



SAINT HELENA AUDIT SERVICE
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2017-18

To the Executive Council of St Helena Government

10/04/2019

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INTRODUCTION

As the external auditor of Saint Helena Government (SHG), I am required by section 29(1) of the Public Finance Ordinance (the Ordinance) to report to Legislative Council (LegCo) my findings from the audit of the Financial Statements of SHG.

The purpose of this report is to summarise for LegCo the key issues arising from my audit of the Financial Statements for the year ended 31 March 2018 and report any significant accounting matters or weaknesses in internal controls that have come to my attention during the audit.

A draft of this Management Letter was reported to the Financial Secretary and Executive Council (ExCo) to discharge my responsibilities under ISA 260, *Communication with Those Charged with Governance*, prior to final submission to LegCo in accordance with section 29(2) of the Ordinance.

AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the Financial Statements present fairly the financial position of St Helena Government at 31 March 2018 and of its financial performance and cash flows for the year then ended, confirm that expenditure and income has been applied to the purposes intended, and the Financial Statements are prepared in accordance with all relevant laws and policies.

As part of my audit I carry out the following work:

- Examine, on a test basis, evidence relevant to the amounts and disclosures in the Financial Statements.
- Assess any significant estimates and judgements made by SHG in the preparation of the Financial Statements.
- Assess whether the accounting policies are appropriate to SHGs circumstances, consistently applied and adequately disclosed.
- Evaluate the overall adequacy of the presentation of information in the Financial Statements to ensure compliance with International Public Sector Accounting Standards (IPSAS).
- Report my opinion under section 29(1)(b) that:
 - (A) The accounts properly present the financial position of the Government, as at the end of the financial year then ended; and
 - (B) In all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and
 - (C) The accounts and financial statements have been prepared in accordance with all relevant laws and policies.
- Report such other information as I consider necessary or appropriate to assist you in your consideration of the Government's accounts for that financial year.
- Submit to LegCo an annual Management Letter on the audit.

My methodology for the collection of audit evidence is based on the UK Overseas Territories Financial Audit Manual, which has been developed by the National Audit Office (NAO) with funding through the CSSF to be compliant with International Auditing Standards (ISAs).

Although I am required under ISAs to consider the risk of material misstatement arising from fraud, the purpose of my audit is not for the detection of fraud. Responsibility for the prevention and detection of fraud rests with SHG who should not rely on the external audit function to discharge these responsibilities.

AUDITOR INDEPENDENCE

In performing my audit I confirm I have complied with relevant ethical requirements specifically the *International Code of Ethics for Professional Accountants* (IESBA Code) issued by the International Ethics Standards Board for Accountants.

The following circumstances may present a perceived threat to the independence of the Saint Helena Audit Service:

- The audit of the SHG financial statements accounts for some 35% of the annual fee income for SHAS.
- I am appointed by HE the Governor, with the approval of the Secretary of State, and my staff are appointed on the same terms and conditions of service as other public servants of SHG.

The threats to independence in respect of the Financial Statements audit are reduced to an acceptable level through statutory protections enshrined in the Saint Helena Constitution, in which the Chief Auditor and his staff are not subject to the direction or control of the Governor, ExCo or any other person or authority.

All my staff have completed declarations of interest, and where there is an identified conflict, appropriate safeguards have been applied. Through these ethical policies and specific threat mitigation measures I am satisfied as to the independence and objectivity with which the audit is conducted.

INDEPENDENT AUDITOR'S REPORT

At the conclusion of the audit I issued my Independent Auditor's Report (my Report) on the Financial Statements – the auditor's report is the key output of the audit process. The form of my Report is prescribed by ISA 700 (Revised) – *Forming an Opinion and Reporting on Financial Statements*. This revised standard was applied to my reporting for the previous year 2016/17 and is maintained in this form for 2017/18.

My Independent Auditor's Report therefore includes:

- Opinions followed by the basis for those opinions
- Enhanced reporting on going concern
- Key audit matters
- A section on other information presented with the Financial Statements
- An affirmative statement on independence and ethical compliance

- An enhanced description of auditor responsibilities

The structure of my Report clearly separates my reporting on the audit of the Financial Statements performed under the ISAs from my reporting on any other audit matters arising from my responsibilities under statute – specifically the Public Finance Ordinance.

As explained in the above section on audit objectives my Report contains three opinions as required by section 29 of the Ordinance:

- Opinion on fair presentation of the accounts
- Opinion on regularity of expenditure and revenue
- Opinion on compliance with statutory authorities

For the financial year ended 31 March 2018 my Report is qualified on four separate counts of fair presentation due to certain limitations of scope where I am unable to determine whether adjustments are required. As explained in the following sections these four matters remain unresolved at the reporting date.

Without qualifying my Report I also draw attention to a material uncertainty on going concern.

I have no adverse matters to report in terms of my opinion on regularity of expenditure and revenue or compliance with statutory authorities. However I do draw attention to the lawful disapplication of IPSAS 35 under section 10(2) of the Public Finance Ordinance.

The form of my Independent Auditor's Report containing these qualified opinions and other reporting matters is included in Appendix A.

CIRCUMSTANCES AFFECTING THE AUDITOR'S REPORT

LEGACY ISSUES

As explained more fully in the section below on significant issues which remain unresolved the following two matters reported in the prior year, and causing modification of the 2016/17 Auditor's Report, also pertain to the current year 2017/18:

- Infrastructure valuation – recognition of aid-funded infrastructure assets at fair value
- Special funds – evidence supporting the fund transactions and restated balances

Consistent with prior year my Report is also modified without qualification on the going concern basis of preparation. Note 9.1.2 explains that the principles have been framed for a new bilateral support agreement between DFID and SHG. However a material uncertainty arises in that the Memorandum of Understanding (MOU) has yet to be concluded confirming the budgetary aid settlement for 2019/20.

However the following three qualifications reported in 2016/17 are now cleared as follows:

- Pension increase – evidence confirms due conformance with statute
- Expenditure in Excess – expenditure authorised through section 106 procedure
- Statutory matters – lawful dispensation for consolidated Financial Statements

The clearance of these legacy qualifications is further detailed in the section below on significant accounting matters reported in prior years that were resolved by management.

NEW ISSUES

The following two new issues arise in respect of the financial year 2017/18 and cause modification of my Auditor's Report on the basis of limitation of scope:

- Customs revenues – uncertainty in respect of completeness and accuracy of revenues recognised as compared to ASYCUDA system.
- Non-current investments – uncertainty regarding the valuation of the ownership interest in the Bank of St Helena Ltd.

These new issues are expanded in the main body of my Management Letter in the section on significant matters arising from the audit which remain unresolved.

MISSTATEMENTS IDENTIFIED DURING THE AUDIT

During my audit, I identified several misstatements. I requested the Financial Secretary to correct these misstatements and they were actioned where it was readily possible. In recognition of your governance responsibilities I have scheduled those material misstatements which have now been corrected in Appendix B.

However, I have identified further risk of misstatement arising from limitation of scope, with potential for material effect, and which remain uncorrected. Further work would be required to quantify more precisely their impact on the Financial Statements. These unadjusted misstatements are described in the section on unresolved matters below and are detailed in Appendix C.

SIGNIFICANT FINDINGS FROM THE AUDIT

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICE

FINANCIAL REPORTING FRAMEWORK

Section 10(1) of the Ordinance requires that the annual Financial Statements of Government are prepared in accordance with IPSAS. The Financial Statements for the year 2017/18 are the seventh year of reporting on an accruals basis using IPSAS. The matters reported in this Management Letter relate to the draft 2017/18 Financial Statements submitted for audit on 23 October 2018.

Note 9.1 sets out the basis of preparation of the Financial Statements and explains that these separate Financial Statements comply with IPSAS. The note further explains that under the provisions of Section 10(2) the Financial Secretary has determined that IPSAS 35, *Consolidated Financial Statements*, is inappropriate to the circumstances of St Helena. The preparation of separate Financial Statements of Government in accordance with IPSAS 34, *Separate Financial Statements*, and the disapplication of IPSAS 35 is lawful under the Public Finance Ordinance.

In overall terms, and notwithstanding the remaining audit qualifications and difficulties in their preparation, these Financial Statements have maintained the trend of improvement in presentation and disclosure in accordance with the IPSAS financial reporting framework.

REPORTING OF SPECIAL FUNDS

Special Funds are established by Order and enable individual projects and trading activities to be accounting for separate to the Consolidated Fund. Note 11.15.2 reports these special funds in three separate classes:

- Special Funds – Projects
- Special Funds – Trading Accounts
- Special Funds – Other Funds

Note 11.15.2.1 Special Funds – Projects, reports the opening balance, funds received and funds applied to arrive at the closing balance on the fund for the period. This expanded presentation is useful as there is transparency in donor funds received and then applied to the purpose of the project.

However in Note 11.15.2.2 Special Fund – Trading Accounts and in Note 11.15.2.3 Other Funds the fund reports a surplus/deficit for the period in accounting for the movements between opening and closing balance. It would be more useful for the user of the accounts were this net amount split between the funds received and funds applied.

***Recommendation 1** The Financial Secretary should improve the presentation and disclosure of Special Funds in Note 11.15.2 by reporting separately the funds received and funds applied for each Fund rather than a simple net surplus/(deficit) for the period.*

GOING CONCERN

The SHG recurrent budget for 2017/18 originally set at £42.112m was planned to be 68% funded through direct financial support from Department for International Development (DFID). I have therefore considered management's assessment that SHG, as an economic reporting entity is a going concern.

The commitment of United Kingdom (UK) aid to St Helena through DFID in the form of non-budget financial support and technical cooperation is formalised in a bilateral agreement memorandum of understanding (MOU). The previous three-year agreement covering the period 1 April 2016 to 31 March 2019 has now matured.

In determining whether the going concern basis of preparation remains appropriate management are required to look at minimum 12 months from the date of approval of the Financial Statements. This requires management and the auditor to look at the proposed commitment of UK Aid funding for the forward period 2019/20.

For the financial year 2019/20 DFID have communicated approval in principle to core funding of £23.500m and £5.200m for contractual commitments for air-access and fuel. The Financial Secretary prepared budget estimates for 2019/20 on this basis and Legislative Council passed the Appropriation Bill on 28 March 2019. A new MOU covering the forward three-year period 1 April 2019 to 31 March 2022 is well advanced but awaits formal approval and sign-off.

The economic conditions in St Helena are such that SHG is unable to function without continued bi-lateral support in the form of UK Aid funding. The reasonable expectation of a further three-year MOU and in-principle commitment to continued bi-lateral aid underpins management's use of the going concern basis of accounting. However the absence of the signed agreement for 2019/20, gives rise to a material uncertainty which is properly disclosed in Note 9.1.2 to the Financial Statements.

Where a material uncertainty related to going concern is adequately disclosed, ISA 570 *Going Concern* requires the auditor to express an unqualified opinion but with a separate section to emphasise the disclosure of the material uncertainty related to going concern.

DIFFICULTIES ENCOUNTERED DURING THE AUDIT

DELAYED FINANCIAL STATEMENTS

The timely production and audit of public accounts is essential for good financial governance and public accountability. SHG are in receipt of significant grant-in-aid and the audited accounts therefore serve to provide assurance to DFID and other international donors. The relevance of the public accounts to external stakeholders and parliamentary scrutiny processes are enhanced when public reporting occurs on a timely basis.

In my previous Management Letter I reported on the delay in the preparation of Financial Statements, the extent of the errors and adjustments required, and the continuing audit qualifications. I recommended a programme to build financial management capacity and capability across Government together with improvements in the statutory accounts production process.

Envisaging the improvement measures would come into effect for 2017/18 financial reporting I had agreed with the Financial Secretary that I would plan to report by 30 November 2018 provided that a complete set of financial statements with supporting working papers were available by 30 June 2018 and I ensured that audit resources were available to progress the audit on that basis.

The production of complete and error free financial statements in accordance with the agreed timetable proved more complicated than the Financial Secretary had anticipated as the following table illustrates.

TABLE 1 SUBMISSION OF DRAFT FINANCIAL STATEMENTS

| Version | Date received | Notes |
|---------|---------------|---|
| 2 | 18 July 2018 | Submitted with acknowledgement that cash-flow and reserves remained outstanding |

| Version | Date received | Notes |
|---------|------------------|--|
| 3 | 4 October 2018 | Submitted as complete financial statements but reserves remain subject to further change |
| 4 | 23 October 2018 | Definitive point for the purpose of auditable SHG financial statements in terms of section 109(1)(a) |
| 5 | 30 November 2018 | Interim audit adjustments processed but reserves remain subject to further change |
| 6 | 6 February 2019 | Reserves statement prepared and presented as auditable |
| 7 | 13 March 2019 | Draft final statements with requested audit adjustments for validation |
| 8 | 8 April 2019 | Proposed final statements for ExCo approval |

The motivation to resolve the long-outstanding qualification on reserves proved a significant factor in the delayed production of the Financial Statements. The identification and correction of errors on these reserves was more demanding than had initially been envisaged. But there were also underlying control issues which hampered the accounts production process including significantly the timely preparation of bank reconciliations. The failure of these internal accounting controls is a matter upon which I comment further in the section on financial management and internal control.

The delay in the preparation has again adversely impacted the audit process which became elongated with deferred workload misaligned with contract resources released earlier in the season. Completing complex audit procedures and reporting in the fourth quarter competes with scheduled financial planning and year-end processes.

Better project management and timely servicing of audit requests for information (RFIs) could certainly have improved the overall audit process. But the required step-change in the efficiency and accuracy of accounts production will not be realised without automation in the process as recommended in my 2016/17 Management Letter.

The delayed accounts production will mean the DFID requirement to report audited accounts by 31 December 2018 has not be met. However with the formally agreed reference being the accounts version 4 lodged on 23 October 2018, the requirement in Section 109(2) of the Constitution, for the Chief Auditor to audit the accounts within six-months of receipt or such longer time as the Governor may direct, will be achieved with the audit being concluded by 22 April 2019.

VALUATION OF NON-CURRENT ASSETS

The equity interest in companies controlled by SHG is accounted for in Note 11.2.2 as non-current investments. Included in the reported non-current investment of £28.217m are the net assets and share of profits arising from the Bank of St Helena Ltd (BOSH) and the St Helena Hotel Development Ltd (SHHDL).

SHHDL experienced difficulty in preparing auditable financial statements from underlying financial records for the period 2017/18. The compilation of financial statements was expected to be serviced by the operator under the terms of the Hotel Management Agreement but this did not deliver the desired outcome and alternative arrangements were introduced by the SHHDL Board with attendant delays to the planned reporting timetable.

BOSH independently appointed a new external auditor for the financial year 2017/18 upon expiry of the previous arrangement with Moore Stephens LLP. Given the net assets and profit share of the Bank are material to the non-current investments held by SHG I am not obliged to rely upon the work of any auditor appointed by the subsidiary entity. However my own audit enquiries were frustrated by the absence of statutory provisions granting the auditor of a group a right of access to the records of any subsidiary within that group. Securing the necessary access arrangements and obtaining the requested information became protracted and adversely impacted the SHG audit process.

***Recommendation 2** SHG should introduce an express reservation within the articles of association of all controlled entities to require that the appointed auditor of any entity is approved by Chief Auditor.*

***Recommendation 3** SHG should amend the Companies Ordinance to permit the auditor of any group of companies a right of access to the financial records of any subsidiary within that group.*

SIGNIFICANT MATTERS WHICH REMAIN UNRESOLVED

Each of the issues leading to a modification of my Independent Auditor's Report were discussed with management together with a range of other significant matters. These unresolved matters are summarised in this section.

VALUATION OF INFRASTRUCTURE

Aid funded infrastructure in respect of the airport, permanent wharf and roads amounting to £203.660m at 31 March 2018 (£199.589m at 31 March 2017) reported within Property Plant and Equipment in Note 11.7, is required to be measured at replacement cost in accordance with IPSAS 17, *Property Plant and Equipment* and IPSAS 23, *Revenue from Non-exchange transactions*. As explained in Note 9.3.5 to the Financial Statements, there is a high degree of estimation uncertainty in using depreciated replacement cost as a proxy for fair value. In the absence of a professional valuation I am unable to determine whether the stated value fairly reflects the replacement cost for the aid funded airport wharf and roads infrastructure. The revenues recognised as non-exchange infrastructure aid funding are equally affected.

As explained in Note 9.3.5.4 management made a deemed cost estimate for historic roads infrastructure resulting in a nil net book value being recorded. New roads are being held at cost and depreciated on a straight line basis. Since new roads are aid-funded in whole or in part their recognition should also be on replacement cost basis. I am unable to apply alternative audit procedures to confirm the carrying values, accordingly the asset class roads infrastructure is included in my scope limitation qualification.

The Financial Secretary previously advised an intention to commission a formal valuation of these infrastructure assets as at the date of operational readiness as a basis for future depreciation. Arrangements are in hand to identify a suitable expert to undertake this specialist valuation exercise. However to obtain an independent expert assessment of replacement cost before the required audit reporting deadline remains impractical. In these circumstances, there is a practical limitation of scope presented by management that causes a qualification of my audit opinion on fair presentation.

RESTATEMENT OF SPECIAL FUNDS

The class of Special Funds – Projects in Note 11.15.2.1 were established by Order to enable individual projects to be accounted for separately to the Consolidated Fund. At the 31 March 2018 the DFID Project Fund reports a restated balance of £0.374m overdrawn, the DFID Infrastructure Fund a restated balance of £0.054m overdrawn, and the EDF Projects fund a restated balance of £0.425m in-hand.

Corporate Finance invested significant effort in identifying and adjusting for errors, dating back many years, which had occurred in the recognition of capital expenditure and earmarked grant funding between these funds. In doing so the opening balances on these funds have been restated as described in Notes 9.4 and 11.15.2.1.

Given the late completion and scale of these adjustments I was unable to secure adequate appropriate evidence regarding the restatement of these Special Funds, either from management or by using alternative audit procedures in the time available. In these circumstances, I am unable to determine whether any further adjustments are necessary to the Special Fund balances in Note 11.15.2.1 and as reported in the Statement of Financial Position, and Note 9.4 Restatement of Prior Period Figures. My opinion on fair presentation is qualified due to this limitation of scope.

NON-CURRENT INVESTMENTS

Non-current investments amounting to £28.217m at 31 March 2018 (£28.620m at 31 March 2017) and reported in Note 11.2.2 and related reserves Note 11.15.1.5 represent the carrying value of SHG's ownership interest in subsidiary entities. The equity interest in the Bank of St Helena Ltd carried on the basis of net assets of £5.963m at 31 March 2018 forms part of these non-current investments.

I was unable to obtain sufficient appropriate evidence about the carrying amount of SHG's investment in the Bank of St Helena Ltd as at 31 March 2018 due to restricted access to the financial information and underlying records held by the Bank. Consequently, I was unable to determine whether any adjustments were necessary to the amount of non-current investments reported in the Statement of Financial Position and Notes 11.2.2 and 11.15.1.5. My opinion on fair presentation is qualified due to this limitation of scope.

CUSTOMS REVENUES

Revenues from duties levied on imported goods are managed through the ASYCUDA customs system. Before any reconciling adjustments, revenues reported from the ASYCUDA system were £0.576m less than those recognised within taxation in the Statement of Financial Performance. Management have struggled to perform an auditable reconciliation between these two systems although some recent progress has been made.

I was unable to secure adequate appropriate evidence regarding the completeness and accuracy of the reported revenues from customs duties either from management or by using alternative audit procedures. In these circumstances, I am unable to determine whether any adjustments are necessary to the reported customs duties in Note 10.1 forming part of Taxation in Statement of Financial Performance. My opinion on fair presentation is qualified due to this limitation of scope.

IMPAIRMENT OF FIXED ASSETS

Two fire tenders purchased during the prior year at a capital cost of £0.160m for the St Helena Fire & Rescue Service have subsequently proven unsuitable for the operational terrain in St Helena and have been deployed at the St Helena Airport as auxiliary training appliances. In our view the service potential of the fire tenders is significantly impaired when compared to the depreciated carrying value of £0.130m contained within the asset class other in Note 11.8 Property Plant & Equipment.

In these circumstances an impairment provision should be made for the full amount and application sought from the Secretary of State under section 17 to write-off the asset value thereby impaired. Management disagree with this treatment and accordingly the amount of £0.130m is included in the schedule of unadjusted misstatements at Appendix C.

FUEL STOCKS

The accounting policy on aviation fuel stocks (included within inventory) requires the fuel to be valued using the weighted average costing method. An understatement of £0.102m was noted on the recalculation of the balance which impacts Note 11.5 Inventories and the Statement of Financial Position. Management have not adjusted for this error and the amount is included in the schedule of unadjusted misstatements at Appendix C.

SIGNIFICANT MATTERS RESOLVED WITH MANAGEMENT

Each of the issues highlighted below were identified during the audit and satisfactorily resolved with management and appropriate adjustments made to the final Financial Statements. The material adjustments arising are disclosed in Appendix B.

RECOGNITION OF TAX ACCRUAL

The transitional provisions available after first-time adoption of IPSAS expired in the preparation of the financial statements for 2016/17. From that date tax revenues were required to be recognised on an accruals basis in accordance with IPSAS 23, *Revenues from Non-exchange Transactions*.

In our testing of the taxation accrual we identified that an error had been made, by the omission from the estimate, of £0.354m income tax and £0.659m corporation tax declared in returns filed after 31 March 2017. A prior period adjustment of £1.012m was processed in Note 9.4.1 to the Financial Statements.

Management have also now recognised within tax revenues in Note 10.1 and the recoverable from non-exchange transactions in Note 11.3 the £0.322m estimated as due on Self-employed tax and £0.729m due on corporation tax as at 31 March 2018.

BRSHAP PRE-PAYMENT

In July 2018 the Basil Read Group went into business rescue with direct consequences for the capital works in progress on the DFID funded airport infrastructure being delivered through Basil Read St Helena Airport Project (BRSHAP). The capital works are prefunded to the main contractor in accordance with the tripartite contract terms albeit the quantum of the pre-payment has been steadily reducing over time and the risk exposure is managed through the protection of a bond.

Management were asked to reassess whether the pre-payment initially recognised at 31 March 2018 in Note 11.6.1 accurately reflected the increase in net assets to SHG expected to arise through conversion into completed capital works.

In doing so management processed an adjustment to eliminate a duplicate journal which had overstated the value of the pre-payment and associated assets under construction by £7.797m. Upon substantive reassessment management further adjusted downward by £2.720m the pre-payment and associated non-exchange revenue recognised. The balance now held as pre-payment in respect of the DFID Funded Airport Project at 31 March 2018 is £0.374m as disclosed in Note 11.6.1.

GBAS RECOGNITION

The DFID funded airport project included the installation of various navigational aids required for aircraft landing including the Ground Based Augmentation System (GBAS) purchased from Honeywell in 2014. Whilst GBAS is installed the system currently remains uncertified for use for use at St Helena airport and accordingly does not appear on the list of navigational aids in the Aerodrome Information Publication (AIP).

An amount of £1.035m relating to the GBAS system was being held within pre-payments in Note 11.6.1 pending the commissioning testing and certification of the navigation system. Management were challenged as to the intended future use of the system and whether the amount was correctly classified and fairly valued after taking into account any impairment.

We understand that management have requested an expert report on the most appropriate navigational aids for application in the circumstances of St Helena. Until that report is received, and a decision is taken on whether to complete the commissioning and certification of GBAS or return the system to the supplier as provided under the contract terms, management have reclassified the amount held as an other financial asset in Note 11.6.2

DUPLICATION OF FIXED ASSETS

Property, Plant and Equipment amounting to £2.547m in respect of the new Sea Rescue Service facility was recognised in Note 11.8 as completed assets and as assets under construction. The overstatement has now been corrected by management.

FUEL STOCKS

The inventory held in in respect of BFI Fuel stocks and reported in Note 11.5 required adjustment of £0.477m to accord with the audited financial statements for the BFI. The required adjustments have been processed by management.

DECOMMISSIONING PROVISION

Management have agreed that a provision should be recognised for the decommissioning of the current Bulk Fuel Installation. In our view a present obligation exists for the dismantling of the redundant infrastructure and the environmentally responsible disposal of the deadstock albeit that the new facility remains to be commissioned. An engineering assessment has been made including a range estimate of the costs involved. On that basis management has booked a provision of £2.900m in Note 11.13 against the BFI Special Fund in Note 11.15.2.2 and outlined the key estimation assumptions in Note 9.3.2.2.

RECLASSIFICATIONS

There have been various other material adjustments processed by management with audit agreement to correctly classify items of account in the Financial Statements as disclosed in Appendix B Table 2. Adjustments to material note disclosures to ensure IPSAS compliance and improve presentation and disclosure are recorded in Appendix B Table 3.

OTHER MATTERS RELEVANT TO THE OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

These other matters of significance arise from my audit responsibilities under the ISAs and local statute which are directly relevant to those charged with governance in overseeing the financial reporting process.

LAWFUL PREPARATION

Section 10(1) of the Ordinance requires the Financial Statements to be prepared in accordance with the IPSAS financial reporting framework. In prior years IPSAS 6, *Consolidated and Separate Financial Statements*, required the preparation of consolidated Financial Statements for the economic group in addition to the separate Financial Statements of Government. As a consequence of this non-compliance I had previously qualified my opinion under Section 29(1)(b)(i)(C) on the basis that the Financial Statements had not been prepared in accordance with all relevant laws.

For 2017/18 IPSAS 6 is withdrawn and superseded by IPSAS 34, *Separate Financial Statements*, and IPSAS 35, *Consolidated Financial Statements*. In accordance with the provisions of section 10(2) the Financial Secretary has determined that IPSAS 35 is not appropriate to the circumstances of St Helena and has set out his reasons in Note 9.1 to the Financial Statements. The preparation of the separate Financial Statements of Government in accordance with IPSAS 34 and the disapplication of IPSAS 35 is lawful under the Public Finance Ordinance.

In my Report under section 29(b)(i)(C) of the Ordinance entitled 'Other matters required by statute' I have no continuing need to qualify my opinion as to whether the accounts and Financial Statements have been prepared in accordance with all relevant laws and policies. I simply give emphasis to the lawful departure from IPSAS under section 10(2) as referenced to Note 9.1 Basis of Preparation.

REGULARITY OF PENSIONS INCREASE

Section 17 of the Pensions Ordinance provides discretion for the Governor to increase government pensions in payment by an equitable amount. When exercising this power the Governor is required to have regard to changes in the wages and salaries paid to serving public officers and employees.

For the prior year's 2015/16 and 2016/17, I reported that the official advice given to the Governor made no reference to the pay rates applicable to the general public service. Accordingly I qualified the regularity opinion under section 29(b)(i)(B) for those two accounting periods.

For the reporting period 2017/18 management ensured that the request for the Governor to approve the pension's increase of 3.4% with effect from 1 April 2017, based upon the uplift in Minimum Income Standard, also referenced the 2.5% increment proposed for public servants for that year. In the end the general public service increment was withheld by the Chief Secretary. Nonetheless the information given to the Governor at the time of decision was complete and accordingly the regularity qualification on pension's increases is lifted.

EXPENDITURE IN EXCESS

Expenditure was incurred during 2017/18 on four heads in excess of statutory authority. A Statement of Expenditure in Excess laid at the 19 October 2018 meeting of Legislative Council as sessional paper 46/2018 and referred to PAC. After due examination under section 106 PAC reported their findings in sessional paper 01/2019.

The number and value of heads reporting Excess Expenditure has reduced over prior years indicating that improvements in the financial management of public expenditure are taking effect. Nonetheless PAC have recommended a strengthening of controls over the financial planning and correct recording of capital expenditure.

At their formal session held 8 March 2019 Legislative Council considered the PAC report and by resolution confirmed that the Expenditure in Excess be allowed to stand charged to public funds. This authorisation in accordance with section 106 means that I have no matters to report under section 29(b)(i)(B) regarding the regularity of expenditure.

WRITTEN REPRESENTATIONS

Written representations were requested and received from the Financial Secretary in line with those required by the International Standards on Auditing.

ANNUAL GOVERNANCE STATEMENT

Consistent with best practice SHG has prepared an Annual Governance Statement (AGS) for 2017/18 for publication with the Financial Statements. In accordance with ISA 720, *The Auditor's Responsibilities Relating to Other Information*, I am obliged to read the AGS and consider whether the reported content is not inconsistent with my understanding of the entity.

The publication of an AGS represents a voluntary disclosure and accordingly there is currently no regulatory basis requiring publication with the accounts of Saint Helena Government or prescribing its form. In the absence of specific regulation, the form has been reviewed in comparison with the model framework published by Chartered Institute of Public Finance and Accountancy (CIPFA).

The following issues were identified from my review and discussed with management:

- Checks and reconciliations described in section 15.14 Main Accounting System Processes had fallen behind and had not been applied on a timely basis.
- Section 15.14 also implied the existence of sales reconciliations which in practice did not extend to the ASYCUDA customs revenues system.
- Quoted numbers and references required updating to accord with the final financial statements.

Revisions were made by management such that the published AGS conforms to proper practice and the reported content is consistent with the Financial Statements and my audit understanding of SHG in the period under review.

During the year SHG adopted the CIPFA/IFAC *International Framework for Good Governance in the Public Sector* as its primary governance framework. Whilst this goes some way towards addressing the recommendation made in my 2012/13 Management Letter there are some further significant actions required before effective implementation is achieved:

- The revised edition of Corporate Governance Guidance to Public Officers issued in July 2017 has clearly not been aligned with the CIPFA/IFAC Framework and makes no explicit reference to an adopted Code.

- Whilst there is mention of performing an annual review against the requirements of the Code the results, in the form of comply or explain assessment, are not integrated into Section 15.15 review of effectiveness in the AGS.

FINANCIAL MANAGEMENT AND INTERNAL CONTROL

In accordance with International Standards on Auditing I have included a summary of matters of financial management and internal control which arose during my audit and which I consider should be brought to the attention of Government.

The matters described in this section came to my attention during the normal course of my audit, the purpose of which was to express an opinion on the Financial Statements. The audit included consideration of internal control relevant to the preparation of the Financial Statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Overall responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with the Financial Secretary and the Accounting Officers.

NEW ISSUES RAISED THIS YEAR

The new matters now reported are limited to those deficiencies that I consider to be of sufficient importance to merit being reported to Council. Less significant matters will be reported to the Financial Secretary in a separate Financial Accounts Memorandum. I have summarised in the Appendix D the eight new audit recommendations made in this Letter.

INTERNAL ACCOUNTING CONTROLS

The accounts preparation process is predicated on the basis that the transactions recorded in the financial accounting system are complete and accurate and the resultant year-end account balances can be analysed and reconciled. The establishment of internal accounting controls which are adequate in design and effective in operation are essential to this process and thereby ensuring the integrity of the financial ledger.

The Financial Secretary has established routines for the proper financial administration of SHG in the Financial Regulations and associated financial operating procedures. Among these routines are the requirement for monthly bank reconciliations to be prepared for BOSH and Crown Agents accounts, and for monthly reconciliations between the financial ledger control accounts and the associated financial feeder systems including debtors and creditors.

It is apparent that these routine controls had slipped behind during 2017/18 and the required reconciliations had not been prepared or reviewed for many months. The preparation of these reconciliations contributed to the delayed preparation of the financial statements.

In addition some system reconciliations were not routinely required or indeed performed – there was no routine reconciliation between the ASYCUDA customs system and the import duties recorded in the financial ledger.

Recommendation 4 *The Financial Secretary should ensure that essential internal accounting controls including routine bank reconciliations are completed timeously.*

Recommendation 5 *The Financial Secretary should ensure that a routine reconciliation is performed between the customs revenues in ASYCUDA and the main accounting system.*

GRANT CLAIMS MANAGEMENT

My review of a sample of non-exchange recoverable debtors in Note 11.3 revealed that a number of aid-funded project claims were not settled on a timely basis by DFID. Given the substantial time elapsed since year end, recoverability of the claims submitted appeared doubtful. The delay in settlement also raises questions on whether the claims relate to qualifying expenditure per the relevant MOU's.

Recommendation 6 *The Financial Secretary should ensure that claims for aid-funded expenditure are made on time and accompanied with adequate supporting documentation. A claims register should be maintained so as to track submission and subsequent settlement of claims with appropriate follow-up with the donor organisation.*

SHORT TERM ENTRY PERMITS

On arrival to St Helena Island, SHG Immigration requires all non-Saints to apply for a Short Term Entry Permit if they intend to visit or work on St Helena for less than six months. For visitors arriving by air, this £17 fee (increased to £20 in July 2018) was to be collected at the Immigration control point at St Helena Airport.

However, the short term entry permit was not collected from commencement of flights in mid-October 2017 to mid-June 2018. This 9 month delay by Immigration in collection of fees from passengers who arrived by air was based on an assumption that the fees were already incorporated in the fees and taxes levied within the airfare. Albeit, other than the passenger tax payable by passengers leaving St Helena stipulated in paragraph 9(1) of the Aerodrome Charges (Amendment) Regulations, the short term entry fee is not included in the price of the flight ticket.

Although the uncollected fees are not expected to be quantitatively material for 2017/18 financial year, there is a loss of revenue requiring write-off by the Financial Secretary in accordance with section 12.2 of Financial Regulations. When investigating this loss all process gaps should be identified and new measures to ensure compliance with all Immigration requirements implemented timely.

Recommendation 7 *The Financial Secretary should take steps to assess and write-off the loss of income due to uncollected permits and ensure that procedures for the collection of income from all sources associated with the opening of the airport are reviewed to ensure that controls are adequate in design and effective in operation.*

AUDIT AND PAC SCRUTINY OF THE SHG GROUP ENTITIES

SHG accounts for non-current investments representing SHG's ownership interest in controlled entities. SHG as the shareholder are expected to monitor the control environment and play an oversight role in ensuring the accuracy and reasonableness of the SHG group entities' financial information.

Effective oversight of the SHG group entities by SHG management is essential in obtaining comfort of the financial integrity of the systems and processes forming an important component in the preparation of the Financial Statements.

The Financial Secretary should ensure that SHG audit deadlines are clearly communicated to all controlled entities. In doing so controlled entities should be encouraged to prepare monthly or quarterly financial statements to help improve efficiencies and identify bottle-necks before the year-end financial preparation process.

Recommendation 8 *The Financial Secretary should ensure that SHG audit deadlines are clearly communicated to all controlled entities. Controlled entities should prepare monthly and quarterly management accounts to help improve efficiencies and identify bottle-necks before the year-end financial preparation.*

FOLLOW-UP OF PREVIOUS ISSUES

Audit recommendations remaining open from previous Management Letters issued in 2011/12 through 2016/17 were followed-up with management. The current status of these open recommendations is summarised in the table below with details in Appendix E.

| Management Letter | Recommendations brought forward | Recommendations cleared in year | Recommendations carried forward |
|-------------------|---------------------------------|---------------------------------|---------------------------------|
| 2011/12 | 1 | | 1 |
| 2012/13 | 2 | 1 | 1 |
| 2013/14 & 2014/15 | 3 | 1 | 2 |
| 2015/16 | 3 | | 3 |
| 2016/17 | 6 | 1 | 5 |
| Total | 15 | 3 | 12 |

CONCLUDING REMARKS

I acknowledge and thank the officers of St Helena Government, and in particular the Corporate Finance team, for their assistance and co-operation given to the Saint Helena Audit Service during the course of the statutory audit for 2017/18.

A handwritten signature in black ink that reads "Phil Sharman". The signature is written in a cursive style with a large initial 'P'.

Phil Sharman CA CPFA
Chief Auditor for St Helena
St Helena Audit Service

10 April 2019

TO THE MEMBERS OF LEGISLATIVE COUNCIL

INDEPENDENT AUDITOR'S REPORT**To the Members of Legislative Council for the Government of St Helena****REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS****Qualified Opinion**

I have audited the financial statements of St Helena Government (SHG), which comprise the statement of financial position as at 31 March 2018, and the statement of financial performance, statement of changes in net assets and reserves, statement of cash flows, and statement of comparison of budget and actual amounts, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the effects of the matters described in 1 to 4 below, the accompanying financial statements present fairly, in all material respects, the financial position of SHG as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Qualified Opinion**1. Infrastructure Valuation**

Aid funded infrastructure amounting to £203.660m at 31 March 2018 (£199.589m at 31 March 2017) reported within Property Plant and Equipment in the Statement of Financial Position, and forming part of infrastructure, roads infrastructure and assets under construction in Note 11.7, is measured on an earned value basis – being the cost of works completed under the current contract. IPSAS 17, Property Plant and Equipment and IPSAS 23, Non-Exchange Transactions require that such aid funded assets and related revenues are measured at replacement cost. Note 9.3.5 explains there is a high degree of estimation uncertainty associated with the valuation of the airport, wharf and roads infrastructure.

As also explained in Note 9.3.5.4 management assessed the value of roads infrastructure, to be recognised at cessation of transitional provisions under IPSAS 17, at nil net book value, being cost less accumulated depreciation. Management were unable to confirm the basis for initial recognition of the roads infrastructure at nil value.

I was unable to obtain sufficient appropriate audit evidence regarding the asset valuation by the reporting date, either from management or by using alternative audit procedures. In these circumstances, I am unable to determine whether:

- (i) the use of an estimate based on earned value; and,
- (ii) the initial recognition of roads infrastructure at nil value

would give rise to a material misstatement, and whether any adjustment was necessary to the reported value of Property, Plant and Equipment in Note 11.7 and associated reserves in the Statement of Financial Position, and to the recognition of Non-Exchange Infrastructure Aid Funding in the Statement of Financial Performance.

2. Special Funds

Note 11.15.2.1 reports the restated balances and movements on Special Funds established by order to enable individual projects to be accounted for separately to the Consolidated Fund. I was unable to secure sufficient appropriate evidence regarding the restated transactions and balances on the DFID Projects Fund at £0.374m overdrawn, and the DFID Infrastructure Fund at £0.540m overdrawn, and the EDF Projects Fund at £0.425m in-hand at 31 March 2018, either from management or by using alternative audit procedures, within the timetable required for reporting the audit. In these circumstances, I am unable to determine whether any further adjustments are necessary to Special Fund balances in Note 11.15.2.1 and as reported in the Statement of Financial Position and Note 9.4 Restatement of Prior Period Figures.

3. Non-current investments

Non-current investments amounting to £28.217m at 31 March 2018 (£28.620m at 31 March 2017) and reported in Notes 11.2.2 and 11.15.1.5 represent the carrying value of SHG's ownership interest in subsidiary entities. The equity interest in the Bank of St Helena Ltd, carried on the basis of net assets of £5.963m at 31 March 2018, forms part of these non-current investments.

Due to restricted access to the financial information and underlying records maintained by the Bank, I was unable to obtain sufficient appropriate evidence about the carrying amount of SHG's investment in the Bank of St Helena Ltd as at 31 March 2018, either from management or by using alternative audit procedures, within the timetable required for reporting the audit. Consequently, I was unable to determine whether any adjustments were necessary to the amount of non-current investments reported in the Statement of Financial Position and Notes 11.2.2 and 11.15.1.5.

4. Customs revenues

Note 10.1 reports revenues from customs duties in the amount of £5.865m which are derived from the ASYCUDA customs system. I was unable to secure adequate appropriate evidence regarding the completeness and accuracy of these revenues either from management or by using alternative audit procedures within the timetable required for reporting the audit. In these circumstances, I am unable to determine whether any adjustments are necessary to the reported customs duties in Note 10.1 forming part of tax revenues in Statement of Financial Performance.

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of SHG in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and I have fulfilled my other ethical responsibilities in accordance with the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material Uncertainty Related to Going Concern

I draw attention to Note 9.1.2 in the financial statements which indicates that SHG is reliant on recurrent funding through UK grant-in-aid for the continued operation of public services in St Helena. Whilst there is a commitment by DFID to provide financial support, the funding agreement for the final year to 31 March 2020 has yet to be formalised. In the absence of sufficient grant-in-aid and with limited usable reserves SHG would not be in a position to meet its liabilities as they fall due within the foreseeable future without significant curtailment of services. As stated in Note 9.1.2 these circumstances indicate that a material uncertainty exists which may cast doubt on SHG's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other Information

Management is responsible for other information. The other information includes the Financial Secretary's Report and the Annual Governance Statement but does not include the financial statements and my audit report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

In connection with my audit of the financial statements my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed I conclude there is a material misstatement of this other information I am required to report the fact. I have nothing to report in this regard.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Except for the matters described in the above sections on Basis for Qualified Opinion, and Material Uncertainty Related to Going Concern, I have determined there are no other key audit matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing SHG's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing SHG's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I also read all the financial and non-financial information published with the financial statements to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

A further description of the auditor's responsibilities for the audit of the financial statements is included in the Annex to this report. This description forms part of my auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditor's Other Responsibilities arising from Law and Regulation

Section 29(1)(b)(i) of the Public Finance Ordinance requires me to assess whether in all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and whether the accounts and financial statements have been prepared in accordance with all relevant laws and policies.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income has been applied to the purposes intended, and conforms to the authorities which govern them.

Opinion on Other Matters Required by Statute

In my opinion, the financial statements have been prepared in accordance with all relevant laws or policies.

Emphasis of Matter

I draw attention to Note 9.1 in the Financial Statements which explains that, under section 10(2) of the Public Finance Ordinance, SHG has lawfully disapplied the requirement to present consolidated financial statements under IPSAS 35. My opinion on other matters required by statute is not modified in respect of this matter.

Phil Sharman
Chief Auditor CA CPFA

St Helena Audit Service
Post Office Building, Jamestown, St Helena Island, South Atlantic Ocean, STHL 1ZZ

April 2019

ANNEX TO THE INDEPENDENT AUDITORS REPORT

Further description of the auditor's responsibilities for the audit of the financial statements

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SHG's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SHG's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause SHG to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Table 1: Material adjustments to the Financial Statements: Requested by audit

I identified the following misstatements during my audit and management have adjusted the Financial Statements to correct these errors. The table does not repeat the restatements of prior year figures already presented in Note 9.4 to the Financial Statements.

Pertaining to current year 2017/18

| Number | Date | Name | Account No | Reference | Debit £ | Credit £ |
|--------|------------|---|-------------------|-----------|-----------|-----------|
| 2 | 31/03/2018 | POL-Sea Rescue-MOA-Deprec | 20-10100-15-1507 | MARJV228 | | 27,989 |
| 2 | 31/03/2018 | POL-Sea Rescue-L&B - Cost- Buildings | 801-80110-15-1507 | MARJV228 | | 1,667,597 |
| 2 | 31/03/2018 | POL-Sea Rescue-L&B - Cost- Buildings | 801-80110-15-1507 | MARJV228 | | 763,635 |
| 2 | 31/03/2018 | POL-Sea Rescue-L&B - Cost- Buildings | 801-80110-15-1507 | MARJV228 | | 87,768 |
| 2 | 31/03/2018 | POL-Sea Rescue-TtCW-TTCW | 819-81900-15-1507 | MARJV228 | 1,667,597 | |
| 2 | 31/03/2018 | POL-Sea Rescue-TtCW-TTCW | 819-81900-15-1507 | MARJV228 | 763,635 | |
| 2 | 31/03/2018 | POL-Sea Rescue-TtCW-TTCW | 819-81900-15-1507 | MARJV228 | 87,768 | |
| 2 | 31/03/2018 | POL-Sea Rescue-L&B - Depr-B FH- Dep | 821-82110-15-1507 | MARJV228 | 27,989 | |
| | | Being removal of duplicated Sea Rescue tangible fixed assets | | | | |
| 4 | 31/03/2018 | FIN-Rev Serv-Taxes-Inc Tax | 12-201-17-1704 | MARJV243 | | 340,030 |
| 4 | 31/03/2018 | FIN-Rev Serv-Taxes-Corp Tax | 12-202-17-1704 | MARJV243 | | 752,666 |
| 4 | 31/03/2018 | FIN-Corp Accs-Accrued In-Accr Inc | 845-84500-17-1702 | MARJV243 | 340,030 | |
| 4 | 31/03/2018 | FIN-Corp Accs-Accrued In-Accr Inc | 845-84500-17-1702 | MARJV243 | 752,666 | |

| Number | Date | Name | Account No | Reference | Debit £ | Credit £ |
|--------|------------|---|-------------------|-----------|------------|------------|
| | 31/03/2018 | FIN-Corp Accs Debtors T Debt | 843-84300-17-1702 | MARJV243 | | 121,431 |
| 4 | 31/03/2018 | FIN-Rev Serv – Taxes – Corp Tax | 12-202-17-1704 | MARJV243 | 121,431 | |
| | | Accrued income for Corporation Tax and Self Employed Tax due in 2018/19 for 2017/18 financial year | | | | |
| 5 | 31/03/2018 | Airport-Airport-Treas Recp-Airport IF | 18-811-57-5700 | MARJV231 | 17,143,048 | |
| 5 | 31/03/2018 | Airport-Airport-Treas Recp-Airport IF | 18-811-57-5700 | MARJV231 | | 6,252,005 |
| 5 | 31/03/2018 | Airport-Airport-AUCC-Main Cont | 810-81017-57-5700 | MARJV231 | | 17,143,048 |
| 5 | 31/03/2018 | Airport-Airport-AUCC-Main Cont | 810-81017-57-5700 | MARJV231 | 6,252,005 | |
| | | Correction of Airport prepayment and AUC & Basil Read prepayment by DFID | | | | |
| 6 | 31/03/2018 | BFI Decommissioning | 27-7142-60-6002 | MARJV230 | 2,900,000 | |
| 6 | 31/03/2018 | BFI Decommissioning Long term Provision | 911-91105-17-1702 | MARJV230 | | 2,900,000 |
| | | Provision for the estimated decommissioning costs of the BFI 2017/18 | | | | |
| 8 | 31/03/2018 | Airport-Airport-AUCC-Main Cont | 810-81017-57-5700 | MARJV231 | 5,121,787 | |
| 8 | 31/03/2018 | Airport-Airport-AUCC-Main Cont | 810-81017-57-5700 | MARJV231 | 2,675,440 | |
| 8 | 31/03/2018 | FIN-Corp Accs-Prepayment-PP Airport | 844-84403-17-1702 | MARJV231 | | 5,121,787 |
| 8 | 31/03/2018 | FIN-Corp Accs-Prepayment-PP Airport | 844-84403-17-1702 | MARJV231 | | 2,675,440 |

| Number | Date | Name | Account No | Reference | Debit £ | Credit £ |
|--|------------|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Correction of Airport Project pre-payment and asset-under-construction and related non-exchange revenue recognised | | | | | | |
| 11 | 31/03/2018 | BFI - Inventories | 001 | MA4 | 476,584 | |
| 11 | 31/03/2018 | FIN – Corp Accs – Creditors- T Credit | 921-92100-17-1702 | MA4 | | 476,584 |
| Being inventories recorded in BFI Financial Statements but omitted from SHG Financial Statements | | | | | | |
| 34 | 31/03/2018 | FIN-Corp Accs – Prepayment - Prepay | | 844-84400-17-1702 | | 1,035,859.52 |
| 34 | 31/03/2018 | FIN-Corp Accs – Debtors- T Debt | | 843-84300-17-1702 | 1,035,859.52 | |
| Being reclassification of GBAS prepayment to Other Financial Assets | | | | | | |
| 36 | 31/03/2018 | FIN-Corp Accs-Reserves-SF ODFP | | 17-1702-999-99903 | 225,884 | |
| 36 | 31/03/2018 | FIN-Corp Accs-Reserves-Housing TA | | 17-1702-999-99915 | | 225,884 |
| Reversal of transfer between the Housing Fund Trading a/c and the DFID Projects Special Fund | | | | | | |
| | | | | | 15,475,964 | 15,475,964 |

Table 2: Material adjustments to the Financial Statements: requested by management

Management also identified a number of misstatements during the audit and have adjusted the Financial Statements to correct these errors. Adjustments we deem to be immaterial in value individually have not been reported here. The table does not repeat the restatements of prior year figures already presented in Note 9.4 to the Financial Statements.

Pertaining to prior year 2016/17

| Number | Date | Name | Account No | Reference | Annotation | Debit £ | Credit £ |
|---|------------|-----------------------------------|-------------------|-----------|------------|---------|-----------|
| 28 | 31/03/2018 | FIN-Corp Accs-Reserves-SF - ODFP | 999-99903-17-1702 | MARJV238 | | 800,000 | |
| 28 | 31/03/2018 | FIN-Corp Accs-Reserves-SF DFID IP | 999-99906-17-1702 | MARJV238 | | | (800,000) |
| Being Appropriation from the Consolidated Fund to the Special Fund - DFID Funded projects 1 April 2012. | | | | | | | |
| 29 | 31/03/2018 | FIN-Corp Accs-Reserves-SF - ODFP | 999-99903-17-1702 | MARJV238 | | 800,000 | |
| 29 | 31/03/2018 | FIN-Corp Accs-Reserves-SF DFID IP | 999-99906-17-1702 | MARJV238 | | | (800,000) |
| Being transfer of capital funding from the I&NCR Fund to DFID funded Infrastructure Projects SF in line with the capital programme | | | | | | | |
| 30 | 31/03/2018 | FIN-Corp Accs-Reserves-SF - ODFP | 999-99903-17-1702 | MARJV238 | | | (540,000) |
| 30 | 31/03/2018 | FIN-Corp Accs-Reserves-SF DFID IP | 999-99906-17-1702 | MARJV238 | | 540,000 | |
| Transfer of part of 13/14 expenditure iro 5315 ESH Growth Funding from 99903 to 99906 as was funded from SHG Contribution to Cap Prog 13/14 | | | | | | | |

| Number | Date | Name | Account No | Reference | Annotation | Debit £ | Credit £ |
|--|------------|-----------------------------------|-------------------|-----------|------------|-----------|-------------|
| 32 | 31/03/2018 | FIN-Corp Accs-Reserves-SF - ODFP | 999-99903-17-1702 | MARJV238 | | | (2,600,000) |
| 32 | 31/03/2018 | FIN-Corp Accs-Reserves-SF DFID IP | 999-99906-17-1702 | MARJV238 | | 2,600,000 | |
| Reversal of Remapping 13/14 Contribution from Consolidated and I&NCR Funds | | | | | | | |
| 35 | 31/03/2018 | FIN-Corp Accs-Reserves-SF ODFP | 17-1702-999-99903 | | | | (225,884) |
| 35 | 31/03/2018 | FIN-Corp Accs-Reserves-Housing TA | 17-1702-999-99915 | | | 225,884 | |
| Transfer between the Housing Fund Trading a/c and the DFID Projects Special Fund | | | | | | | |

Table 3: Material adjustments to financial note disclosures

| Description of correction | Note affected | Value of the error £'000 |
|---|--|-------------------------------|
| <p>Disclosure of the maximum exposure to foreign translation risk, as a result of SHG's contracts in which it procures goods and services denominated in foreign currency. The following are the contracts identified:</p> <ol style="list-style-type: none">1. SHG has a contract with MSO (Medical Services Organisation), which is denominated in South African Rands and is usage based. In the current financial year, SHG has made payments to MSO of £1,171,238. SHG has a foreign current risk for payment of services rendered by MSO as the services are denominated in functional currency different from SHG functional currency.2. The agreement between SHG and Penspen Ltd requires that SHG settle all invoices as agreed in the FMC contract in Pound sterling (£). (Para 12.43 of the Fuel Management Contract between Penspen Ltd and SHG signed on 27 Nov 2015). All Aviation fuel invoices are denominated in South African rand, exposing SHG to risk of fluctuations in the exchange rate between £ pound sterling and South African rand. The total payments made to Meihuizen Freight International for financial year, were £241,712.3. Estimation uncertainty and key assumptions used for provisions for litigation and claims and BFI decommissioning. | <p>11.16 Nature and Extent of Risks arising from Financial Instruments</p> <p>Note 9.3.2 Key Estimation Assumptions – Provisions</p> | <p>1,413</p> <p>Narrative</p> |

| Description of correction | Note affected | Value of the error £'000 |
|---|---|-----------------------------|
| <p>The following were removed from Note 9.1.3 as they are not accounting policy changes:</p> <ol style="list-style-type: none"> 1. Pension scheme valuations have been prepared in accordance with IPSAS 25 Employee Benefits. This was replaced by IPSAS 39 Employee Benefits on 1 January 2018. 2. IPSAS 6 Consolidated and Separate Financial Statements has been superseded by IPSAS 34 Separate Financial Statements and IPSAS 35 Consolidated Financial Statements. The change in standards apply for annual financial statements covering periods beginning on or after 1st January 2017. IPSAS 6 has been superseded by IPSAS34 & 35. | Note 9.1.3 Changes in Accounting Policy | Narrative |

In accordance with ISA 450 I am required to communicate to management any uncorrected misstatements and request a written representation from those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, either individually or in aggregate.

Management have adjusted the Financial Statements for all misstatements identified at the audit other than the following:

- Potential adjustments arising from the valuation of airport, wharf and roads infrastructure on a replacement cost basis – the financial effect cannot be quantified until a professional valuation report is secured.
- Further potential adjustments arising from the correction of prior-period errors on Special Funds – the financial effect cannot be quantified until all processed corrections have been validated and the closing balances analysed and reconciled.
- Potential adjustments arising from any changes in the carrying value of the non-current investment in the Bank of St Helena Ltd – the financial effect cannot be quantified until audit procedures on the validation of net-assets reported by the Bank are completed.
- Potential adjustments arising from the resolution of differences between customs revenues recorded in ASYCUDA and the main accounting system – the financial effect cannot be quantified until the reconciliation is completed between these two systems.
- Factual and judgemental errors arising from disagreement with management – these errors are scheduled in Table 1 below.
- Projected errors from audit testing – the financial effect of these projected soft errors are scheduled in Table 1 below.

Table 1: Uncorrected misstatements in the Financial Statements

| Ref | Description | Assets £ | Liabilities £ | Equity £ | Income £ | Expenses £ |
|-----------------------------|--|---------------------|--------------------------|---------------------|---------------------|-----------------------|
| Unrecorded - factual | | | | | | |
| | Being adjustment of overstated Air Access (5308) Claim 4/2017-18 | (32, 721) | 0 | 0 | 32, 721 | 0 |
| | Being reversal of accrual for DLA piper Inv 54870861 - Professional services to 21 Feb 18 incorrectly raised as a DFID claim | (23, 029) | 0 | 0 | 23, 029 | 0 |

| Ref | Description | Assets £ | Liabilities £ | Equity £ | Income £ | Expenses £ |
|--------------------------------|---|------------------|------------------|-------------|---------------|---------------|
| 20 | Being correction of understated Aviation Fuel (RFI 219) | 102,497 | | | | (102,497) |
| | | 46,747 | 0 | 0 | 55,750 | (102,497) |
| Unrecorded - projected | | | | | | |
| | Nil | | | | | |
| | | 0 | 0 | 0 | 0 | 0 |
| Unrecorded - judgmental | | | | | | |
| 25 | Being impairment of Bremach Fire Trucks whose purpose was changed during the year (RFI 101) | (130,348) | 0 | 0 | 0 | 130,348 |
| | Being provision for unsettled DFID claims whose recoverability is doubtful | (64,717) | | | | 64,717 |
| | | (195,065) | 0 | 0 | 0 | 195,065 |
| | Understated/ (Overstated) | (148,318) | 0 | 0 | 55,750 | 92,568 |

Table 2: Uncorrected disclosure misstatements

| Description of uncorrected disclosure | Note affected | Value of the error £'000 |
|--|---|-----------------------------|
| Disclosure for reported segments is needed for each segment reported by the entity: (a) The amount of impairment losses recognized in surplus or deficit during the period; and (b) The amount of reversals of impairment losses recognized in surplus or deficit during the period. | Note 10.4 Segment Reporting | 2,736 |
| A disclosure of the fair value of class of assets and liabilities in a way that permits it to be compared with its carrying amount. (IPSAS 30.29) | Note 9.2.6 Financial Instruments | Narrative |
| Disclosure of the transfer between the Housing Fund Trading a/c and the DFID Projects Special Fund in prior year instead of current year. | Note 9.4 Prior period adjustments Note 11.15 | 226 |
| Disclosure according IPSAS 19 para97-98. 1. Key estimates and any estimation uncertainty, 2. Description of the nature of obligations | Note 11.13 | Narrative |

| No | Observation | Recommendation | Priority |
|----|---|---|----------|
| 1 | Note 11.15.2.2 Special Fund Trading Accounts and Note 11.15.2.3 Other Funds reports a surplus/deficit for the period in accounting for the movements between opening and closing balance. It would be more useful for the user of the accounts were this net amount split between the funds received and funds applied. | The Financial Secretary should improve the presentation and disclosure of Special Funds in Note 11.15.2 by reporting separately the funds received and funds applied for each Fund rather than a simple net surplus/(deficit) for the period. | M |
| 2 | BOSH independently appointed a new external auditor for the financial year 2017/18 upon expiry of the previous arrangement. Given the net assets and profit share of the Bank are material to the non-current investments held by SHG the Chief Auditor is not obliged to rely upon the work of any auditor appointed by the subsidiary entity. | SHG should introduce an express reservation within the articles of association of all controlled entities to require that the appointed auditor of any entity is approved by Chief Auditor. | M |
| 3 | The enquires of the Chief Auditor at the Bank were frustrated by the absence of statutory provisions granting the auditor of a group a right of access to the records of any subsidiary within that group. Securing the necessary access arrangements and completing the required work complicated the completion of this audit process. | SHG should amend the Companies Ordinance to permit the auditor of any group of companies a right of access to the financial records of any subsidiary within that group. | M |
| 4 | Some essential internal accounting controls had slipped behind during 2017/18 and the required reconciliations had not been prepared or reviewed for many months. The preparation of these reconciliations contributed to the delayed preparation of the financial statements. | The Financial Secretary should ensure that essential internal accounting controls including routine bank reconciliations are completed timeously. | H |
| 5 | In addition some system reconciliations were not routinely required or indeed performed – there was not routine reconciliation between the ASYCUDA customs system and the import duties recorded in the financial ledger. | The Financial Secretary should ensure that a routine reconciliation is performed between the customs revenues in ASYCUDA and the main accounting system. | H |

| No | Observation | Recommendation | Priority |
|----|--|---|----------|
| 6 | A sample of non-exchange recoverable debtors revealed that a significant number of the supporting claims were not subsequently settled by the donor organizations. Given the substantial amount of time that has elapsed since year end, recoverability of the claims submitted is doubtful. The delay in settlement raises questions on whether the claims relate to qualifying expenditure per the relevant MOU's. | The Financial Secretary should ensure that claims for aid-funded expenditure are made on time and accompanied with adequate supporting documentation. A claims register should be maintained so as to track submission and subsequent settlement of claims with appropriate follow-up with the donor organisation. | H |
| 7 | The fee for short term entry permit was not collected from commencement of flights in mid-October 2017 to mid-June 2018. Although the uncollected fees are not expected to be quantitatively material for 2017/18 financial year, there is a loss of revenue requiring write-off by the Financial Secretary in accordance with section 12.2 of Financial Regulations. | The Financial Secretary should take steps to assess and write-off the loss of income due to uncollected permits and ensure that procedures for the collection of income from all sources associated with the opening of the airport are reviewed to ensure that controls are adequate in design and effective in operation. | H |
| 8 | SHG accounts for non-current investments representing SHG's ownership interest in controlled entities. SHG as the shareholder are expected to monitor the control environment and play an oversight role in ensuring the accuracy and reasonableness of the SHG group entities' financial information. | The Financial Secretary should ensure that SHG audit deadlines are clearly communicated to all controlled entities. Controlled entities should prepare monthly and quarterly management accounts to help improve efficiencies and identify bottle-necks before the year-end financial preparation. | M |

DEFINITION OF PRIORITIES

| | |
|---------------|---|
| HIGH | Immediate risk of error, loss of cash or other assets or significant non-compliance with relevant Ordinances or regulations. Action should be taken on these within 2 months. |
| MEDIUM | Issues identified which would improve the quality of financial reporting and/or internal control systems. Action should be taken on these within 6 months, or by the end of the next financial reporting period, whichever is the earliest. |

| No | Recommendation | Follow-up | Status |
|----------------|--|--|-------------|
| 2011/12 | | | |
| 1 | Introduction of accruals budgeting. | A review is being conducted. The initial step is to determine the legislative requirements for budgeting to consider the best method of budgeting that SHG should adopt; one that meets legislative requirements and the needs of decision makers. The review will consider the benefits and challenges of cash based, modified cash based and accruals based budgeting and make a recommendation to Executive Council on the best course of action. The review will also recommend the legislative and policy changes required to implement the recommended course of action. | In progress |
| 2012/13 | | | |
| 2 | A separate review engagement should be commissioned in respect of EDF funded infrastructure to give specific assurance that the grant funds have been applied for the purposes intended. | Management has not commissioned a review engagement on the basis that additional assurances have not been requested. I am advised the EDF programme governance, management and monitoring arrangements, ensure that required variable project indicators are met and timely returns are made to the European Commission to ensure that committed EDF funds are realised to the benefit of St Helena. | Closed |
| 3 | A Code of Governance should be developed with reference to the CIPFA/IFAC International Framework on Good Governance in the Public Sector and adopted as a standard against which compliance may be measured in the AGS. | I am advised that SHG adopted the CIPFA/IFAC International Framework for Good Governance in the Public Sector as its primary governance framework during 2018. Whilst this goes some way towards addressing the recommendation there are some further significant actions required before effective implementation is achieved. | In progress |

| No | Recommendation | Follow-up | Status |
|----------------|--|---|-------------|
| 2013/14 | | | |
| 4 | SHG should review all legacy applications in relation to eligibility of social benefit payments and obtain documentations from the applicants to maintain on their records to confirm eligibility. | I am advised the exercise is substantially complete and all files have been reviewed for evidence supporting eligibility. Less than 100 files remain to be completely updated. | In progress |
| 5 | SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport and Wharf Infrastructure | I am advised a second round procurement process has been held with a Crown Commercial Services UK Government Framework supplier who is the process of developing a proposal. | In progress |
| 6 | SHG should prepare Group Financial Statements consolidating the results of the subsidiary entities. These group statements are required under IPSAS 6 in addition to the separate Financial Statements of SHG. | I understand that Executive Council has accepted the advice of the Financial Secretary for a determination under section 10(2) of the Public Finance Ordinance not to consolidate the Financial Statements of Government. | Closed |
| 2015/16 | | | |
| 8 | For future pension increases the Financial Secretary provides the Governor with information on the prudential impact on the unfunded pension liability in addition to the in-year budgetary requirement. | I am advised that a commentary on the prudential impact of proposed pension increases is to be considered in the future. | In progress |
| 9 | SHG should secure from DFID legal transfer of aid funded assets to the ownership of SHG and update the asset register accordingly. | I am advised this is an ongoing process and will be done as funding arrangement draw to a close and the point at which assets are deemed to be transferred. However not evidence has been provided to confirm the legal transfer of assets from prior periods. | In progress |
| 10 | The Financial Secretary should perform a comprehensive review of special funds and reserves necessary for the effective financial management and accounting for the Government of St Helena. | I am advised a comprehensive review has commenced with focus on the project component balances within Special Funds. Thereafter balances will be subject to continuous periodic review to ensure that funds are effectively managed and the funds structure remains relevant. | In progress |

| No | Recommendation | Follow-up | Status |
|----------------|---|--|-------------|
| 2016/17 | | | |
| 11 | The Financial Secretary should perform a technical accounting review of the Crown Forest to estimate the commercial value of the forest plantation for potential recognition of an agricultural asset under IPSAS 27. | I am advised that the technical review did not develop the arguments sufficiently to conclude this matter and did not take account of the more recent rationalization of the National Forest. Management estimate the proceeds of sale exceed the cost of timber extraction and recognition of an agricultural asset therefore appears unlikely. | In progress |
| 12 | The Financial Secretary should establish internal arrangements to ensure due compliance with statutory and regulatory requirements for the financial administration of St Helena. | I am advised that Corporate Finance is establishing a legislative compliance management process where senior managers within Corporate Finance across all work streams report on their compliance on a quarterly basis. The Assistant Financial Secretary will provide a report on compliance to the Financial Secretary on a quarterly basis. The first report will focus on financial aspects under the Constitution and the Public Finance Ordinance. | In progress |
| 13 | The Financial Secretary should review the relevant statutory provisions for financial control and financial reporting purposes and propose legislative amendments in preparation for the implementation of accruals budgeting in 2019/20. | A review is being conducted as advised under recommendation 1 above. I am advised the review will also recommend the legislative and policy changes required to implement the recommended course of action. | In progress |
| 14 | SHG should develop and implement a financial management improvement programme with resource requirements to build financial management capacity and capability across Government. | I am advised the Corporate Finance Management Action plan has been developed, approved and implemented during 2018/19. These measures included a restructure the Corporate Finance function with Technical Cooperation support to improve financial management capacity and capability. | Closed |
| 15 | The Financial Secretary should seek to improve efficiency and accuracy in the statutory accounts production process through automation and quality assurance protocols. | I am advised the benefits of automation will be considered during the planning stages of the 2018/19 financial statement preparation. Further quality controls are also being implemented as part of the preparation process including planned review dates and compliance checklists. | In progress |

| No | Recommendation | Follow-up | Status |
|----|--|---|-------------|
| 16 | The Financial Secretary should develop an action plan linked to identified resources to address outstanding Management Letter recommendations. | I am advised that an action plan to address all audit recommendations will be put in place in parallel to the PAC recommendations register. The Financial Secretary has advised he will not be able to address all recommendations immediately but that some recommendations will remain until such time as resources become available or circumstances change. | In progress |

As explained Note 9.1, Basis of Preparation, the audited Financial Statements are the separate Financial Statements of St Helena Government prepared in accordance with IPSAS 34, *Separate Financial Statements*.

The requirements of IPSAS 35, *Consolidated Financial Statements* are disappplied in St Helena accordance with section 10 of the Public Finance Ordinance. The preparation of consolidated financial statements for the SHG economic group would require consolidation of the following entities along with the separate Financial Statements of SHG:

- Bank of St Helena Ltd
- Connect St Helena Ltd
- St Helena Hotel Development Ltd
- Solomon & Company (St Helena) PLC
- St Helena Line Ltd
- St Helena Currency Fund
- St Helena Fisheries Corporation
- Enterprise St Helena

In the absence of such consolidation I am unable to report on the Financial Statements of the SHG economic group or the internal control arrangements of component entities.