

Memorandum for Executive Council

SUBJECT

Government of St Helena Financial Statements 2017/18

Memorandum by The Financial Secretary

ADVICE SOUGHT

1. **Executive Council is asked to consider the St Helena Government Entity Financial Statements for 2017/18 with the Chief Auditor's Management Letter covering those accounts, in order for the Statements to be signed by the Financial Secretary and for the Audit Opinion to be given.**
2. **Further, before an audit opinion can be given, Council is asked to make a determination about correcting or not correcting material misstatements (qualifications) such that Executive Council:**
 - **notes the request of the Chief Auditor in his Management Letter on the audit of the 2017/18 Financial Statements to correct the material misstatements; and**
 - **further notes the Financial Secretary's explanation for the misstatements and his intention to make no further amendments;**
 - **approves the Financial Secretary's decision not to correct the remaining misstatements and authorises them for issue;**
 - **authorises the Financial Secretary to give the required written representations to the Chief Auditor contained in the Letter of Representation; and**
 - **note that the Chief Auditor will issue a Qualified Opinion on the completed 2017/18 Financial Statements.**
3. **Further Executive Council is asked to endorse the proposed Management Action Plan to address the qualifications and recommendations outlined in the Chief Auditor's Management Letter.**

BACKGROUND & CONSIDERATIONS

4. **The Financial Statements for the Government of St Helena (*Annex A*) are produced in accordance with the International Public Sector Accounting Standards (IPSAS) financial reporting framework (accruals basis) in compliance with statutory requirements under the Public Finance Ordinance, 2011.**

5. These Financial Statements are the seventh to be produced since the adoption of IPSAS and shows the developmental process that has been adopted in the preparation of the Financial Statements. With the expiration of the transitional provisions for adoption and the inclusion of additional disclosures these Financial Statements demonstrates the determination of SHG to continuously improve the level and quality of financial and non financial information published in the public domain.
6. Executive Council will note the commitment given in the Engagement Letter that the 2017/18 SHG Financial Statements would be prepared, audited and signed off by the end of November 2018 however, due to resource constraints Corporate Finance was unable to submit a fully compliant draft of the 2017/18 Financial Statements by the planned submission date at the end of June 2018. Despite an initial draft being submitted at the end of June, further drafts were then prepared with the 23 October edition agreed with the Chief Auditor as the official submission of the 2017/18 Financial Statements and the statutory audit timeframe of six months as laid out in the Public Finance Ordinance commenced from this date.
7. As a result of this push back in the commencement date for the audit the completion date was subsequently extended to the end of March 2019 and further extended by three weeks due to illness of key team members involved in financial reporting.
8. The Financial Aid 2016/17-2018/19 DFID MOU terms and conditions requires that SHG present audited financial statements within 9-months of year-end and due to this delay in completion this condition was not met for the financial year 2018/19. DFID have been kept informed throughout the process. At this stage, there is no indication that there are any financial implications for SHG with regard to financial aid from DFID.
9. Corporate Finance Senior Management has undertaken a complete review of resources during the last financial year and identified measures that would address deficiencies in the previous year this included the appropriate resourcing of the Financial Reporting team. The Financial Reporting team since January 2019 become fully resourced following successful recruitment and new processes are being embedded within the team. The preparation of the SHG Financial Statements continues to be complex and technical in nature and the matters arising also continue to be complex and technical. Some have been addressed and some have been noted and require further work as we move forward.

10. The reporting route for the SHG Financial Statements, Audit Opinion and Auditor's Management Letter (ML) (*Annex B*) is set out in The Constitution of St Helena, s109(2). The Audited Financial Statements and Management Letter are laid on the table at a formal sitting of the Legislative Council (LegCo) by the Financial Secretary. The Standing Orders of LegCo state that the Accounts laid are automatically deemed to have been referred to the Public Accounts Committee (PAC) for scrutiny on behalf of the Legislative Council.
11. Under International Standards on Auditing (ISA) 260 *Communication with those charged with governance*, the Chief Auditor is required to report on the audit to those charged with governance. Executive Council (ExCo) being the executive decision making body of the Government of St Helena is considered as those charged with governance. Accordingly the ML is presented to Executive Council as a necessary precursor in the Accounts approval process for the laying of the audited accounts before LegCo.
12. The ML fulfils the requirement of ISA 450 *Evaluation of Misstatements Identified during the Audit*, to request those charged with governance (ExCo) to consider and if necessary make any audit adjustments that management has chosen not to make. The process being followed here allows for Executive Council Members to exercise their governance duties; it aids transparency and allows the issues and recommendations raised by the Chief Auditor within the ML to be discussed and debated in an open forum. Executive Council is therefore asked to make a determination about correcting or not correcting outstanding errors reported in the Chief Auditor's ML.
13. Before the Chief Auditor is able to issue his Audit Report on the 2017/18 SHG Financial Statements he requires a Letter of Representation from the Financial Secretary (*Annex C*). This letter is a requirement under International Standards on Auditing and sets out specific representations on certain assumptions and estimations made by management as part of the preparation of the Financial Statements and compliance with standards, laws and regulations.

Auditor's Report

14. The Chief Auditor plans to give a qualified opinion due to the matters described in the basis of qualified opinion paragraphs in the Auditor's report (*Annex B*), which is to say except for the matters raised, the Financial Statements present fairly the financial position of SHG at 31 March 2018, and the financial performance and cash flows for the year ended 31 March 2018, in accordance with IPSAS.

15. In summary, the Chief Auditor has given a qualified opinion on the Financial Statements based on four qualifications.
16. Two of the qualifications are legacy issues, the first being the valuation of infrastructure assets namely the St Helena Airport, the Wharf and roads infrastructure and the second being the balances on Special Funds namely DFID Project Special Fund, DFID Infrastructure Special Fund and EDF Projects Special Fund.
17. Two new qualifications are planned to be given this year. The first being the reconciliation between the revenue reported on the finance ledger and ASYCUDA customs data processing and collections system. The Chief Auditor was unable to secure adequate evidence regarding the completeness and accuracy of these revenues within the timetable required for reporting the audit. The second being a qualification on Non-current Investments namely the Bank of St Helena Ltd, where the Chief Auditor was unable to obtain sufficient appropriate audit evidence related to Net deposits/ withdrawals in the year and Interest on deposits under Customer current and deposits accounts balance.
18. In addition to the qualified opinion given, the Chief Auditor also gives an emphasis of matter on Material Uncertainty Related to Going Concern. He has highlighted to readers of the Accounts the uncertainty of the value of Financial Aid expected from DFID. Management has determined that the Financial Statements should be prepared using the Going Concern assumption. The Chief Auditor is not suggesting that the Going Concern assumption used to prepare the Financial Statement is wrong but that an uncertainty exists on the exact value until DFID formerly informs SHG through a signed MOU which is anticipated for the next 3 year period.
19. The following three qualifications reported as part of the 2016/17 audit 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
20. It should be noted that in preparing the Financial Statements the Financial Secretary has determined in accordance with the section 10(2) of the Public Finance Ordinance that it is inappropriate, in the circumstances of St. Helena, to follow IPSAS 35 Consolidated Financial Statements due to the benefits that can be expected to be derived from consolidated financial statements outweighing the costs of preparing. The following factors were considered in arriving at this conclusion:

- The complexity associated with the varied nature of the financial reporting frameworks used by group entities, and
 - The different financial reporting deadlines of the group entities.
21. The Chief Auditor has also in his ML made eight recommendations to management. Four are rated high priority and the other four are rated medium. These recommendations have been considered and a response to these recommendations and to the qualifications are provided in *Annex D*.
22. The four high priority recommendations relate to improvements in internal controls with the timely completion of bank reconciliations and ASYCUDA reconciliations to ensure that this work does not hold up the Accounts preparation process. Another relates to ensuring SHG claims from donor organisations are monitored effectively to ensure that revenues are received timeously and that uncollected short term entry fees at St Helena Airport be written off and a review of controls take place to ensure that the correct fees and charges are collected at St Helena Airport.

Detailed considerations

23. *Qualification relating infrastructure valuation.*

Assets disclosed under Infrastructure and as under construction in Note 11.7 *Property Plant and Equipment* for the Airport are measured on an earned value basis. IPSAS 17, *Property Plant and Equipment* and IPSAS 23, *Non-Exchange Transactions* require that such aid funded assets are measured at replacement cost. Corporate Finance has determined that the earned value basis is a suitable proxy for replacement cost as required by the standard. Note 9.3.5.1 explains that there is a high degree of estimation uncertainty associated with the valuation of the airport infrastructure.

24. In addition to this, the DFID element of assets reported as under construction in Note 11.7 *Property Plant and Equipment* for the Rupert's Wharf is measured on the same earned value basis, the remaining element funded by EDF grant funding is measured at cost. IPSAS requires that where the exchange and non exchange elements can be separately identified then the non-exchange element of such aid funded assets are to be measured at replacement cost. Similar to the issue with the valuation of Airport infrastructure SHG has determined that the earned value basis is a suitable proxy for replacement cost as required by the standard.

25. Roads Infrastructure also disclosed under Note 11.7 *Property Plant and Equipment* has been recognised this year following the expiration of the transitional provision. Roads Infrastructure has two elements, where the first element is existing roads which are upgraded and maintained through project funding and the other

element being the new road added to the network as part of the DFID funded Airport Project on a non-exchange basis.

26. The valuation of the new road provided on a non-exchange basis follows the same methodology as the other assets recognised under the Airport Project where Corporate Finance has determined that the earned value basis is a suitable proxy for replacement cost as required by the standard. Historical roads have been recognised at management's estimation of deemed costs.
27. The Chief Auditor therefore, 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. He is therefore unable to determine whether the earned value basis as stated fairly presents the replacement cost of these assets and whether any adjustment would be necessary to the reported value of Property Plant and Equipment.
28. As previously reported Corporate Finance approached the Valuation Office in the UK to carry out a professional valuation service to determine the value of the Airport Infrastructure and Rupert's Wharf Infrastructure for inclusion in the financial statements for 2016/17. However they were unable to provide this service. Corporate Finance has also sought an additional quote from a firm able to provide this work which has come in at a cost in the region of £100K. It is recognised that this is highly specialised and SHG will need to determine the cost benefit of procuring these services.
29. *Qualification relating to Special Funds*

Note 11.15.2.1 reports the balances and movements on Special Funds. Special Funds are established by Order of the Governor to separately account for revenue and expenditure outside of the Consolidated Fund where it is a trading activity or where funds have been provided for a particular purpose. The Chief Auditor was unable to obtain assurance and comfort over the balances disclosed in this note as reported in the previous year. During 2018/19 financial year Corporate Finance undertook the work to reconcile the balances on these Special Funds in particular the DFID Project Special Fund, the DFID Infrastructure Special Fund and the EDF Projects Special Fund. This was a comprehensive and extensive piece of working through the accounts for the last seven years since SHG first adopted these Special Funds. This work is now complete but was not completed in sufficient time for this to meet the audit reporting timetable. It is anticipated that this work will be audited as part of the 2018/19 audit and the qualification is expected to be cleared.

30. *Qualification relating to 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

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, the Chief Auditor 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, he was unable to determine whether any adjustments were necessary to the amount of non-current investments reported in the Statement of Financial Position and Note 11.2.2.

31. *Qualification relating to Customs Revenue*

Revenues from duties levied on imported goods are managed through ASYCUDA. The revenues reported from ASYCUDA are less than those recognised within taxation in the Statement of Financial Performance. A reconciliation has now been performed but was not completed in time for the audit reporting timetable and therefore the Chief Auditor has had to report that he is unable to secure adequate appropriate evidence regarding the completeness and accuracy of the reported revenues and his opinion on fair presentation is therefore qualified due to this limitation of scope. This reconciliation will feature as a standard control moving forward and will be performed on a monthly basis. It is anticipated that this qualification will be cleared as part of the 2018/19 work.

**FINANCIAL
IMPLICATIONS**

32. There are no financial implications or risks relating to this paper.

**ECONOMIC
IMPLICATIONS**

33. There are no economic implications resulting from this paper.

**CONSISTENCY
WITH
INVESTMENT
POLICY
PRINCIPLES**

34. Not applicable.

**PUBLIC / SOCIAL
IMPACT**

35. No public or social impact.

**ENVIRONMENTAL
IMPACT**

36. No environmental impact.

**PREVIOUS
CONSULTATION /
COMMITTEE
INPUT**

37. There has been no previous Council Committee input as this is not a policy issue. Executive Council has been deemed as ‘Those Charged with Governance’ in accordance with ISA 260.

38. A discussion was held with Chairperson’s Assembly regarding the details of the draft Audit ML and Audit Opinion.

**PUBLIC
REACTION**

39. Public reaction is likely to be neutral. The public will likely be content with the fact that SHG is being accountable for public spending through completion of the audit and publication of the Financial Statements. There might be some comment on late signing of the financial statements.

PUBLICITY

40. ExCo’s decision will be relayed in the ExCo Report and associated radio broadcast. The signed Financial Statements and Management Letter will be laid on the table at Legislative Council and made public. Further publicity via the normal distribution channels (including uploading onto the SHG website) will follow thereafter.

**SUPPORT TO
STRATEGIC
OBJECTIVES**

41. This paper supports the Ten Year Plan as it is a key financial accountability process for SHG.

**OPEN/CLOSED
SESSION**

42. It is recommended that this is held in open session.

DLR

Corporate Finance
The Castle

10th April 2019