

St Helena Public Accounts Committee

Report to Legislative Council on the Formal Session of the Public Accounts Committee held on 7th October 2014

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 7th October 2014.

Membership of the Committee comprises: Chairman: Mr Rodney Buckley, Deputy Chairman: Mr Stedson Francis, and Members: Hon. Dr Corinda Essex, Hon. Brian Isaac and Hon. Nigel Dollery. The Committee is advised by the Chief Auditor, Mr Phil Sharman and assisted by Miss Anita Legg as Secretary. The Hon. Brian Isaac and Hon. Nigel Dollery were both serving as temporary members of Executive Council during this session and by convention were absent from the PAC meeting.

The issue of Declaration of Interests was cleared between the Chairman and the Governor. Hon. Dr Corinda Essex is currently a member of the ESH Board but had no involvement with this organisation during the year under review. Mr Stedson Francis took no part in the formal proceedings on 7th October 2014, relating to the St Helena Fisheries Corporation Financial Statements, as he had been a Board member during the period under review.

The Committee's Terms of Reference and the Committee's Reporting Mechanism are attached to this report as Annex 1 & 2.

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

2. Order Paper – Second Session

- I.** Enterprise St Helena Financial Statements for Year ended 31 March 2013
- II.** Saint Helena Fisheries Corporation Financial Statements for Year ended 31 March 2013
- III.** Saint Helena News Media Services Financial Statements for two Years ended 31 March 2013
- IV.** Saint Helena Currency Fund Accounts for Year ended March 2013
- V.** Performance Audit Report – Delivering Government Objectives
- VI.** Follow-up Action to PAC Report of 10 February 2014
- VII.** PAC Terms of Reference
- VIII.** PAC Reporting Mechanism

3. Enterprise St. Helena (ESH) – Financial Statements For Year Ended 31 March 2013

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

- Deputy CEED – Mrs Susan O’Bey
- Director of Tourism – Mrs Cathy Alberts
- Director of Resources – Mrs Michielle Yon
- Director, ESH – Mr Robert Midwinter

The annual statement of accounts as audited by the Acting Chief Auditor and laid before Legislative Council on 11th August 2014 has been examined in detail by the Committee.

ESH manages schemes with a budget of £2.6 million pounds annually, plus loan and equity finance that are intended to provide support for promoting and facilitating economic and commercial development, for the benefit of St. Helena. This includes:-

- (a) Promoting economic growth through the development of local businesses
- (b) Generating economic activity by attracting international inward investment
- (c) Ensuring assets which SHG and ESH determine are to be used for economic development, are fully utilised
- (d) As the main driver of economic growth, develop the Island’s tourism sector
- (e) Provide finance for business growth and creation

ESH schemes are managed as a series of initiatives that are launched to address particular weaknesses in the market and to address particular areas of finance where there are problems. This includes grants, loans, equity support and efforts to diversify financing options beyond the Bank of St Helena.

ESH was established under Ordinance in 2012 as a part of the Memorandum of Understanding for Air Access signed in 2011 between SHG and HMG. It was set up as a delivery vehicle to drive and implement SHG’s economic policy as set out in the Sustainable Economic Development Plan (2012). The report for 2012/13 represents its first year of operations amalgamating the former St Helena Development Agency and the former Tourism Office.

The current project runs to the end of 2016 and the accounts under review for the year ended March 2013 represents an early stage in the journey. There has been difficulty in meeting the needs of many different types of SME operating across a variety of sectors, whose outlooks range from those seeking funding for high growth to others seeking finance to start up or to continue operating.

PAC considers that the introduction of ESH has been the right course for the Island and whilst it remains early days, improvements have been made to put the Island more on the world map.

ESH explained that the current marketing programme runs until 2016 – accordingly with the opening of the Airport there is clear need to develop a forward strategy for continuation of ESH and Tourism promotion through to 2020. *PAC welcomes the early introduction of a new Tourism and Marketing Strategy, with a course of action to back-up work already done.*

PAC are particularly interested in establishing whether value for money is achieved in the use of taxpayer funds under the stewardship of Crown Entities such as ESH. In taking evidence and reviewing the Annual Report of ESH for the period, the Committee noticed that there were particular focus activities and input measures – for example the number of Saints trained or grants issued. *PAC considers there should be more emphasis both in strategic plans and in non-financial performance reporting on output and outcome measures.*

A clear measure of success for ESH would be the inward investment secured as a result of business promotion and attracting investment. However based upon current reporting it is difficult to assess the return on investment achieved.

Whilst ESH report the number of businesses assisted there was no measure of whether the successful start-up companies arise from the advice given, or whether these are continuing to trade and grow six, twelve and twenty four months after advice. In evidence ESH did explain that the business development team do maintain files and they would pull these files to extract the information required. *PAC uses this point to illustrate how ESH will need to develop management information for timely performance reporting.*

In terms of training support and upskilling Saints, ESH has published information on the numbers trained (inputs) but there remains a question about effectiveness (output) measures. In terms of their own hospitality training provision at 2onMain, ESH was able to monitor how many persons who received training support have been retained within the local workforce. In this example of eighteen people trained in the hospitality sector in 2onMain, eight remain employed within the sector.

However data collection, monitoring systems and effectiveness and impact measures are important also and will need to be established where third party organisations are delivering activity on behalf of ESH – for example AVES has been used to deliver training packages funded by ESH. ESH was unable to say of 333 Saints trained through the upskilling programme, how many had been retained in the local workforce. *PAC would expect ESH to use the commissioning relationship with provider organisations to require data returns which measure not only inputs but also outputs and measures of impact.*

In budgetary terms Enterprise St Helena is receiving some £2.5m annually from the public purse to fund its operations. As a Crown Entity established the ESH Ordinance and operating at arms-length from Government, it is important that the Board ensures that adequate and effective governance and financial controls are in place. ESH is subject to annual audit of the financial statements by the Chief Auditor but there are currently no requirements for non-governmental bodies to have an internal audit to review their operations during the normal course of business. *PAC would expect ESH to secure an internal audit to provide assurance to the Board and Senior Management on the adequacy and effectiveness of governance, risk management and control.*

The ESH Ordinance requires that the annual accounts are audited within 12 months of the financial year-end. The audit of the accounts for 2012/13 was completed on 19 March 2014 so satisfying the requirements of the Ordinance. The PAC takes the view that public accountability is best served with the accounts being reported as early as possible after the close of the financial year. *In this respect PAC would expect ESH to aim to publish audited accounts within six months of the financial year-end.*

During the year of account ESH had invested project funds in providing serviced yacht moorings, with the object of promoting James Bay to visiting yachtsmen as a safe anchorage. Evidence received by Committee indicated that maintenance obligations were to be shared between ESH and SHG. *Given the shared nature of this responsibility PAC recommend that a designated official is made directly accountable for overseeing their maintenance and renewal so that the associated liability risks are proactively managed.*

PAC enquired as to whether the £1.0m balance held on the Revolving Loans Fund was being actively utilised by ESH to support new business investment. Evidence received indicated that some 60 applications had since been received with over half approved for funding, reducing the fund balance to £0.2m. In the early years the call for new advances from the fund will exceed the income flows from loan repayments. *The Committee recommend that ESH models the future cash flows and agrees a strategy for additional capital replenishment over the medium term.*

In questioning the administration expenditure by ESH amounting to some £96,000, PAC established that this included £22,000 on the provision of Tour Guides. *PAC considers such expenditure may be better classified separately to improve transparency.*

Recommendations

In relation to its scrutiny of the ESH Accounts and Annual Report for the year ended 31 March 2013, **PAC recommends that:**

ESH should place more emphasis on output and outcome measures both in strategic plans and in non-financial performance reporting.

ESH will need to develop management information systems to capture timely and accurate information for internal management and external performance reporting to stakeholders.

ESH should use the commissioning relationship with provider organisations to require data returns, which measure not only inputs but also outputs and measures of impact.

Boards of Crown entities such as ESH and other parastatal organisations should commission an internal audit to provide assurance to Directors on the adequacy and effectiveness of governance, risk management and control.

ESH should aim to publish audited accounts within six months of the financial year-end notwithstanding longer timeframes permitted by statute.

A designated official is made directly accountable for overseeing the maintenance and renewal of yacht moorings so that the associated liability risks to SHG are proactively managed.

ESH models the future cash flows on the Revolving Loans Fund and agrees a strategy for additional capital replenishment over the medium term.

ESH ensures that Administrative Expenses disclosed in notes to the financial statements are further analysed to improve transparency to the reader.

4. St Helena Fisheries Corporation – Financial Statements For Year Ended 31 March 2013

The following persons attended to answer questions on behalf of the Fisheries Corporation:-

- Chairman, SHFC Board – The Venerable Archdeacon Dale Bowers
- Administration Manager – Miss Jacqui Williams

The annual statement of accounts was audited by the previous Chief Auditor on 27 September 2013. However there was a procedural failure on the part of Government and the accounts were not laid before Legislative Council until 11th August 2014 thereby delaying the detailed examination by the PAC. A new system has since been established to avoid future delay.

The operations of the Fisheries Corporation are primarily that of a service provider, delivering an efficient and reliable service to the fishing industry, negotiating contracts with the wholesaler and acting as an industry regulator.

The Board's operations are funded through a handling fee which is levied on the wholesale fish landings. With total catch volumes significantly below budget expectations the Corporation is experiencing financial challenges and reported an operating loss for the year under review amounting to £81,280, an increase on the loss for the previous year of £42,020.

PAC also established that there are some loans to former staff members being carried within debtors and repayments on account are still being made. *PAC recommend that in future staff who leave the Corporation settle their debts before doing so and loans in respect of former employees are recovered.*

The accounts show the Corporation also receives income in the form of interest from trade debtors amounting to over £50,000 in each of these two years helping to mitigate the operating losses. PAC were concerned that the interest received would deter the Corporation from pursuing the recovery of these debtors, which in themselves present a financial cash-flow and credit default risk. The Corporation assured PAC that the debtor's position was being actively managed and indeed is now significantly reduced. *Nonetheless PAC stresses the importance of credit control and debt recovery particularly when operational cash-flows and reserves are under pressure.*

With reduced turnover and loss of interest PAC were concerned about the financial viability of operations. PAC were concerned that the Corporation did not appear to have a documented strategy about how the finances of the business were to be turned around. The SHFC Chair explained that the Corporation was pressing forward on several fronts including:

- re-establishing the management fee with Government for its regulatory function
- re-negotiating the agreement with the wholesaler to secure an improved deal with the fishermen and the Corporation
- improving landings by developing an offshore fisheries capability in partnership with ESH

PAC would expect the Corporation to develop an interim strategy, pending the outcome of the fisheries review, with operational business plans and updated financial projections, which demonstrate that the entity can recover from the current economic challenges.

PAC also recognises the importance of the fishing industry to St Helena and are concerned to ensure that the House supports the efforts of the Corporation and ESH in developing this key primary production sector.

Recommendations

In relation to its scrutiny of the Fisheries Accounts and Annual Report for the year ended 31 March 2013, **PAC recommends that:**

The Corporation ensure that any staff members who leave employment settle their debts before doing so and loans in respect of former employees are recovered.

The Corporation maintain active credit control and debt recovery particularly while operational cash-flows and reserves are under pressure.

The Corporation develop an interim strategy with operational business plans and updated financial projections, which demonstrate that the entity can recover from the current economic challenges.

Legislative Council recognises the importance of the fishing industry to St Helena and supports the efforts of the Corporation and ESH in developing this key primary production sector.

5. St Helena News Media Service – Financial Statements for Two Years Ended 31 March 2013

The following persons attended to answer questions relating to the St Helena News Media Service:-

- Former Chairman, SHNMS Board [ex-officio] – Mr Nicholas Yon
- SHG Financial Secretary – Mr Colin Owen

The Acting Chief Auditor performed an Independent Examination of the statement of accounts for the two-year period ending 31 March 2013 and reported on 4 February 2014. However there was a procedural failure on the part of Government and the accounts were not laid before LegCo until 11th August 2014 thereby delaying the detailed examination by the Committee. A new system has since been established to avoid future delay.

The principal activities of the organisation were to provide the Island of St Helena with an efficient and reliable source of news through publication and radio broadcast. The activities of the service finally closed in December 2012 and the Board was formally wound-up with its assets and liabilities being transferred to SHG. Accordingly the accounts were prepared on a discontinuing basis of operations.

As this was the final account and report on the Service, the Committee were concerned that accounting records were incomplete. The Committee took evidence indicating that computer failure caused some records to be lost without back-up being available. Financial statements were then prepared from prime records causing a delay in their production.

The Board of the St Helena News Media Service were responsible for the maintenance of all books and records including those held on electronic media and ensuring that adequate information security policies and procedures were in place. An internal audit may have examined these arrangements and given management an opportunity to remedy any weaknesses in back-up and security, prior to the loss of data occurring, as in this case.

The Committee recommend that SHG should require as a condition of any significant subsidy being provided to any parastatal organisation that the Board establishes appropriate systems of governance, risk management and control and those arrangements are periodically tested through an internal audit.

Those audit procedures should include the adequacy and security of accounting records. This recommendation is consistent with the findings of the Public Expenditure and Financial Accountability (PEFA) report issued in February 2014.

Recommendations

In relation to its scrutiny of the St Helena News Media Service Accounts and Annual Report for the two years ended 31 March 2013, **PAC recommends that:**

SHG should require, as a condition of any significant subsidy, that the responsible Board establishes appropriate systems of governance, risk management and control and those arrangements are periodically tested through an internal audit.

6. St Helena Currency Fund – Financial Statements For The Year Ended 31 March 2013

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

Financial Secretary – Mr Colin Owen
Head of Accounting Services – Mr Nicholas Yon

The statement of accounts for the year, period ending 31 March 2013 was audited by the Acting Chief Auditor on 31 March 2014 thereby satisfying the requirement for the audit to be completed within 12 months. However the statements are not required by the Ordinance to be laid before Legislative Council – accordingly this account was referred to PAC as a matter of importance under the provisions of Section 69(6) of the Constitution and Order 23(2) of the Council.

The purpose of the Fund was 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 recognises that the Currency Commissioners are appointed by the Governor to oversee the business of the Currency Fund in accordance with the Ordinance. However in the interests of openness and transparency in the stewardship of public funds, the Committee can see no reason why these accounts should not be reported before Legislative Council and referred to PAC. *Accordingly the Committee recommend that Legislative Council amend the Ordinance to that effect.*

The PAC enquired as to progress on recommendations made by the Chief Auditor when reporting on the statements:

- The Financial Secretary confirmed that the recommendation to apply a recognised financial reporting framework had been accepted and the accounts would in future be prepared to the IPSAS standard – the Committee welcomed this development.

- The Financial Secretary advised in respect of the second recommendation that both mid-year and year-end accounts would be prepared during the current financial year in accordance with the Ordinance. However the need to maintain this biannual reporting going forward remained subject to review.

The Committee asked whether any consideration had been given as to whether the St Helena pound remained the most suitable currency for the Island given that economic development is becoming more tourism based. The Financial Secretary confirmed that policy work was in progress to examine this question. *PAC supports the work by SHG and Elected Members regarding the future of St Helena currency.*

The Committee also enquired as to the investment of funds and established these are managed by Crown Agents Investment Management Company in accordance with the provisions of the Ordinance. The accounts for 2012/13 report the equivalent of 1.7% average return on funds invested. *Committee are concerned to ensure that the investment strategy is designed to secure the optimum return whilst maintaining security of investment holdings.*

Recommendations

In relation to its scrutiny of the Currency Fund Accounts for the year ended 31 March 2013, **PAC recommends that:**

Legislative Council amends the Currency Fund Ordinance to require the audited accounts to be laid before Legislative Council.

The Currency Commissioners review the investment strategy to ensure it is designed to secure the optimum return whilst maintaining security of investment holdings.

7. Performance Audit Report – Delivering Government Objectives

The following persons attended to answer questions on behalf of the Government in respect of the performance audit report on Delivering Government Objectives:-

- Chief Secretary – Mr Roy Burke
- Financial Secretary – Mr Colin Owen
- Assistant Chief Secretary (Performance) – Mr Paul McGinnety

The purpose of this performance audit was to look at the process by which Government sets its objectives and associated budgets and then monitors their achievement. It was designed to assess whether Government objectives are being managed in a way that results in the most efficient and effective use of public resources and results in the desired outcomes.

The Committee noted the report had made 26 recommendations – all of which had been accepted by Government and an implementation plan prepared and published with the report.

Committee received evidence that the report was welcomed and the recommendations had proved helpful and timely in sharpening the process used for the updating of the Sustainable Development Plan.

The Committee were assured that these actions were being embedded as part of business as usual and therefore the improvements could be accommodated within existing management resources. In terms of monitoring implementation the Committee heard that the Business Delivery Group would monitor progress in the delivery of these recommendations and indeed the process outcomes including:

- An updated Sustainable Development Plan in readiness for Air Access
- New Directorate strategic plans and targets consistent with the SDP
- Using the MTEF process to develop a 3-year budget for Government
- Monitoring the delivery of objectives through the performance tracker

The Committee concluded that it would follow-up the report in due course to ensure that recommendations for improvement had been implemented.

8. Follow-up of action on PAC report to LegCo – February 2014

The following persons attended to answer questions about the progress made by Government in response to the Public Accounts Committee report to Legislative Council, in relation to the formal session held on 10th February 2014 :-

- Chief Secretary – Mr Roy Burke
- Financial Secretary – Mr Colin Owen
- Assistant Chief Secretary (Performance) – Mr Paul McGinnety

The Committee had made eight recommendations to Government in its report of February 2014 and had received a written statement on progress in advance of this formal session. *The Committee welcomed the progress report but emphasised the need for these previous recommendations to Council to be followed through by management.*

In respect of each of these recommendations the Committee found as follows:

1. Timeliness of Accounts Preparation

The Corporate Finance team are making efforts to clear the backlog in accounts preparation but until that is complete no proposals will be brought forward in regard to setting a statutory timetable for the preparation of the accounts. The PAC remain of the view that the Public Finance Ordinance should be amended to require submission of accounts for audit within 4-months of year-end, consistent with the PEFA report of February 2014.

2. Accruals Based Budgeting

In view of the lessons learned from implementation of accruals accounting and IPSAS, the Corporate Finance team consider that the original timetable of accruals budgeting was too ambitious and have proposed to plan for this change in 2015/16, ready for implementation in the 2017/18 budget round. The PAC note that it is now too late to effect this change for 2015/16 but urge SHG to plan for implementation of accruals budgeting for 2016/17.

3. Consolidation of Subsidiary Bodies

Legislative Council has been advised that SHG will begin consolidation of smaller entities into the 2012/13 financial statements. PAC reaffirms the need to plan for consolidation of material undertakings and state-owned enterprises in the SHG financial statements.

4. Evidence to Support Evaluation of Benefit Claims

PAC were unable to obtain a satisfactory answer to progress on the amendment of the Social Security Ordinance, as this was deemed to be a matter for the Social and Community Development Committee. *Where a matter raised is the responsibility of a Council Committee, the PAC will in future request the Chair of the relevant Committee to attend.* Accordingly this recommendation remains open pending a substantive response.

5. Valuation of Land and Buildings

PAC understands that IPSAS provides a five-year exemption until assets have to be recognised in the financial statements. However the interest of the PAC is also about ensuring the optimum management and use of public assets. Committee therefore reaffirms the need to plan for the valuation and recognition of all Government assets, to be completed before 5-year deadline of March 2016.

6. Committees of Legislative Council

The PAC were advised that the SHG Committee structure is currently under review. PAC are content that the Chief Auditor will contribute to this process to resolve the question of Auditor reporting to those charged with governance, required under the International Standards on Auditing.

7. Monitoring the implementation of GLH recommendations

8. Ensuring Housing Service Costs are Determined

PAC were advised that the Social and Community Development Committee are taking forward the above recommendations arising from the Value for Money report on Government Landlord Housing. The PAC will call for the Chair of the Committee to update on progress at its next session.

Recommendations

In relation to its scrutiny of the action taken in response to its previous sessional report to Council, the **PAC recommends that:**

Previous recommendations made to Council are properly followed through by management with progress periodically reported to PAC.

Where a matter raised is the responsibility of a Council Committee the PAC will in future request the Chair of the relevant Committee to attend.