Government of Jamaica

Financial Instructions to Executive Agencies – April 1, 1999

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Glossary of terms

"Appropriations-in-Aid" are revenues that have been designated as appropriations-in-aid in accordance with section 8A of the Financial Administration and Audit Act which states:

> *"(1) The Minister [of Finance] may in writing direct that any revenues received by an accounting officer by way of fee, penalty, proceeds of sale or by way of extra or unusual receipt shall be included as an appropriation-in-aid in the annual estimates of revenue and expenditure required by section 115 of the Constitution.*
>
> *(2) Any revenues to which subsection (1) applies shall be lodged without any deductions being made therefrom into an appropriate bank account established pursuant to regulations made under section 24A.*
>
> *(3) Such revenues shall be applied for the purposes approved by Parliament and, so far as they are not in fact so applied, shall be paid into the Consolidated Fund Principal Bank Account."*

"Gross basis" refers to the method of financing whereby Parliament continues to appropriate the total level of expenditure of the Executive Agency (that is the gross expenditure). In this situation the Agency may not spend more than the gross amount appropriated without further approval, even if the Agency has generated income to offset any additional expenditure. This is in contrast to the net basis of funding.

"Minister" refers to the Minister of the Ministry which is responsible for the overall direction of the relevant Executive Agency.

"Net basis" refers to the method of financing whereby the amount appropriated by Parliament is the amount required to cover expenditure of an Executive Agency after taking into account income which it is anticipated will be generated by the Agency (that is the net expenditure). In this situation the Agency may be able to incur additional expenditure without further approval provided that the expenditure is offset by additional income.

"Specialist assets" are assets which are of such a nature that they are unlikely to be of significant value to another entity and which do not easily fall into any of the other categories of fixed asset.

1 Introduction

1.1 Background to these Instructions

1.1.1 *Purpose of these Instructions*

These Financial Instructions to Executive Agencies are designed to provide a clear and concise set of Instructions to Executive Agencies concerning all aspects of their financial arrangements.

1.1.2 *Application*

These Instructions will apply to all Executive Agencies established in accordance with section 4 of the Executive Agencies Act, 2002, except where explicitly stated.

1.1.3 *Effective date*

These Instructions shall come into force on 1 April 1999. All amendments subsequent to this shall be implemented in the financial year following the current year in which the amendments are made or on any other date as specified by these instructions.

1.1.4 *Status of these Instructions*

These Financial Instructions to Executive Agencies are issued by the Financial Secretary in accordance with section 51 of the Financial Administration and Audit Act and with section 14 (1) (a) of the Executive Agencies Act, 2002.

1.2 Updating these Instructions

1.2.1 *Authority to amend*

The Financial Secretary has authority to amend these Instructions.

1.2.2 *Review by Executive Agencies Monitoring Unit*

An Executive Agencies Monitoring Unit (EAMU) has been established in the Ministry of Finance & the Public Service (MoFPS). The Director of the Executive Agencies Monitoring Unit (Director, EAMU) reports to the Deputy Financial Secretary, Public Expenditure Policy Coordination Division (DFS, PXPC).

These Instructions will be reviewed periodically by the Public Expenditure Policy Coordination (PXPC) Division of the Ministry of Finance. The DFS, PXPC will make recommendations to the Financial Secretary for possible changes to these Instructions from time to time so as to comply with new developments in International Financial Reporting Standards and Legislation In particular, the DFS, PXPC will consider all references to a specific monetary value in these Instructions and will make an explicit recommendation as to whether each value should be amended. The DFS, PXPC may recommend to the Financial Secretary that changes be made to these Instructions at any time.

1.2.3 *Issue of update sheets*

When an amendment is made, the Financial Secretary will issue the amended pages of these Instructions under cover of a Ministry of Finance and Planning Circular. Whole pages, as amended, will be issued. When an amended page is issued the old version should be removed and replaced with the new one.

1.2.4 *Recording inclusion of updates*

It will be the responsibility of the officers allocated the copy of these Instructions to ensure that they are kept up to date. To maintain a record of all amendments, the responsible officer will initial the front page in the appropriate space each time these instructions are updated.

1.3 Supplementary documents

1.3.1 *Documents to supplement these Instructions*

Other documents will be developed to supplement these Instructions, including:

- Executive Agencies (Financial Management Regulations);
- procedure notes.
- good practice guides; and
- reference documents.

1.3.2 *Procedure notes*

Each Executive Agency will need to draw up its own procedure notes. These notes will describe in detail the various financial procedures to be followed. They will be different for each Executive Agency but they must comply with the provisions of the Executive Agencies (Financial Management Regulations) and with these Instructions.

1.3.3 *Good practice guides*

Good practice guides will be issued by the Ministry of Finance as soon as they are developed. These will provide guidance to Executive Agencies on various aspects of their operation and financial management.

1.3.4 *Reference documents*

There are a number of key documents that should be referred to. These include:

- Executive Agencies Act;
- Agency' s specific Laws and Regulations;
- Financial Administration and Audit Act, Regulations, Instructions and Ministry of Finance Circulars;
- Framework Document; and
- Corporate and business plans.

1.4 **Compliance with the Instructions**

1.4.1 ***Requirement to comply***

Executive Agencies must comply with the provisions of these Instructions. Any instances of non-compliance should be brought to the attention of the Ministry of Finance as soon as possible. In cases of doubt about compliance, the advice of the Ministry of Finance should be sought.

1.4.2 ***Chief Executive Officer's role***

The Chief Executive Officer of the Executive Agency must be familiar with, understand, and comply with these Instructions.

1.4.3 ***Government of Jamaica procedures and guidelines***

Executive Agencies are required to follow all Government of Jamaica procedures and guidelines except where specific allowance is made in the Instructions for an Agency to devise its own procedures and guidelines or for different procedures and guidelines, which have been specifically designed for application to Executive Agencies, to apply.

1.4.4 ***Chief Finance Officer's role***

The Chief Finance Officer of the Executive Agency must be familiar with, understand, and comply with these Instructions

2 Executive Agencies

2.1 Defining Executive Agencies

2.1.1 *Formal definition of Executive Agencies*

An Executive Agency is a government entity, which has been formally designated as an Executive Agency in accordance with the provisions of section 4 of the Executive Agencies Act 2002. The process for establishing Executive Agencies is set out in section 4 (2) of the Executive Agencies Act, 2002.

2.1.2 *Description of Executive Agencies*

Executive Agencies are government entities which focus primarily on the delivery of services with a results oriented approach to governance. In exchange for delegated managerial autonomy, the Chief Executive Officer of each Executive Agency is held accountable for achieving stated results economically, efficiently, and effectively.

2.1.3 *Activities of Executive Agencies*

An Executive Agency is an organisation where operational activities can be performed separately from policy activities and where improvements to economy, efficiency, effectiveness and customer service delivery can be achieved by granting greater financial and human resource management responsibilities to a Chief Executive Officer whose actions are governed by a performance contract.

2.1.4 *The key principles governing Executive Agencies*

The establishment of Executive Agencies is based on three fundamental principles:

- delegated authority, which would incorporate a certain level of autonomy,
- accountability, and
- transparency.

2.1.5 *Transition Agency*

Entities identified as likely candidates for Executive Agency status will be designated "Transition Agencies". Before a Transition Agency can be granted full Executive Agency status it will, during its transition period, be expected to have put in place:

- corporate and business planning processes;
- budgeting procedures;
- appropriate key performance indicators (KPIs) which must be discussed and agreed with the Portfolio Minister;

- financial systems (not necessarily computerised) including:
  - accruals financial accounting and management information systems;
  - payroll;
  - income;
  - purchasing;
  - cash control; and
  - cost and management accounting (to establish the full costs for all the goods and services it provides);
- proper controls in all systems (manual and computerised); and
- policies to establish the degree of cost recovery for all goods and services;
- an adequate and effective internal audit function.

Once these are established, and other criteria set out in the Executive Agencies Act are met, the Transition Agency will be eligible for progression to full Executive Agency status. When an entity is subsequently granted Executive Agency status it will be designated as being one of the three types of Executive Agency model: A, B, and C; each having progressively more autonomy.

2.1.6 *Criteria to determine status*

The Cabinet Secretary, in consultation with the Financial Secretary, will determine:

- which entities are to be designated Transition Agencies;
- when a Transition Agency should be granted Executive Agency status;
- which model a particular Executive Agency should comply with; and
- how an Executive Agency moves from one model to another.

2.1.7 *Financial factors*

Some of the factors taken into consideration when determining the status of an Executive Agency as described in Instruction 2.1.6 will be finance related and include the following:

- appropriate financial staff are in place and trained;
- an accruals based accounting system is in place;
- appropriate systems and mechanisms are in place to enable the Executive Agency to identify the full costs of its services and products; and
- the Auditor-General is satisfied that the financial systems in operation are reliable.

2.1.8 *Date of establishment*

Transition Agencies and Executive Agencies will only be formally established as such on 1 April of any year.

2.1.9 *Financial year*

The financial year for all Executive Agencies will run from 1 April of one year to 31 March of the next year.

2.2 Full cost accounting

2.2.1 *Requirement for full cost accounting*

The Executive Agency must ensure that systems and procedures are in place to identify the full cost of:

- all its key services and products;
- activities or cost centres;
- improvement projects (such as efficiency projects or new business processes).

Full cost means the total economic value of resources consumed in producing a product or service. This is important to help identify what should be the fee or charge levied for a particular good or service. Traditional cost accounting, as used by the Government of Jamaica, ignores many costs which are not readily identifiable in cash terms, for example the cost (or value) of a building built many years ago.

2.2.2 *Items to include*

Full costs should include all direct and overhead costs of the resources consumed by the organisation to provide its services and products. The costs should include:

- rent;
- leases;
- depreciation;
- auditor' s fees;
- interest charges;
- charges from other government departments;
- insurance; and
- bank charges.

2.2.3 *Costing outputs*

The Executive Agency should match its inputs (the resources used such as costs of people, facilities, equipment, utilities, fixed assets) to its outputs (services, products). The outputs will be measured by performance indicators and targets covering volume and quantity, quality, time, and cost.

2.2.4 *Purpose*

The purpose of full costing information systems is:

- to manage resources cost effectively;
- to inform strategic and day-to-day management decision making;
- to identify the true costs of delivering services and products;
- to determine the full costs to be recovered by fees where practical;
- to understand the relationship between operational costs and capital costs;
- to identify the fixed and variable costs of activities and how they move with changes in levels of demand;
- to assess the costs and benefits of investment decisions;
- to identify potential and actual efficiency improvements.

2.3 Financial management models

2.3.1 *Different models of financial management*

There are three models of financial management which have been established within the overall regime for Executive Agencies. Each Executive Agency will be designated as fitting one of these models. The key elements of each model are summarised in the table shown on pages 2-6 and 2-7. The detailed instructions applicable to each model are given in chapters 3 (Model A), 4 (Model B), and 5 (Model C).

2.3.2 *Common features of the financial management models*

As provided for elsewhere in these Instructions, Executive Agencies, regardless of whether they are Model A, Model B, or Model C, are required to:

- manage their businesses with a focus on outputs;
- aim to achieve set key performance indicator targets;
- comply with an established process providing for approved corporate plans, business plans, and budgets;
- seek to introduce fees and charges to recover full costs in accordance with enabling legislation;

- charge all customers, including the public, Portfolio Ministry, and government departments, for the goods and services provided;
- prepare annual reports and accounts which will include financial statements prepared on an accruals basis;
- prepare monthly financial reports and accounts;
- prepare quarterly performance reports;
- prepare monthly cash flow forecasts and requirements;
- maintain an effective and adequate internal audit function;
- have their annual accounts audited by an auditor approved by the Auditor-General;
- establish an Audit Committee;
- have initial capital investments equal to the value of the fixed assets in the opening balance sheet;
- finance additional fixed assets from budgetary allocation;
- remit collected revenues or portion thereof to the Consolidated Fund in accordance with the operating financial model;
- make payments to the Consolidated Fund of interest and principal on all loans; and
- borrow, when necessary, only from GoJ.

2.3.3 ***Comparison of models***

The table on the next page compares and contrasts various features of the three financial management models as an overall indication of the nature of the models. Detail is provided in the following three chapters.

Comparison of the different Executive Agency financial management models

Features	**Model A**	**Model B**	**Model C**
Will the Executive Agency have to operate within its Framework Document and agreed corporate and business plans?	Yes	Yes	Yes
Will the Executive Agency be subject to rigorous and regular performance measurement based on a range of key performance indicators?	Yes	Yes	Yes
Will the Executive Agency remain part of the Consolidated Fund?	Yes	Yes	No
Will expenditure be controlled on a gross basis?	Yes, but levels of income will be considered when setting gross expenditure limits.	Partially, expenditure not covered by appropriations-in-aid will be controlled on a net basis.	No
Will appropriations-in-aid be used	No	Yes	No
What will Parliament appropriate?	Total gross expenditure.	Appropriation-in-aid plus, if necessary, ordinary appropriation.	Loan payable to Executive Agency, if any.
Will the Executive Agency have budget heads?	Yes, it will have one: ■ recurrent (including capital A). ■	Yes, it will have one: ■ recurrent (including capital A). ■	Yes, it will have one: ■ recurrent (including capital A).

What ability to vire funds will be given to Executive Agency?	Executive Agency can vire funds from recurrent to recurrent or from capital to capital, but not from capital to recurrent or vice versa so long as the total allocation made for the head is not exceeded	Executive Agency can vire funds from recurrent to recurrent or from capital to capital but not from capital to recurrent or vice versa so long as the total allocation made for the head is not exceeded	Executive Agency can vire funds from recurrent to recurrent or from capital to capital but not from capital to recurrent or vice versa so long as the total allocation made for the head is not exceeded
Will the Executive Agency be encouraged to levy fees and charges?	Yes	Yes	Yes
Should it generally set its fees and charges on a full cost basis?	Yes	Yes	Yes
Can the Executive Agency retain any income (excluding taxes) it generates	No	Yes	Yes
Can the Executive Agency retain any amount unspent, having achieved its KPIs?	No	Partially	Yes
Will assets be assigned to the Executive Agency?	Yes	Yes	Yes
Will the Executive Agency be able to write off and dispose of assets?	No	Yes	Yes

3 Financial management (Model A)

3.1 Model A Executive Agencies

3.1.1 *Features of Model A*

Model A Executive Agencies are to be allowed the least degree of flexibility of the three models. In summary, a Model A Executive Agency will:

- remain part of the Consolidated Fund;
- have its expenditure controlled on a gross basis;
- have its income taken into consideration when determining its gross expenditure requirements;
- not be able to carry forward amounts unspent or surpluses;
- will not be able to write off or dispose of assets;
- earn fees of less than 40% of its gross expenditure;
- will remit gross earnings to the Consolidated Fund;
- be set up as a separate budget head;
- be allowed greater ability to vire funds than a government department; and
- have initial capital equal to the value of the fixed assets assigned.

3.2 Funding regime

3.2.1 *Funding position*

The Executive Agency will remain part of the Consolidated Fund. The expenditure of Model A Executive Agencies will be controlled on a gross basis. However, in proposing an overall budget ceiling for a year the Financial Secretary will take into account the likely levels of income the Agency expects to generate during that year, that is, the Financial Secretary will take into account the net funding position of the Executive Agency.

3.2.2 *Underspending against budget*

In cases where the Executive Agency spends less than the budgeted amount whilst achieving its KPIs, the Executive Agency will not be able to retain the amount unspent. Instead, the amount unspent will be used to offset outstanding loans in accordance with Instruction 3.4.10.

3.3 **Financial delegation**

3.3.1 ***Budget head***

Each Executive Agency will be allocated one Head of Estimates:

- recurrent

  to cover recurrent expenditure and also GoJ funded capital expenditure (this type of capital expenditure is called "Capital A").

3.3.2 ***Virement***

The Chief Executive Officer will generally have the ability to vire funds within a particular class of expenditure. Funds can be vired from one type of recurrent to another or from one type of capital to another but not from recurrent to capital or vice versa provided that such virements can be accommodated without increasing the total allocation made for the Head of Estimates.

Where funds are approved by Parliament for use by an Executive Agency to achieve a specific output those funds should be accounted for separately and should not be used for any other purpose without the necessary Parliamentary approval.

3.3.3 ***Reallocating funds provided by external funding agencies***

In cases where funds are provided by external funding agencies no variation from the agreed budget is allowed without the approval of the Financial Secretary and such other approval(s) as the agreement with the funding agency may require.

3.4 **Capital**

3.4.1 ***Initial capital investment***

There will be an initial capital investment equal to the value of the fixed assets in the opening balance sheet. The Executive Agency will remit all revenues collected to the Consolidated Fund on a monthly basis as its return on the assets invested by GOJ. "Fixed assets" is defined in Instruction 11.2.2; it does not include stock or debtors.

3.4.2 ***Further fixed assets***

The acquisition of further fixed assets will be financed from the budget of the Executive Agency by way of yearly budgetary allocation from GoJ.

3.5 **Loans**

3.5.1 ***Restrictions on borrowings***

Executive Agencies may only borrow from the Government; they are not permitted to borrow from any other source.

3.5.2 ***Conditions of loans***

The term of the loan will be determined by the average life of the assets acquired with the loan and the conditions of the loan set by the Financial Secretary. The loans will only cover capital investments and not recurrent costs. Executive Agency loans will not count against the Portfolio Ministry' s budget for the year and all loans will be unsecured.

3.5.3 ***Interest rates***

Subject to Instructions 3.5.4 and 3.5.5, the rate of interest applied to the loans will be the six monthly average Treasury Bill rate in effect on the date of the loan agreement plus one half percent. The rate to be used will be notified by The Financial Secretary on (or as soon after as is practicable) each April 1st and October 1st. The notified rate will be used for all deemed loans incurred from the date of the notification until the next date of notification.

3.5.4 ***Initial rates***

Where, in the opinion of the Financial Secretary, the rates specified in Instruction 3.5.3 would be too onerous for an Executive Agency to bear, he/she may reduce such interest rate charged by as much as he/she thinks fit and for as long a period as he/she may determine.

3.5.5 ***Loans from external funding agencies***

Where a loan is provided by an external funding agency for a specific asset that is assigned to an Executive Agency, the loan will be advanced to the Executive Agency at the rate charged by and in the currency used by the external funding agency.

3.5.6 ***Loans management***

The financial management of the loans to Executive Agencies will be the responsibility of the Accountant-General.

3.5.7 ***Accounting for debt charges***

The Executive Agency must account for the interest and capital repayments monthly. These charges are to be budgeted and remitted to the consolidated Fund.

The transactions will be recorded in the accounts in line with commercial style reporting requirements. The income and expenditure statement will show the interest payments and a note to the balance sheet will show the balance of the long term loans remaining as due within one year, due between one and two years, due between two and five years, and due after more than five years.

3.5.8 ***Early redemption***

The Executive Agency will be able to repay part or all of the debt early if it has sufficient resources. No penalties will be imposed for early redemption of debt.

4 Financial management (Model B)

4.1 Model B Executive Agencies

4.1.1 *Features of Model B*

Model B Executive Agencies are to be allowed considerably more flexibility than Model A Executive Agencies. In summary, a Model B Executive Agency will:

- remain part of the Consolidated Fund;
- be funded in part on a net basis through appropriations-in-aid;
- be able to carry forward 50% of annual net profits/surplus subject to the provisions of Instruction 4.2.4;
- be set up as a separate budget head;
- be allowed greater ability to vire funds than a government department;
- have greater authority to write off losses and deficiencies;
- have authority to dispose of assets;
- earn between 40% and 90% of budgeted expenditures from fees;
- remit at least 50% of annual net profits/surplus to the Consolidated Fund; and
- be able to invest surplus cash in an approved financial institution .

4.2 Funding regime

4.2.1 *Control of net expenditure*

The Executive Agency will remain part of the Consolidated Fund. The expenditure of Model B Executive Agencies will be controlled on a net basis through the use of appropriations-in-aid. Parliamentary approval will be sought for appropriation-in-aid. The additional funds needed to supplement the Model B Executive agency will be made through ordinary appropriations of expenditure.

Each Model B Executive Agency will remit at least 50% of its annual net profit/surplus to the Consolidated Fund.

4.2.2 *Banking receipts*

All income of the type or type(s) classified as appropriation-in-aid will be banked in a separate "appropriations-in-aid bank account". Transfers will be made to other accounts from time to time to fulfil the obligations as approved by Parliament.

4.2.3 *Meeting expenditure*

Expenditure for the routine management and operation of the agency will be met from either:

- appropriations-in-aid; or
- the Consolidated Fund.

4.2.4 *Retained profits/surplus*

Where an Executive Agency earns a profit/surplus, it will be allowed to retain 50% of that profit/surplus provided that:

- the Agency has substantially achieved its KPI targets; and
- the expenditure to be financed by the retained profits/surplus is in accordance with the approved corporate plan.

The Chief Executive Officer will prepare a statement showing the amount of profits/surplus which has been earned and to be carried forward. This statement will form a part of the financial report and will be certified by the Auditor General and will then be submitted to the Financial Secretary.

Authorisation to spend the retained profits/surplus will be given by way of the estimates of expenditure that will be laid before Parliament during the next financial year immediately following the year in which the profit/surplus was earned.

4.2.5 *Investment of surplus*

Any amounts held above that required to finance additional expenditure in accordance with 4.2.4 may be invested in an approved financial institution subject to 4.6 and will remain the property of the Executive Agency..

4.2.6 *Need to achieve Key Performance Indicator targets*

Executive Agencies are required to substantially achieve all of their Key Performance Indicator targets. If, in any year, they do not, the Financial Secretary may review the level of transfer effected in relation to that year and may require the Executive Agency to repay, in a subsequent financial year, such proportion of the transfer as he/she thinks fit. Such repayments may be effected by reducing the level of transfers made in a subsequent financial year or years. Before determining the level of repayment, if any, the Financial Secretary will consult the Chief Executive Officer of the Agency and allow him/her the opportunity to make representations which the Financial Secretary will take into account.

4.2.7 *Excessive cash holdings*

Where the Financial Secretary considers that the cash balances held by an Executive Agency are excessive compared to its needs, he/she may require the Agency to pay to the

Consolidated Fund such amount as he/she may specify. In determining whether cash balances are excessive the Financial Secretary will take into consideration:

- the Agency' s need for cash for its working capital purposes;
- projected expenditure on capital items as shown in the Agency' s approved corporate plan;
- the likely level of cash surpluses accruing in the future; and
- such other factors as he/she considers appropriate.

Before finally determining whether cash balances are excessive, the Financial Secretary will consult the Chief Executive Officer of the Agency and allow him/her the opportunity to make representations which he/she will take into account.

4.3 **Financial delegation**

4.3.1 ***Budget head***

Each Executive Agency will be allocated one Head of Estimates:

- recurrent

    to cover recurrent expenditure and also GoJ funded capital expenditure (this type of capital expenditure is called "Capital A").

4.3.2 ***Virement***

The Chief Executive Officer will generally have the ability to vire funds within a particular class of expenditure. Funds can be vired from one type of recurrent to another or from one type of capital to another but not from recurrent to capital or vice versa provided that such virements can be accommodated without increasing the total allocation made for the Head of Estimates. Where funds are approved by Parliament for use by an Executive Agency to achieve a specific output those funds should be accounted for separately and should not be used for any other purpose without the necessary Parliamentary approval.

4.3.3 ***Reallocating funds provided by external funding agencies***

In cases where funds are provided by external funding agencies no variation from the agreed budget is allowed without the approval of the Financial Secretary and such other approval(s) as the agreement with the funding agency may require.

4.3.4 ***Repairs to motor vehicles***

Chief Executive Officers are authorised to make whatever arrangements they consider appropriate to commission any repairs to the motor vehicles that have been assigned to the Agency provided that they comply with the relevant policies established by the Financial Secretary.

4.3.5 *Losses and deficiencies*

Chief Executive Officers are authorised to write off losses and deficiencies of any assets assigned to the Executive Agency, including allocated stores and fixed assets but must comply with established GoJ policies.

Where the Chief Executive Officer considers that a person who is or was an officer is or was responsible for any deficiency in, or for the loss or destruction of, any public moneys, stamps, securities, stores or other Government property then he/she must submit a report on the matter to the Financial Secretary in accordance with section 49 (1) of the Financial Administration and Audit Act.

4.3.6 *Disposal of assets*

Chief Executive Officers are authorised to dispose of any assets which have been assigned to them if they consider that such assets:

- are no longer required for the purposes of the Executive Agency; or
- should be replaced.

Disposal of such assets should be in accordance with the Executive Agency' s procedures for disposing of assets as required by Instruction 8.2.4. Any significant disposal would need to have been approved as part of the corporate planning process and should be reflected in the annual report.

4.4 Capital

4.4.1 *Initial capital investment*

GoJ will make an initial capital investment equal to the value of the fixed and other assets in the opening balance sheet. The Executive Agency will remit 50% of its annual net profit/surplus to the Consolidated Fund as its return on the assets invested by GoJ. "Fixed assets" is defined in Instruction 11.2.2.

4.4.2 *Further fixed assets*

The acquisition of further fixed assets will be financed from the budget of the Executive Agency by way of normal budgetary allocation from GoJ.

4.5 Loans

4.5.1 *Restrictions on borrowings*

Executive Agencies may only borrow from the Government; they are not permitted to borrow from any other source.

4.5.2 *Conditions of loans*

The term of the loan will be determined by the average life of the assets acquired with the loan and the conditions of the loan set by Accountant-General. The loans will only cover capital investments and not recurrent costs. Executive Agency loans will not count against the Portfolio Ministry' s budget for the year and all loans will be unsecured.

4.5.3 *Interest rates*

Subject to Instructions 4.5.4 and 4.5.5, the rate of interest applied to the loans will be the six monthly average Treasury Bill rate in effect on the date of the loan agreement plus one half percent or any other such lower rates agreed on by the parties to the loan. The rate to be used will be notified by The Financial Secretary on (or as soon after as is practicable) each April 1st and October 1st. The notified rate will be used for all deemed loans incurred from the date of the notification until the next date of notification

4.5.4 *Initial rates*

Where, in the opinion of the Financial Secretary, the rates specified in Instruction 4.5.3 would be too onerous for an Executive Agency to bear, (s)he may reduce such interest rate charged by as much as he/she thinks fit and for as long a period as he/she may determine.

4.5.5 *Loans from external funding agencies*

Where a loan is provided by an external-funding agency for a specific asset which is assigned to an Executive Agency, the loan will be advanced to the Executive Agency at the rate charged by and in the currency used by the external funding agency.

4.5.6 *Loans management*

The financial management of the loans to the Executive Agency will be the responsibility of the Accountant-General.

4.5.7 *Accounting for debt charges*

The Executive Agency must account for interest and capital repayments monthly. The Executive Agency must budget for and pay interest and make principal repayments annually to the Consolidated Fund until the loan is fully repaid.

The transactions will be recorded in the accounts in line with commercial style reporting requirements. The income and expenditure statement will show the interest payments and a note to the balance sheet will show the balance of the long term loans remaining as due within one year, due between one and two years, due between two and five years, and due after more than five years.

4.5.8 *Early redemption*

The Executive Agency will be able to repay part or all of the debt early if it has sufficient resources. No penalties will be imposed for early redemption of debt.

4.6 Executive Agencies Investment

4.6.1 *Executive Agencies Investment*

Model B Executive Agencies may invest cash which is surplus to their usual day to day requirements in an approved financial institution that is regulated by the Banking Act, the Financial Institutions Act, the Building Societies Act or the Financial Services Commission Act. Money shall only be invested in the following investment instruments:

- GOJ Treasury Bills
- GOJ Local Registered Stocks
- GOJ Debenture and Bonds
- GOJ Repos
- Demand Deposit Accounts
- Certificate of Deposits
- Any other investment instruments authorised by the Ministry of Finance & the Public Service
- The Executive Agency shall not at any time have more than twenty-five percent (25%) of its total portfolio of investment invested in a single security type or with a single financial institution except where the investment is secured by Government of Jamaica securities.

Investment instruments held by the Executive Agency is subject to the treatment prescribed by IPSAS 21 – Non-Cash Generating Assets.

4.6.2 **Interest earned**

Interest earned from investment during the financial period must be recorded as Interest Income. The interest earned can be rolled over until redeemed or lodged to the agency' s bank account as required.

4.7 Surplus

4.7.1 *Appropriation of Surplus*

Fifty percent (50%) of any surplus earned by the agency will be remitted to the Consolidated Fund no later than three months after the end of the financial year in which it is earned and based on the results contained in financial statement of the last month of the financial year prepared by the agency. An adjustment for the correct amount will be made in the current financial year after the Auditor General has certified and issued the audited financial statements for the year in which the appropriated surplus was earned.

5 Financial management (Model C)

5.1 Model C Executive Agencies

5.1.1 *Features of Model C*

Model C Executive Agencies are to be allowed the greatest degree of flexibility of the three models. In summary, a Model C Executive Agency will:

- be fully funded from fees earned and will operate independently of the Consolidated Fund;
- be allowed to vire funds within the approved budget limits;
- be able to carry forward amounts unspent, or surpluses;
- be able to retain cash;
- have greater authority to write off losses and deficiencies;
- will earn in excess of 90 % of budgeted expenditure from fees;
- will remit at least 50 % of annual net profit/surplus to the Consolidated Fund;
- have authority to dispose of assets;
- have to repay deemed loans in respect of its fixed assets; and
- be able to invest surplus cash in the Executive Agencies Investment Fund.

5.2 Funding regime

5.2.1 *Establishment of Executive Agency Special Fund*

An Executive Agency Fund (EAF) will be established for each Executive Agency, the EAF will be independent of the Consolidated Fund.

5.2.2 *Transfer of funds*

Parliament will approve, as part of the usual budget process, the appropriation and transfer from the Consolidated Fund to the EAF, or vice versa, of a subsidy, loan or grant which may be nil. This transfer will be effected in full during the year or at such other times as the need arises.

This means that Parliament will not only approve the level of any transfer (that is the net cost of the Executive Agency); Parliament will also need to approve the gross level of expenditure.

Each Model C Executive Agency must remit at least 50% of its net profits/surplus to the Consolidated Fund.

5.2.3 ***Financial target***

The Executive Agency has an overall financial target to match income with expenditure taking one year with another, after any transfers to or from the Consolidated Fund have been taken into account. This means that the total income generated by the Executive Agency plus any subsidies to be transferred from the Consolidated Fund should be about equal to the total expenditure of the Executive Agency over the three-year period of the corporate plan.

5.2.4 ***Need to achieve Key Performance Indicator targets***

Executive Agencies are required to substantially achieve all of their Key Performance Indicators targets. If, in any year they do not, then the Financial Secretary may review the level of transfer effected in relation to that year and may require the Executive Agency to repay, in a subsequent financial year, such proportion of the transfer as he/she thinks fit. Any such repayments may be effected by reducing the level of transfer made in a subsequent financial year or years. Before determining the level of repayment, if any, the Financial Secretary will consult the Chief Executive Officer of the Agency and allow him/her the opportunity to make representations which he/she will take into account.

5.2.5 ***Unspent cash balances***

Any cash held by the Executive Agency at the end of the financial year will remain under the control of the Executive Agency.

5.2.6 ***Excessive cash holdings***

Where the Financial Secretary considers that the cash balances held by an Executive Agency are excessive compared to its needs, he/she may require the Agency to pay to the Consolidated Fund such amount as he/she may specify. In determining whether cash balances are excessive the Financial Secretary will take into consideration:

- the Agency’ s need for cash for its working purposes;
- projected expenditure on capital items as shown in the Agency’ s approved corporate plan;
- the likely level of cash surpluses accruing in the future; and
- such other factors as he/she considers appropriate.

Before finally determining whether cash balances are excessive, the Financial Secretary will consult the Chief Executive Officer of the Agency and allow him/her the opportunity to make representations which he/she will take into account.

5.3 **Financial delegation**

5.3.1 *Use of resources*

The Executive Agency may utilise its resources, including cash, as it thinks fit but must give due regard to the economy, efficiency and effectiveness of the use of those resources.

5.3.2 *Reallocating funds provided by external funding agencies*

In cases where funds are provided by external funding agencies no variation from the agreed budget is allowed without the approval of the Financial Secretary and such other approval(s) as the agreement with the funding agency may require.

5.3.3 *Repairs to motor vehicles*

Chief Executive Officers are authorised to make whatever arrangements they consider appropriate to commission any repairs to the motor vehicles that have been assigned to the Agency provided that they comply with the relevant policies established by the Financial Secretary.

5.3.4 *Losses and deficiencies*

Chief Executive Officers are authorised to write off losses and deficiencies of any assets assigned to the Executive Agency, including allocated stores and fixed assets but must comply with established GoJ policies.

Where the Chief Executive Officer considers that a person who is or was an officer is or was responsible for any deficiency in, or for the loss or destruction of, any public moneys, stamps, securities, stores or other Government property then he/she must submit a report on the matter to the Financial Secretary in accordance with section 49 (1) of the Financial Administration and Audit Act.

5.3.5 *Disposal of assets*

Chief Executive Officers are authorised to dispose of any assets, which have been assigned to them if they consider that such assets:

- should be replaced; or
- are no longer required for the purposes of the Executive Agency.

Disposal of such assets should be in accordance with the Executive Agency’ s procedures for disposing of assets as required by Instruction 8.2.4.

5.4 **Capital**

5.4.1 ***Initial capital investment***

GoJ will make an initial capital investment equal to the value of the fixed and other assets in the opening balance sheet. The Executive Agency will remit 50% of annual profits/surplus made to the Consolidated Fund as its return on the assets invested by GoJ. "Fixed assets" is defined in Instruction 11.2.2.

5.4.2 ***Further fixed assets***

The acquisition of further fixed assets will be financed from the budget of the Executive Agency by way of normal budgetary allocations from GoJ.

5.5 **Loans**

5.5.1 ***Restrictions on borrowings***

Executive Agencies may only borrow from the Government; they are not permitted to borrow from any other source. Model C Executive Agencies may enter into lease agreements subject to any regulations established by the Ministry of Finance and Planning; such leases must be accounted for in accordance with Instructions 11.15.1 to 11.15.4.

5.5.2 ***Conditions of loans***

The term of the loan will be determined by the average life of the assets acquired with the loan and the conditions of the loan set by Accountant-General. Executive Agency loans will not count against the Portfolio Minister' s budget for the year and all loans will be unsecured.

5.5.3 ***Interest rates***

Subject to Instructions 5.5.4 and 5.5.5, the rate of interest applied to the loans will be the six monthly average Treasury Bill rate in effect on the date of the loan agreement plus one half percent or any other such lower rates agreed on by the parties to the loan. The rate to be used will be notified by The Financial Secretary on (or as soon after as is practicable) each April 1st and October 1st. The notified rate will be used for all deemed loans incurred from the date of the notification until the next date of notification

5.5.4 ***Initial rates***

Where, in the opinion of the Financial Secretary, the rates specified in Instruction 5.5.3 would be too onerous for an Executive Agency to bear, (s)he may reduce such interest rate charged by as much as he/she thinks fit and for as long a period as he/she may determine.

5.5.5 *Loans from external funding agencies*

Where a loan is provided by an external funding agency for a specific asset which is assigned to an Executive Agency, the loan will be advanced to the Executive Agency at the rate charged by and in the currency used by the external funding agency.

5.5.6 *Loans management*

The financial management of the loans to the Executive Agency will be the responsibility of the Accountant-General.

5.5.7 *Accounting for debt charges*

The Executive Agency must pay interest and capital repayments annually to the Consolidated Fund. The transactions will be recorded in the accounts in line with commercial style reporting requirements. The income and expenditure statement will show the interest payments and a note to the balance sheet will show the balance of the long term loans remaining as due within one year, due between one and two years, due between two and five years, and due after more than five years.

5.5.8 *Early redemption*

The Executive Agency will be able to repay part or all of its debt early if it has sufficient resources. No penalties will be imposed for early redemption of debt. Given that it would result in a reduction in interest charges, Executive Agencies are encouraged to consider early redemption of debt as a sensible use of any spare cash resources.

5.6 Executive Agencies Investment

5.6.1 *Executive Agencies Investment*

Model C Executive Agencies may invest cash which is surplus to their usual day to day requirements in an approved financial institution that is regulated by the Banking Act, the Financial Institutions Act, the Building Societies Act or the Financial Services Commission Act. Money shall only be invested in the following investment instruments:

- GOJ Treasury Bills
- GOJ Local Registered Stocks
- GOJ Debenture and Bonds
- GOJ Repos
- Demand Deposit Accounts
- Certificate of Deposits
- Any other investment instruments authorised by the Ministry of Finance & the Public Service

- The Executive Agency shall not at any time have more than twenty-five percent (25%) of its total portfolio of investment invested in a single security type or with a single financial institution except where the investment is secured by Government of Jamaica securities.

5.6.2 ***Rates of interest***

The terms of the investment, including the rate of interest to be paid and the method of calculating the amounts payable, will be ascertained by all Chief Executive Officers.

5.6.3 ***Restrictions on investment***

Executive Agencies are not permitted to invest their cash in any entity other than those stipulated in 5.6.1.

5.7 **Surplus**

5.7.1 ***Appropriation of Surplus***

Fifty percent (50%) of any surplus earned by the agency will be remitted to the Consolidated Fund no later than three months after the end of the financial year in which it is earned and based on the results contained in financial statement of the last month of the financial year prepared by the agency. An adjustment for the correct amount will be made in the current financial year after the Auditor General has certified and issued the audited financial statements for the year in which the appropriated surplus was earned.

6 Planning and budgeting

6.1 **Principles of planning**

6.1.1 ***Key principles***

The key principles supporting planning and budgeting are:

- The planning and budgeting process should be integral such that the plans and budgets inform and reflect each other. The budget statements are part of the business plan and should be shown in the format required by the Financial Secretary.
- Corporate plans are high level, addressing the key organisation-wide issues, and reflecting an outward focus on customers, users, beneficiaries, and outputs. They set out the corporate objectives, key performance indicators and targets, key strategies, and resources required to achieve the stated objectives.
- Corporate plans cover a period of no less than 3 years and no greater than 5 years depending on what is appropriate for the organisation. These are rolling plans, updated and presented for endorsement annually. The budgets set out in the corporate plans cover the same 3-5 year period.
- Budgets are prepared on an accruals basis and are based on the corporate plan.
- Business plans cover one year and contain the key performance targets for the year, other key deliverables, and service standards agreed with the Portfolio Minister and must be so evidenced as being agreed. These targets form the Performance Contract with the Chief Executive Officer. The business plans contain a greater level of detail than corporate plans for management in terms of the strategies and budget information. The targets (if applicable), activities and budgets are phased monthly. Internal operational targets are also set out in the business plan.
- The plans and budgets are primarily for managing the operations of the Executive Agency, but are also used by the Portfolio Minister to set KPIs and endorse the proposed budgets.
- Executive summaries of the Executive Agency corporate plan will be published and made available to the public. These will include the key performance indicators and targets. The plans will be produced at low cost.

6.2 **Roles**

6.2.1 ***Portfolio Minister***

The role of the Portfolio Minister in the planning and budgeting process is to:

- set policy;
- provide strategic direction;

- agree the key objectives, key performance indicators (KPIs), and performance targets;
- endorse the corporate plan, business plan and budget;
- evaluate the policy outcomes to which the Executive Agency will contribute; and
- evaluate the performance of the Chief Executive Officer and the Executive Agency against targets and agree rewards, or penalties, based on that evaluation.

6.2.2 ***Chief Executive Officer***

The role of the Chief Executive Officer is to:

- prepare a proposed corporate plan, business plan and budget, based on the budget call requirements;
- propose a set of key performance indicators and targets for the coming year;
- propose the fee changes for the coming year; and
- discuss with any advisory boards the proposed plans and budget.

6.2.3 ***Permanent Secretary***

The role of the Permanent Secretary in respect of an Executive Agency is to advise the Minister on:

- policy for the Executive Agency;
- the performance of the Chief Executive Officer and the Executive Agency, based on the quarterly performance reports, discussions with the Chief Executive Officer, and the quarterly performance reviews;
- the proposed corporate plan, business plan, budget, performance indicators and targets; and
- key issues that may affect the Executive Agency.

The Permanent Secretary will also facilitate the achievement of the Executive Agency objectives by developing and managing the policy programmes effectively, and seeking advice from the Chief Executive Officer on the impact of policy on the Executive Agency and its customers/beneficiaries.

6.2.4 ***Public Expenditure Division in Miinistry of Finance & the Public Service***

The role of the Public Expenditure Division in MoFPS is to:

- provide planning and budgeting assumptions to the Executive Agency;
- discuss with the Portfolio Minister, Portfolio Permanent Secretary, and Chief Executive Officer the financial implications of the Executive Agency plan (in the context of the overall policy, plan and budget for the Ministry), challenge assumptions and negotiate an agreed budget;

- assess the Executive Agency' s plans and budgets by focusing on the Key Performance Indicators (KPIs) (including efficiency measures), proposed targets and trends, plus the total net funding requirement (income net of expenditure); and
- assess the fee proposals set out in the plan to consider the implications for full cost recovery and the impact of the proposed fees on customers and beneficiaries.

6.3 Content of corporate plan, business plan and budget

6.3.1 *Best practice*

The Executive Agency will follow best practice in the formulation and presentation of the plans, as set out in any Ministry of Finance Good Practice Guides, which may be issued from time to time.

6.3.2 *Content of the corporate plan*

As a minimum, the Executive Agency corporate plan will include:

- mission and objectives;
- key performance indicators and targets over the three years of the plan;
- key strategies for operations, information technology, human resources, facilities, finance, customer service, and fees;
- resources required (recurrent and capital);
- staffing levels; and
- costs.

6.3.3 *Financial and budgetary information*

The financial and related information required for the financial part of the corporate plan will be:

- volumes, workload, statistics for all major outputs;
- key performance indicators and targets;
- fee proposals including change date and percentage change;
- revenue by type, product, or service;
- efficiency analysis, showing baseline costs, outputs, cost savings, or output improvements;
- for each cost centre: key activities and milestones, plus project costs (recurrent and capital);
- direct costs and full costs for whole organisation by object code;

- full costs of the organisation split into delivering the business services and products, and change projects;
- direct cost recovery and full cost recovery by product/service/outputs;
- headcount summary;
- capital expenditure (by quarter);
- income and expenditure statement;
- balance sheet;
- cash flow statement (by month).

6.3.4 *Content of the business plan*

The business plan for the first year will contain more detailed supporting information for the performance indicators, strategies, and resources. The financial information will include that listed above by month. The phased business plan will be the basis of the quarterly performance reports to the Minister.

6.3.5 *Flexible plans and budgets*

The Executive Agency must produce the plans and budgets such that it can readily identify where reductions in the resources required could be made and the impact on targets. The plans must be flexible to match the availability of funds from government.

6.3.6 *Budget call and planning information*

The budget call for the Executive Agency will be issued directly to the Executive Agency and copied to the Portfolio Ministry. It will set out the planning and budgeting assumptions and parameters and an indication of the information or presentational format required. It will provide guidance on the likely budget limits.

6.3.7 *Timetable*

The planning and budgeting timetable will be that set for all Ministries. It is for the Chief Executive Officer to determine how far in advance he/she should start the internal process of formulating the plans.

6.4 Planning and budgeting process

6.4.1 *Key stages*

The key stages of the process are:

- Chief Executive Officer initiates planning and budgeting process within the Executive Agency;

- Executive Agency staff, in particular the top management team, formulate the plans and prepare a proposed corporate and business plan and budget;
- The Chief Executive Officer seeks guidance and advice from the Minister, Permanent Secretary, Non-Executive/Advisory Board (where one is established), as appropriate on planning issues, such as new services, fees, and performance targets;
- Where a Board is established - The Chief Executive Officer presents the draft plans and budget to the Board for their advice and comments;
- The Chief Executive Officer sends a copy of the proposed corporate and business plan and budget to the Minister and Permanent Secretary;
- The Permanent Secretary reviews the plans and takes advice from the Principal Finance Officer;
- The Chief Executive Officer presents the plan and budget to the Minister and Permanent Secretary;
- The Permanent Secretary advises the Minister;
- The Minister endorses the plans, budget and targets;
- The endorsed Executive Agency business plan is consolidated into the one-year corporate plan and budget of the Portfolio Ministry. (Note: large Executive Agencies will dominate the Ministry plan but small ones may not have a significant budget impact. The Ministry plan will only summarise the Executive Agency one year plan and budget);
- The Ministry sends its one-year consolidated plan to the Budget Officer in the Ministry of Finance & the Public Service;
- The Budget Analyst - Ministry of Finance & the Public Service reviews the Ministry plan and budget, and therefore the Executive Agency plan and budget, in the context of the overall Ministry strategy and policy;
- Ministry of Finance & the Public Service, the Minister, Permanent Secretary, Principal Finance Officer and Chief Executive Officer discuss and justify the Executive Agency section of the Ministry plan and budget. After negotiation, agreement is reached;
- Ministry of Finance & the Public Service issues an agreed indicative budget (This could be a reduction on the endorsed budget) and informs the Chief Executive Officer directly, copy the Ministry Permanent Secretary;
- Where there is a budget cut required of the Executive Agency, the Chief Executive Officer decides where and how the cuts should be made to the budget and the impact on the performance targets. Where the targets need to be changed, the Chief Executive Officer renegotiates these with the Minister;
- Ministry of Finance & the Public Service sends the indicative budgets to Cabinet for approval;
- Parliament approves the budgets;

- Ministry of Finance & the Public Service issues the budget allocations and notifies the Executive Agency and the Ministry;
- Where at later stages the approved budgets have been cut, the Chief Executive Officer decides where to make the changes and where necessary renegotiates the targets;
- The Executive Agency amends the business plan and re-phases the allocated budget as required;
- The Executive Agency prepares a cashflow statement analysed by month and sends it to the Ministry of Finance & the Public Service;
- The Executive Agency prepares and submits Implementation Plan to MoFPS.

7 Revenue

7.1 **Revenue recognition**

7.1.1 ***Revenue type***

Executive agencies may derive revenues from exchange or non-exchange transactions. An exchange transaction is one in which the executive agency receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another party in exchange. A non-exchange transaction is one in which an entity either receives value from another entity without directly giving approximately equal value in exchange or without directly receiving approximately equal value in exchange.

7.1.2 ***Definition of revenue***

Revenue is defined by International Public Sector Accounting Standard 9 (IPSAS9) as the gross inflows of economic benefits or service potential received and receivable by an agency on its own account. Revenue includes the following exchange transactions and events:

- The rendering of services;
- The sale of goods; and
- The use by others of entity assets yielding interest, royalties and dividends.
- Fees or charges are the amounts paid by customers for services or products provided by the Executive Agency. These fees and charges are defined as "income".

  Income does not include that which is collected on behalf of a third party (in the case of Executive Agencies this third party will usually be GoJ) such as taxes, duties, fines, and penalties as they are not economic benefits or service potential that flows to the agency that would result in increases in its assets or decreases in its liabilities.

7.1.3 **Receipts for purchase of Plant, Property and Equipment**

Income does not include amounts received by the agency for the procuring of property plant and equipment. Amounts received for the procuring specified property, plant and equipment is recognised as government grants and must be credited to a Government Grants Reserve. Amounts received for procuring general property plant and equipment is recognised as grants in aid and should be credited to Income and Expenditure Reserve (See 11.3).

7.1.4 ***Distinction between different types of revenue***

This distinction is important because the Agency will not be able to offset its operational and capital costs by using taxes, duties, fines or penalties. Where there is any confusion about whether a particular item of revenue is to be classified as such the advice of the Financial Secretary should be sought and he/she will determine the proper treatment.

7.1.5 *Taxes collected by Executive Agencies*

The Executive Agency must account separately for the taxes, duties, fines, and penalties which it collects. These amounts must be paid into a bank account which is specified by the Accountant-General and which is separate from the account into which the Executive Agency' s own income is paid. These taxes, duties, fines, and penalties cannot be used by the Executive Agency to fund its own activities and as such should not be shown in the income and expenditure account. Collection performance against budget and key performance indicator targets, however, should be disclosed.

7.1.6 *Analysis of income*

All reports produced by the Executive Agency, including the annual financial statements, will report income in the income and expenditure statement according to the following classification;

- fees and charges (from the public or other non Consolidated Fund government entities);
- fees and charges (from Consolidated Fund government entities);
- funding agency funding or grants by source to cover recurrent costs;
- Portfolio Ministry subsidy to cover any net loss incurred by the Executive Agency (note that this is separate from the payment for services by the Portfolio Ministry);
- other income; and
- interest.

Funds generated by loans are not to be included in income but will be accounted for separately.

7.1.7 *Analysis by type of fee or charge*

The Executive Agency will show separately in an annex to its corporate and business plans income from fees and charges analysed by each different type of fee or charge related to each service or product.

7.1.8 *Relationship with government purchasers*

Wherever possible the relationship between the Executive Agency and the Portfolio Ministry or other government bodies will be along commercial purchaser/provider lines. Portfolio Ministries or other government bodies should establish a clear contractual relationship with the Executive Agency for the delivery of products or services to them. In these cases payments will be made to the Executive Agency for those products or services calculated on the same basis as the charges paid by non government customers.

7.1.9 ***Costs of collecting taxes***

Where taxes, duties, fines, penalties are levied, the cost of collection will be reimbursed to the Executive Agency by the Portfolio Ministry through the budget allocation process. The Executive Agency must show in an annex to its corporate and business plan an analysis of the full costs relating to these collection services, separate from services which attract fees and charges.

7.2 **Fees**

7.2.1 ***Recovering costs***

Where practical and appropriate, the Executive Agency will charge the public and other government bodies, including the Portfolio Ministry, for the services and products it provides. The Agency should generally aim to recover full costs, unless the agreed corporate plan, Framework Document, or specific Acts relating to the Agency state otherwise.

7.2.2 ***Systems***

Fees are not a means of passing on inefficiencies or creating new taxes and therefore the Agency must have transparent and auditable systems:

- to identify full costs of all key activities, services and products;
- to identify all income by services, products, and customer or beneficiary groups;
- to identify future demand levels and the Agency’ s capacity to meets those demands;
- to identify the impact of fee proposals on demand levels, or the social or economic impacts on customer/beneficiary groups or society;
- to ensure timely proposals for new fees or changes to fees; and
- to ensure timely implementation of changes to fees.

7.2.3 ***Value added services and products***

There may be opportunities for the Agency to offer premium or priority services or products, where the standards of delivery are higher than those specified in the standard service, for example regarding timeliness, accessibility, and quality of presentation. These are value added services and products and must recover full costs. The services should be offered at a price higher than that applying to the standard service and products and should generally be set by reference to market demand.

Value added services and products are not essential to the Executive Agency’ s attainment of its mission, but enhance the range of services and products on offer to ensure maximum utilisation of existing resources. The Framework Document or Agency specific Acts will state any limitations imposed on the extent to which the Agency may offer value added services.

7.2.4 ***Basis for setting fees***

In establishing an Executive Agency, the Portfolio Minister, in consultation with the CEO and the Financial Secretary, will determine whether in principle fees and charges should apply to some or all of the services and products and to what extent those fees and charges should recover full cost. This information will be set out in the Framework Document.

7.2.5 ***Proposing fee changes***

Proposals for fee changes will be made as part of the annual planning and budgeting process. The corporate plan of the Agency must set out the proposed pricing strategy and underlying assumptions about the services, products, markets, customer groups, demand levels, elasticity of demand, fee trends, and social and economic implications. A pricing annex must be provided to identify the proposed changes, analysed between the following categories:

- no fees for current services and products;
- reductions in fees for current services and products;
- no increases in fees for current services and products;
- increases at or below inflation for current services and products;
- increases above inflation for current services and products; and
- new services and products.

The annex must also show the timing of the proposed changes, the percentage of full cost recovery, and the social/economic impact of contentious fee proposals.

7.2.6 ***Initiating fee changes***

Agreement to the fees will be given as part of the planning and budgeting approval process. It is the responsibility of the Chief Executive Officer to ensure that the fees are published in the Gazette or any changes necessary to the Act or Regulations are initiated The Agency must give 30 days notice to the public prior to implementation of the changes.

7.2.7 ***Cross-subsidisation***

In principle, the Portfolio Minister will be expected to set fees to recover full cost for the Agency overall, except where he/she considers it socially or economically unacceptable and where this is agreed as part of the budget process. In achieving the overall target, an Executive Agency is able to cross subsidise services or products where this has been agreed as part of the corporate plan. For example, statutory or core services could be charged below full cost or given free and value added services charged above full cost.

8 Assets and procurement

8.1 **Assets**

8.1.1 *Assigning assets to the Agency*

The assets under the day-to-day control of the entity immediately before it is established as an Executive Agency that are owned by the Government will be assigned to the Executive Agency.

8.1.2 *Valuation of assigned assets*

Of the total assets assigned, the fixed assets assigned will be valued as at the day the Executive Agency is established in accordance with a methodology specified by the Financial Secretary. The total value of the fixed assets assigned will be the value of the initial capital investment (see Instructions 3.4.1, 4.4.1, and 5.4.1).

8.1.3 *Land and buildings*

Land and buildings will not be assigned to the Agency, except where the entity prior to becoming an Executive Agency owned such assets and a relevant act so authorizes. The Commissioner of Lands will retain ownership and control of those assets where the exception does not apply. Where the Agency occupies land and buildings owned by the Government, the Agency will book amounts for notional lease charges at a rate equivalent to that which would be paid in the market as estimated by a person appointed by the Financial Secretary. The amounts booked will be written back at the end of each accounting year thus eliminating the lease/rental liability of the agency.

8.1.4 *Rejection of assets by an Agency*

In cases where an Executive Agency notifies the Accountant-General that it does not wish to take control of particular assets then those assets will not be assigned to the Executive Agency but must be handed over to the Accountant-General. Notification must be given not later than one month before the Executive Agency is scheduled to be established. In such cases the value of those assets will not be included when calculating the amount of initial capital debt. The assets will be the responsibility of the Accountant-General who will re-assign them to other government departments in due course.

8.2 **Asset management**

8.2.1 *Exercising proper control*

The Chief Executive Officer must establish appropriate systems and controls to ensure that the assets assigned to the Agency are properly controlled, used only for the purposes for which they were intended, maintained in good working order, and held securely.

8.2.2 *Investment appraisal*

The Executive Agency will be responsible for preparing a cost benefit analysis for all proposed fixed asset investments, taking into account all recurrent costs associated with the fixed assets. The Executive Agency must take account of any guidelines on investment appraisal issued by EAMU.

8.2.3 *Securing alternative land and buildings*

The Executive Agency will be able to negotiate alternative accommodation in commercial or other government premises which offer better value than its current premises (having taken into account rent and other running costs) and where the corporate and business plans identify the business need and include a full cost benefit analysis.

8.2.4 *Disposal of assets*

Chief Executive Officers of Model B and Model C Executive Agencies are authorised to dispose of assets assigned to those Executive Agencies. The Executive Agency must establish proper procedures for the disposal of assets; these procedures must comply with established GoJ policies and must provide for:

- the proper documentation of all disposals;
- the disposal by auction or tender of any asset with an estimated sale value of J$50,000 or more;
- the disposal of any asset by private treaty only if an auction or tender fails to reach the reserve price;
- the maintenance of the fixed assets register and inventory to reflect all disposals; and
- a requirement that all disposals are approved by the Chief Executive Officer.

When an asset is disposed of in accordance with these procedures any proceeds may be retained by Executive Agency for reinvestment in performance improvement projects, the replacement of derecognised assets or the early redemption of debt.

8.3 Procurement

8.3.1 *Procurement procedures*

Executive Agencies must comply with the GOJ procurement policies and procedures for the procurement of all goods, services and construction work; in doing so they must comply with the requirements contained in the Government of Jamaica Handbook of Public Sector Procurement Procedures issued by the National Contracts Commission (NCC) and are bound to such requirements.

8.3.2 ***Procurement Committee***

Each Executive Agency shall have a Procurement Committee. The Committee shall have not less than four members appointed by the Chief Executive Officer from amongst the staff of the Executive Agency except that the Chief Internal Auditor may not be appointed a member. The Procurement Committee shall have the following members:

- Chairman;
- Senior Financial Management Personnel;
- Secretary; and
- Procurement Officer (non-voting member)

8.3.3 ***Requirement to comply with certain provisions***

In the procurement of goods, services and construction works, the Executive Agency is obliged to comply with the GOJ procurement policies and procedures including the use of GOJ standard Forms and Contracts and must observe the limits as are outlined in GOJ Handbook of Public Sector Procurement Procedures.

8.3.4 ***Functions of the Procurement Committee***

The Procurement Committee shall:

- Ensure compliance with relevant policies, guidelines and procedures;
- Effect objective evaluation processes regarding quotations, tenders and request for proposals;
- Facilitate response to contractor enquiries;
- Maintain proper record of Committee meetings, including records of the procurement;
- Ensure compliance with reporting obligations; and
- Report to the Chief Executive Officer recommending the acceptance, or not, of one, or more, of the quotations, tenders or request for proposals received and making such other recommendations in compliance with the procurement guidelines and procedures.

8.3.5 ***Selecting tenders***

Whilst considering which, if any, tender or tenders to recommend to the Chief Executive Officer for acceptance, the Procurement Committee shall only take into account:

- the ability of tenderers to supply the goods or services to the required standard;
- the tender price submitted by each tenderer;
- such other criteria as may have been determined by the Committee in advance of receipt of the tenders and recorded in the minutes of the Committee; and

- all such other criteria outlined in section 6 of GOJ Handbook of Public Sector Procurement Procedures, May 2001.

8.3.6 ***Conditions of contract***

In making contracts Executive Agencies will comply with the standard conditions of Government contracts for supplies as contained in section 6 of GOJ Handbook of Public Sector Procurement Procedures.

8.3.7 ***Documenting actions***

All actions taken to procure any good or service shall be fully documented and such documentation may be reviewed by the Auditor-General and/or the Chief Internal Auditor.

9 Cash and bank

9.1 Working capital

9.1.1 *Definition of working capital*

Working capital is the net value of current assets and current liabilities and is an indication of the level of financial resources available to meet current and future expenditure. The purpose of working capital is to ensure that the Executive Agency has sufficient funds to enable it to meet expenditure until sufficient receipts are generated to fund current and future expenditure.

9.1.2 *Initial availability of cash*

The Agency will not have an opening cash balance in the balance sheet on its first day of Agency status; however, sufficient cash will be made available through the warrant and cash requisition system from the first day of the new accounting year to enable expenditure to be met.

9.1.3 *Unspent cash when an Executive Agency is established*

Any unspent cash balances relating to prior years held on the day the Executive Agency is established will be retained in the Consolidated Fund; they will not be available to the Executive Agency. The bank account(s) relating to the prior year will continue to operate until all receipts and payments relating to the prior year are completed and the bank account(s) reconciled. None of these prior year transactions will be recorded in the Executive Agency accounts.

9.2 Cash requirements

9.2.1 *Cash flow profile*

The Agency will receive cash to meet its requirements as agreed in its budget and set out in its quarterly cash reports depending on available financial resources. It is the responsibility of the Agency to ensure that an accurate profile of cash flow is prepared to ensure that payments can be met from income or appropriated funds, as appropriate.

9.2.2 *"Overdraft" facilities*

Model B and Model C Executive Agencies may seek a temporary advance from MoFPS to cover any short term cash deficiency in anticipation of the receipt of income. As soon as cash is available the Executive Agency must repay any advance which was received.

9.2.3 ***Cash transfers***

The cash transfers under the warrant system from the Accountant-General to the Agency will be made at the start of the month for that month, based on agreed cash requirements.

9.3 **Bank Accounts**

9.3.1 ***Types of account***

The Executive Agency subject to the written approval of The Ministry of Finance and Planning may have the following bank accounts:

- an operational account;
- control accounts to facilitate the proper management of funds (for example a salaries control account);
- an appropriation-in-aid account (for Model B Executive Agencies - see Instruction 4.2.2);
- a Trust Fund account (for Executive Agencies which administer trust funds - see Instruction 15.2.1);
- a tax revenue account or accounts (for Executive Agencies which collect taxes, duties, penalties and fines - see Instruction 7.1.3).

Other bank accounts may only be established with the prior written approval of MoFPS.

9.3.2 ***Collection of taxes***

Where taxes, duties, fines, or penalties are collected on behalf of Government, the Executive Agency must pay such receipts on a timely basis into a separate account as specified by the Accountant-General.

9.3.3 ***Deposits***

Where deposits are held that belong to customers or beneficiaries of the Executive Agency, these must be held in a separate account (see section 15.2 for the accounting arrangements relating to trust funds) so designated for this purpose.

10 Basis of accounting

10.1 Adherence to commercial style (accrual) accounting

10.1.1 *Accounting requirements*

In general the annual financial statements published by an Executive Agency will follow Jamaican Generally Accepted Accounting Practice (GAAP), which is based on International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) issued by the International Public Sector Accounting Standards Board (IPSASB) and International Accounting Standards Board (IASB) respectively and adapted by the Institute of Chartered Accountants of Jamaica (ICAJ).

There are a number of areas where International Public Sector Accounting Standards are not appropriate to the financial statements of the Executive Agencies and in those areas departure from GAAP is acceptable where it has been permitted by these Instructions.

10.1.2 *Application of existing GAAP*

A checklist of existing IPSAS and IFRS is given in Appendix 1 indicating which are relevant to Executive Agencies.

10.1.3 *Applicability of ICAJ pronouncements*

Whenever there is a new IPSAS or ICAJ pronouncement that is relevant to the preparation of financial statements the Executive Agencies Monitoring Unit will issue a guidance note advising on the applicability of that pronouncement to Executive Agencies. If necessary this guidance will be followed by a revision or addition to these Instructions.

10.2 Accounting concepts

10.2.1 *Compliance with accounting concepts*

The financial statements produced by Executive Agencies will be based on the various accounting concepts set out in this section.

10.2.2 *Going concern*

Financial statements will be prepared on the assumption that the entity is a going concern, that is, that the activity of the entity will continue in the foreseeable future and that there is no intention or necessity to curtail it significantly.

10.2.3 *Accruals*

Financial statements will be prepared on an accruals or matching basis, which requires that income and expenditure be:

- accrued (that is, recognised when they are earned or incurred); and
- matched (that is, expenditure is matched with the income it has helped to generate).

Accrued means that transactions and events are recognised when they occur and they are recorded in the accounting records and reported in the financial statements of the period to which they relate, for example when an item to be purchased has been delivered, and not when there is an actual transfer of cash, that is when the invoice is actually paid.

Matching means that if money is spent on an item then that cost should be spread over the period in which it helps generate income, deliver services, or produce goods. For example, a computer is likely to last a few years and will provide economic benefit over that period of its useful life. The cost of that computer should be spread over the period of its useful life; this cost is called "depreciation" and is different to the treatment under cash accounting where the full cost is charged when cash is handed over regardless of when the item was purchased.

10.2.4 *Consistency*

Financial statements should be prepared on a consistent basis, that is, similar items should be treated similarly within a single period and also from one period to the next.

This means that if a computer is treated as a fixed asset and is to be depreciated, a similar computer should be treated in the same way. It is not acceptable to treat similar items in different ways, as this would make understanding the financial statements difficult.

In addition, if a certain accounting treatment has been adopted this year then it should be adopted next year. For example, it would be inconsistent if stock were to be valued based on one method this year and a different method next year. If a different treatment is adopted, year on year comparisons would be undermined. It is acceptable to change accounting policies but only if the change will result in a more appropriate presentation of events or transactions or the change is required to comply with IPSAS, and the impact on the financial statements is clearly identified.

10.2.5 *Prudence*

Wherever there is uncertainty, such that judgement has to be used, in preparing financial statements a degree of caution must be used. In general this means that assets must not be overstated and liabilities must not be understated.

Prudence requires that preparers of financial statements do not take an unreasonably optimistic view of events, as that might be misleading. Prudence demands that financial statements be prepared making realistic judgements but that where there are two equally likely courses it should be assumed that the less favourable one will happen.

10.2.6 ***Materiality***

An item is material if it is of sufficient size as to influence the opinion of a reader of the financial statements. Similarly, the misstatement or omission of an item would be a material error if the reader of the financial statements would have reached a different opinion on the accounts had the error been corrected. When preparing financial statements materiality must be considered in terms of which items need to be disclosed and what margin of error would be tolerable in valuing a particular item in the statements.

For example, if an Executive Agency had stock of J$100,000 compared to a gross expenditure of J$100 million then it would not really matter in terms of the presentation of the financial statements whether the stock were incorrectly stated by, say, 10%. This is a matter of judgement which the external auditor would need to reflect on. This is not to say that errors of 10% are acceptable or that Chief Executive Officers should not exercise proper control over their assets regardless of value.

10.2.7 ***Substance over form***

Financial statements should be prepared so as to reflect the economic substance and financial reality of transactions rather than only their formal legal character.

An example of this is the legal ownership of assets. Executive Agencies are to have assets assigned to them. The ownership of those assets legally rests with GoJ but the financial statements of the Executive Agency will show the assets in the balance sheet as that reflects the reality of the situation where Executive Agencies will, for day to day purposes, act as though they do own those assets.

10.2.8 ***Conflict of concepts***

Whenever there is a conflict between accruals and prudence it is prudence which takes precedence. For example, if there is some doubt about whether a debt which is due at the balance sheet date will be paid, the accrual concept would mean that the income is reflected in this year’ s statements. However, as there is doubt, prudence would suggest that the debt should be provided for and so not be counted as income this year, although it may be counted next year if the debt is paid. In this case prudence would determine the correct accounting treatment.

10.3 True and fair view

10.3.1 *Over-riding requirement*

The over-riding requirement of the financial statements of the Agency is to give a true and fair view of the financial position of the Agency and of its income and expenditure. Given this, where complying with any accounting concept or following any accounting policy as required by these Instructions would lead to the financial statements not giving a true and fair view, it is acceptable for the financial statements not to comply with that accounting concept or policy provided that this non compliance is clearly noted in the financial statements and, wherever possible, the effect of the non compliance quantified.

This means that the financial statements are intended, above everything else, to give a true and fair view of the position of an entity. They are not intended simply to follow accepted accounting practice where this would lead to a misleading presentation.

Of course, GAAP is drawn up to ensure that financial statements do give a true and fair view so extreme caution would be needed in instances where it was felt that to follow GAAP would not result in a true and fair view being given.

11 Accounting policies

11.1 Introduction

11.1.1 *Following prescribed policies*

The policies set out in this section will be followed by Executive Agencies in preparing their financial statements except where:

- a particular policy or policies is or are irrelevant; or
- to do so would result in those statements not giving a true and fair view.

11.1.2 *Definition*

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

11.1.3 *Disclosure in the financial statements*

Details of the accounting policies followed in preparing the financial statements should be given in those statements.

11.2 Property, Plant and Equipment

11.2.1 *Application of IPSAS17*

IPSAS17 "Accounting for Property, Plant and Equipment" applies to the financial statements of Executive Agencies. Land and buildings are not assigned to Executive Agencies and so should not be shown as assets in those financial statements except where an entity prior to becoming an Executive Agency owned land and buildings and a relevant act so authorises.

11.2.2 *Definition of Property, Plant and Equipment*

Property, Plant and Equipment are tangible assets that:

(a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

11.2.3 *Capitalisation of expenditure*

All expenditure on the acquisition, creation, or enhancement of property, plant and equipment should be capitalised. In this context enhancement means works which are intended to either lengthen substantially the useful life of the asset (beyond that conferred by routine repairs and maintenance) or to substantially increase the operational capacity of the asset.

11.2.4 *De minimis expenditure limits*

Expenditure of $50,000 or more on any one item or on several items of the same type bought at the same time should be capitalised. The capitalising of non-recurrent expenditure of less than $50,000 on any one item or several items of the same type bought at the same time will be determined by the accounting policies of the agency. Guidance can be sought from the EAMU, the Auditor General or the Audit Committee to determine if the items should be capitalised, based on the nature of the items.

11.2.5 *Maintenance work*

Expenditures relating to routine maintenance work to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset should not be capitalised.

11.2.6 *Asset categories*

In analysing fixed assets in the financial statements the following categories should be used:

- leasehold improvements
- plant, machinery, and equipment;
- computers;
- computer software;
- furniture and office equipment;
- fixtures and fittings;
- vehicles; and
- specialist assets.

A category for freehold land and buildings has not been included as such assets are generally not assigned to Executive Agencies except where the Agency prior to becoming an Executive Agency owned land and buildings and a relevant act gives it such authority.

11.2.7 *Property, plant and equipment register*

All items which have been capitalised should be recorded in a Property, Plant and Equipment register which shall be maintained by each Executive Agency and which should show:

- item;
- plant, property and equipment category;
- date of purchase;

- cost;
- depreciation;
- revaluation
- expenditure on enhancement (and date of such expenditure);
- net book value; and
- reference number.

11.2.8 ***Inventory of assets***

In addition, Executive Agencies are expected to maintain an inventory of all items which have been assigned to them and over which they must exercise proper control; this will include items below the threshold value for plant property and equipment. The purpose of this register is to effect proper control whereas the Property Plant and Equipment register is largely for accounting purposes.

11.2.9 ***Accounting***

A note to the balance sheet should analyse the value of plant property and equipment showing (by category):

- historic cost or revalued amounts;
- additions;
- disposals;
- increases or decreases resulting from enhancements, revaluations or impairment losses;
- depreciation for the year;
- accumulated depreciation; and
- net book value.

11.2.10 ***Donated assets***

Items of plant, property and equipment acquired with funding agency support will be included in the balance sheet at cost or market valuation, irrespective of whether they are provided by way of a loan or are donated. Where such plant, property and equipment are wholly or partly funded by an external donor agency (including Government of Jamaica) with no loan attached then there must be a corresponding credit to the Donated Assets Reserve (see Instruction 11.14.4).

11.2.11 ***Depreciation***

Depreciation will be provided on all fixed assets at rates calculated to write off the cost (historic or revalued as appropriate) of each asset evenly over its estimated useful economic life (that is on a straight line basis). Executive Agencies should determine the useful economic lives of each of their assets. However, the length of life determined for each category of asset must not exceed:

■ plant, machinery, and equipment	10 years
■ computers	5 years
■ furniture, office equipment, fixtures and fittings	10 years
■ vehicles	5 years
■ specialist assets	20 years.
■ leasehold improvements	duration of lease

11.2.12 *Depreciation period*

Depreciation of an asset commences when it is in the location and condition that enables it to be used in the manner intended. Depreciation ceases at the earlier of its de-recognition (sale or scrapping) or its classification as being held for sale. Temporary idle activity does not qualify as de-recognition.

11.2.13 *Commencement of depreciation*

Depreciation of an asset should commence in the month during which the asset is acquired, that is, one month depreciation in the month of acquisition and ceases in the month prior to that in which the asset is disposed of. That is, no depreciation for the month during which the asset is disposed of.

11.2.14 *Revaluation of, property, plant and equipment*

The value at which property, plant and equipment are included in the balance sheet should be reviewed periodically and where an asset' s value has changed materially the valuation should be adjusted accordingly. When an item of plant, property and equipment is revalued, the entire class of property plant and equipment to which that asset belong should be revalued. Such revaluations will be in accordance with a method agreed to by MoFPS.

11.3 Government grants and grants in aid

11.3.1 *Recognition and treatment*

Grants and Grants in Aid received should be recognised as contributions from controlling parties giving rise to a financial interest in the residual interest of the body, and hence should be accounted for as financing for them by crediting them to the income and expenditure reserve. If it can be proven that the grants or grants in aid are provided in return for goods and services they should be accounted for as income.

Executive agencies should account for grants or grants in aid received as a contribution towards the cost of a fixed asset as follows:

1. grants (i.e. for the purchase of a specific asset) – whether from the sponsor department or from other sources – should be credited to a government grant reserve (not to deferred income) and released to the income and expenditure account over the useful life of the asset in amounts equal to the depreciation charge in the asset and any impairment.
2. grants in aid (i.e. for the purchase of fixed assets in general) should be credited to the income and expenditure reserve. It will not be necessary to release amounts to the income and expenditure account to offset the depreciation charge.

On disposal of an asset financed by a ***grant***, the profit or loss is taken to the income and expenditure account/operating cost statement and is offset by a transfer from the government grant reserve of the same proportion of the profit or loss that the amount of the grant bears to the original acquisition cost of the asset. The balance on the government grant reserve in respect of that asset should be transferred to the income and expenditure reserve/general fund representing that same proportion of the proceeds. If the asset has been financed by a ***grant in aid***, the profit or loss on disposal is simply taken to the income and expenditure account/operating cost statement.

Revaluation gains are to be credited to Revaluation reserve where the corresponding grant in aid has been credited to general reserves or to the Government Grant Reserve where the grant had been credited to that reserve.

11.4 **Accounting Policies, Changes in Accounting Estimates and Errors**

11.4.1 ***Application of IPSAS3***

The aspect of IPSAS3 that relates to change in accounting policies that is applicable to public sector entities, should not fundamentally affect the financial statements of Executive Agencies.

11.4.2 ***Changes in Accounting Policies***

IPSAS3 states that an entity shall change an accounting policy only if the change:

1. is required by IPSAS: or
2. results in financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity' s financial position, financial performance or cash flow.

11.4.3 ***Determining accounting policy change***

The following are deemed to be changes in accounting policies:

- A change from one basis of accounting to another basis; and

- A change in the accounting treatment, recognition or measurement of a transaction, event or conditions within a basis of accounting.

The following are not deemed to be changes in accounting policies:

- the application of accounting policies for transactions, other events or conditions that differ in substance from those previously occurring: and
- the application of a new accounting policy for transactions, events or conditions that did not occur previously or were immaterial.

11.4.4 *Accounting Errors*

The section of IPSAS3 that relates to prior period errors will apply to the financial statements of Executive Agencies.

11.4.5 *Definition*

IPSAS3 defines prior period errors as:

"...omission from, and misstatements in, the entity's financial statements for one or more prior periods arising from failure to use or misuse of, reliable information that:

1. was available when financial statements for those periods were authorised for issue: and

2. could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements"

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretation of facts and fraud.

11.4.6 *Correcting prior period errors*

An Executive Agency shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

1. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
2. If the error occurred before the earliest prior period presented restating the opening balances of assets, liabilities and net assets/equity for the earliest period presented.

A prior period error shall be corrected by retrospective restatement except where it is impracticable to determine either the period specific effects or the cumulative effect of the error.

When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.

When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity will restate the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date.

When it is impracticable to correct an error for one or more prior periods, all adjustments for errors will be included in the income and expenditure statement of the current year, that is, the opening balance of reserves will not be adjusted as a result.

11.4.7 *Disclosure of prior period errors*

An entity shall disclose the following:

1. The nature of the prior period error;
2. For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
3. The amount of the correction at the beginning of the earliest prior period presented; and
4. If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

11.4.8 *Changes in accounting estimates*

The use of reasonable estimates is an essential part of the preparation of financial statements. An estimate may need revision if changes occur in the circumstances on which the estimate is based or as a result of new information or more experience. When there is difficulty in distinguishing a change in accounting estimate from a change in accounting policy the change is treated as a change in accounting estimate. Changes in accounting estimates shall apply prospectively to the extent that it gives rise to changes in assets and liabilities or relates to an item of net asset/equity in the period of change or future periods. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current and/or expected future periods. If it is impracticable to estimate the amount of the effect in future periods, the entity shall disclose that fact.

11.5 **Employee-Benefits**

11.5.1 ***Application of IPSAS25***

IPSAS25 "Accounting for employee benefit" issued by IPSASB which accounts for employee benefits in the financial statements of employers applies to the financial statements of Executive Agencies. A liability will be recognised when benefits are earned, not when they are due to be paid. Gains and losses arising on the initial recognition of items in the financial statements that is attributable to prior year benefits should be dealt with as a prior period adjustment and written off against retained earnings.

11.5.2 ***Definition***

IPSAS 25 defines employee benefits as

> "*all forms of consideration given by an employer in exchange for service rendered by employees*".

There are five categories of employee benefits:

- Short term employee benefits including wages, salaries, paid annual leave, paid sick leave, profit sharing and bonuses (if payable within twelve months of the end of the period) medical care, cars and free or subsidised goods or services for current employees;
- Post employment benefits including pensions and other retirement benefits, post life insurance and post employment medical care;
- Other long term benefits such as long-service leave, sabbatical leave, long term disability benefits and deferred compensation payable twelve months or more after period end;
- Termination benefits; and
- Equity compensation benefits.

11.5.3 ***Annual leave***

Annual leave due but not taken is to be recognised as a liability. Calculation is made on the basis of an employee' s salary at the date when the leave is to be taken. Leave taken in the next financial year will be classified as current whilst leave taken in all subsequent years will be classified as non-current.

11.5.4 ***Sick/Departmental/Compassionate Leave***

Sick, departmental or compassionate leave will not be recognised as a liability or expense until the time of absence.

11.5.5 ***Pensions***

Pensions are of two types:

1. defined contribution plan where the agency' s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund; and
2. defined benefit plans where the agency' s obligation is to provide the agreed benefits to current and former employees and where the actuarial risk and investment risk fall, in substance, on the agency.

The liability (the unfunded component) arising in respect of a defined benefit plan is to be accounted for in accordance with International Public Sector Accounting Standard (IPSAS) 25, *Employee Benefits*.

The amount recognized as a defined benefit liability is to be the net of the following amounts:

- the present value of the defined benefit obligation as at the end of the reporting period (after taking account of any payments against the liability during the period);
- plus any actuarial gains (less any actuarial losses) to the extent that they are recognized in accordance with IPSAS 25;
- less any past service cost not yet recognized as an expense; and
- less the fair value at the end of the reporting period of plan assets out of which the obligations are to be settled directly.

The liability is to be assessed by an actuary. It is to be calculated based on the latest actuarial assessment once every three years or from more recent data if available.

A liability for contributions payable to a defined contribution plan is to be recognized only if the contribution paid during the period is less than the contribution required.

11.5.6 ***Severance/Termination***

A liability for severance/termination payments is to be recognized only when the agency is demonstrably committed to either:

- Terminate the employment of any employee(s) before their normal retirement date; or
- Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy

An agency is demonstrably committed when it has a detailed formal plan that has no realistic possibility of being withdrawn. The liability is recognized only if at the reporting date the preceding conditions are met.

11.5.7 *Further guidance*

The Financial Secretary will provide further guidance on the accounting for retirement benefits pursuant to any changes in the pension arrangements for the staff of Executive Agencies.

11.6 Inventories

11.6.1 *Application of IPSAS12*

IPSAS12 Accounting for inventories prepared in the context of the historical cost system applies to the financial statements of Executive Agencies.

11.6.2 *Categories of inventories*

The following categories of inventories should be used:

- consumables and finished goods;
- goods or other assets purchased for resale or distribution in the normal course of business (for example, if an Executive Agency were involved in tourist promotion it may buy and then sell maps and guidebooks);
- consumable stores;
- raw materials and components purchased for incorporation into products for sale;
- finished goods produced;
- goods purchased or produced which are for distribution to other parties for no charge or for a nominal charge;
- the cost of service for which the entity has not yet recognise the related revenue;
- products and services in intermediate stages of completion; and
- long term contract balances.

11.6.3 *Valuation*

Inventories (or stocks) will be valued at the lower of cost and net realisable value. Net realisable value is the actual or estimated net income that could be generated by selling an item of stock. Net realisable value is likely to be relevant in instances of:

- physical deterioration of inventory;
- inventory obsolescence; or
- errors in purchasing such that inventory has little or no value.

Where inventories are acquired through non-exchange transaction it shall be measured at fair value as at the date of acquisition. Fair value reflects the amounts for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the market place.

Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge

11.6.4 ***Basis of determining cost***

The historic cost of inventories should be accounted for using either the first-in-first-out (FIFO) method or the weighted average cost method.

11.6.5 ***Inventory control systems***

Chief Executive Officers are required to establish systems of control to ensure that:

- regular inventory checks are held;
- inventory holdings are reasonable and that they do not become excessive;
- proper records are maintained of inventory holdings; and
- inventories are kept in appropriate conditions to prevent their theft or deterioration.

11.7 **Development expenditure**

11.7.1 ***Application of IFRS38***

IFRS38 "Intangible Assets (Accounting for research and development activities)" issued by the IASB applies to the financial statements of Executive Agencies, (this in the absence of an IPSAS). However, it is likely to be relevant only in a few instances. Care must be exercised in capitalising development expenditure, a note in the financial statements for all development expenditure capitalised will suffice.

11.7.2 ***Criteria for capitalisation***

An intangible asset arising from development expenditure should only be capitalised if and only if it meets the following criteria:

- there is a clearly defined project;
- it will generate probable future economic benefits;
- the related expenditure is separately measurable and identifiable;
- the outcome of the project has been assessed with reasonable certainty as to:
  - its technical feasibility; and

- its resulting in a product or service that will eventually be brought into use or sold; and

■ adequate technical, financial and other resources exist, or are reasonably expected to exist, to complete the project.

For example, if an Executive Agency were developing its own computer system it might be reasonable to capitalise that expenditure in the financial statements.

11.7.3 *Failure to meet criteria*

If any expenditure relates to a project that fails to meet any of the criteria set out above, it must be recognised as research expenditure and written off in the year it is incurred and must not be capitalised.

11.8 Provisions, Contingent Liabilities and Contingent Assets

11.8.1 *Application of IPSAS19*

IPSAS19 "Provisions, Contingent Liabilities and Contingent Assets" applies to the financial statements of Executive Agencies.

11.8.2 *Definition of contingencies*

A contingency is a possible asset or liability that arises from past events and whose ultimate outcome will be confirmed only on the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the enterprise.

11.8.3 *Treatment of contingent assets*

Contingent assets should not be accrued in the financial statements as to do so would be contrary to the concept of prudence. Where the inflow of an economic benefit is probable it should be disclosed by way of a note. However, when the gain is virtually certain then it is no longer a contingency and so should be accrued.

11.8.4 *Treatment of contingent liabilities*

Contingent liabilities should only be accrued when it is probable, that is, more likely than not, that there will be a loss to the Executive Agency. If the event is not probable, but the chances are greater than remote that it will occur (or not occur) then the amount should not be accrued but should be disclosed by way of a note.

11.9 Events after the Reporting Date

11.9.1 *Application of IPSAS14*

IPSAS14 "Events After the Reporting Date" applies to the financial statements of Executive Agencies.

11.9.2 *Definition of events after the reporting date*

IPSAS14 defines events after the reporting date as:

> *"those events, both favourable and unfavourable, that occur between the reporting date and the date on when the financial statements are authorised for issue."*

11.9.3 *Conditions at the reporting date*

If the event provides further evidence of a condition that existed at the reporting date the accounts should be adjusted.

11.9.4 *Conditions arising after the reporting date*

If the event relates to conditions arising after the reporting date the financial statements should not be adjusted unless the event is of such significance that non disclosure would affect the ability of the users to make proper evaluations and decisions and likely to change the opinion of a reader of the accounts then it should be disclosed by way of a note to the accounts as to:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

11.10 The Effects of Changes in Foreign Exchange Rates

11.10.1 *Applicability of IPSAS4*

IPSAS4 "Accounting for the effect of changes in foreign exchange rates" applies to the financial statements of Executive Agencies.

11.10.2 *Currency for financial statements*

The Financial Statements of Executive Agencies will be prepared in Jamaican Dollars. In IPSAS4 this is referred to as "the functional currency", that is, the currency of the primary economic environment in which the entity operates. Jamaican Dollars is also the "presentation currency" that is, the currency in which the financial statements are presented.

11.10.3 *Exchange rate for income and expenditure items*

Income or expenditure items should be translated from the foreign currency to Jamaican Dollars at the prevailing exchange rate on the day the transaction occurred, except that where the transaction is to be settled at a contracted rate, that rate should be used.

11.10.4 *Monetary items*

At the balance sheet date foreign currency monetary items resulting from unsettled transactions (for example debtors and creditors) should be translated using the closing rate on the balance sheet date, except where there is a contracted rate in which case that rate should be used. For example, a foreign currency debtor could arise if MIND had run a course elsewhere in the Caribbean and the fee was outstanding, in full or in part. A foreign creditor could arise where an Executive Agency acquired a computer directly from a supplier in the USA.

11.10.5 *Gains and losses*

Any gains and losses arising from the effect of changes in foreign currency rates should be taken to the income and expenditure account.

11.11 **Creditors**

11.11.1 *Types of creditors*

There are three types of creditors:

- trade creditors, sundry creditors, and loans - generally contractual obligations to transfer known amounts;
- accrued expenses - obligations to pay for goods and services that have been received but which have not been invoiced; and
- deferred income - an obligation to transfer economic benefits by providing goods or services for which payment has been received in advance.

11.11.2 *Analysis of creditors*

Creditors should be analysed between those amounts falling due within one year and those falling due after more than one year. The former should be shown as current liabilities in the balance sheet and the latter as long term liabilities.

11.11.3 *Valuation of creditors*

Creditors should be shown at contractually agreed amounts or, where they are not available, at realistic and prudent estimates of the amounts to be paid.

11.12 **Provisions**

11.12.1 *Definition of provisions*

Provisions are a subclass of liabilities and not a separate element of the balance sheet. IPSAS19 defines a provision as “Liabilities in respect of which the amount or timing of the expenditure that will be undertaken is uncertain”. Provisions can be distinguished from other liabilities such as trade creditors and accruals. The distinguishing feature for provisions is that there is uncertainty over either the timing or amount of the future expenditure.

11.12.2 ***Amount provided for***

The amount recognised as a provision should be a realistic and prudent estimate of the expenditure required to settle the obligation that existed at the balance sheet date.

11.12.3 ***Accounting treatment***

Provisions should be charged immediately to the income and expenditure statement. Expenditure incurred to settle the obligation should be debited direct to the provision. Provisions must only be used for the purpose for which they were established.

11.12.4 ***Provisions no longer required***

A provision that is no longer required should be credited to the income and expenditure account.

11.13 **Commitments**

11.13.1 ***Definition of a commitment***

A commitment is an obligation to make a payment at some future date for which provision has not been made in the accounts. Commitments relate to expenditure to be incurred on contracts which have been entered into at the balance sheet date and where there are unperformed obligations.

11.13.2 ***Capital commitment***

Capital commitments should be disclosed by way of a note to the balance sheet. The value of the commitment should be the amount of capital expenditure contracted for or approved to the extent that it has not been provided for in the accounts. For example, where, at the balance sheet date, an Executive Agency has placed an order for a new computer system which it will finance from its own funds or using a funding agency loan, the cost of that new system should be disclosed by way of a note.

11.13.3 ***Non capital commitments***

Other commitments should only be shown when they are:

- significant in terms of their value;
- non cancellable (or only cancellable at significant cost); and
- do not relate to the routine business of the Agency.

It is unlikely that Executive Agencies will have any non-capital commitments which meet all of these criteria. For example, commitments relating to staff salaries would not be shown as they relate to the routine business of the Executive Agency.

11.14 **Reserves**

11.14.1 ***Types of reserve***

Each Executive Agency may establish the following three reserves:

- General Reserve;
- Revaluation Reserve; and
- Donated Asset Reserve.

Executive Agencies are not permitted to establish any other reserves.

11.14.2 ***General Reserve***

The General Reserve represents the accumulation of the retained surpluses of the Agency. The following items will be credited to the General Reserve:

- any operating surplus made by the Agency (after any transfers to or from the Consolidated Fund have been effected);
- any surplus made on the sale of fixed assets; and
- disposal proceeds of donated assets.

Any operating loss made by the Agency (after any transfers to or from the Consolidated Fund have been effected) will be debited to the General Reserve.

11.14.3 ***Revaluation Reserve***

The Revaluation Reserve reflects the unrealised increase in the value of fixed assets (see section 11.2). Where an asset is revalued the accounting entries will be:

- debit the asset account by the amount of the revaluation; and
- credit the Revaluation Reserve by the same amount.

Any downward revaluation of a fixed asset should be reflected first by reversing the above entry insofar as the particular asset has been revalued; any further downward revaluation would need to be shown as a charge to the income and expenditure account.

11.14.4 ***Donated Asset Reserve***

The Donated Asset Reserve reflects the net book value of assets which have been donated to Agencies (either by the Government or by an external funding agency). Donated assets are treated in the same way as purchased assets except that:

- the Donated Asset Reserve is credited with the value of the original donation and with any subsequent revaluations;
- each year an amount equal to the depreciation charge is transferred from the Donated Asset Reserve to the operating cost statement; and
- on disposal of an asset:
  - the profit or loss is charged to the operating cost statement;
  - an equal amount is transferred from/to the Donated Asset Reserve to/from the operating cost statement so that there is a net nil effect on the operating cost statement; and
  - the balance on the Donated Asset Reserve in respect of the sold asset is transferred to the General Reserve.

Where an asset is only partially funded in this way only that part which is so funded should be treated in accordance with this Instruction.

11.14.5 ***Government Grant Reserve***

The Government Grant Reserve reflects the value of property, plant and equipment received as grant in aid.

11.15 **Leases**

11.15.1 ***Application of IPSAS13***

IPSAS13 "Accounting for leases" applies to the financial statements of Executive Agencies.

11.15.2 Definition

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

11.15.3 ***Finance lease***

A finance lease is one that transfers substantially all the risks and rewards of ownership of an asset to the lessee. A finance lease should be reflected in the balance sheet by recording an asset (that is the asset which is being leased) and a liability reflecting the future stream of lease charges. In the income and expenditure statement there will be charges for both depreciation of the asset and finance charges. For example, if an Executive Agency were to lease a computer which it had to maintain, could hire out to other users, and at the end of the lease the Executive Agency could acquire the computer then such a lease would be a finance lease.

11.15.4 *Operating leases*

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership**.** This will include service based contracts where the Executive Agency pays for a stream of services where the amount paid relates directly to the services consumed and where the other partner controls the asset and carries the risks and rewards of ownership. An operating lease should not be reflected in the balance sheet; instead the lease charges should be charged directly and fully to the income and expenditure account. For example, if an Executive Agency were to lease part of a building and it did not have to meet the cost of major maintenance it is likely that such a lease would be an operating lease.

11.15.5 *Seeking advice*

Lease accounting is a difficult area that is continually developing. Chief Executive Officers should seek the advice of the Ministry of Finance or the Auditor-General on the presentation of all leases in their accounting statements.

11.16 **Presentation of budgeted information in Financial Statements**

11.16.1 *Application of IPSAS 24*

IPSAS 24 "Presentation of budgeted information in Financial Statements" applies to Executive Agencies. The standard applies to all public entities that make their approved budgets publicly available.

11.16.2 *Presentation and disclosure requirements*

An Executive Agency shall present a comparison of budget and actual amounts as additional budget column in the financial statements where the financial statements and the budget are prepared on a comparable basis or may be presented separately in a "statement of comparison of budget and actual amounts" or a similarly titled statement.

The financial statements of executive agencies should include:

- A comparison of actual amounts with budgeted amounts
- An explanation of material differences between budget and actual amounts; and
- A reconciliation of actual budget amounts and actual amounts presented in the financial statements where the basis for preparation of both statements differ.

11.16.3 *Changes from original budget*

An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors:
(a) By way of note disclosure in the financial statements; or
(b) In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

11.17 Debtors

11.17.1 *Definition of debtors*

The item “Debtors” in the balance sheet includes amounts receivable as at the balance sheet date no matter when they fall due for payment.

11.17.2 *Transactions giving rise to debtors*

Most Executive Agency goods and services which are not provided to GoJ will be paid for at the time they are received by the customer so no debtor would arise. A debtor will arise where a good or service is provided and an invoice is raised for payment. For example, the cost of a course run by MIND for a private company may be recovered by raising an invoice. To qualify as a receivable, the collection of a debt must be legally enforceable. For example, the unfunded portion of a Warrant from GOJ that remain outstanding would not qualify as a debt because its collection is not legally enforceable.

11.17.3 *Staff loans and advances*

The outstanding balance on all staff advances and loans should be included in the value of debtors shown in the balance sheet. A note to the balance sheet should analyse the debtors figure and should show separately the value of staff loans and staff advances.

11.17.4 *Allowance for bad and doubtful debts*

Debtors should be stated at their net realisable value after allowance for bad and doubtful debts. The allowance for bad and doubtful debts should be a prudent estimate of the value of debts which are likely not to be collected. The allowance should be the sum of:

- an allowance for specific debts which are not likely to be collected because of their age, nature, or the debtor involved; and
- a general allowance based on a proportion of debts outstanding - the proportion being estimated by management based on previous experience and future expectations.

12 Reporting arrangements

12.1 Monthly reporting

12.1.1 *Monthly reporting*

On a monthly basis the Chief Executive Officer and management team will, as a minimum, be expected to review and report on their performance against:

- the business plan;
- budget (recurrent, capital, and revenue);
- key performance indicators and targets (those which can be measured monthly); and
- internal operational performance targets.

12.1.2 *Other internal reporting*

Other than that specified in Instruction 12.1.1, Chief Executive Officers can establish whatever procedures for internal reporting that they think fit. They shall be guided by relevant legislations and any relevant good practice guides issued by the Ministry of Finance.

12.1.3 *Submission of report*

The Chief Executive Officer shall submit copies of monthly financial statements (income and expenditure, balance sheet and cash flow statements) detailing budget and corresponding prior year income statement amounts, no later than fourteen days after the end of the reporting month to:

- Financial Secretary;
- Auditor-General;
- Deputy Financial Secretary (Public Expenditure Division); and
- Deputy Financial Secretary (Public Expenditure Policy Coordination Division)

12.2 Quarterly Performance Report

12.2.1 *Quarterly reporting of performance*

At the end of each quarter the Chief Executive Officer will produce a report which summarises the performance of the Executive Agency up to the end of that quarter and projections of future performance. The report shall be known as “the Quarterly Performance Report”.

12.2.2 ***Contents of the Report***

The Quarterly Performance Report shall include:

- actual performance for all Key Performance Indicators measured against the target for the quarter and the year to date, together with full year projections measured against the annual target;
- a brief report on the key performance issues, progress, and current topics of note;
- workload or demand levels against budget and variance, for the quarter and full year projections;
- summary income and expenditure statement against budget and prior year, and variance for the quarter and full year projections;
- a balance sheet showing the financial position of the Executive Agency at the end of each quarter;
- a statement of cash flows for each quarter;
- details of accounting policies applied in preparing the financial statements;
- summary capital expenditure statement against budget and variance, for the quarter and full year projections;
- summary of cash position measured against the approved cash budget, investments, deposits and loans;
- summary of all procurement contracts over Two Hundred Fifty Thousand Dollars Jamaican (J$250,000) or any amount prescribed by GOJ Procurement Handbook that the agency entered into;
- summary of key efficiency improvement projects against budget, variance for the quarter and full year projections;
- summary of key capital or improvement project milestones and costs, against budget, variance for the quarter and full year projections; and
- such other information which the Portfolio Minister or Chief Executive Officer consider significant or helpful in aiding the understanding of readers of the report.

12.2.3 ***Submission of the report***

The report will be submitted by the Chief Executive Officer, not later than one month after the end of the appropriate quarter, to the Portfolio Minister. Copies will also be sent to:

- Portfolio Permanent Secretary;
- Cabinet Secretary;
- Financial Secretary;
- DFS (Public Expenditure Division);
- DFS (Public Expenditure Policy Coordination Division); and

- Auditor-General.

12.3 Quarterly Cash Report

12.3.1 *Monitoring cashflow monthly*

Not later than fifteen days before the start of a quarter year, the Chief Executive Officer will produce a report which summarises the cash position of the Executive Agency and projections of cash requirements for the quarter and will submit the report to MoFPS.

12.3.2 *Contents of the Quarterly Cash Report*

The Quarterly Cash Report will show:

- cashflow projections by month for the quarter and cash requirements, analysed between recurrent and capital;
- total cash and bank balances held at the date the report is prepared, analysed by account; and
- total recurrent and total capital cumulative cash expenditure, accruals, prepayments, commitments, earmarked funds, cumulative warrant allocation, and balance on warrant, all compared to budget.

12.3.3 *Format of the report*

The Deputy Financial Secretary (Public Expenditure) may specify the format in which the report is to be submitted.

12.4 Quarterly performance reviews

12.4.1 *Consideration by Portfolio Ministry*

The Portfolio Ministry will conduct quarterly performance reviews chaired by the Portfolio Permanent Secretary, to monitor performance and provide feedback on policy issues arising. The Chief Executive Officer will attend for part or all of the review as appropriate. The Chief Executive Officer will be ready to answer queries on his/her performance and the implications for policy delivery. The DFS (Public Expenditure) and DFS (Public Expenditure Policy Coordination) will be represented at the meetings.

12.4.2 *Discussion with Boards*

Where an advisory board exists, the quarterly performance report will also be discussed with the members at the quarterly board meetings.

12.5 Information to be provided by MoFPS and the Portfolio Ministry

12.5.1 *Ministry of Finance & Public Service*

Information will be sent directly to the Agency and copied to the Portfolio Ministry.

12.5.2 *Expenditure warrants*

The Executive Agency will consult the Accountant General who will provide the following information to the Agency:

- the monthly warrant for recurrent and capital funds; and
- notice of when the funds are available in the bank.

12.5.3 *Cash requisition*

The Accountant General will fund the Agency to the full extent of the warrant given the availability of financial resources. Only where the Cabinet determines that the Executive Agency is a priority will funds be guaranteed.

12.5.4 *Public Expenditure Division*

The Public Expenditure Division of the Ministry of Finance & the Public Service will:

- make available the approved budget (recurrent and capital) of the Executive Agency and any changes to the budget;
- issue the budget call; and
- request any required revisions to the budget during the year by way of supplementary estimates.

The budget call will be issued to the Executive Agency directly, and will contain any Executive Agency specific Instructions. The budget call will provide guidelines for assumed budget levels and a summary of Cabinet decisions on relevant policy.

12.5.5 *The Portfolio Ministry*

The Portfolio Ministry will provide policy direction and policy decisions relating to the Executive Agency.

13 Annual report and accounts

13.1 **Executive Agencies' annual reporting requirements**

13.1.1 ***Preparation of annual report and accounts***

In respect of each financial year, and within a period of three months after the end of such financial year, the Chief Executive Officer of an Executive Agency shall prepare an annual report and accounts relating to the Executive Agency and transmit them to:

- the Minister of Finance;
- the Portfolio Minister; and
- the Auditor-General.

13.1.2 ***Content of the annual report and accounts***

The annual report and accounts will include:

- the Chief Executive Officer' s annual report; and
- the Executive Agency' s financial statements.

13.1.3 ***Annual report***

The Chief Executive Officer' s annual report will be in such form as he/she may determine but must include:

- a commentary on the Executive Agency' s overall performance for the year, including performance measured by the key performance indicators and a comparison of actual achievements with those forecast in the business plan;
- a summary of the level of activity undertaken by the Executive Agency during the year;
- details of significant developments which are likely to affect the Executive Agency' s performance in subsequent years, in particular any initiatives to improve quality, value for money, customer satisfaction, and income generation; and
- an outline of the organisational and managerial structure of the Executive Agency.

13.2 **Financial statements**

13.2.1 ***Presentation of the financial statements***

Chief Executive Officers must ensure that the financial statements referred to in Instruction 13.1.2:

- give a true and fair view of the Executive Agency' s financial position as at the balance sheet date and of income and expenditure for the financial year;
- have been prepared on the basis of accounting set out in chapter 10 of these Instructions;
- comply with the accounting policies set out in chapter 11 of these Instructions; and
- are in the format prescribed by Instructions 13.2.4 and 13.2.5.

13.2.2 ***True and fair view over-ride***

Wherever there is any conflict between the requirements given above, the first requirement shall take precedence, that is, the primary requirement of the financial statements is that they give a true and fair view.

13.2.3 ***Laying statements before the House of Representatives***

Within four months after the end of the financial year or as soon as practicable thereafter, the Auditor-General will issue the certificate in accordance with Instruction 14.4.5. (S)he will submit a signed set of the financial statements and the Chief Executive Officer' s annual report, with his/her certificate appended, to the Speaker of the House who will cause the statements/reports to be laid on the Table of the House of Representatives.

13.2.4 ***Content of the financial statements***

The financial statements of each Executive Agency shall include:

- an income and expenditure statement (statement of financial performance) for the financial year;
- a balance sheet (statement of financial position) showing the financial position of the Executive Agency at the end of the financial year;
- a statement of cash flows for the year;
- a statement of changes in net assets/equity
- a comparison of budget and actual amounts either as separate additional financial statement or as a budget column in the financial statement;
- notes, comprising a summary of significant accounting policies applied in preparing the financial statements and other explanatory notes;
- a statement on internal control as required by Instruction 14.3.4;

- a statement of Key Performance Indicators;
- such other notes as the Chief Executive Officer considers helpful to readers of the statements; and
- the Auditor-General' s certificate issued in accordance with Instruction 14.4.5.

13.2.5 *Format of the financial statements*

The balance sheet, income and expenditure statement, and cash flow statement will be in the format set out in Appendix 2. The headings shown in the prescribed format must be used although additional headings may be used if they are necessary to ensure that the statements give a true and fair view of the Agency' s financial affairs.

13.2.6 *Comparative figures*

With the exception of the financial statements relating to the first financial year of an Executive Agency' s existence, financial statements should show corresponding figures for the preceding period.

13.3 Notes to the financial statements

13.3.1 *Disclosing emoluments over J$2 million per annum*

A note to the income and expenditure account must be included which identifies the number of staff who have received total emoluments in excess of J$2 million during the financial year (this should be included even if the number of such employees is nil). The number of such employees should be analysed in bands of J$250,000: the first band will be J$2 million to J2.25 million; the second will be J$2.25 million to J$2.50 million and so on as far as is necessary.

13.3.2 *Disclosing procurement activities*

A note to the financial statements will also include a summary of all contracts entered into by the agency valued over Two Hundred Fifty Thousand Dollars Jamaican (J$250,000) during the year or any other minimum sum as prescribed by the GOJ Procurement Handbook from time to time.

13.3.3 *Additional information to be included*

The statements will also include such additional information as necessary to ensure that the statements comply with section 19A (5) of Financial Administration and Audit Act.

14 Audit and control

14.1 **Audit Committee**

14.1.1 ***Requirement to establish an Audit Committee***

In accordance with section 33 of the Financial Administration and Audit Act the Minister of Finance requires each Executive Agency to establish an Audit Committee. The Committee will act in an advisory capacity and has no executive powers.

14.1.2 ***Membership of the Audit Committee***

The Audit Committee will have not less than five (5) and no more than seven (7) members comprising the following:

- at least one but not more than two suitably qualified and experienced members appointed by the Portfolio Permanent Secretary to represent the interests of the Portfolio Ministry and the users of the services provided by the Executive Agency;
- at least one but not more than two suitably qualified and experienced members appointed by the Financial Secretary to represent the interests of the Ministry of Finance and Planning;
- one suitably qualified and experienced member appointed from the agency by the Chief Executive Officer to represent the interests of the Agency; and
- at least one but not more than two qualified and experienced independent member appointed by the Chief Executive Officer in consultation with the Ministry of Finance & the Public Service and the Portfolio Ministry.

14.1.3 ***Appointment of members***

The establishing of the Audit Committee shall be the responsibility of the Chief Executive Officer of the agency acting through the Office of the Cabinet Secretary.

- Appointment of members to the committee shall be made in accordance with instruction 14.1.2 and the appointment of Chairman in accordance with instruction 14.1.5.
- A list of all nominees for appointment shall be sent to the Financial Secretary for evaluation and recommendation for appointment.
- The Financial Secretary shall submit the list of nominees recommended for appointment to the Cabinet Secretary who will cause a meeting of the selection panel to be convened to appoint a chairman in accordance with instruction 14.1.5.
- Internal auditors or accounting personnel employed to the Executive Agency are not eligible for appointment to the committee.

14.1.4 *Functions of the Audit Committee*

The Audit Committee shall be responsible for:

- assessing the adequacy and scope of the arrangements for the internal and external audit of the Executive Agency;
- examining the reports of the internal and external auditors;
- considering any special reports submitted by the Chief Internal Auditor in accordance with Instruction 14.2.6;
- ensuring the co-ordination, relationship and scope of the internal and external audit work, and any other value for money or non-financial studies by other consultants;
- reviewing and recommending for approval, or otherwise, the Agency's major accounting policies, principles and practices;
- ensuring the independence and objectivity of auditors and reviewing with management any areas of disagreement between management and the auditors;
- ascertaining what action has been taken in respect of the recommendations contained in such reports; and
- reviewing the Chief Internal Auditor's strategic and operational plans.

14.1.5 *Operation of the Audit Committee*

The method of operation and procedures of the Audit Committee shall be determined by the Committee itself except that:

- the Chairman of the Committee shall be appointed by an appointment panel the members of which shall be at least three members of the Audit Commission and the Chief Executive Officer of the agency . The Cabinet Secretary or his/her representative shall act as chairman of the appointment panel;
- the quorum for any meeting of the Committee shall be not less than two thirds of the members;
- the Committee shall meet at least once in every three month period;
- decisions taken by the audit committee shall be communicated in writing to the Chief Executive Officer no later than thirty days after the sitting of the most recent audit committee meeting at which the decisions were taken..
- committee members appointed by the Ministry of Finance & the Public Service, the Portfolio Ministry and the Agency shall be limited to personnel employed on a permanent basis in these entities;
- persons employed on a contractual basis for a period of not less than three years are deemed to be employed on a permanent basis for the purposes of this committee;
- termination of employment with the Ministry of Finance & the Public Service, the Portfolio Ministry or the Agency is interpreted as termination from membership of the Committee;

- the Committee members shall be appointed for a minimum period of five years in the first instance;
- each Committee member demitting office in the first instance shall be eligible for reappointment;
- no member shall be appointed to the Committee for a period exceeding seven years consecutively.
- any member who is absent from three consecutive meetings without just cause shall be deemed to have abandoned the position and is thus disqualified;
- the chairman shall write to the Cabinet Secretary, the Financial Secretary and the Chief Executive Officer notifying them of the disqualification;
- the chairman may replace disqualified member(s) by inviting recommendations through the office of the Cabinet Secretary from the entity whose interest was represented by the disqualified member(s); and
- every Audit Committee shall establish a Charter to guide its operations.

14.1.6 *Other parties to attend*

The Chairman of the Committee may ask other parties to attend, supply information, or to advise on specific matters from time to time to enable the committee members to carry out their duties.

14.1.7 *Annual audit report*

The Committee will prepare an annual report in respect of each financial year and it will be submitted, no later than six months after the end of that financial year, to the Portfolio Minister. Copies will also be sent to:

- Financial Secretary;
- all members of the Committee;
- Chief Executive Officer;
- Auditor-General;
- members of the Advisory Board; and
- The Audit Commission.

14.2 Internal audit

14.2.1 *Requirement for internal audit*

Each Chief Executive Officer must establish an effective and adequate internal audit function within the Executive Agency.

14.2.2 ***Chief Internal Auditor***

The head of the Executive Agency' s internal audit function shall be designated the Chief Internal Auditor. The Chief Internal Auditor need not be a permanent member of the staff of the Executive Agency.

14.2.3 ***Modes of delivery***

The structure of the internal audit function and the arrangements to ensure its effectiveness are to be determined by the Chief Executive Officer on the advice of the Audit Committee. There are a number of possible methods by which internal audit services may be secured, these include:

- direct provision by the Executive Agency;
- provision by an internal audit consortium of Executive Agencies (that is an internal audit function servicing a number of Executive Agencies who would jointly manage and finance the consortium);
- contracting out the provision to a firm of accountants; or
- provision by the Portfolio Ministry (for a fee).

This list is not exhaustive.

14.2.4 ***Reporting arrangements for internal audit***

The Chief Internal Auditor shall report directly to the Chief Executive Officer.

14.2.5 ***Submission of internal audit reports***

A copy of each report issued by the Chief Internal Auditor shall be submitted to the Chairman of the Audit Committee for presentation to the Committee as soon after the report is issued as is practicable.

14.2.6 ***Special investigations***

The Chief Internal Auditor may undertake a special investigation of any matter coming to his/her attention which he considers to be significant, important, and relevant to the finances of the Executive Agency although such investigation may not have been included in his/her operational plan. Following a special investigation the CIA may submit a special report directly to the Audit Committee regarding the investigation. In such circumstances he/she may submit his/her report without first consulting the Chief Executive Officer.

14.2.7 ***Preparation of quarterly reports***

At the end of each quarter the Chief Internal Auditor shall prepare a report summarising the activities undertaken by the Internal Audit function during the quarter together with a summary of all significant findings and recommendations. The Chief Internal Auditor shall submit this quarterly report to the Chief Executive Officer and, in accordance with section 34 (3) of Financial Administration and Audit Act, the Financial Secretary.

14.2.8 ***Access given to the Auditor-General***

The Auditor-General will be given access to all files, working papers, reports, and plans, whether held physically or electronically, for the purpose of completing his/her audit or for reviewing the effectiveness of internal audit.

14.2.9 ***Duties of the Chief Internal Auditor***

The Chief Internal Auditor shall:

- liaise closely with the Auditor-General to ensure that maximum benefit is derived from the use of audit resources;
- review and report upon the operation of all financial and other systems operating in the Executive Agency, in particular he/she should consider and comment on the effectiveness of any controls contained in those systems;
- investigate and report to the Chief Executive Officer upon any instances of alleged misappropriation or fraud which come to his/her attention by whatever means;
- review the arrangements made by the Chief Executive Officer to secure value for money in the use of resources by the Executive Agency;
- prepare quarterly reports and submit them in accordance with Instruction 14.2.7;
- carry out such special investigations in accordance with Instruction 14.2.6 as (s)he may determine; and
- carry out such other investigations as the Chief Executive Officer may require from time to time that is consistent with the duties and responsibilities of personnel operating in a similar capacity internationally.

14.3 **Internal controls**

14.3.1 ***Internal control system***

The internal control system is the whole system of controls, financial and otherwise, established by the management of the Agency in order to undertake its business in an orderly and efficient manner, ensure adherence to management policies, ensure transparency and accountability, safeguard assets, and secure as far as possible the completeness and accuracy of records.

14.3.2 ***Scope of internal control***

The system of internal control will embrace:

- financial and operational control systems and procedures, including, amongst other controls, physical safeguard of assets, segregation of duties, authorisation and approval arrangements, and information systems;

- management control including setting objectives and plans, monitoring financial and non-financial performance indicators, anticipating changing circumstances, and correcting poor performance;
- internal audit review, undertaken by staff independent of the functions it reviews, which is objective, and has direct access to top management and the Audit Committee;
- Audit Committee review by independent members, who include non-executive directors where applicable, which can give independent advice to executive management on internal control issues.

14.3.3 *Responsibility for internal control*

It is the responsibility of the Chief Executive Officer to ensure that there is an effective and comprehensive system of internal control in the Executive Agency.

14.3.4 *Statement on internal control*

In the interests of public accountability, the Chief Executive Officer should include a statement in the Annual Reports and Accounts of the Agency on internal control, but need not comment on its effectiveness. The statement should:

- acknowledge the responsibilities of management for the system of internal control;
- describe the limitations of any system of internal control;
- describe the key procedures designed to provide effective internal control; and
- confirm that the senior management have reviewed the effectiveness of the system of internal control (the Chief Executive Officer need not comment on the outcome of that review).

14.4 External audit

14.4.1 *Auditor-General's freedom*

These Instructions are not binding on the Auditor-General and in no way restrict his freedom of action. Where these Instructions state or imply that the Auditor-General will take any action it is because he/she has indicated his/her intention so to do.

14.4.2 *Functions of the Auditor-General*

The annual financial statements published by an Executive Agency shall be audited by an auditor appointed by the Chief Executive Officer and approved by the Auditor-General. The appointed auditor shall also review the procedures for calculating the value of key performance indicators of each Executive Agency and carry out value for money studies of the use of resources by the Executive Agency.

14.4.3 *Appointed firms of accountants*

The Auditor-General may, if he thinks fit, appoint a firm of accountants to undertake the audit of the Executive Agency on his/her behalf. In cases where he has so appointed a firm of accountants, reference to the Auditor-General in these Instructions shall be construed to include reference to an appointed firm of accountants.

14.4.4 *Audit work*

The Auditor-General shall carry out such audit work, as he considers necessary to enable him/her to fulfill his/her functions and duties.

14.4.5 *Duties of the Auditor-General*

The Auditor-General shall:

- give his/her opinion on the annual statement of accounts and whether it gives a true and fair view of the financial position of the Executive Agency at the financial year end and its income and expenditure for the financial year;
- give his/her opinion on the key performance indicators shown in the annual statement of accounts and whether they properly present the Executive Agency' s performance for the year;
- give his/her opinion on whether the Executive Agency has made proper arrangements to secure value for money in the use of its resources;
- certify that he(she) has completed the audit of the Executive Agency for the year in accordance with Auditing standards, Executive Agencies Act, Financial Administration and Audit Act, and these Instructions.

14.4.6 *Review of Transition Agency systems*

For a Transition Agency, at a time agreed with the Chief Executive Officer, the Auditor-General shall review the systems in place and give his/her opinion as to the adequacy of such systems for the purposes of enabling a Transition Agency to be designated an Executive Agency (see Instruction 2.1.7).

14.4.7 *Fees to be charged*

The Auditor-General may levy a charge upon the Executive Agency to reflect the full costs incurred in undertaking the audit of the Executive Agency in accordance with these Instructions.

14.5 **Portfolio Ministry auditors**

14.5.1 ***Right of access***

The Chief Internal Auditor of the Portfolio Ministry has the right to undertake an audit review in the Executive Agency and to inspect the books, records, and vouchers of the Executive Agency only if (s)he is authorised so to do by:

- the Portfolio Minister in consultation with the Portfolio Permanent Secretary; or
- the Financial Secretary; or
- the Chief Executive Officer.

14.5.2 ***Reporting arrangements***

In cases where the Chief Internal Auditor of the Portfolio Ministry is authorised under Instruction 14.5.1 to undertake an audit review and then undertakes such a review, he/she shall produce a written report of his/her findings and, where appropriate, recommendations and shall submit that report within 30 days of the completion of the audit review to:

- the Portfolio Minister;
- the Portfolio Permanent Secretary;
- the Financial Secretary; and
- the Chief Executive Officer.

14.6 **The Audit Commission**

14.6.1 ***Establishment***

The Cabinet Secretary will appoint an Audit Commission to monitor the performance and guide the activities of audit committees.

14.6.2 ***Members***

The Audit Commission will be an independent body comprising five (5) members from Government and executive members from the Jamaican Accounting and Internal Auditing profession as stipulated in the Government of Jamaica Audit Committee Policy document.

14.6.3 ***Role and Responsibilities***

The responsibilities of the Audit Commission include but are not limited to the following:

- The Audit Commission should keep copies of the charters of Audit Committees and perform annual reviews to determine their pertinence;
- The Audit Commission should review the annual audit committee report to identify and resolve outstanding issues;

- The Audit Commission should evaluate the performance of the Audit Committees; and
- The Audit Commission will act as temporary custodian of audit committee records during the transition of an audit committee.

15 Miscellaneous

15.1 Transitional arrangements

15.1.1 *Accrued holiday*

Upon transfer to an Executive Agency, where an employee has accrued holiday relating to previous service as a civil servant the cost of buying out that accrued holiday will not fall upon the Executive Agency but will be borne by the Government; as such, any related costs should not be reflected in the financial statements of the Executive Agency.

15.1.2 *Cost of severance or outplacement*

Where any civil servants who are employed in a Transition Agency do not become employees of the relevant Executive Agency on vesting day, for whatever reason, any costs which may be incurred as a result, including any costs of severance or outplacement, will not fall upon the Executive Agency but will be borne by the Government; any such costs should not be reflected in the financial statements of the Executive Agency.

15.1.3 *Pension liability for service as a civil servant before becoming an Executive Agency employee*

An employee of an Executive Agency will, if eligible, receive a pension upon retirement in accordance with the standard Government civil service pension scheme in relation to his/her service as a civil servant before he/she became an employee of the Executive Agency. This does not relate to service as an employee of the Executive Agency and so represents no liability to the Executive Agency; as such it should not be reflected in the financial statements of the Executive Agency. Instead GoJ will fund the costs of any pensions relating to qualifying periods of employment before employment by an Executive Agency.

15.2 Trust funds

15.2.1 *Separate bank accounts*

Some Executive Agencies look after cash, or other assets, on behalf of a third party in the capacity of a trustee (for example the Administrator-General administers the assets of some orphaned minors). In such cases the trust funds' cash must be deposited in a bank account which is separate from those accounts which are used to hold the Executive Agency' s cash.

15.2.2 *Presentation in the financial statements*

The accounts of trust funds should not be consolidated in the financial statements of the relevant Executive Agency. Instead, financial statements for the trust funds administered by an Executive Agency should be shown by way of a note to the financial statements of the Executive Agency.

15.3 Taxes and duties payable

15.3.1 *Position of Executive Agencies*

Executive Agencies are to be considered to be in the same position regarding the payment of taxes and duty as a department of government.

15.4 Private sector funding

15.4.1 *Seeking funding from the private sector*

The Executive Agency may seek private sector funding through an agreement with a commercial entity. The nature of the funding will be in the form of a joint venture, risk sharing arrangement, where the private sector contributes, partially or wholly, to the costs (whether or not those costs are subsequently reimbursed by the Executive Agency) of:

- acquiring a fixed asset;
- developing or delivering an activity or service (including through the contracting out of the delivery of a service);
- joint product development and sale; or
- subsidising a product or service for advertising or promotional reasons.

15.4.2 *Notification of exploratory discussions*

In cases where private sector funding is to be sought the Executive Agency must notify in writing, as soon as possible after exploratory discussions have commenced, the:

- Portfolio Minister;
- Portfolio Ministry Permanent Secretary; and
- Financial Secretary.

15.4.3 *Details to be notified*

The notification required by Instruction 15.4.2 must give details of:

- the nature and scope of the funding;
- the commercial organisation(s) involved;
- the benefits and rewards;
- the basis of profit allocation;
- ownership of intellectual property rights and patents; and
- the level of risk to the Government and the value of any guarantees which would be required.

15.4.4 *Approval to enter formal negotiations*

The Executive Agency cannot enter any formal negotiations relating to private sector funding without the prior approval in writing of the Minister of Finance.

15.4.5 *Approval to enter an agreement*

The Executive Agency cannot enter any binding agreement involving private sector funding without the prior approval in writing of the Minister of Finance.

15.5 Market testing and contracting out

15.5.1 *Permission to market test and contract out*

Executive Agencies may market test or contract out any of their services (except those which are core services or of a regulatory nature as determined by the Financial Secretary) provided that it is reflected in their corporate plan and that it helps them achieve their key performance targets.

15.5.2 *Making fair comparisons*

When market testing or contracting out, Executive Agencies must make comparisons fairly and on a consistent basis.

15.5.3 *Private sector funding Instructions*

Any agreement to contract out a particular service will have to comply with the provisions concerning private sector funding set out in section 15.4.

15.6 Insurance

15.6.1 *Requirement for insurance*

Executive Agencies are required to consider making appropriate arrangements for insurance in relation to:

- loss of or damage to their assets;
- public liability; and
- professional indemnity.

15.6.2 *Safe custody*

In accordance with section 36 of Financial Administration and Audit Act, accounting officers shall be responsible, inter alia, for the “safe custody” of all government property. In this context “safe custody” is interpreted as including making appropriate arrangements for insurance of property.

15.6.3 ***Meeting the cost of premiums***

Where the risks involved are borne by the Government then the Executive Agency must pay to the Government an amount equivalent to the premium that would have been charged for similar cover as estimated by the Accountant-General. Where insurance is arranged through an insurance company, the premiums which are payable in respect of that insurance cover will be a proper charge to the income and expenditure account.