

St Helena Public Accounts Committee

Report to Legislative Council on the PAC review of the St Helena Government Accounts 2012/13 and Audit Management Letter

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 findings from its review of the Financial Statements of St Helena Government for the year ended 31 March 2013 and the accompanying Management Letter.

These two documents were laid as sessional papers 14 and 15 of 2015 at the 13 November 2015 meeting of Legislative Council. In accordance with section 69 of the Constitution and Standing Order 23 the audited Financial Statements and the Management Letter are referred to the PAC for consideration and reporting back to Legislative Council in due course.

Membership of the Committee comprises: Chairman: Mr Rodney Buckley, Deputy Chairman: Mr Stedson Francis, and Members: Hon. Dr Corinda Essex, Hon. Nigel Dollery and Hon. Cyril George. The Committee is advised by the Chief Auditor, Mr Phil Sharman and assisted by Miss Anita Legg as Secretary.

Mr Stedson Francis declared his interest as an Executive Committee member during the 2012/13 year. There were no other declarations of interest relevant to the Government accounts for the 2012/13 year.

The PAC determined that it was not necessary in this instance to hold a public meeting to inform their review of the Accounts and Management Letter. The Financial Statements relate to a period of government operations ending over two years previously and given their historical nature PAC is of the view that oral evidence heard now would provide only limited enhancement over the sessional papers before the Committee.

2. St Helena Government Financial Statements for the year ended 31 March 2013

The SHG Financial Statements for the year ended 31 March 2013 were prepared by the Financial Secretary in accordance with section 109 (1) of the Constitution and section 10 of the Public Finance Ordinance and submitted for audit on 3 March 2015.

The audit is required to be completed by the Chief Auditor within six-months of receipt or any longer period approved by the Governor. Given the exceptional circumstances the Governor in accordance with section 109 (2) approved a one-month extension to 31 October 2015 to allow completion of the required audit work. The audit was concluded and reported on 29 October 2015 and the audited accounts and management letter then laid before Legislative Council at its meeting on 13 November 2015.

The audited Annual Financial Statements have been examined in detail by the Committee. The accounts summarise the financial results of the various activities of Government for the financial year ended 31 March 2013.

The financial statements of Government are prepared in accordance with the International Public Sector Accounting Standards (IPSAS) as required by the Public Finance Ordinance. This was the second year of financial reporting in accordance with IPSAS with attendant technical challenges and capacity constraints within Corporate Finance causing the delay in preparation.

The Committee has previously reported its concerns in respect of the arrears in statutory financial reporting. In this respect PAC welcome the clear priority now being given to the clearance of these arrears of account and the closure of the accountability cycle. Notwithstanding the aged nature of the public account for the 2012/13 year, PAC are nonetheless pleased to note this milestone as evidence of tangible progress being made in the recovery programme.

The short term technical assistance is being appropriately directed to the backlog clearance but, *PAC also wish to be reassured on the sustainability of the Corporate Finance team in terms of maintaining normal business and statutory reporting responsibilities after the arrears recovery programme is complete.*

In the year the Committee noted public expenditure in the Statement of Financial Performance of £36.011m and revenues of £108.340m of which some £96.021m represents donor funding principally from UK. These aid flows are substantially higher in this financial year as they include development aid funding in respect of the International Airport construction project.

Similarly in respect of the Statement of Financial Position the Committee noted total assets of £144.781m of which some £78.968m were in respect of property plant and equipment. The airport project alone accounted for £67.781m in capital assets under construction and £48.200m in pre-payments under contract with the main contractor Basil Read St Helena.

The Financial Statements are prefixed on pages 1 to 3 by the Independent Auditors Report issued by the Chief Auditor. The Committee notes with concern the adverse qualification issued in respect of the following material matters:

Non-consolidation of subsidiaries – this qualification is brought forward from the prior year and will remain until subsidiaries are consolidated into the SHG group accounts. *Consistent with its previous recommendations on this matter PAC have the expectation that the financial statements of Government are prepared on a consolidated basis in accordance with IPSAS 6.*

Eligibility of social benefits – this qualification is also brought forward from prior year and will be resolved as current cases are reviewed by the benefits manager. *PAC believes that some priority should be given to clearing through these historic cases and validating their credentials or otherwise assessing the level of financial exposure.*

Valuation of inventory holdings including those transferred to Connect St Helena – this new matter is expected to have one-year effect as the principal inventory holding was transferred on 1 April 2013. *PAC underlines the recommendation of the Chief Auditor that inventory management arrangements be improved.*

Statutory authority for the BFI – this new matter causing qualification of regularity opinion arises as BFI is now recognised in the financial statements but will be resolved after a BFI special fund is established. *PAC have previously asked about the statutory framework for the operation of the BFI and therefore underline the recommendation of the Chief Auditor to see this regularised through a Special Fund.*

PAC remains concerned with the SHG financial statements being qualified as it may have negative implications on St Helena's ability to get future donor funding. *Accordingly the resolution of these qualifications should be regarded as a priority for Government.*

In this respect PAC are pleased to note that the pensions issue causing qualification in prior year is now resolved through an actuarial report being obtained for each year end, enabling the pensions cost being reported in accordance with IPSAS 25.

PAC also note that the presentation of the financial statements incorporate some significant developments on those presented in the prior year 2011/12 being the moment of first time adoption of IPSAS. A number of transitional provisions applied since first time adoption have a finite lifetime – significant among these are the recognition of certain asset classes including land and buildings. *Consistent with previous recommendations on this matter PAC wish to be reassured that appropriate steps are being taken to obtain fixed asset valuations before expiry of these transitional provisions.*

3. Chief Auditor's Management Letter on the SHG Financial Statements for the year ended 31 March 2013

The purpose of the Management Letter is to communicate to Legislative Council those more significant matters arising from the statutory audit together with recommendations for improvement.

The Committee have reviewed the matters raised by the Chief Auditor and is satisfied with the openness and transparency in which these matters of financial reporting and stewardship have been raised with those charged with Governance. Beyond the matters causing qualification there are other issues raised and resolved through the audit process, which include significantly the proper accounting treatment for the aid funded airport infrastructure, which represents a significant technical achievement acknowledged by PAC.

The Management Letter includes five recommendations and PAC are pleased to note that all are accepted for action by the Financial Secretary with the response documented in Appendix D and summarised as follows:

- Future measurement of Earned Value to be made for accounting purposes
- Enhanced audit procedures to be applied to EDF funded infrastructure
- A Special Fund to be established to regularise the BFI operations
- A Code of Governance to be developed and adopted for SHG
- Inventory management and verification to be improved

Through the Office of the Chief Auditor the PAC will be kept apprised of progress in the clearance of these substantial matters.

PAC notes that other less significant matters arising from the audit will be reported directly to the Financial Secretary in a Final Accounts Memorandum. *Whilst fully accepting the distinction of these matters in terms of public interest PAC wish to be reassured that appropriate action is being planned by management to address these other issues raised by the Chief Auditor.*

4. Recommendations

In relation to its scrutiny of the SHG Financial Statements for the year ended 31 March 2013 and the accompanying Management Letter, **PAC recommends that:**

1. *SHG confirm the adequacy of the resources within Corporate Finance for maintaining both normal business and statutory reporting responsibilities after the arrears recovery programme is complete.*
2. *SHG set out a technical proposition with resource assessment and timeline for the preparation of the financial statements of Government on a consolidated basis in accordance with IPSAS 6.*
3. *SHG give some priority to validating historic social benefit cases to assess the level of financial exposure with a realistic timeline for completion.*
4. *SHG advises the steps proposed, to obtain fixed asset valuations before expiry of the transitional provisions for asset recognition under IPSAS 17.*
5. *SHG advise PAC what action is being taken in respect of those matters raised by the Chief Auditor in his Final Accounts Memorandum.*



Rodney Buckley
Chairman
Public Accounts Committee

Date: 4th February 2016