

St Helena Public Accounts Committee

Report to Legislative Council on the Formal Session of the Public Accounts Committee held on the 3rd of October 2016.

1. Introduction

In accordance with section 69 (6) of the Constitution of St Helena the Public Accounts Committee hereby reports to Legislative Council on the Second Formal Session of the Committee, held on 3rd of October 2016.

Membership of the Committee comprises:

Chairman:	Mr Cyril (Ferdie) Gunnell
Vice Chairman:	Mr Stedson Francis
Members:	Hon. Dr Corinda Essex
	Hon. Wilson (Tony) Duncan
	Hon. Cyril George

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

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.

The Chairman advised that Hon. Cyril George sent his apologies as he was overseas.

The PAC'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 – Second Session 2016/17

- I. Chairman's Address
- II. St Helena Government – SHG 2013/14 and 2014/15 Annual Financial Statements and Management Letters
- III. Managing Grants and Subsidies Value for Money Report
- IV. NAO – Realising the Benefits of the St Helena Airport Project Report
- V. Expenditure in Excess
- VI. SHG Response to PAC Recommendations

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 (PAC) and to South Atlantic Media Services (SAMS) for broadcasting the formal hearing.

The Chairman highlighted that this was the second formal session of the PAC for 2016; and it was being broadcast live from the Council Chamber at the Castle in Jamestown. Since the last formal session of the PAC held on 10th and 11th May 2016, there had been some changes in the membership of the PAC. Mr Nigel Dollery, resigned from the Legislative Council (LegCo) which meant he could no longer be a member of the PAC. Nigel played a vital role in the work of the PAC and was thanked for his contribution. Nigel had been replaced by Councillor Wilson (Tony) Duncan, chosen by the majority of Elected Members.

The Chairman acknowledged the work of the Chief Auditor, Mr Phil Sharman, as the Professional Advisor, Miss Anita Legg, the Committee Secretary and the Performance Audit Manager, Mr Anesu Happyman Makamure.

The Chairman highlighted at the formal meeting in May 2016 that the profile of the PAC needs to be elevated; he still believed this to be the case and along with other members would work towards this goal. He highlighted that it may be necessary to request some positive amendments to the St Helena, Ascension and Tristan da Cunha Constitution to enable the PAC to be more proactive rather than just reactive to be more effective.

For the benefit of first time listeners, the Chairman highlighted that PAC is a Select Committee of LegCo in accordance with section 69 of the Constitution and Standing Order 23, 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 directions 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.

There was much catching up to do on backlogged accounts but once this meeting had concluded, they would have caught up. This was a positive result and he placed on record PAC's sincere appreciation for the work undertaken to achieve this.

He highlighted that the public hearing would deal with the consideration of the SHG 2013/14 and 2014/15 Annual Financial Statements and Management Letter, Managing Grants and Subsidies report, National Audit Office (NAO)

report on the St Helena Airport, and Statements of Expenditure in Excess (2011-2016).

II. St Helena Government – SHG 2013/14 and 2014/15 Annual Financial Statements and Management Letters

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

- Financial Secretary – Mr Dax Richards
- Assistant Financial Secretary – Mr Nicholas Yon
- Head of Accounting Services – Miss Connie Stevens

The audit of SHG's financial statements for the years ended 31 March 2014 and 31 March 2015 were signed off on 15 June 2016 and 14 September 2016 respectively by the Chief Auditor. This was the third and fourth year of reporting under the accrual based International Public Sector Accounting Standards (IPSAS).

PAC highlighted that St Helena Government 2013/14 and 2014/15 Audited Financial Statements had been qualified by the Chief Auditor in a range of issues. Three issues affected the fair presentation of the accounts, being classification of the Bulk Fuel Installation Reserve, Airport and Wharf Infrastructure Valuation, and Eligibility of Social Benefits. Three further issues affected the regularity of the accounts, being Statutory Authority for the Bulk Fuel Installation, Expenditure in Excess, and Consolidated Financial Statements. PAC enquired as to what action was being taken to ensure that these qualifications are addressed and therefore do not recur in future audits. *PAC received assurance from management on the processes and timelines of when the qualifications would be resolved and anticipated resolving all issues by 31 March 2018.*

PAC highlighted that as disclosed in the Accounting Policy, SHG is not required to recognise the initial value of property, plant and equipment for up to five years following the date of first adoption of accruals accounting, which took place on 1st April 2011. PAC enquired from the Financial Secretary the plans that are in place to ensure that at the end of the transitional period all assets acquired or built prior to 1st April 2011 would have been valued ready for the 2016/17 accounts. *PAC received assurance from management that a plan has been put in motion to procure the services of experts in the valuation*

of land & buildings; they would initially perform desktop assessments before they travel to perform the work on the island.

PAC enquired as to why SHG waited for the last minute to perform the valuation as the scale of the workload was anticipated to be huge. *Management highlighted that due to the anticipated costs of carrying out such an exercise they have been trying to negotiate with other island based entities so that they could go into a cost sharing agreement in order to derive some value for money from the project.*

PAC further enquired as to the challenges envisaged that SHG would face during the exercise and what mitigation plans had been put in place to ensure that the project objectives were going to be achieved. *Management highlighted that obtaining information from the various other sources for the Valuer might present challenges but were confident that they would have a valuation in the 2016/17 accounts.*

PAC enquired on the nature of the material adjustments required for the 2014/15 accounts during the audit, excluding the consequential adjustments from the conclusion of the 2013/14 accounts in June 2016. *Management highlighted that the major difference was the pension valuation figures and explained their reasons for late inclusion of these figures.*

PAC further probed as to what steps were being taken by the Financial Secretary to ensure that all required information, including the estimates required, to be prepared by experts, took place ahead of the submission of the draft financial statements for audit. *PAC was assured by management that instructions would be issued in a timely manner to the Government Actuaries Department (GAD) to ensure that all financial statements going forward include these numbers.*

PAC highlighted that the audited financial statements have presented the Basic Island Pension (BIP) and Income Related Benefits (IRB) in one line, as one item, when the nature of these two payments to eligible individuals is quite different. BIP is a merit-based pension entitlement and IRB is not merit based, it's a means tested benefit. PAC enquired as to why BIP and IRB are being disclosed in one line item. *PAC was assured by management that it can be separated and disclosed in the notes that accompany the financial statements going forward.*

PAC highlighted that the pension liability disclosed in the statement of financial position had increased by £13.8m, from £34.7m at March 2014 to £48.5m at March 2015. PAC enquired as to the reason for the 40% increase of this liability in the 2014/15 financial year. *Management highlighted that the reason was due to a change in the assumptions used by the Actuary, which mainly relates to the discount factor. The discount rate had decreased from 3.4% down to 2.2% on*

the advice of the Actuary and because of that significant decrease in the discount rate, the liability increased.

PAC enquired as to how SHG is investing or utilising cash at the end of the period, disclosed in the cash flow statement, to ensure that the island gets the best possible returns from this cash holding. *PAC was assured by management that SHG holds all its investments with Crown Agents Management Limited and adopts a fairly low risk strategy in terms of being able to maximise the gains on the actual portfolio which ensures that money is not lost.* PAC further probed whether management think they are getting value for money by having their investments being managed by Crown Agents. *Management highlighted that they have assessed their performance in 2008 and 2012, and the conclusion was that SHG was getting a better return compared with most high-street providers.*

Recommendations

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

- SHG maintain a register of all audit recommendations, action plans and timelines to ensure that all qualifications are resolved by 31 March 2018.
- SHG sets clear project deliverables with timelines to ensure that the asset valuation project meets its objectives and assets are completely disclosed in the 2016/17 Annual Financial Statements. A committee of relevant stakeholders be convened with clear Terms of Reference for the duration of the Asset Valuation project, which could expedite the retrieval of required information.
- SHG ensure that instructions for the valuation of the pension liability is issued timeously to the Government Actuary Department (GAD) to ensure that the movement in the pension liability is recorded as part of the 1st draft Annual Financial Statements, submitted for audit to the Chief Auditor.
- SHG ensure that Basic Island Pension and Income Related Benefits are disclosed separately in the notes to the Annual Financial Statements to enhance the understandability of the Statements by the users.

III. Managing Grants and Subsidies Value for Money Report

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

- Acting Chief Secretary – Mrs Gillian Francis
- Financial Secretary – Mr Dax Richards
- Assistant Financial Secretary – Mr Nicholas Yon
- Assistant Chief Secretary (Performance) – Mr Paul McGinnety

The audit included an independent evaluation of several grants and subsidies that have been allocated in the 2014/15 financial year in order to gain an understanding of SHG policy in practice. The audit excluded from scope, the shipping subsidy and the grant funding to Enterprise St Helena as these items are quantitatively material and may warrant separate audit attention.

PAC highlighted that the audit identified a lack of Government policy and associated administrative procedures relating to the issuing of Government grants and subsidies. No specific guidance or briefing documents are provided to Legislative Council to explicitly inform decision making about budgetary estimates for grants and subsidies. PAC enquired as to the actions that have been taken to ensure that policy and procedural documentation, relating to the issue of grants and subsidies, have been established and implemented. *PAC was assured by management that guidance is provided to Elected Members through the Chairpersons' Assembly however no policy framework and administrative procedures have been developed.*

PAC highlighted that the audit noted that entities had been awarded subsidies as per their award letters, but no actual targets, or deliverables, or specific conditions were noted to be attained in return for these subsidies. Furthermore the business cases which proposed the 2014/2015 subsidies did not have budgets linked to any targets to be achieved and therefore made it impossible to evaluate if value for money was derived from the subsidy awarded. PAC enquired why no targets were being set for entities and organisations that receive subsidies from SHG. *PAC was assured by management that as from the upcoming financial year 2017/18, targets and deliverables will be set for subsidy receiving entities or organisations, by the signing of Service Level Agreements.*

PAC highlighted that the St Helena Community Development Organisation (CDO) provides smaller grants to voluntary organisations. PAC enquired as to what safeguards had SHG put in place to ensure the CDO has in itself effective governance and stewardship arrangements and the public funds entrusted to them are efficiently administered and properly accounted for. *Management highlighted that there are guidelines in place that regulate the operations for the CDO.* PAC further enquired if there was written performance agreement with the CDO, *for which management confirmed that none exists.* PAC also enquired how SHG manages conflicts of interest with regards to any management involvement with grant recipients. *Management assured PAC that there are safeguards in place with the conflicted person being recused from the decision. Management also highlighted that they are looking at establishing Service Level Agreements (SLA) with CDO, as with larger grant or subsidy receiving organisations.*

PAC highlighted, in the report the issue of no alignment to SDP targets and/or Utilities Regulatory Authority (URA) targets, furthermore there was no condition in the letter of award to Connect which links the funds to any of the targets, in the SDP or URA, regarding utilities provision. PAC enquired how management is ensuring that all the objectives per the laws and regulations have been cascaded to all lower policy documents. *PAC was assured by management that they will be implementing such measures in the 2017/18 year on the award letter.*

PAC enquired further as to how SHG is incentivising Connect to increase its efficiency. *Management highlighted that they do not have a straightforward incentivisation scheme in terms of something that is linked to the subsidy provided. Subsidy is based on the shortfall between tariff income and expenditure in relation to the activities of those key sector areas which is water, electricity and sewerage*

PAC noted that SHG monitors its Key Performances Indicators (KPIs), through a reporting template that is sent to reporting entities/organisations/directorates, completed by the respective responsible individuals and returned to Corporate Services. The audit noted that not all the underlying supporting information/documents were collated for verification by Corporate Services before the information was reported in the Performance Tracker. PAC enquired as to how management is ensuring that the performance information that is being reported on a monthly basis is reliable and validated. *Management assured PAC that Corporate Services is undertaking an internal validation process, where anomalies are identified and returned for correction.*

PAC enquired whether any funding is made available to religious organisations by SHG, and if there is any specific provision for the maintenance and repairs of church buildings. *Management highlighted that SHG do not specifically fund religious organisations, to avoid issues around favouritism but however raised that they have an interest in the heritage assets of the island some of which are church buildings. Management also highlighted that no policy document exists that deals with the funding of religious organisations. A representative of the CDO also highlighted that do not fund religious organisations.*

PAC noted from some of the responses by management that the original timescale that was set out by management, in response to the recommendations made, have slipped. PAC are aware that several responses were due by October 2016, which is why the committee had chosen to examine the report in this session. PAC requested management to advise on the revised timetables for the recommendations. *Management assured PAC that they will review their timelines and where required will make the necessary amendments to the target dates.*

Recommendations

In relation to its scrutiny of the Managing Grants and Subsidies Report, **PAC recommends that:**

- SHG ensure that a Grants & Subsidies policy is developed and implemented as recommended by the Chief Auditor, as a matter of priority to provide a proper framework for decision making and management in these awards.
- SHG ensure that all grant and subsidy receiving entities/organisations sign Service Level Agreements (SLA) with SMART targets and deliverables. (SMART – Specific, Measurable, Attainable, Realistic and Time bound).
- SHG ensure that there is alignment of the Strategic Objectives to targets/key performance indicators in the SLA of grants/subsidy receiving organisations/entities and their business plans.
- SHG ensures that performance reports are independently and objectively validated before they are published for stakeholders.
- SHG provide updated implementation timelines for recommendations in the Managing Grants and Subsidies Report.

IV. National Audit Office (NAO) – Realising the Benefits of the St Helena Airport Project report

The following persons attended to answer questions for the Airport Report by the NAO:-

- Acting Chief Secretary – Mrs Gillian Francis
- Financial Secretary – Mr Dax Richards
- Airport Director – Ms Janet Lawrence
- Chief Executive for Economic Development (ESH): – Dr Niall O’Keeffe

In June 2016, the UK National Audit Office published its report on the St Helena Airport Project. The NAO investigation looked at the key assumptions in the Department for International Development (DFID) analysis to support its £250m investment in the airport. It also considered DFID’s liability or ability in partnership with the St Helena Government to realise the benefits from the airport.

PAC noted the NAO report had affirmed the rationale for the public investment in air access for St Helena with the business case returning a positive net present value albeit based upon a number of high risk assumptions. Given the significance of the airport development to the future of the Island and the aid flows and related infrastructure now represent material figures in the SHG financial statements, the PAC wished to scrutinise the NAO report in the public interest.

PAC highlighted that the NAO report realising the benefits of the St Helena Airport Project makes extremely interesting reading and has been covered in local and international media and reviewed by the PAC. PAC enquired as to what action had been taken by SHG in response to the NAO report. *Management highlighted to the PAC that a press release was issued on the 9th of June 2016 with the report being treated for information purposes only within SHG. Management clarified on further probing that this report was produced for the purposes of DfID, and SHG had no direct involvement in its preparation.*

PAC enquired as to what extent Elected Members had a thorough briefing on the report and the matters raised therein. *Management highlighted that they had chosen not to brief Elected Members on the content since the report was in the public domain and covered through a press release. They also highlighted that the report affirmed conclusions reached earlier in the project, through the original Airport Business Case, which Elected Members would have been briefed on at that time.*

Whilst PAC partially accepted that position, they remained somewhat surprised by the decision not to brief Elected Members in detail considering the importance of air access to the island and the role of Elected Members in that process. PAC also noted that SHG is taking no direct action in response to the various issues raised in the report, and is for DFID to act on those issues. *Management highlighted that various bodies of work had been commenced in advance of this report one example being DFID funding a consultant to assess the investor climate; other consultants would follow as well to perform necessary follow ups.*

PAC enquired that based on SHG's available data, were the assumptions used as the basis of the report accurate, such as number of tourists projected, number of tourist beds on St Helena in 2016, and how feasible it was that by 2043 the island would no longer be relying on DFID funds. *Management highlighted that the assumptions represented best possible estimates at the time however this situation could have changed due to Air Access to the island not commencing as forecasted. Management confirmed that 76 rooms are currently available on the island as compared with 150 beds cited in the report at 2016.*

PAC noted that the NAO report summary point 12 highlights the potential future liabilities because of delays of the opening of the airport. The RMS service had been extended until July 2017 and commercial flights to St Helena had not started as scheduled. PAC enquired as to the estimated financial impacts of the extension of the RMS and delay in the commencement of air services. *Management highlighted to the PAC that the estimated impacts of the delay of the RMS St Helena were envisaged to be £1,000,000.00 (one million pounds) or just over for up to the end of March 2017, but is dependent on issues such as fuel price. Management further advised there are no compensation payments due to the air service provider for the delayed start. However the cost of not implementing the new freight service contract is estimated to be \$2,000 per day.*

PAC highlighted that summary point 12 of the NAO report indicates that SHG are currently considering options for addressing the impact of the difficult wind conditions on landing aircraft safely. PAC enquired if sufficient consideration had been given to the difficult wind conditions during the design of the airport. PAC further enquired whether the orientation of the runway altered from that initially proposed at the design stage. *Management were unable to respond to these matters raised by the PAC.*

PAC highlighted that the airport contract is Design, Build and Operate (DBO), however the PAC probed if there were any performance obligations that fell upon the contractor, when the design does not meet the requirements to safely land the required passenger aircraft (Boeing 737). *Management highlighted that implementation flight by Comair was able to land in April 2016 however conditions of severe wind shear were noted and thus more data had to be collected to ensure flight safety.*

PAC highlighted that summary point 14 of the report, states that DFID is underwriting the cost of the air service for the first three years of its operation and their potential liability for the first year is £1.9m. PAC enquired whether the first year of operation had commenced. *Management highlighted that the operations Phase 2 had not yet commenced and was unsure as to when it would commence.* PAC further enquired when SHG would contractually take ownership of a complete and functioning airport as envisaged under Phase 1 of the contract. *Management explained that taking over of the airport was currently underway as they were going through snagging and de-snagging. SHG would then backdate the taking over to 10th May 2016, being the date on which it was ASSI certified.*

PAC highlighted that summary point 10 states that SHG's ability to attract investment to support a growth in tourism has to date been limited due to, among others, not having a proven track record of attracting tourists. PAC enquired on the specific initiatives that SHG had implemented to mitigate the risk that had been identified in the report. *Management highlighted that they concurred with the report in that they did not have a track record however they were involved in several initiatives abroad to market St Helena more visibly and this was generating significant interest.* PAC also enquired if these risks had been updated on the St Helena Government's Strategic Risk Register so that they could be continuously monitored. *PAC was assured that the Risk Registers had been updated with the risks identified in the report.*

Recommendations

In relation to its scrutiny of NAO Airport report, **PAC recommends:**

- SHG provide responses to questions that were asked during the formal session that officials could not furnish the public, with appropriate responses.
- SHG update its Strategic Risk Register with risks that have been raised in the NAO Airport report so that they can be monitored.
- SHG brief Elected Members on any significant public report that pertains to the business of St Helena Government irrespective of responsibility or authorship.
- SHG ensures that the public are informed timely on matters that affect their livelihood.

V. Expenditure in Excess

As part of the public session on 3 October 2016, PAC considered the Statement of Expenditure in Excess for the five year period 2010/11 to 2015/16. Evidence was taken by the PAC on this Statement under section 106 of the Constitution and accordingly the PAC findings are provided to Legislative Council as a separate Sessional Paper No 44/2016.

VI. SHG response to PAC recommendations

The Sessional Paper 41/2016, SHG response to PAC recommendations was laid at Legislative Council meeting on 18th July 2016 by the Financial Secretary as the responsible member of Executive Council. The report of Government was referred to PAC for their review and disposal of responses on behalf of Legislative Council.

There were two PAC reports containing the recommendations to which Government were responding for the first time:

- Sessional Paper 2/16 PAC report on the review of the 2012/13 Government Accounts and Chief Auditors Management Letter
- Sessional Paper 3/16 PAC report on the formal session held on 11 November 2015

In addition the paper provided a progress update to PAC on other open recommendations remaining from previous reports.

PAC noted the Government response in SP 41/2016 did not meet the timeframe required by section 69(9) – the response should have been presented to the 18 May 2016 Legislative Council meeting but was overlooked and hence was not laid until 18 July 2016.

Furthermore the Government response in sessional paper 41/16 was not prepared in sufficient time to enable PAC input, prior to its laying before the House, as has been established convention. Accordingly PAC were unable to consider the adequacy of the Government response until after the paper was formally laid.

PAC have now considered the Government response and find that of the 40 recommendations in the report, 17 have been closed since the February 2016 Legislative Council meeting, a further 6 may be regarded as closed after the July 2016 Legislative Council meeting and 26 recommendations therefore remain open. Of those open recommendations 20 have tangible action in progress but 6 remain pending substantive action – details are summarised as follows.

Area under review	Recommendation open – substantive action pending	Recommendation open – action in progress	Recommendation closed – action completed
ESH 2012/13	0	3	0
SHCF 2012/2013	0	0	2
BFI 2012/13	0	2	0
SHFC 2013/14	0	1	2
SNHT 2013/2014	0	1	1
SHG 2011/12	0	4	1
SHG VFM DGO	0	2	0
SHG Airport	4	0	0
SHG Shipping	1	2	0
SHG 2012/13	1	4	0
SHG Governance	0	1	0
Total	6	20	6

When reviewing the register contained in SP 41/16 it was evident to PAC that recommendations were being marked as completed when an action had commenced rather than the recommended outcome achieved. In a significant number of cases PAC required that recommendations marked as completed in SP 41/16 remain open. The register attached to this report now reflects that updated position.

Whilst PAC are encouraged by work in progress, management attention is also required on areas where substantive action remains pending, to close through the issues identified and demonstrate tangible improvements required in both public financial management and administration.

PAC also highlight that 3 new recommendations in respect of Air Access were not addressed within sessional paper 41/2016. No explanation was provided as to why these responses were not provided as required by legislation and PAC is concerned by this omission.

Recommendations

In relation to its scrutiny of the Government response to its previous sessional reports to LegCo, the **PAC recommends that:**

- The Financial Secretary as the responsible member of ExCo must ensure completeness and timeliness of the Government response being laid under section 69(10).
- The Government response to the PAC recommendations made in respect of the Airport Review remain outstanding and should be laid at the next opportunity to regularise this omission.
- Recommendations marked as closed may now be transferred to the closed register maintained by the Financial Secretary.

- Recommendations should remain open in the register until the activity being taken by management has realised the tangible outcome expected.
- Progress on recommendations remaining open should continue to be reported to PAC at intervals of six-months so that progress may be monitored and reported to Legislative Council where action proves inadequate.

VII. Concluding Remarks

On behalf of Legislative Council, PAC would like to thank Nigel Dollery for his sterling service to the Committee during his time on Council and wish him well in his retirement. PAC also acknowledges the work of the Chief Auditor and staff of the St Helena Audit Service and attending officers of St Helena Government in assisting with this sessional report.

This sessional report on PAC proceedings held 3 October 2016 is hereby authorised for issue to Legislative Council.

Cyril (Ferdie) Gunnell
Chairman