JT (Jersey) Limited Accounting and Cost Allocation Audit

Introduction

The Jersey Competition Regulatory Authority ("the Authority") has responsibility for overseeing Competition Law and is the economic regulator for telecommunications, postal and ports services on Jersey. In addition, it provides advice and support on relevant matters to the government.

The need for the JT Accounting and Cost Allocation Audit was identified during the wholesale broadband access services price review (the "Price Review"), undertaken by the Authority in its role as telecommunications regulator. The key issue was that as part of the Consultation process in September 2021, JT (Jersey) Limited ("JT") submitted additional costs to the Authority which had not been identified when responding to the original data request.

Scope and approach

The Authority appointed Grant Thornton Limited ("Grant Thornton") to produce a report and supporting recommendations, in relation to JT's accounting processes and controls, together with general accounting and cost allocation practices, against JT's obligations set out under licence condition 33 and 34 and the issues identified during the Price Review. The Terms of Reference for the review are contained within Information Note JCRA 22/44 published on 11th July 2022 (https://www.jcra.je/cases/2022/t-067-jt-accounting-and-cost-allocation-audit/t-067-jt-accounting-and-cost-allocation-audit-information-note/).

Following a series of initial discussions between JT, Grant Thornton and the Authority, and the completion by JT of a preliminary questionnaire, the scope of the review was agreed between all parties. This then informed the agenda for a two day on site visit to JT by Grant Thornton to include interviews with management, accounting staff and procurement team members, identify relevant controls, and where appropriate inspect supporting documentation.

Please note, this has been a limited scope review performed at the request of the Authority. The procedures completed to produce this report do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements. Had we performed additional procedures, or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported.

Summary of findings

Our review has found that there have been significant steps taken by both the Authority and JT to address the historic challenges identified by the Price Review. JT and the Authority appear to engage in a more collaborative approach with a greater focus on face-to-face meetings to understand and contextualise the nature of the request and focus on how both parties achieve the result in the most efficient way possible with an appreciation for iteration, review, and transparency throughout the process. This is complemented by regular meetings held between the Authority and JT at all levels throughout the year.

We have identified 2 medium risk findings and 1 low risk finding which is reflective of the progress of both parties' post September 2021.

Key observations

Ability to meet the requirements of licence condition 33 and 34

When responding to data requests from the Authority, we would expect JT to have a detailed understanding of the nature of the request and the intended use of the data. Historically there appears to have been some confusion as to the level of reporting which was required by JT and the purpose for which it was being provided to the Authority. This confusion appears to have been the result of two contributory factors:

1. Licence conditions 33 and 34 are deliberately non-specific, to ensure that the Authority have appropriate access to data, which, based on our limited review may have added to the confusion between parties.
2. Up until December 2015, JT were required to submit annual audited separated accounts. A consultation process in 2016 considered the question of whether the information burden and cost the Licencee's bear, and indirectly that consumers bear, justified information provided in the form of separated accounts. The result was that the obligation to produce separated accounts was removed, with a commitment to find a

more suitable way of providing necessary data for regulatory purposes. A follow up process to the consultation in 2017, led by the Channel Islands Competition Regulatory Authority ("CICRA") resulted in a draft reporting template being produced, however the template and formal process was never fully implemented. This appears to have further exacerbated the confusion.

Based upon our limited scope review, it would appear that JT has the systems, processes, and controls in place to produce detailed management accounts (as evidenced by monthly management packs and meetings) down to Gross Margin level and to ensure that costs are appropriately allocated to the correct cost centres. To produce separated accounts, JT previously implemented a cost allocation platform, utilised by several large global telecommunication providers, which allows for a more comprehensive cost allocation to be performed in addition to the management account packs. As part of a product simplification exercise and to reflect significant changes in both the product range and supporting infrastructure which have meant that historical mapping is no longer applicable, the software vendor is currently supporting a refresh of the cost allocation keys implemented in the system, bringing their experience of how the wider industry utilises its software. This will provide a more accurate cost allocation for the 2021 financial results.

Whilst this will significantly aid the ability to produce more comprehensive cost allocation data to the Authority, it should be noted that the primary purpose of the exercise is to be able to utilise cost information to drive internal decision making rather than simply because this audit was identified by the Price Review. Planned financial accounting system changes later in 2022, will require further updates to the allocation keys to reflect a revised Chart of Accounts for the 2022 year end. An ongoing process will then be required by JT to ensure that the mapping is appropriately maintained going forward to reflect any subsequent changes.

In summary, JT does not have fully allocated cost data available in real time, however the production of such analysis is certainly possible, albeit as noted above, sufficient notice would be required to ensure that the cost model has been updated for any relevant changes in the chart of accounts since the last time it was run and tested.

Other observations

As part of the monthly accounting process, a detailed analytical review is performed against budget and expectations, particularly for larger capital spend. This review has identified some instances of incorrect cost centre allocation, which has required manual correction at month end.

Recommendations from our review

1. Once the 2021 cost allocation model has been finalised, then we would recommend that the Authority recommence dialogue with JT to review the work that has been performed and to consider an appropriate level of assurance over the outputs.
2. The cost allocation software requires maintenance on an at least annual basis to ensure that the cost allocation keys are aligned to the chart of accounts in use for the production of financial statements. Therefore, when submitting future data requests, the Authority will need to consider the timing of such requests and communicate in advance to ensure that JT are able to reliably produce the required information.
3. Changes to the financial accounting system later in 2022 will require further re-configuration of the cost allocation software to align with the revised chart of accounts. We would recommend the Authority and JT revisit the 2016 consultation and follow up work to ensure that the report template is appropriate and to agree the timing for provision of such information going forward. This will provide greater clarity over the expectations of the Authority in the application of the Licence conditions.
4. When submitting an information request, the Authority should continue to provide clear directions as to the requirements, timing and intended use of the information, whilst also being mindful of the limitations of the model at a particular point in time.
5. JT should ensure that the changes described above continue to be implemented to ensure that they have a complete understanding of what they are being asked to provide and the context in which it will be used.
6. We would recommend that the management accounting team perform a detailed analysis of the adjustments that they are making, determine the recurring themes and then hold appropriate training sessions with the individuals involved to ensure that they understand how they should be recording purchase orders in the system in the first instance to prevent errors requiring subsequent rectification.

We believe our recommendations are more than manageable, and if addressed should prevent any further occurrences of the issues flagged by the Price Review.