

The Saint Helena Public Accounts Committee

Report to Legislative Council on the Formal Session of PAC held on 27th April 2012

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1. INTRODUCTION

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

The work of the Committee includes consideration of Financial Statements and Audit Management Letters and Value for Money (VFM) Reports which PAC is then required to report on to Legislative Council. The Committee may also consider any other issues of concern arising from the management of public administration.

The current membership of the PAC comprises: the Chairperson, Mrs Lynnette Rees-Styles (since 23rd November 2010); the Deputy Chairman, Mr Anthony Leo (since 6th April 2011) and three Council Members chosen from and by the Elected Members of Legislative Council: Hon. Stedson Francis, Hon. Brian Isaac and one other member for whom this seat is currently vacant. The committee is advised by the Chief Auditor, Mr Colin Owen and assisted by Miss Anita Legg as Secretary.

The Chairperson, Mrs Lynnette Rees-Styles was overseas during this period, thus the meeting was chaired by the Deputy Chairman, Mr Anthony Leo. The Hon. Michael Benjamin had resigned his seat as an Elected Member for the West Electoral area, during March 2012. The By Election to be held on 13th June 2012 will allow a new Elected Member to fill this vacant seat.

This report follows from a Formal Public Accounts Session held on the 27th April 2012.

2. INFORMAL SESSIONS PRIOR TO THE APRIL FORMAL SESSION

PAC's last report followed its Formal Meeting held on 13th January 2012 and was laid before Legislative Council on 24th February 2012. That report highlighted several recommendations for action by SHG on performance indicators and the performance management system.

Eight informal meetings of the PAC took place between January and April, in order to discuss the following:

- Purchase and write off of the Pari Max Asphalt Plant
- Review of the Medical Services

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- Introduction of cross-cutting Committee issues
- SHG Financial Statements for Year Ended March 2011
- Concern with the spend on various office relocations
- Use of consultants
- Update on efficiency reviews
- Issues surrounding the new customs building and project management
- Outstanding recommendations from previous reports to LegCo

3. FORMAL SESSION HELD ON THE 27th APRIL 2012

This was the eighth occasion on which the Public Accounts Committee had met in formal session since its establishment in March 2010 and it considered the SHG Financial Statements for the Year Ended 31st March 2011.

Mr. Paul Blessington, Financial Secretary, accompanied by Mr. Dave Malpas, Roads Engineer, was in attendance to answer questions for this session.

The Committee noted that the Financial Statements were very much a historical document and that a number of issues needed to be explored.

The first issues were targeted around the Audit Management Letter, regarding the accounts, that was issued in December 2012. The Financial Secretary was asked to give PAC an overview on the progress made in addressing these recommendations.

He replied that the recommendations had been given either high or medium priority, and reported that the Finance Directorate had either actioned, or in instances where Finance had decided there were no case necessary to action them, had noted the recommendations. He stated that they took the management letter seriously and had taken the appropriate action as necessary.

PAC highlighted the need for an end of year working file to be compiled by Finance, for the Auditors to use. This would save resources. The Financial Secretary told the meeting that his Directorate and the Audit Service had met to discuss what working papers would be needed and pointed out that his staff would be working on those recommendations. He indicated that he wanted to work closely with the Audit Service.

PAC was also concerned with the management of debts by the St. Helena Government and although some work had been done in this respect, PAC wanted to ensure that debts are being managed efficiently. A specific question on why the debtors figure was so high revealed that this did not include trade debtors but was possibly due to the long term housing loans provided by Government prior to the introduction of the Bank of St Helena.

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The Financial Secretary then explained that as they have moved to an accruals accounting basis, in accordance with International Public Sector Accounting Standards, that future SHG accounts will include much more comprehensive information. In particular, it's going to identify the assets and liabilities as well as the revenue and expenses of Government.

In terms of the pension scheme liability, the Financial Secretary stated that for the first time an actuarial valuation would be undertaken of the unfunded, defined benefit scheme and they had commissioned the UK Government Actuary's Department to perform this valuation. This would be a significant figure and would show how much money Government would need to provide in future for pension benefits.

A second major piece of work being undertaken was to identify and value SHG assets, including in excess of 700 properties; this was in the process of being entered into the Fixed Assets Register.

The PAC was concerned that for 2011/12, two sets of statements will be required; that of the SHG and the Consolidated accounts and the Financial Secretary confirmed this.

The Financial Secretary was questioned as to why some departments were not spending their allocation of funding, as there were some under spends, to which he responded that there were some problems in recruiting and retaining staff. There were also the usual logistical problems that were experienced in relation to the RMS St Helena.

The Financial Secretary also advised that following the signing of the Airport contract, SHG would be reprioritising budget spending towards economic development and that a revised SDP had been launched at the end of 2011.

In the future, PAC will be monitoring how departments are spending their allocations and the progress of projects.

The Roads Engineer, Dave Malpas was asked, when the roads project would likely to be back on track. He said that the Asphalt plant was the primary reason for the delays but using a different traditional method will allow road works to continue. With regard to the Asphalt machine, SHG was considering the sale as a repairable concern or dismantling and selling off as parts.

The PAC was also concerned with the Solid Waste Management Project. The Financial Secretary told the meeting that he was not fully knowledgeable on this matter as responsibility had been transferred to the new Environmental Management Directorate. The PAC will follow-up this concern with the visiting consultant and the Environmental Management Directorate.

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Under spends in the Technical Cooperation budget was raised by PAC asking for more clarification. The Financial Secretary stated that increased emphasis was being placed on managing the Technical Cooperation budget.

The Financial Secretary went on to explain the relationship SHG has with the St Helena News Media Services and the St Helena Development Agency (SHDA) and how the subsidies are paid. He further explained that from April 2012, the SHDA, with the Tourism Directorate, is being incorporated into Enterprise St Helena. This is going to be an arm's length Government Agency with the aim of generating private sector development on St Helena. A new community Media organisation had also been established, initially with a capital grant and some operating budgetary support.

The meeting ended with the Financial Secretary answering several specific questions on the financial statements, including stating that this year there would be scope for funding for maintenance work to be carried out on SHG buildings and confirming that some monies would be used to support infrastructure development on the island.

4. SUMMARY OF MAIN ISSUES ARISING FROM THIS FORMAL SESSION

- The Finance Directorate would be working with the Audit Service to pull together a working audit file to ensure that the accounts run smoother and more efficiently.
- PAC was assured that improvements in the management of debt by SHG were an ongoing process, with a target date of reviewing and implementing procedures by March 2013.
- In terms of the pension scheme liability, for the first time SHG will undertake an actuarial valuation of the unfunded, defined benefit scheme and the UK Government Actuary's Department had been commissioned to perform this valuation.
- SHG are also in the process of identifying and valuing their assets, which will be entered into the Fixed Assets Register. This should be completed in tandem with the 2011/12 Financial Statements.
- The Financial Secretary acknowledged the complexity of producing Consolidated Accounts under IPSAS requirements and would need to decide whether to consider partial consolidation or delay the process for a later period.
- PAC had continual concerns with significant underspends and to ensure monies would be spent during 2012/13, the Finance Directorate would be monitoring financial spend. Performance monitoring was the responsibility of the Chief Secretary.
- PAC were assured that that increased emphasis was being placed on managing the Technical Cooperation budget
- The primary reason for the delay and underspend on the Roads Project R1 was the Asphalt plant.

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- PAC's continued concerns with the Solid Waste Management Project would be taken up with the visiting consultant and the Environmental Management Directorate.

Specific and detailed recommendations are set out in section 5 of this report.

A copy of the transcript of this formal session can be obtained from the PAC Secretary via e-mail sec.em@cwimail.sh or can be viewed on the SHG website www.sainthelena.gov.sh

5. RECOMMENDATIONS TO SHG

PAC Recommendations	SHG Response	PAC Response
<p><u>SHG Financial Statements for the Year Ended 31 March 2011</u></p> <ul style="list-style-type: none"> In order to improve efficiencies in the audit process working files should be provided to the Auditor. <p><i>Recommendations:</i> We recommend that Finance pull together detailed working paper files to support the financial statements and pass them over to Auditor on the commencement of the audit.</p>	<p>The Accounting Services section is in the process of preparing the Financial Statements for the Government of St Helena for the FY 2011-2012. As part of this process we are compiling an Audit File that will be submitted to the Saint Helena Audit Service upon completion of the first draft of the Statements.</p> <p>The Audit File will comprise a combination of both paper documents and electronic information supporting the disclosures in the Financial Statements. We envisage that this approach will increase the efficiency of the audit and minimise disruption to both parties.</p> <p>In addition to this Access Dimensions accounting software, that is used to record all transactions during the year for SHG, has special features that allow supporting documentation to be attached to transactions and nominal codes. This will enable the auditors to view supporting documentation for transactions of balances in the Statements without having to physically hunt through files of paperwork.</p>	<p>PAC is pleased to hear that working files will be provided to SHAS</p>
<p><u>SHG Financial Statements for the Year Ended 31 March 2011</u></p> <ul style="list-style-type: none"> The PAC has concerns over the process of consolidating SHG’s accounts with other bodies in the first year of accruals accounting, as the process will be complicated and impact on resources. 	<p>SHG also have concerns over the impact on resources involved with the consolidation process. We have decided in consultation with the SHAS and other key stakeholders to take advantage of the get out clauses in IPSAS which gives SHG the option not to consolidate within 3 years of first time adoption of the IPSAS framework. We will however, envisage consolidation at some point in the future</p>	<p>Noted – PAC will monitor in the 3 year period</p>

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PAC Recommendations	SHG Response	PAC Response
<p><u>Recommendations:</u> We recommend that consideration be given by Finance to partial consolidation of the accounts or delaying the process to a later period.</p>		
<p><u>SHG Financial Statements for the Year Ended 31 March 2011</u></p> <ul style="list-style-type: none"> • The PAC is concerned with lack of progress in a number of key areas within SHG, which have been raised previously by the PAC. These included Corporate Procurement, management of the Technical Cooperation budget and budget underspends. <p><u>Recommendations:</u> We recommend that SHG ensure that proper processes and procedures are implemented urgently to ensure that:</p> <ul style="list-style-type: none"> • The Corporate Procurement delivers savings; • The Technical Cooperation budget is properly managed and spent during the year; • The budget underspends do not occur. 	<p>Plans are being implemented to realise savings through Corporate procurement, it is envisaged that by early October we will be able to quantify the level of savings for 2012/13. In addition SHG has just recruited a TC officer who will drive the corporate procurement, and look for further efficiencies within SHG. It is hoped that this person will take up post in January 2013.</p> <p>There are a number of improvements that have been made to the process of managing the TC budget over the last financial year.</p> <ul style="list-style-type: none"> a) Over-programming of the TC programme in the year has provided sufficient scope for any delays in recruitment and appointment of TC officers. In the past these delays have significantly impacted on the TC budget and resulted in significant under spends. b) Set-up of a TC monitoring group, comprising the key stakeholders, Chief Secretary, Director SPPU, Assistant FS (Budgets), Director of HR etc. This group meets to discuss the progress made with the TC programme every month and to identify and address any issues early rather than at the year end. <p>Implementation of a new gateway process to increase the efficiency of identification and acceptance of TC posts.</p>	<p>Noted.</p>

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PAC Recommendations	SHG Response	PAC Response
	<p>The evidence of the impact that these changes have made will be more apparent in the last quarter of the FY.</p> <p>We cannot ensure that underspends do not occur, however we have a number of measures in place which mitigate against such risks. Close monitoring of budgets by the Treasury ensures there is very little chance of significant variances against budgets.</p> <p>This coupled with the introduction of accruals accounting will ensure SHG has additional control over the level of transactions which will no longer depend on when payments are actually made.</p> <p>In the current economic situation that SHG finds itself in, going forward, there will be very little scope for under spending as resources are being further squeezed as part of the MTEF approach and re-prioritisation of budgets across the public service.</p>	