definition of which is:

" the whole system of controls, financial and otherwise, established in order to provide reasonable assurance of:

a) effective and efficient operations
b) internal financial control
c) compliance with laws and regulations"

68. The standard requires the States to report on the effectiveness of the system of internal control by a statement in the annual report, and the arrangements in place which allow the statement to be made. An appropriate arrangement would be a requirement that all States Committees submit a statement that adequate internal control has been established by their Chief Officer(s), and is effective in practice. In order for this statement to be made, Chief Officers will have to review the effectiveness of internal control, which is a primary responsibility of management. The extent of their review will in part be determined by an assessment of risks.

69. **Standard 23** concerns a requirement that the States establish effective systems of risk management. The Finance and Economics Committee has already recognised the important role that effective risk management plays in establishing internal control, and since 1997 has supported the activities of the Audit and Risk Management Division of the States Treasury in promoting risk management and assisting departments analyse and manage their risks. This standard is met.

70. **Standard 24** requires the States to establish an effective internal audit function. To comply with the requirements of the Auditing Practices Board's Auditing Guideline "*Guidance for Internal Auditors"*, the scope of internal audit should cover the systematic review, appraisal and reporting of the systems of managerial, financial and operational control and their effectiveness in practice. Management is responsible for establishing internal control whilst audit reviews these arrangements, and in 1999, to coincide with the introduction of assurance statements, the Audit and Risk Management Division will work closely with management, using a control and risk self-assessment methodology, to assist in reviews of the adequacy of internal control and risk management systems. The performance of the internal audit function required by this standard is being met. The review of the audit function scheduled for early 1999 will provide independent verification.

71. Internal audit should also be operationally independent of management. The Finance Law requires

the Treasurer of the States to carry out internal audit, with a compliance role in respect of that law. As part of the States management structure, the role undertaken by the Treasurer in respect of internal audit compromises, in theory but not in practice, the independence of the internal audit function. The Commission recognises that the Finance and Economics Committee has recently commissioned an independent review of the States audit arrangements, the terms of reference for which include the issue of audit independence.

Audit Committees

72. **Standard 25** concerns the establishment of an Audit Committee. The States has already in place a States Audit Commission (current terms of reference are attached at Appendix 1), and each States Committee has been requested to establish an Audit Committee by the Finance and Economics Committee, and most of these will be in place in 1999. Whilst the main thrust of these bodies has been to review value for money, the standard requires that this be re-examined since audit committee functions should include:

to review with management the adequacy of the internal control system, the adequacy of procedures to ensure compliance with statutes and regulations, compliance with relevant codes of corporate governance, the financial statements, and the adequacy of financial information presented to the States.

to ensure that the internal audit function is adequately resourced and has appropriate standing within the organisation.

to review the activities of the internal audit function.

to manage, on behalf of the States, the relationship with the States Auditor.

73. To meet this standard, there may be a need for the terms of reference of both the States Audit Commission and the Audit Committees to be Re-examined, following the publication of the Review of the States Audit Arrangements.

External Auditors

74. **Standard 26** concerns relationships with the States Auditor. Whilst the Finance Law contains much that would satisfy this standard, this is supported by the States Audit Commission’s role in this respect. This is in accordance with best practice, though the States Audit Commission’s role may need to be strengthened as the current relationship with the States Auditor is frequently compromised. It is not best practice for the Finance and Economics Committee to directly contract non-audit work with the States Auditor without the States Audit Commission being satisfied that there are no conflicts of interest and the auditor’s independence will not be compromised. The solution is for the Finance and Economics Committee to either use other accountancy firms, or to seek the prior approval of the States Audit Commission if it wishes to use the States Auditor. This would fully satisfy this standard.

STANDARDS OF BEHAVIOUR

Leadership

75. In order to meet the requirements of **Standard 27**, the States must accept responsibility for determining those values and standards which serve to define the culture of the States' administration and govern the behaviour of everyone within it.

76. States members have a special responsibility to exemplify the high standards of personal behaviour they expect others within the States' administration to meet. This reinforces the need for induction training for members to ensure a proper understanding of their responsibilities and the standards of behaviour expected of them.

Codes of Conduct

77. **Standard 28** reflects the Nolan report's proposal that public service bodies should draw up codes of conduct incorporating its seven principles of public life, to apply to both members and staff. Such a code is already contained within the States of Jersey Members Handbook Chapter 7 (attached at Appendix 2), although the demands of corporate governance would require that a similar code be introduced for all staff. A recent audit review of fraud and the proper conduct of public business has also recommended that a code of ethics should be produced for the States of Jersey. A comparative code is attached at Appendix 3.

Conflicts of interest

78. **Standard 29** requires that complete openness be observed in the treatment of interests, particularly in their declaration. Best practice is to maintain a register of interests, and the States meet this standard in this respect for its Members, although not for officers. Further action is required to extend this standard to the interests of staff, where there is a significant gap at present.

6. STATES OF JERSEY CODE OF CORPORATE GOVERNANCE

79. The development of this specific code as an example of corporate governance for the States of Jersey, and its adoption by the States, is essentially a commitment to best practice in the direction and control of States' activities. It is based on the code developed by CIPFA and is intended to send out a clear message to all involved in the administration and delivery of services, and to the Public of the Island, that the States of Jersey will conduct its affairs in accordance with fundamental principles of corporate governance and standards of conduct in public life.

The Code

80. The example Code has been drafted into three parts - a high level statement of intent, supported by the minimum requirements to fulfil the statement, and a framework of roles and responsibilities for the statement to be implemented, monitored and maintained.

Statement of Intent

"The States of Jersey regard openness, integrity and accountability as essential to the good and proper conduct of government business, supported by selflessness, objectivity, honesty and leadership from all involved in public life"

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that their roles, objectives and performance are clearly and fully communicated;

the full and effective control of their activities;

openness in their public affairs, subject only to a proper and appropriate level of confidentiality;

that a balance of power and authority is maintained;

that all appointments are based on merit;

that systems of internal control and risk management are effectively maintained, and are subject to independent review;

that conduct is not influenced by prejudice, bias or conflicts of interest;

that an annual statement of compliance with this Code can be made;

that the Annual Report and Accounts of the States of Jersey can state that effective systems of internal control and risk management are established and maintained."

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"The States of Jersey wishes to establish a strong framework of responsibilities for corporate governance, with clear roles established, as follows:

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an independent body (currently the States Audit Commission) will have responsibility for monitoring the adequacy of internal and external audit , monitoring compliance with this code and making recommendations thereon, and the publication of appropriate performance measures.;

the annual statements of compliance with this code and effective internal control and risk management systems will be subject to review by the States Auditor, who shall report thereon in the annual Report of the States Auditor;

any legislative changes required by this code will be put into effect by the relevant Committees at the earliest opportunity."

7. CONCLUSION

81. It is now widely acknowledged that the principles of corporate governance are as applicable to public services as they are to the private sector. In the U.K. codes have been developed for central government, NHS boards, Housing Associations, and leading Local Authorities.

82. This report analyses the existing practices within the States of Jersey and proposes a Code of Corporate Governance for the States of Jersey, based on best practice, as the first step towards a recognition that such a code is not only seen as a positive response to public disquiet over the performance of government, but will be of benefit to all involved in the States' administration by the clear direction given. This should, in turn, lead to greater public accountability and deliver better value for money to the taxpayer.

83. The standards of corporate governance developed for the public sector are mutually supportive and should be taken as a whole. They reflect current best practice across the public sector.

84. Public expectations of corporate behaviour in the public services are continually rising, and the adoption of good standards of corporate governance offers a practical response to these rising expectations.

85. The Chartered Institute of Public Finance and Accountancy (CIPFA) fully supports the adoption of standards of corporate governance and states:

> *"There is no objective evidence that standards of corporate governance in the public services generally are falling. However, the fact that the public services are currently undergoing wide-ranging structural and managerial changes enhances the need for extra vigilance and care to ensure that sound systems of corporate governance are set in place and work in practice. A recognition of the principles of good corporate governance and the observance of standards reflecting those principles should ensure that any potential problems can be discovered and quickly brought to light. No system of corporate governance can provide total protection against management failure or fraudulent behaviour. However, risks can be reduced by making all participants in the corporate governance process aware of what is expected of them".*

86. The examination of the current practices within the States, measured against the best practice standards, reveals a fair degree of compliance. However, the States do need to adopt a specific code, applicable to the activities of all States Committees, to send out a clear message that the conduct of government will be improved. There are areas where further investigation of current practice is required, to clarify and strengthen controls of activities, and the adoption of a code would ensure that this takes place.

Signed:

Advocate C G P Lakeman (Chairman)

Advocate W J Bailhache

Mr D M Bralsford

Mrs P Carter

Mr T Dunningham

Mr P J C Fergusson

Deputy D R Maltwood

Mr W S Morvan

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[1] "Corporate Governance in the Public Sector" CIPFA 1994