

# St Helena Public Accounts Committee

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## **Report to Legislative Council on the Formal Session of the Public Accounts Committee held on 10th and 11<sup>th</sup> of May 2016 and an in camera session held on the 22<sup>nd</sup> of March 2016**

### **1. Introduction**

In accordance with section 69 (6) of the Constitution of St Helena, the Public Accounts Committee (PAC) hereby reports to Legislative Council on the First Formal Session, for 2016/17, of the Committee, held on 10<sup>th</sup> and 11<sup>th</sup> of May 2016.

Membership of the Committee comprises:

Chairman:	Mr Cyril Gunnell
Vice Chairman:	Mr Stedson Francis
Members:	Hon. Nigel Dollery
	Hon. Dr Corinda Essex
	Hon. Cyril George
	Hon. Wilson Duncan [temporary member]

The Committee is advised by the Chief Auditor, Mr Phil Sharman.

The Chairman advised that Hon. Dr Corinda Essex was absent on business overseas. Declarations of interest were received and actioned as follows:

- Mr Stedson Francis – being a member of a consultative sub-committee of Enterprise St. Helena was deemed to present no significant conflict.
- Hon. Nigel Dollery – being a member of the Board of Enterprise St Helena would take no part in the PAC scrutiny of this account.
- Hon. Nigel Dollery also declared his interest as a life member of the Saint Helena National Trust and was deemed to present no conflict.

The Committee's Terms of Reference and Reporting Mechanism are available on the SHG website.

A transcript of these proceedings can be found on the SHG website and a copy is held in the public library.

## **2. Order Paper – First Session 2016/17**

### **10 May 2016**

- I.** Chairman's Address
- II.** Enterprise St Helena (ESH) – Audited Financial Statements for Years ended 31 March 2014 and 31 March 2015
- III.** Saint Helena National Trust – Audited Financial Statements for Year ended 31 March 2015
- IV.** St Helena Hotel Development Limited – Audited Financial Statements for Year ended 31 March 2015
- V.** St Helena Fisheries Corporation – Audited Financial Statements for Year ended 31 March 2015 and Saint Marine Resources Limited for Years ended 31 March 2014 and 31 March 2015

### **11 May 2016**

- VI.** Connect Saint Helena Limited – Audited Financial Statements for Years ended 31 March 2014 and 31 March 2015
- VII.** Saint Helena Currency Fund – Audited Financial Statements for Years ended 31 March 2014 and 31 March 2015
- VIII.** SHG Defined Contribution Pension Scheme – Audited Financial Statements for Years ended 31 March 2013, 31 March 2014 and 31 March 2015

In addition to the above but separate to the public hearing the PAC took evidence on **22 March 2016** in respect of the following:

- IX.** Bank of St Helena Limited – Annual Report and Audited Financial Statements for the Year ended 31 March 2015.
- X.** Concluding Remarks

## **I. Chairman's Address**

The Chairman opened the meeting and welcomed all in attendance and those listening over the radio, thanking them for their interest in the work of the Public Accounts Committee and extended his gratitude to SAMS for broadcasting the formal hearing.

The Chairman highlighted that this was the first formal session of PAC for 2016 and the first under his Chairmanship. Since the last formal session of the PAC held on the 11<sup>th</sup> of November 2015, there had been some changes in the composition of the committee as Mr Rodney Buckley resigned due to heavy personal commitments therefore he had succeeded Rodney as Chairman from the 1<sup>st</sup> of May 2016, after appointment by the Governor, for a one year term. He acknowledged the contribution of Mr Stedson Francis in maintaining the work flow of the Committee, during the period between the resignation of the past Chairman and his appointment. He highlighted that he would endeavour to continue working closely with his colleagues – Mr Stedson Francis who is Vice Chairman and Councillors Cyril George, Nigel Dollery and Corinda Essex. He also acknowledged the efforts of the Chief Auditor, Phil Sharman, who advises the PAC, as well as his team within the St Helena Audit Service (SHAS).

The Chairman highlighted that he has taken great interest in the work of the PAC for many years and would like to see the profile of this select Committee being elevated and would endeavour towards this during his term. He then explained that the Public Accounts Committee is a select committee of the Legislative Council in accordance with Section 69 of the St Helena, Ascension and Tristan da Cunha Constitution and Order 23 of the Standing Orders of the Legislative Council; the PAC's function is statutory. Its primary function is to objectively scrutinise how the Government spends the public purse. The PAC is protected to act independently and is not subject to the direction and control of the Governor, the Executive Council or any other body or authority. It has power to call any Government official to give evidence orally, but as yet officials are not obliged to give such evidence in writing.

Currently the public accounts are scrutinised post mortem, this means the PAC does not have statutory power to proactively and efficiently scrutinise the Government's current spending, also it has no statutory power to review budgets or financial estimates and there is no scrutiny or performance committee. As a result, there is no way of following the public pound other than those items normally referred to Legislative Council through the laying of accounts in the Legislative Assembly and reports issued by the Chief Auditor.

All of this would suggest some positive amendments are necessary to the St Helena, Ascension and Tristan da Cunha Constitution. Clearly St Helena's Public Accounts Committee's statutory powers as a statutory Select Committee of the Legislative Council needs some upgrading to be proactive rather than reactive, to be more effective.

Previous reports by the PAC have reported backlogged Government accounts with no parliamentary scrutiny or independent, external audit. There was an accountability debt on the UK taxpayer funding to St Helena in respect of DFID grant in aid, where timely independent scrutiny by the PAC was not possible. He explained that the Government accounts being presented during this formal session show considerable improvement and this has been made possible by catching up on backlogged work, assisted by a programme of technical assistance to clear the backlog in preparation for audit of these accounts.

As Chairman of the PAC with a duty to ensure the findings of the work of the PAC are reported to the Legislative Council, he expressed his sincere appreciation for the work that has been taking place to achieve this positive result.

He then indicated that it is a two-day hearing, to consider a range of public accounts, including Enterprise St Helena, Saint Helena National Trust, St Helena Hotel Development Limited, St Helena Fisheries Corporation, Connect St Helena, St Helena Currency Fund and SHG Defined Contribution Pension Scheme. This probably is as much business as has ever been presented at a formal PAC session.

## **II. Enterprise St Helena (ESH) – Audited Financial Statements for Years Ended 31 March 2014 and 31 March 2015**

The following persons attended to answer questions in respect of ESH:-

- Chief Executive for Economic Development (CEED) – Dr Niall O’Keeffe
- Deputy CEED – Mrs Susan O’Bey
- Director of Resources – Mrs Michielle Yon
- Director of Enterprise – Mr Robert Midwinter

The two annual statements of account and annual reports as audited by Moore Stephens and laid before Legislative Council on the 12<sup>th</sup> February 2016 were examined in detail by the Committee.

Since its inception in 2012 ESH has focused on 6 key areas of activity in promotion of economic development. These are:

- Helping Saint Businesses
- Up-skilling Saints
- Financing Saint Businesses
- Tourism Promotion
- Attracting Investment
- Fisheries Development

The reports for 2013/14 and 2014/15 represent its second and third year of operations respectively after the amalgamation of the former St Helena Development Agency and the former Tourism Office. However in terms of the Memorandum of Understanding (MOU) agreed between DFID and SHG these represent the first two years of the three year funding agreement.

PAC enquired if ESH has a performance management system in place where they are setting objectives/targets before the start of the financial year, which are SMART (Specific, Measurable, Attainable, Realistic and Time bound). *PAC received assurance from management that they have implemented a performance management system that has measuring tools for all matters to be reported.*

PAC enquired if ESH is able to report on outputs and outcomes and performance against objectives and targets, defined during the planning stage and if not what the timeline on the implementation of this recommendation was. *PAC received assurance from management that they will be implementing the PAC's previous recommendation to report based on outputs/outcomes for the 2015/16 reporting cycle. Management distributed to the PAC the reporting template as evidence of the work in progress and will also be requesting their Auditors to review the non-financial information disclosed in the Annual Report.*

PAC highlighted that ESH must report on outputs and outcomes in the Annual Report.

PAC endorsed ESH's intent to request their Auditors to scrutinise non-financial (qualitative) information in the Annual Report.

PAC highlighted that given the overall objective of ESH is to facilitate the sustainable economic growth of St Helena, how then does ESH intend to measure the economic outputs on a year-by-year basis, contribution that ESH has made to the growth in the economy and if this contribution is reported in the ESH annual report. *Management advised that they have identified indicators such as growth in tax revenue, increase in employment, etc, that they will be using going forward to measure the economic impact of their work and this will be reported in the Annual Report.*

However PAC remained concerned that there was no objective measure of economic output for the Island and therefore the attributable impact that ESH has had on economic growth.

PAC analysed the financial statements and noted that the project costs have increased by 85% (£751k) from the 2013/2014 year to the 2014/2015 year. PAC then enquired as to the major projects in the 2014/2015 financial year that ESH was involved in and if ESH has managed to achieve its objectives. *PAC received explanations from management that the projects that they were involved in was training (hospitality and construction element) and they have substantially managed to achieve their set objectives.*

PAC enquired of the process that ESH uses in the procurement of contractors/ suppliers and how they are ensuring open competition. *PAC received assurance from management that they have an approved procurement policy in place, which varies based on the cost of the goods or services to be procured and is in accordance with global best practice. For any costs over £5k, they advertise locally and internationally and a full tender process is followed.*

PAC enquired as to how ESH is ensuring that grant funding is not going to the same people yearly, and if there are any initiatives in place that ensure that sponsored businesses are sustainable going forward, such as offering continued advice along with the grants. *PAC received assurance from management that ESH has in place a mechanism that limits the amount of grant funding that is provided to a particular recipient. An oversight system has also been implemented to deal with conflicts of interest by staff members and Board members.*

PAC further enquired on grants, whether they are awarded once off or they are paid in tranches to ensure monitoring of the business plans submitted and if the grants are repayable should the recipient not follow through with the project. *PAC received assurance from management that the grants are small to medium in value and they are not directly paid to the recipients but to third parties who are providing services / goods. In the event that a recipient does not meet funding obligations, the grants are repayable to ESH.*

PAC were concerned with the support that is provided to start-up businesses. They enquired whether ESH has any properties that it is renting out to start-up businesses and if so how the demand is matching with the supply. *PAC received assurance from management that they have 3 properties namely; Ladder Hill Business Park, HTH Workshop and New Ground Units, and they are in the process of developing more. The available units are oversubscribed.*

PAC were surprised to hear that the incubator lease clauses, requiring businesses to move-on to commercial premises when they had become established, were removed.

PAC enquired as to the objectives of the 2onMain project and why the restaurant closed 12 months before the buildings were required for the hotel. *PAC received explanation from management that the main objective of the project was to train/up-skill Saints and that the restaurant had been closed at the time due to the uncertainty of the start of the construction of the earmarked Hotel.* Nonetheless and based on public perception, the PAC remain of the view that the closure of the 2onMain restaurant was rather premature. Even if the training objectives had been achieved, the premises could have been leased to a restaurateur to operate as a going concern in the interim.

PAC noted that the salary expense line has increased by 30% (£87k) in the 2014/15 financial year as compared to the 2013/14 financial year. PAC enquired as to the cause of the increase in salaries and if there was a salary element included within the ESH project expense of £1,392k (2014, £834k). *PAC received explanation from management that salaries have increased due to the staff compliment increasing from 19 to 21 during the year and confirmed that*

*there is a salary costs element in the project expense line.* For transparency PAC would expect total salary costs to be presented even where these fall within specific project lines.

## **Recommendations**

In relation to its scrutiny of the ESH financial statements for the two years ended 31 March 2014 and 31 March 2015, **PAC recommends that:**

- ESH must report on outputs and outcomes in the annual report and uphold their commitment to do so in future financial statements.
- ESH must start to objectively report on its contribution to the economic growth using indicators with the hope of measuring the impact on the Gross Domestic Product (GDP) in future years.
- The ESH report on attainment of objectives should be made available to the public and consideration must be given to citizens who do not have access to the internet/computers.
- ESH in dealing with public concerns about the procurement process should consider introducing an independent hotline so that the public can report instances of suspected fraud/corruption and they should make public the findings of any investigations for transparency.
- ESH should consider re-adopting the incubator unit concept so as to foster development of start-up businesses.
- ESH should disclose total salaries or if included in a subtotal should be noted in their accounts disclosing total salary.
- ESH should start developing longer term strategies rather than the current short term 3 years, probably 10 to15 year plans.

### **III. Saint Helena National Trust – Audited Financial Statements for Year ended 31 March 2015**

The following persons attended to answer questions on behalf of the St Helena National Trust:-

- Director – Mr Jeremy Harris
- Trust President – Mrs Ethel Yon, OBE
- Trust Treasurer – Mrs Connie Johnson
- Executive Officer – Mrs Phyllis Coleman

The Trust was established under the St. Helena National Trust Ordinance to be an independent, not-for-profit, organisation with a purpose to:-

- Promote the appreciation, protection and enhancement of the unique environment and cultural heritage in St. Helena
- Acquire and hold in perpetuity land of natural beauty or buildings of historic interest
- Give the people of St. Helena a stake in the future of their environment and cultural heritage
- Provide opportunities for enjoyment, education, recreation and spiritual refreshment

The financial statements report total receipts of £355k, an increase on prior year of £64k, primarily due the increased commercial activity of the St. Helena National Trust (Guarantee) offset by a reduction in external grant funding. Total payments of £311k have decreased on prior year by £26k. Reduced travel and subsistence costs related the HER Building Trades, Bug Life Initiative, and Darwin projects was the main driver. Cash held at year end as a result has increased by £90k to £135k.

An unqualified conclusion was issued on the financial statements indicating that there was nothing arising from the examination to indicate that the financial statements do not present fairly the financial performance and position of the Trust for the year ended 31 March 2015.

PAC noted that the previous 5-year strategy – St Helena protecting the world heritage of a small island, covered the period 2010 to 2015 and is now time expired. The 2014/15 annual report explains the Trust is in the process of developing a strategy for the period 2015 to 2020. PAC enquired as to the current status of the strategy and how the new strategy has been publicised to the public. *PAC received assurance from management that a new strategy had*

*been developed and published in November 2015.* It emerged however that there was scope to better publicise the strategy to the public and Elected Members.

PAC further enquired about the planned financial strategy over the medium term to increase sustainability and progress made in developing funding streams other than earmarked project income. *PAC received assurance from management that they are approaching various funding agencies and the strategy is one of diversification of funding sources.*

The St Helena National Trust Guarantee Ltd reports earnings of £104k which contribute to the total revenues of the Trust. PAC enquired as to the nature of the commercial activity being undertaken through the guarantee company. *Management explained that it restores sensitive historic buildings using traditional methods for various private and public organisations. More recently they are involved in Environmental Impact Assessments, training of airport staff and Wirebird Mitigation Project.*

PAC noted that the annual report makes reference to the built heritage and lease agreements for Lemon Valley and High Knoll Fort. PAC requested that the Trust provide a brief update on the status of these built heritage projects, including what is the expected role of the National Trust in these current projects after their completion. *Management explained that they are managing the Fort on a weekly basis in terms of maintenance and erecting interpretative signage to enable visitors to do self-guided tours. They are currently in negotiations with Crown Estates for the past year to finalise the paperwork that supports these roles and leases.*

PAC enquired whether there were plans to prepare a condition survey, for example, of the Napoleonic Fortifications and as places like Banks Battery appears to be at risk of collapse, what can be done to preserve these assets. *Management explained that the responsibility currently falls with SHG and they have previously shown interest in this initiative but the lack of expertise might be holding up the process. Management highlighted that they are aware of Banks Battery's condition but there is currently no financial resources to be able to repair it.* PAC further highlighted the condition of Prosperous Bay House as another site of concern. In summary PAC regard a condition survey of historic monuments to be of strategic importance in managing the islands built heritage.

PAC noted that the objectives of the National Trust in relation to built and natural environment appear to be similar to those of the Environment & Natural Resources Directorate. PAC enquired as to what measures are in place to ensure collaborative working and avoid duplication of effort between the two organisations and how bids and project delivery under the UK DEFRA Darwin Initiative are coordinated between the two organisations. *PAC received assurance from management that they are aware of the similar objectives that they share and are working together to eliminate any duplication of effort through the Hon. Pamela Ward Pearce who as Chair of the ENRC is on the Trust Council. They also have regular Director level meetings between the organisations to ensure that no duplication occurs.*

PAC enquired as to a previous recommendation that the National Trust Ordinance be amended to allow the accounts to be reported within 6 months of the year end rather than the current 3 months. *PAC received assurance from management that they have reviewed the entire ordinance and are now awaiting due process to be followed for the legislative amendment to be made.*

## Recommendations

In relation to its scrutiny of the SHNT financial statements for the year ended 31 March 2015, **PAC recommends that:**

- SHNT should improve / increase its notification to the public when major documents, such as its Strategy, are published and must also be made easily accessible to the public e.g. the Public Library. The Strategy should be circulated to Elected Members for maximum exposure not just Executive Council.
- SHG should work with SHNT to prepare a condition survey to augment the register of the Island's built heritage (using the Crallen and Jeffs reports) and develop a strategy for the prioritisation of future management and maintenance, given the significant long-term economic potential particularly in terms of tourism.
- SHG needs to make a decision how the heritage assets are managed, decide which properties should be transferred or leased to SHNT.
- PAC emphasized that the annual report and accounts should be published with the Auditor's report, and along with the Auditor's management letter should go to the SHNT Council for review. The audited annual report and accounts should also be placed in the Public Library.

#### **IV. St Helena Hotel Development Limited – Audited Financial Statements for Year ended 31 March 2015**

The following persons attended to answer questions on behalf of the St Helena Hotel Development Limited:-

- Director – Mrs Susan O’Bey
- Director – Mr Dax Richards
- Director – Mr Paul McGinnety

As a private limited company the financial statements of St Helena Hotel Development Limited (SHHDL) are not required to be audited or laid before Legislative Council. Nonetheless given that Saint Helena Government is the sole shareholder, the Directors and the Governor, acting in the public interest had requested the Chief Auditor to perform an audit. The audited financial statements of the Company are regarded by the Chief Auditor as a matter of importance and therefore referred directly to PAC under the provision of Standing Order 23.

As at 31 March 2015, the hotel development project was still at the pre-construction phase therefore there is little in terms of revenue and expenditure in the financial statements. A small loss of £5k is reported, mostly relating to administration costs. £100k of expenditure has been capitalised relating to the building contractors, Basil Read, and the Hotel management company, Mantis Development South Africa PTY Limited.

£15k of expenditure was paid on behalf of SHHDL by Enterprise St Helena. This expenditure has been treated as a government grant; as such it has been recognised as deferred income in the financial statements. It will be recognised as income on a systematic basis over the expected useful life of the hotel.

An unqualified conclusion was issued on the financial statements, indicating that there was nothing arising from the examination to indicate that the financial statements do not properly present fairly, the financial performance and position of SHHDL for the year ended 31 March 2015, in accordance with the FRS 102.

PAC enquired as to the current status of the hotel project as another year had passed by and no tangible development had yet taken place. Furthermore PAC requested the target timeline for the development of the hotel, through its various stages and the targets for the 2014/2015 financial year. *PAC received assurance from management that the company had issued an Expression of Interest, were going through the procurement process and had identified a preferred contractor for the next phase. In the 2014/15 year they developed the*

*concept designs and turned them into detailed designs. They also carried out a structural survey and heritage impact assessment which fed into the detailed design of the hotel. 2014/15 was more about the preparatory work, planning and turning the initial concept designs into detailed designs. When plans were submitted there were several hold ups and it took a long process of determination on what was considered to be a reasonable or affordable price for the build, which took up the bulk of 2015/16. If construction starts by the end of June 2016, the Directors hope the hotel will be finished by July 2017.*

PAC noted that Note 13 to the accounts records a letter of intent being signed for the design, build and fit-out of 1,2,3 Main Street and also contractual obligations with Basil Read for up to £224,665. PAC enquired as to the nature of the contract with Basil Read and if the design stage has now been completed. *PAC received assurance from management that the initial contract was for the design phase of the hotel project and putting forward the building regulations. The contract with Basil Read had not been progressed to the construction and fit-out phases.*

PAC further enquired as to the procurement process that had been applied to the build and fit-out phases of the project, if these contracts had been tendered in the open market, and if technical support had been engaged by the Directors to assist in this process. *PAC received assurance from management that the company has an approved procurement policy which aligns with the SHG and ESH policies. These contracts were advertised locally and internationally for a wider reach of interested parties. The company had contracted the services of GIC Ltd, which is a London based firm, to assist with the procurement process of SHHDL.*

PAC enquired as to the nature of the professional services contract with Mantis Development as recorded in Note 13 to the accounts. *PAC received assurance from management that Mantis Development are the appointed project managers as they possess the necessary technical skills for such a project. SHHDL Directors further explained that Mantis Collections will be responsible for the hotel management when it is operational.*

PAC enquired if the signed agreements have clauses within the operating contract regarding the engagement of local staff and their training where necessary. *PAC received assurance from management that the contracts signed require the contractors to train and utilise a local staff compliment where possible.*

PAC noted Note 9 of the accounts has a working capital loan of £100k from ESH for a period of 3-years and Note 10 shows a share capital of £1 held by SHG. PAC enquired on the total estimated cost of the project to include design, build and fit-out ready for operation. PAC further queried how the total cost would be financed and how SHG would mitigate the capital risk involved in this project. *Management explained that SHG would finance initially through an equity contribution and the other financing would come from the Bank of St Helena as a loan. PAC were also informed that the management of the capital risk would be a matter for SHG to respond to as they are the sole shareholder and sponsor of the project.*

PAC are still concerned with the management of the capital risk/exposure for the project.

PAC enquired as to what their intentions, upon completion of the design, build and fit-out, were, since SHG is the sole shareholder of SHHDL, and would SHG continue to hold the ownership of the company into the operating phase, or would the ownership be transferred. *Directors highlighted that SHG do not wish to be in the hotel business and would foresee SHG exiting the market by disposing of their shareholding when the time is right, to interested parties.*

PAC acknowledged management's response but would be more comfortable with an exit strategy being put in place.

## **Recommendations**

In relation to its scrutiny of the SHHDL Financial Statements for the year ended 31 March 2015, **PAC recommends:**

- SHG should document how it intends to manage the capital risk associated with the public investment in the hotel venture through SHHDL.
- SHG develop a time bound exit strategy for disposal of the public investment in SHHDL.

**v. Saint Helena Fisheries Corporation – Audited Financial Statements for Year ended 31 March 2015 and Saint Marine Resources Limited for Years ended 31 March 2014 and 31 March 2015**

The following persons attended to answer questions on behalf of the St Helena Fisheries Corporation (SHFC) and Saint Marine Resources Limited (SMRL):-

- Chairman - SHFC Board – Hon Lawson Henry
- General Manager & Director of SMRL - Mr Terrence Richards
- Finance Manager - Miss Jacqueline Williams
- Former Director of SMRL – Mr Robert Midwinter

The Independent Examination of the St Helena Fisheries Corporation for the year ended 31 March 2015 was completed on 30 November 2015. An extension of 2-months was granted by the Governor to the requirement under section 15(1) of the St Helena Fisheries Ordinance that the accounts are audited within 6 months of the accounting date.

The operations of the Fisheries Corporation are primarily that of a service provider, delivering an efficient and reliable service to the fishing industry and providing a regulated wholesale market.

The Board's operations are funded through a handling fee which is levied on the wholesale fish landings. Total catch volumes remain significantly below budget expectations and the Corporation continues to experience significant financial challenge. The financial statements report total turnover of £232k, an increase on prior year (£121k) and an operating loss of £71k (marginally better than the £72k loss reported in 2013/14) but after interest receivable and write-offs on the SMRL investment, the overall loss for the year was £99k (compared to £44k for 2013/14).

An unqualified opinion was issued on the financial statements however an emphasis of matter was raised in the examiner's report in respect to the going concern assumption.

PAC noted that total fish landings at 250 tonnes were more than double the 2013/14 level but still well below the target of 800 tonnes. PAC enquired that whilst the figures are much improved on the low point in 2013/14, why were these results so far short of the budget estimates for the year and is management satisfied that realistic budgets have been set for the SHFC based upon their performance in 2015/16 and budget for 2016/17. *Management explained that the targets set for the 2014/15 financial year were too optimistic, given that they do not control the supply side of the business as it is owned by individual*

*fishermen. Management however reassured the Committee that they were confident that the targets set for the current year are based on a more realistic base data.*

PAC endorses SHFC's efforts to rebuild the partnership between themselves and the inshore & offshore fleets and encourages SHFC to support both fleets equally.

PAC noted that the Chief Auditor had again raised an emphasis of matter on the basis of SHFC reporting as a going concern. PAC enquired whether a forward business/financial plan had been approved for SHFC for 2016/17 and how far ahead were they with forecasting their trading account and cash-flows. *PAC received assurance from management that the 2016/17 business plan had been developed and approved by the Board, and the 2017/18 business plan had been circulated to Board members for discussion. Management had forecasted on the cash flow until March 2018.*

PAC highlighted the importance of running current cash flow projections in a business such as SHFC.

PAC noted that the accounts report that SHFC agreed to sell its shareholding in the Saint Marine Resources Limited for £115,000. PAC enquired as to the current status of the SMRL sale transaction and if the Extractor had been lifted for the final payment to be made by the purchaser. PAC further enquired as to how SHFC will use the cash proceeds from the share sale. *Management explained that the 43% of SMRL shares held by ESH have been settled and transferred to the new owner. The balance of shares held by Fisheries Corporation would be paid subject to the condition of lifting the MFV Extractor to the Wharf. Management also highlighted to the PAC that the money, when paid, will be used to pay SHFC's outstanding creditors and provide working capital.*

PAC enquired as to the impact the cold store would have on the anticipated financial performance of SHFC during 2016/17 and based on current projections would the subsidy of £120k be sufficient to maintain solvency of SHFC, given the additional costs involved in running the Cold Store operations. *Management explained that it costs £17k per/month for electricity to run the plant (at full capacity) and even with a subsidy at £10k per/month there still remained a shortfall of £7k and SHFC were looking into solar energy to help address this issue, which the PAC supported. Management further highlighted that due to the cold store operations, SHFC would need more working capital due to the payments for exports taking up to 3 months and the subsidy alone*

would not be sufficient. SHFC had also applied for an overdraft facility but were waiting on SHG to provide collateral to support the application.

Note 5 to the accounts show monies held as deferred income and Note 10 show government grants received by the Corporation. In 2013/14 the Corporation received a grant of £16,500 from ESH for the construction of Fish Aggregating Devices (FAD) – an amount of £15,000 remains on account. PAC enquired as to when the earmarked funding would be utilised and how the corporation would go about the construction and deployment of the FADs. *PAC received assurance from management that they are currently in negotiations with ESH to retain the funds as the money should have been spent before 31 March 2016. Management highlighted that they are about to commence the process of sourcing for interested parties to construct the FADs.*

PAC were pleased to see that SHFC is now acting to utilise the funds and have placed adverts in the local newspapers looking for interested parties to construct FADs.

PAC also endorsed the reintroduction of van sales and members emphasised the importance of van sales to the community and for fish sales.

## **Recommendations**

In relation to its scrutiny of the SHFC Financial Statements for the year ended 31 March 2015, **PAC recommends that:**

- SHFC differentiates between local and export markets and introduces local and export tariffs which would benefit fisherman and keep costs down in the local market.
- SHFC prioritises the lifting of the MFV Extractor so that the proceeds of the SMRL shares can be realised.

## **VI. Connect Saint Helena Limited – Audited Financial Statements for Years ended 31 March 2014 and 31 March 2015**

The following persons attended to answer questions in respect of Connect Saint Helena Limited (Connect):-

- Chief Executive – Mr Barry Hubbard
- Financial Consultant – Mr Makion Chiwade
- Business Support Manager and Company Secretary – Ms Sarah Tompson

The annual statements of account as audited by Moore Stephens and laid before Legislative Council on the 12<sup>th</sup> February 2016 were examined in detail by the Committee.

The audit of Connect's financial statements for the years ended 31 March 2014 and 31 March 2015 was completed on 8 January 2016 under the Public Utilities Ordinance and the Companies Ordinance 2004. Following the procurement exercise arranged by the Chief Auditor, the audit was performed by Moore Stephens LLP, appointed as the External Auditor of Connect Saint Helena Ltd. This was the first year of reporting by Connect as a Limited company.

A qualified audit opinion was issued on the financial statements – the basis for the qualification was:

- The Auditors did not observe the counting of physical inventory at the beginning and end of the period and could not satisfy themselves by performing alternative procedures to determine the inventory balance

PAC enquired if Connect had satisfied themselves on the completeness and valuation of the opening stockholding transferred from SHG at 1 April 2013 and whether any stock had been written off as obsolete. *PAC received assurance from management that they perform stock counts on an annual basis and it is verified by an independent party. A stock count was performed for the stock received from SHG and they are satisfied with completeness and valuation of the transferred stock. Connect has written off stock valued at around £10k after taking over.*

PAC noted in the Annual Report, that Connect had received a qualified audit report from Moore Stephens with regards to inventory. PAC enquired as to what actions had been agreed with Moore Stephens to resolve this qualification. *PAC received assurance from management that they have contracted the services of the St Helena Audit Services to perform the necessary work that Moore Stephens requires, to resolve the qualification.*

PAC noted that Connect's cash balance almost doubled during 2014/15 to stand at some £4m. PAC enquired as to the current cash and cash equivalents balance at the year end March 2016. *Management advised that the cash holding as at 31 March 2016 was £2.5million.*

PAC then further enquired, that as Connect appears to be able to generate adequate cash flows to fund its own projects, in this regard, why Connect would still require Government grant funding for Capital Infrastructure. *Management explained that Government grant will be required to provide capital for replacement of fully depreciated assets inherited from SHG and infrastructure development projects.*

PAC noted that an exceptional charge of £665k was made to the income statement for 2013/14 relating to sustainable water solutions design and consultancy works before the formation of the Company. PAC requested management to explain the nature of this consulting work in terms of long term water supply management and the reason for the write-off. *Management explained that the consultancy charges related to the long term water supply strategy and, initially capitalised by SHG were written off to the Income Statement, as they did not result in the construction or acquisition of any tangible assets. Some of the information has been used to good effect but most of it will not be used by Connect.*

PAC enquired whether any report had been prepared to support the decision to write off such a large investment and what were the processes in place at Connect for the approval of major write offs. *Management highlighted that this was the first write off of this kind and no processes had been put in place previously but procedures were now being developed. Management further highlighted that the CEO has a write off limit of only £1k and everything else goes to the board for approval.*

PAC is concerned that Connect does not have a policy for the write off of major assets.

PAC enquired if management is satisfied that a complete fixed asset register has now been prepared by Connect and if work has been done to confirm the condition and valuation of the assets taken over from SHG; also whether any other major capital costs were expected to be written-off in the foreseeable future. *PAC received assurance from management that they are happy with the current asset registers in place and the condition of the assets is an on-going process. No write offs are foreseen in the near future.*

PAC enquired when Connect is going to set non-financial performance targets and report against these in the annual report for users and readers of the

accounts, to be able to benchmark performance and compare them with global trends for similar industry players. *PAC received assurance from management that through the Utilities Regulatory Authority, non-financial performance indicators are already published when the URA publishes their annual report on Connect's performance and they will consider starting publishing key non-financial performance indicators in the Annual Report for the 2015/16 financial year.*

PAC remains concerned that this information had not been previously provided to the readers and users of the financial statements.

PAC noted that the receivables turnover rate appears high, taking an average of 44 days to collect after billing. PAC probed as to the reason for it being high, the target number of days going forward and the mechanism that Connect is putting in place to achieve this. *PAC received assurance from management that the debt recovery strategy is working effectively as evidenced by the decline in 90 day debtors from the £275k inherited from SHG to £97k at the 31<sup>st</sup> March 2016. While the 44 days might seem long it has improved from 46 days for the year ended 31<sup>st</sup> March 2014 and should be taken in the context that Connect gives customers 28 days to pay their bills upon billing, given the quarterly billing regime.*

PAC enquired on the financial performance of different operating segments (Water and Electricity) within Connect and if there is cross subsidy between these segments. *PAC received assurance from management that the management accounts, with the segment performances, are provided to the Board for the purposes of decision making. Cross subsidy currently exists between water and electricity as the water tariff is significantly below the production cost.*

PAC invited Connect to publish the performance of the operating segments in the Annual Report and Accounts.

PAC enquired as to the impact of renewable energy generation on diesel fuel consumption in the Powerhouse and if each unit of renewable energy save an equivalent amount of diesel fuel. *PAC received assurance from management that it's a direct trade off that occurs; if renewable energy increases by 30% then diesel consumption is reduced by 30% as well.*

PAC was pleased to see investments in strategies towards renewable energy as it had the potential to reduce electricity costs on the island but also encouraged Connect to build storage capacity for excess power being generated. PAC also

encouraged Connect to set a payback period on renewable assets; in order to indicate what the minimum period is to recoup investments.

PAC noted that Connect's subsidy from SHG is decreasing annually and has decreased by 24% from 2013/2014 to 2014/2015 ((2015: £845k) (2014: £1,110k)). PAC enquired if management was happy with the operational efficiency, measures put in place to improve the company's efficiency, and when the government subsidy is planned to be phased out. *Management explained that the subsidy would have ended sooner but as changes have been made to the business plan they have now taken on the responsibility to replace all assets as they become depreciated, (as agreed with SHG). The Connect subsidy also continues to decrease each year and they indicated that they are expecting to be subsidy free 3 years ahead (based on current reductions) of the 10 year schedule. They have in place policies and procedures that encourage the efficient use of resources and they are happy with the current operational efficiency but will keep on improving it.*

## Recommendations

In relation to its scrutiny of the Connect financial statements for the two years ended 31 March 2014 and 31 March 2015, **PAC recommends that:**

- Connect review their write-off policy and strategy and develop a delegation of authority policy/procedure if they don't already have one.
- Connect publish non-financial performance in the Annual Report to bring more information to the reader/user and place the Annual Report in the public library.
- Connect publish the financial performance of the different operating segments within the Annual Report
- Connect sets a payback period on renewable assets; in order to indicate what the minimum period is to recoup investments.
- SHG explain whether value for money was obtained for the aid-funded water design project that was subsequently written-off by Connect.

## **VII. Saint Helena Currency Fund – Audited Financial Statements for Years ended 31 March 2014 and 31 March 2015**

The following persons attended to answer questions on behalf of the St Helena Currency Fund:-

- Commissioner – Mr Colin Owen
- Commissioner – Mr Dax Richards
- Currency Officer – Mr Nicholas Yon

The financial statements for the years ending 31 March 2014 and 31 March 2015 were audited by the Chief Auditor. These accounts were in arrears and accordingly only the 2014/15 accounts met the requirement for the audit to be completed within 12 months.

The purpose of the Fund is to manage the St Helena currency in use on the Island, which is backed by deposits held in UK sterling, which earns an investment return for the Fund.

PAC enquired as to when previous recommendations, made by the Committee in relation to the requirement to produce six-monthly financial statements and the proposed requirement to lay the account before Legislative Council, are going to be implemented. *PAC received assurance from the Commissioners that the amendments to the Ordinance would be part of Legislative Council business on the 18<sup>th</sup> of May 2016, as it had already been approved by Executive Council.*

PAC is pleased to see that the recommended amendments to the Ordinance are going to Legislative Council.

PAC noted that the performance of the Currency Fund over the two years 2013/14 and 2014/15 shows an operating loss before recognition of movements on investments. PAC enquired if the proposed currency review had now been completed, including the conclusion of the review in terms of the retention of the Saint Helena currency as compared to Sterling Pound. *The Commissioners explained that no formal report has been finalised with regards to the currency review, as they are still assessing the initiatives by the Bank of St Helena that may reduce reliance on the currency.*

PAC has noted the limited returns on the Fund and do recognise that it's established to provide security to the St Helena Pound. Nevertheless PAC would like to see a formal report being prepared on whether to retain the St Helena pound or move to the Sterling.

The accounts report some £5.6m of notes and coins in circulation and these demand liabilities are more than covered by the £6.3m held on deposit. PAC enquired from the Commissioners, the plans for the £1.4m currently held in reserves, noting that some £350k is budgeted to be transferred to the Consolidated Fund, and the minimum reserve balance required to be held. *The Commissioners explained that a 10% cover is required on the demand liability for the fund and some further transfers to Consolidated Fund may be made.*

PAC noted that the market value of investments had moved significantly year-on-year with a loss of £176,000 in 2013/14 and a gain of £195,000 in 2014/15. PAC enquired as to the objectives of the new investment strategy agreed by the Commissioners in December 2015 – what were the objectives of that strategy, and what were the target returns for the fund in terms of annual revenues and capital growth. *PAC received assurance from the Commissioners that the strategy has two objectives which are to; preserve the value of the fund and maximise the value of the fund. The target return is dependent on the performance of the market (e.g. interest) but the Commissioners are exploring alternative ways to raise revenue.*

## Recommendations

In relation to its scrutiny of the SHCF financial statements for the years ended 31 March 2014 and 31 March 2015, **PAC recommends that:**

- Currency Commissioners perform the required research and publish a report to assess the merits and demerits to maintaining the St Helena Pound and the Currency Fund.
- Currency Commissioners assess the different options regarding the issuing of commemorative coins, and specifically whether these should be deemed as legal tender.

## **VIII. Defined Contribution Pension Scheme – Audited Financial Statements for Years ended 31 March 2013, 31 March 2014 and 31 March 2015**

The following persons attended to answer questions on behalf of DCPS:-

- Trustee – Mr Colin Owen
- Officer – Mr Nicholas Yon

The financial statements of the Defined Contribution Pension Scheme (DCPS) is required to be examined in accordance with the Trust Deed and reported to the Trustees but there is no requirement for the account to be laid at Legislative Council. The audited financial statements of DCPS are regarded by the Chief Auditor as a matter of importance and therefore referred directly to PAC under the provision of Standing Order 23.

The Independent Examination of the DCPS accounts for the three years ended 31 March 2013, 2014 and 2015 was completed on 10 February 2016. The Trust Deed requires that books and records are maintained by the Trustees but there is no defined financial reporting framework. Accordingly the financial statement follows a simplified form.

PAC noted that the DCPS had changed fundamentally from that envisaged in the Trust Deed with the advent of the MiSaint pension savings plan in April 2010. *Management explained that the SHG defined contribution pension scheme was established with effect from 1 April 2010 to replace the defined benefit pension scheme (DBPS) which is now closed to new members. The Trust Deed and Scheme rules reflect arrangements for a DCPS as an investment vehicle, with the primary purpose of building a capital sum to provide retirement benefits for individuals, based upon contributions made rather than benefits promised.*

*However with effect from April 2011 the nature of the scheme changed fundamentally with the establishment of individual MiSaint pension accounts for members which are administered by an external service provider. Pension contributions at 15 % of pensionable pay made by St Helena Government in respect of eligible employees are paid over to the members individual MiSaint Pension Accounts. Accordingly the DCPS in current form is not a pension scheme as such but represents a form of clearing account held on Trust. The responsibility to disseminate information remains that of MiSaint as SHG does not operate the scheme however SHG does have a representative that sits in the meetings. PAC raised their concern that DCPS was not operating in accordance with the approved Trust Deed but, reflecting that change, accepted that the Scheme has now been wound-up.*

PAC noted that the Chief Auditors report on the financial statements is qualified in respect of the payments being made to leavers in the amount of £47,000, which was not allowed to be made by the Trust Deed. PAC enquired as to how these pension contributions came to be paid out to staff who had left the service of SHG, how have steps been taken to recover these wrongful payments from these individuals, and whether controls have been improved to prevent a recurrence of this situation. *Management explained that an error had occurred where these amounts had been paid directly to scheme leavers. Management also highlighted that they had considered the recovery of the money but the cost associated with the recovery would outweigh the benefit, given that the eventual recipient of the money is the same person. Management assured PAC that adequate and effective controls have been put in place to ensure that this mistake does not recur.*

PAC enquired as to the size of the pension liability being carried by Government in respect of the Defined Benefit Pension Scheme and since it is unfunded by any assets or investments how would the pension liability be met in respect of pensioners in these future years. *Management advised that the liability was about £35million and it is currently unfunded but on a yearly basis an amount is budgeted for based on those that are anticipated to be going on retirement.*

## Recommendations

In relation to its scrutiny of the DCPS Financial Statements for the years ended 31 March 2013, 31 March 2014, and 31 March 2015, **PAC recommends that:**

- SHG ensures that controls to prevent unauthorised payments to leavers be monitored by management and any payments due be properly approved.

## **IX. Bank of St Helena Limited – Audited Financial Statements for Year ended 31 March 2015**

The audit of the Bank of St Helena Limited financial statements for the year ended 31 March 2015 was completed by the appointed external Auditor, Moore Stephens LLP on 30 September 2015 under the Financial Services Ordinance 2008 and the Companies Ordinance 2004.

The audited financial statements of the Bank of St Helena Limited are not required to be laid before Legislative Council but are subject to oversight by the Financial Services Authority.

Nonetheless given that St Helena Government is the sole shareholder and therefore owner, the annual report and financial statements of the Bank are regarded by the Chief Auditor as a matter of importance and referred directly to PAC under Standing Order 23 Rule 2(a)(iv).

PAC held an in-camera session on 22 March 2016 and the following persons attended to answer questions in respect of the Bank of St Helena Limited:-

- Chairperson – Mrs Carolyn Thomas
- Managing Director – Miss Rosemary Bargo

PAC noted that Note 14 and 15 to the accounts show £3.2 million of called up shares held by SHG out of 6.0 million authorised shares. PAC enquired as to the nature of SHG's shareholding and plans for the future. *PAC received assurance that SHG owns 100% of all called up shares and management were unsure of SHG's intention with regards its shareholding.*

PAC enquired whether the Bank is considering the issuing of the remaining authorised shares not yet called up and if they are also considering the mutualisation option. *Management explained that the Bank had considered the mutualisation versus the Limited company options a few years ago and went down the Limited Company route. They highlighted that the issue of the remaining authorised shares is one that needs to be decided by SHG as the shareholder.*

PAC noted that the Bank has been profitable in the recent past and is building up healthy reserves as per the audited accounts. PAC enquired if they planned to pay dividends to their shareholder (SHG). *Management explained that the Bank does not have a policy to pay dividends currently and it would be a decision that will be influenced by the shareholder.*

PAC enquired if there were plans to introduce automation ahead of air access - use of cards and ATMs and how these cards would be operating. *PAC received assurance from management that there are various initiatives being explored, which include the introduction of a combination of packages which encourage the use of plastic money on the island. However an investment into ATMs was deemed too expensive given the target population. The cards will be debit cards which will be linked directly to the customer's bank account and can be accepted by businesses on St Helena, the other is the International Prepaid Debit Card that would require the owner to front load them with money before they can be used; they can be used by Saints when they travel abroad.*

PAC noted that with the advent of all this technology coming to St Helena, it might also lead to an increase in cyber and card fraud. PAC enquired whether the Bank has the skills needed to make sure that the virtual cards are not susceptible to fraud. *PAC received assurance from management that the Bank has a highly skilled IT team and they have firewalls and other security measures in place to prevent such cybercrimes. In addition the Bank only deals with clients and companies approved by the Board and FSRA. The Bank also performs regular due diligence checks on customers, is always in communication with Immigration and the Managing Director is on the Anti-money laundering Board.*

With the introduction of loaded charge cards, PAC enquired whether the Bank had considered a 24 hour hot line or call centre for clients to report, in the event they encounter challenges (fraud/theft/loss). *PAC was given assurance by management that they have a telephone hotline and in case any of these instances do occur, the cards will be stopped immediately.*

PAC enquired as to how the Bank is trying to stimulate the growth of its lending business. *Management explained that they are encouraging growth in their business loans by offering lower interest rates, especially in tourism accommodation and they are also working with Enterprise St Helena, trying to package these incentives together. The Bank allows people going on holiday or buying a car to have £5k unsecured loan. They also set a total unsecured lending limit, which cannot exceed 20% of the Bank's published audited Capital. Therefore based on Capital for 2014/15 (£5,225,193) this amount will be just over £1million. The unsecured loans have also been beneficial to small businesses. Rate to repay is 7% unsecured for businesses but 8% for personal.*

PAC noted the Annual report states it has available lending of £15 million which is directed to promote commercial and business loans. There was approximately a £0.6 million pound increase from last year. PAC enquired as to how long it would take to get the £15 million available in the bank out there

into the economy. *Management explained that the Bank is starting to see applications coming in from the latter part of the FY 2015/16, and if this trend continues the £15 million will be depleted sooner rather than later. The Bank's Depositor's portfolio reflects that 25% of customers own about 80% of the money.*

## Recommendations

In relation to its scrutiny of the Bank of St Helena Limited financial statements for the year ended 31 March 2015, **PAC recommends that:**

- BOSH communicates the new initiatives with regards to the introduction of plastic money to the island, to make the public aware.
- BOSH increases its publicity of the lending initiatives to the public and businesses so that more people are aware of these opportunities.
- SHG determine its future strategy with respect to the SHG shareholding in the Bank and explore options for disposal or dilution of shareholding, through an independent public offering.

### **3. Concluding Remarks**

The Public Accounts Committee would like to thank former Chairman, Mr Rodney Buckley and Member, Councillor Nigel Dollery for their sterling service to the Committee during their time and wish them well in their endeavours; PAC would also like to extend thanks to temporary Member, Councillor Wilson Duncan for his sterling work during this period. Furthermore PAC acknowledges the work of the Chief Auditor and staff of the St Helena Audit Service, in particular Performance Audit Manager, Anesu Makamure and attending officers of St Helena Government in assisting with this sessional report.

This sessional report on PAC proceedings held on 22 March 2016 and the 10 and 11 May 2016 is hereby authorised for issue to Legislative Council.

Cyril Gunnell  
Chairman