

## **The Saint Helena Public Accounts Committee**

### **Report to Legislative Council on the Formal Session of the Public Accounts Committee held on 10<sup>th</sup> February 2014**

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## 1. INTRODUCTION

In accordance with section 69 of the Constitution and Standing Order 23, the primary function of the Public Accounts Committee (PAC), is to objectively scrutinise how Government spends the public purse. It aims to ensure that robust financial systems are in place, which reflects the highest possible standards of fiscal management. It may propose any measures considered necessary to ensure that government money is properly and economically spent, thus ensuring that the necessary architecture of accountability is in place as required by the international principles of good governance. In exercising its functions the Committee will:

(a) Report to the Council as often as, in the opinion of the Committee, it is in the public interest to do so, but not less than once in every year:

(i) consider the published annual accounts of the Government and such other accounts as are from time required under any rule of law to be laid before the Legislative Council; and

(ii) management letters issued by the Chief Auditor on the accounts of the Government, and such other management letters issued by the Chief Auditor as are required to be laid before the Legislative Council on other accounts; and

(iii) any summary reports issued by the Chief Auditor for the Committee in relation to any examination by him relating to the economy, efficiency and effectiveness of any Government department or public body; and

(iv) any other matter of importance or urgency which, in the opinion of the Chief Auditor, is required to be brought to its attention; and

(b) Request that the Chief Auditor, or any other suitable person or review body, conducts specific examinations relating to any element of the economy, efficiency and effectiveness of any Government department or public body.

The current membership of the PAC comprises: the Chairperson, Mrs Lynnette Rees-Styles; the Deputy Chairman, Mr Rodney Buckley and three Council Members chosen from and by the Elected Members of Legislative Council. The two currently serving Members are: Hon. Brian Isaac and Hon. Nigel Dollery. The third Elected Member's seat is currently vacant. The committee is advised by the Chief Auditor, currently, Acting Chief Auditor, Mr John Gilchrist and assisted by Miss Anita Legg as Secretary.

Most meetings of the PAC take the form of working group sessions in informal minuted meetings and take place as and when necessary.

This report follows from the Formal Public Accounts Session held on the 10<sup>th</sup> February 2014.

## **2. REPORT OF FORMAL SESSION HELD ON THE 10<sup>th</sup> FEBRUARY 2014**

This was the first occasion on which the Public Accounts Committee met in formal session during the 2013-14 financial year. This session considered the following:

- SHG 2011-12 Financial Statements and Audit Management Letter
- The St. Helena National Trust Annual Report And Financial Statements 2012-13
- A Value For Money Review On Government Landlord Housing and
- The SHAS Annual Plan and Budget For 2013-14.

### **SHG 2011-12 Financial Statements and Audit Management Letter**

The annual statement of accounts as audited by the Chief Auditor and laid before the Council on 14<sup>th</sup> October 2013 has been examined in detail by the committee. At the formal session the Financial Secretary (FS) and the Assistant Financial Secretary (AFS) were invited to answer questions and provide clarification on the Qualification issues raised by the Chief Auditor's management letter.

The PAC expressed concern that the complete draft accounts were not received until a full year after the year-end to which they relate. The implication of this delay was that the audit could not be completed in the agreed timescale which in turn has led to a delay in enabling the Public Accounts Committee to consider the Chief Auditor's formal opinion on SHG's financial performance of two years ago.

To quote from the International Public Sector Accounting Standards Board (IPSASB), "Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes...A lack of timeliness can render information less useful".

As this set of accounts is now almost two years old, PAC did not consider that asking detailed questions on these accounts would serve any useful purpose.

The Financial Secretary acknowledged that the timeliness of the accounts process needed to improve. Clearly, the complexity and the time required to pull together the data from directorate records was significantly underestimated and this in turn had undoubtedly compromised the timeframe within which the accounts could be published. PAC nevertheless notes that the accepted timeframe, internationally, for signing off financial statements, is six months. Despite the practical problems of consolidation, which PAC acknowledges includes aligning the accounting policies of a diverse group of entities, the adoption of accruals accounting is a separate issue but is anticipated by the FS to be a fully embedded process in time for the publication of the 2012-2013 accounts.

PAC noted the difficulties with the transition to Accruals accounting and the expected length of time anticipated to have the process fully embedded. FS acknowledged the need to improve. However, despite FS' view that three qualifications in the first year of accruals accounting should be considered acceptable progress, PAC consider this to be a disappointing level of progress.

The Acting Chief Auditor explained the implications of the two qualified opinions. Firstly, with regard to the pension costs, the cash transfer cost is shown in the Statement rather than the required in-year estimated cost. We noted that the services of an Actuarial specialist have been commissioned to determine the correct value of SHG's pension liability.

Secondly, there is uncertainty regarding the eligibility for social benefit payments because insufficient evidence is held on file for all benefits applicants. A change to the Social Security Ordinance is required to resolve this uncertainty.

FS was then requested to explain the adverse opinion in relation to the non-consolidation of subsidiary bodies. PAC considers that despite the practical challenges and complexity of consolidating the accounts of the Bank, Solomons etc, more could and should be done to progress the tasks required to make this happen. FS explained that the delays were due to technicalities rather than a lack of resources. However, no compelling evidence was presented to the committee of any strategy or timeline for implementation. PAC considers that a phased approach to consolidation should be possible, beginning with the smaller enterprises such as the Fisheries Corporation, and the Currency Fund, which generally have more straightforward accounts.

Discussions with SHAS to streamline the process were ongoing.

On the Qualification issues generally, the committee were made aware that the DFID Programme Manager had also raised similar concerns and had requested a formal explanation. FS provided the committee with a copy of his formal response to DFID and noted that a number of changes now implemented should enable the signed set of statements for 2012-13 to be available by June 2014.

PAC noted the commitment to produce an annual statement for public consumption in future years to explain in layman's terms the health of the accounts.

The Acting Chief Auditor explained that Auditing Standards require the Auditor to request that the preparer of the accounts, in this case the Financial Secretary, correct any identified errors. If any errors are not corrected, the auditor must then ask "Those Charged with Governance" to make the changes. "Those Charged with Governance" is a term specified in the Auditing Standards which the auditor must determine. In the case of St Helena Government, this has been deemed to be Legislative Council. This responsibility was delegated to Executive Council for the 2011/12 financial statements, who considered the draft management letter in open session for the first time. Best practice is for this responsibility to be undertaken by an Audit Committee. Currently St Helena Government has an Audit Committee, but consideration of financial statements is not in its remit. The Head of Internal Audit is currently reviewing the charter that establishes the Audit Committee in the context of relevant guidance and the recommendation for an audit committee with Elected Member representation, to act as the subset of Legislative Council for the consideration of external audit results. PAC noted that it may be possible to achieve the desired outcome by modifying a current committee instead of creating additional committees.

**St. Helena National Trust Annual Report And Financial Statements 2012-13**

PAC notes that these accounts have been prepared in the form approved by the Financial Secretary in 2003 in accordance with the St. Helena National Trust Ordinance of 2001. Grants received, including the £18,197.00 grant from the St. Helena Government during the year in question, are credited to receipts in the period to which they are received. The SHG contribution to the Trust's gross income amounts to just 5.5 % yet the international standards on Auditing must still be adhered to. In answer to a question from a member of the committee, the Acting Chief Auditor explained that the almost four-fold increase in audit fees was a consequence of the Trust's organisational growth which required an International Standards on Audit (ISA) compliant audit instead of the independent review that was appropriate for 2011/12. The Acting Chief Auditor noted that work is underway to review the thresholds for when a body requires an ISA compliant audit. It is anticipated that this will result in the Saint Helena National Trust no longer requiring an ISA compliant audit.

The Trust's current Director, Mr Chris Hillman, answered a number of detailed questions on various items of income and expenditure. Clearly the Trust has been very successful in expanding its activities and sourcing funding for an increasing number of projects. This has enabled the organisation to become more self-supporting and thus less reliant on the SHG grant. PAC notes, however, that whilst the SHG contribution amounts to just 5.5% of the Trust's gross income, it is an essential component of funding the core costs of running the office and supporting development initiatives.

The committee was impressed by the efficacy of the financial management processes which are now in place as this enables the production of financial statements to the statutory standards required. The Director confirmed that the investment in the recently implemented Sage software had facilitated this improvement.

**Value For Money Review On Government Landlord Housing**

A VFM Review by the SHAS concluded that the management arrangements in place within SHG are not conducive to achieving value for money for this service.

PAC were also concerned to note that it has to date, not been possible to ascertain the full cost of the service and that the Housing service is still fragmented across three different directorates of government. It was felt that this is likely to continue to compromise efficiency and effectiveness in the management of the service. PAC were also concerned to ascertain that the housing policies and regulatory framework currently in place were adequate and would support the service objectives in order to establish value for money.

Mr Andy Crowe, Housing Executive, explained that upon his arrival in post, he had started his own base-line review of the service. This review had contributed significantly to identifying a number of actions necessary to create a properly managed social housing function. This was subsequently validated by SHAS as part of the VFM Review. Thirty-

one recommendations have been made to bring the service up to standard and the recommendations were approved by the Health and Social Welfare Committee in January 2013. The Housing Executive considered that steady progress was being made to achieve service improvements with the aim of achieving a balance between short-term fixes and the longer term aim of improving the viability of the service. With the appointment of a Housing Management Officer; a more realistic budget and the implementation of a planned maintenance programme, substantial improvements were anticipated.

PAC wished to be kept informed of progress and an undertaking was given to provide an update on progress relating to each of the thirty-one recommendations.

### **Saint Helena Audit Service Annual Plan For 2014-15**

The Acting Chief Auditor presented the Saint Helena Audit Service Annual Plan. The plan sets out the planned work for the year 1 April 2014 to 31 March 2015 and the resources to carry out the work. The costs of the Saint Helena Audit Service are met by charging bodies for audit work and not through appropriations from the Consolidated Fund, so in accordance with good governance principles, the PAC has taken on responsibility for financial oversight of the Saint Helena Audit Service's work.

The committee noted the programme of work and the staffing resources required to carry it out and formally endorsed the Chief Auditor's Plan for 2014-15.

A copy of the transcript of this formal session can be obtained from the PAC Secretary via e-mail [sec.em@helanta.sh](mailto:sec.em@helanta.sh) or can be viewed on the SHG website [www.sainthelena.gov.sh](http://www.sainthelena.gov.sh)

### 3. RECOMMENDATIONS TO SHG

<b>PAC RECOMMENDATIONS</b>
<p><b><i>SHG 2011-12 Financial Statements and Audit Management Letter</i></b></p> <p>6.1 The Financial Secretary should improve the timeliness of accounts preparation. Legislative Council should amend the Public Finance Ordinance to require the Financial Secretary to present financial statements to the Chief Auditor for audit within 3 months with effect from 2015/16.</p>
<p>6.2 The Financial Secretary should continue with plans to introduce accruals based budgeting in time for the 2015/16 budget process.</p>
<p>6.3 The Financial Secretary should prepare an analysis of the costs of consolidating subsidiary bodies in the Financial statements, to allow Executive Council to assess whether the costs outweigh the benefits of accurate reporting of the Government's financial position</p>
<p>6.4 Legislative Council should amend the Social Security Ordinance to ensure that sufficient evidence is obtained and retained as part of the evaluation of claims.</p>
<p>6.5 The Financial Secretary should prepare a phased programme of valuation of Government land and buildings to ensure that all land and buildings are valued by 31 March 2017.</p>
<p>6.6 The Chief Secretary should ensure that an appropriate committee with both Elected Member and independent representation is able to act as the subset of Legislative Council for the consideration of external audit work.</p>
<p><b><i>Value For Money Review On Government Landlord Housing</i></b></p> <p>6.7 The S &amp; C D committee should monitor the implementation of the 31 Audit recommendations.</p>
<p>6.8 The Financial Secretary should ensure that all costs of the housing service are determined before the establishment of any Community-Based Housing Organisation.</p>