

**PUBLIC EXPENDITURE & FINANCIAL ACCOUNTABILITY  
(PEFA) ST HELENA GOVERNMENT (8496/POR503 274)  
FINAL REPORT**

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Policy  
Management

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## Table of Contents

Preface/Acknowledgements .....	i
Summary assessment.....	ii
List of tables and figures .....	vii
Abbreviations .....	viii
1 Introduction.....	1
1.1 Objective of the report .....	1
1.2 Process of preparation.....	1
1.3 Methodology.....	1
1.4 Scope of the assessment.....	2
2 Country background information.....	4
2.1 Country economic situation.....	4
2.2 Budgetary outcomes .....	6
2.3 Legal and institutional framework for PFM .....	7
3. Assessment of the PFM systems, processes and institutions .....	9
3.1 Budget credibility .....	9
3.2 Comprehensiveness and transparency .....	13
3.3 Policy-based budgeting.....	21
3.4 Predictability and control in budget execution.....	25
3.5 Accounting, recording and reporting.....	47
3.6 External scrutiny and audit .....	54
3.7 Donor practices .....	60
4 Government reform process.....	65
4.1 Recent and on-going reforms.....	65
4.2 institutional factors supporting reform planning and implementation .....	65
Annex A Terms of reference .....	67
Annex B Calculation of PI-1, PI-2 and PI-3 variances .....	70
Annex C References/bibliography .....	71
Annex D Persons seen .....	73
Annex E Public service structure .....	75

## **Preface/Acknowledgements**

The fieldwork for this assessment of public financial systems in Saint Helena could not have been completed in the short time available between ship movements without the wholehearted cooperation of St Helena Government officials. The author thanks them all, in particular the Assistant Financial Secretary, Mr Dax Richards, and hopes the report will be of use to them in designing their next PFM reform programme.

## Summary assessment

### OVERVIEW OF THE INDICATOR SET

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating 2013
			i.	ii.	iii.	iv.	
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B	A			B+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			A
PI-5	Classification of the budget	M1	D				D
PI-6	Comprehensiveness of information included in budget documentation	M1	D				D
PI-7	Extent of unreported government operations	M1	B	A			B+
PI-8	Transparency of inter-governmental fiscal relations	M2	NA	NA	N A		NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	NA			C
PI-10	Public access to key fiscal information	M1	A				A
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	NA	A	B	B
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	B	C		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	A	B		B
PI-15	Effectiveness in collection of tax payments	M1	A	A	A		A
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	A	A		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	NA	B	N A		B
PI-18	Effectiveness of payroll controls	M1	C	A	A	B	C+
PI-19	Transparency, competition and complaints mechanisms in procurement	M2	B	B	B	D	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	B		C+
PI-21	Effectiveness of internal audit	M1	A	A	C		C+
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	B			B+
PI-23	Availability of information on resources received by service delivery units	M1	A				A
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	B		C+
PI-25	Quality and timeliness of annual financial statements	M1	B	C	B		C+
PI-26	Scope, nature and follow-up of external audit	M1	A	B	A		B+
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A	A	A

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating 2013
			i.	ii.	iii.	iv.	
PI-28	Legislative scrutiny of external audit reports	M1	B	A	B		B+
D-1	Predictability of direct budget support	M1	A	A			A
D-2	Financial information for budgeting and reporting project aid	M1	A	A			A
D-3	Proportion of aid that is managed by use of national procedures	M1	B				B

The distribution of scores is as follows, giving an average score of B:

Score	Number
A	9
B+	5
B	6
C+	7
C	1
D+	0
D	2
NA	1
Total	31

### Integrated assessment of PFM performance

#### *Budget credibility (PI-1 to 4)*

Expenditure budgets are closely adhered to in aggregate. The composition of expenditure also fairly mirrors original budget allocations. There are no significant arrears, so all expenditure is disclosed, but the system of accounting does not classify project expenditures each year to the responsible directorates, so budgetary control is divided between Finance Directorate and the Programme Management Unit. Revenue was under-estimated in 2010/11, but revenue projections have been closer to actual collections the last two years.

#### *Comprehensiveness and transparency (PI-5 to 10)*

The budget is split into recurrent expenditure and capital expenditure, which are classified by directorate and cost centre (after recharging costs incurred in providing services to other cost centres). Expenditure from recurrent grants such as for Technical Cooperation Officers and

sea access, and project expenditure, are treated separately. It is difficult to determine the total expenditure each year, classified by organisational unit, function or economic category. Revenue is more transparent, and is classified by item. Budget documentation is also limited (PI-5 and 6 both score D).

However, budget coverage is good: there is little unrecorded expenditure. There is no sub-sectorisation of the public sector in accordance with IMF-GFS, but it appears that only Enterprise St Helena and St Helena National Trust are extra-budgetary central government bodies, and their expenditures over and above their government grants were only 1.4% of total expenditure. All donor project funds are passed through the accounts. There is no local government. All the subsidiaries submit monthly performance reports to Finance Department, but there is no formal regular consolidated overview of fiscal risk to SHG arising from their operations and liabilities.

*Policy-based budgeting (PI-11-12)*

The budget procedure works smoothly, with political allocations determined at an early stage, consultation with all stakeholders, and timely approval of the annual budget. Budgets are prepared in the context of a rolling three-year MTEF that reflects the capital and operating expenditures of each sector, but the links from one year's MTEF to the next are not clear.

*Predictability and control in budget execution (PI-13-21)*

Tax laws and procedures are clear and there is little administrative discretion. Taxpayers have easy access to information, but there is no independent tax appeals body, nor inclination by taxpayers to make appeals.

Taxpayers are registered in a database, there are adequate penalties for non-compliance, and there is a high level of compliance in submission of annual tax returns. Tax audits are planned on a risk basis. Collections are good, with negligible arrears, and taxes are paid directly into Treasury bank accounts. All tax revenue collections are reconciled monthly with assessments and arrears.

Spending units appear to be able to plan their programmes and make commitments up to at least six months ahead. Budget allocations have been adjusted by a supplementary budget during the year in each of the last three years. While some reallocations of provision are possible within given totals by agreement with Finance Department, any overall increase, or any imposition of reductions, requires a supplementary budget approved by the Legislative Council. Cash flows are forecast only as part of annual budget preparation and supplementary budget preparation. However, Directorates can plan and commit expenditures within their budgets, subject only to a possible shortfall of resources and withdrawal of budgets later in the year. Supplementary budgets are normally only once a year. Most cash balances are calculated and consolidated daily.

The payroll is closely managed and changes from month to month are properly authorised and fully documented, though there is no electronic link between the payroll and personnel records. Officers are paid on time and there are overall payroll audits from time to time.

New procurement organisation, regulations and procedures have recently been introduced. Broadly, they meet international standards, though it is too early to assess actual practice. There is no independent body to investigate procurement complaints, and no appeal cases

so far. The system is fairly transparent: contract awards have recently been made public (by posting on the SHG website)

Internal controls are comprehensive and well understood, though there is no central control over commitments. Expenditure is recorded on an accrual basis, though the budget so far is still on a cash basis. Internal audit is well established to provide independent assurance on internal control, governance and risk management. It reports to the Chief Secretary and an Audit Committee that includes independent members, and provides a report each year to each of the five directorates and an Annual Assurance Statement.

*Accounting, recording and reporting (PI-22-25)*

Accounting reconciliations are kept up to date. Resources received by service delivery units such as schools and primary health clinics are known to the respective directorates, so they can compare costs with outputs. Monthly performance reports are prepared by Corporate Services in a timely manner and include data on revenue (which is mostly on an accrual basis), expenditure (recurrent and capital, on an accrual basis), and physical performance. Annual financial statements include all revenue, expenditure, assets and liabilities, but are in arrears – at November 2013 the statements for FY 2012/13 had not been drafted, mainly due to problems of consolidating ten subsidiaries of SHG.

*External scrutiny and audit (PI-26-28)*

External audit follows UK standards, and provides reports on financial audit and, within available audit resources, value-for-money audit. Audit reports on the annual financial statements are submitted through the Financial Secretary to the Legislative Council. Management respond to audit recommendations and the Audit Service follows up and confirms actions taken.

Specialised committees of the Legislative Council play a major role in preparing the budget, and the Public Accounts Committee scrutinises audit reports, usually within six months of receipt. Their recommendations are respected by Accounting Officers and implemented, though often with delay.

The only budget support donor, DFID, provides early intimation of the annual grant and its timing, and disbursements are made in full and on time. Project aid comprises the shipping subsidy, aid to development projects, and technical assistance. Most of this is provided by DFID and is agreed at the DAPM (before SHG prepares its budget). Project aid is fully budgeted, accounted and reported by SHG, except for the airport construction project.

**Assessment of the impact of PFM weaknesses**

*Aggregate financial discipline*

Overall discipline is good, based on aggregate expenditure controlled within the aggregate budget. At the Accounting Officer level, there are some significant re-allocations, but these are approved by LegCo. Generally, the regulations are being followed. This is commendable after a period of rapid change, including restructuring of the Secretariat, the introduction of output budgeting and performance reporting, and the transition from cash accounting to accrual accounting. The latter is still not widely understood, however.

The lack of control over commitments (see page 44) is disturbing as it implies that Accounting Officers could make commitments for which cash would not be available, due to

subsequent shortfalls in revenue and delays in the issue of withdrawal warrants. There is also fiscal risk from the subsidiaries, whose liabilities (actual and contingent) are not sufficiently monitored and assessed.

*Strategic allocation of resources*

The close involvement of LegCo in budget preparation provides assurance that resources are allocated in accordance with public priorities. However, the system of dual budgeting maintains a separation between capital and project expenditure (investment) and recurrent expenditure (consumption) that could create a bias against operating and maintenance expenditures and reduce capital utilisation and delivery of public services. The budget is not structured by responsibility centre (Accounting Officer), programme, activity/project, and economic category, which would enable full costing of each programme and matching of costs with outputs and progress. This is likely to affect the allocation of resources. In addition, the earmarking of substantial resources to particular uses reduces the efficiency of strategic planning against SHG priorities.

*Efficient service delivery*

Directorates have a good planning horizon and have freedom to plan their procurements in a rational and stable manner and to take advantage of bulk purchase possibilities. There have been major reforms in the management of procurement, which should result in greater value for money and improved efficiency in service delivery. The publication of contract awards from December 2013 should also improve transparency and lead to better value for money. The introduction of monthly performance reporting is a major step forward in the regular monitoring of value for money and raising the efficiency of service delivery.

*General*

After a period of rapid reform, a period of consolidation is usually required for the reforms to be fully understood and the benefits realised. However, there is still scope for improvement with regard to commitment control and cash management, and the fragmentation of planning, budgeting and reporting processes.

## **List of tables**

Table 1	Some key economic and social indicators .....	3
Table 2	St Helena Government Revenues (£000) .....	4
Table 3	Classification of the Public Sector .....	17
Table 4	Outline Timetable for the 2014/15-2016/17 MTEF (recurrent expenditure only).....	22
Table 5	Scrutiny of Audit Reports on the Statement of Accounts.....	58

## **Abbreviations**

DAPM	Development Assistance Planning Mission
DFID	Department for International Development, UK
EC	European Commission
ENRD	Environment and Natural Resources Directorate
ExCo	Executive Council
FCO	Foreign and Commonwealth Office, UK
FRA	Fiduciary Risk Assessment
FY	financial year (April-March)
GBP	British pounds
GDP	gross domestic product
GFS	Government Finance Statistics (IMF database)
GNP	gross national product
ICT	information and communication technology
IFAC	International Federation of Accountants
IPSASB	International Public Sector Accounting Standards Board
LegCo	Legislative Council
OECD/DAC	Organisation for Economic Cooperation and Development/Development Assistance Committee
OPM	Oxford Policy Management Ltd
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PR	public relations
PSMP	Public Sector Modernisation Programme
RPI	retail price index
SHG	St Helena Government
SPPU	Strategic Policy and Planning Unit
TCO	Technical Cooperation Officer
UNDP	United Nations Development Programme
wef	with effect from

The currency unit is the St Helena pound, which is at par with the British pound.

# **1 Introduction**

## **1.1 Objective of the report**

The objective is to identify strengths and weaknesses and areas for improvement of the St Helena Government (SHG) public financial management (PFM) system, so as to raise efficiency and effectiveness in the use of SHG funds and support the development of the island.

## **1.2 Process of preparation**

Following competitive tendering, SHG awarded a contract to OPM, funded by the UK Department for International Development (DFID), for a single consultant to undertake the assessment in close cooperation with SHG officials. The consultant visited St Helena 30 October - 7 November 2013 to do the necessary fieldwork. Terms of reference are at Annex A.

This is the final report. It has been reviewed by senior officers of SHG. by the PEFA Secretariat and by DFID and their comments addressed . It is intended that the report will be published on the SHG website.

## **1.3 Methodology**

The assessment was carried out in accordance with the PFM Performance Measurement Framework (PEFA framework) for central governments, as revised February 2011.<sup>1</sup> This is an integrated monitoring framework that allows measurement of country PFM performance at a point of time and, by comparing successive assessments, measuring progress over time. It was developed by the PEFA partners<sup>2</sup> in collaboration with the OECD/DAC Joint Venture on PFM as a tool that would provide reliable information on the performance of PFM systems, processes and institutions. The information provided by the framework is intended to contribute to PFM reform by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success. It may also facilitate harmonisation of the dialogue between government and donors on PFM reforms and thereby reduce transaction costs for all stakeholders.

At the time of the fieldwork, none of the present donors (DFID, EC and UNDP) had a representative on the island. It was not possible to determine their priorities and perceptions of PFM. The consultant worked in close collaboration with the Assistant Financial Secretary and Head, Accounting Services, but the responsibility for the assessment lies entirely with the consultant.

The PEFA framework is one of the elements of a strengthened approach to supporting PFM reforms<sup>1</sup>. It is designed to measure PFM performance of countries across a wide range of development over time. The framework includes a set of high level indicators, which

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<sup>1</sup> This is available at [www.pefa.org](http://www.pefa.org). In hard copy, English edition, it is called the Blue Book.

<sup>2</sup> PEFA is a multi-agency partnership programme sponsored and funded by: the World Bank, International Monetary Fund, European Commission, UK-DFID, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs and the Swiss State Secretariat for Economic Affairs. It is managed by a Steering Committee of these seven partners and a small Secretariat in Washington DC.

measures and monitors performance of PFM systems, processes and institutions and a Performance Report that provides a framework to report on PFM performance as measured by the indicators.

It is worth emphasising what the PEFA framework does NOT do. The framework does not involve fiscal or expenditure policy analysis, eg. to determine whether fiscal policy is sustainable, whether expenditures incurred through the budget have their desired effect on reducing poverty or achieving other policy objectives, or whether there is value for money achieved in service delivery. This would require detailed data analysis or utilization of country-specific indicators. The framework rather focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes.

This is the first (or baseline) PEFA assessment made for St Helena, though there have been earlier studies of PFM such as the DFID Fiduciary Risk Assessments done in 2006 and 2010 and periodic updates, which have been drawn on in compiling this report. In accordance with the TORs, the report went beyond the standard content of a PEFA Performance Report, and includes identification of trends in PFM systems and recommendations for reform. Recommendations are highlighted in green. As this is the first use of PEFA in SHG, the report includes full explanation of all the PEFA indicators and method of scoring.

## **1.4 Scope of the assessment**

The assessment covers the Government of St Helena (SHG, all directorates), and oversight agencies - the St Helena Audit Service, the Legislative Council, and DFID (at present the only provider of budget support). There is no sub-national government. The structure of government expenditure is shown in the table below.

Agencies	Expenditure 2012/13 in £000	%
Central government (net of grants to AGAs)	31,523	96.6
Autonomous government agencies (SHNT and ESH)	1,103	3.4
General government total	32,626	100

The Governor of St Helena is also Governor of Ascension Island and Tristan da Cunha. These are dependencies of St Helena. Each has an Administrator appointed by the FCO. This PEFA assessment covers only SHG.

Commercial subsidiaries (called public corporations by the IMF framework) are excluded from the assessment as they are outside 'government' as defined by the UN System of National Accounts and IMF Government Fiscal Statistics. However, they are covered insofar as they contribute to the government's fiscal risk, eg. that SHG would have to step in and pay their liabilities in the event of default (see table 7 and PI-9).<sup>3</sup>

<sup>3</sup> This sectorisation of the public sector is not followed by IFAC/IPSASB International Public Sector Accounting Standards, in which government business corporations that are 'controlled' by government

In accordance with the PEFA framework, the assessment is a 'snapshot' of the state of public financial management in November/December 2013. Some of the 31 indicators, however, are assessed by reference to a past period, such as PI-1 to 3 on budget credibility, which are based on the most recent three financial years for which data are available. In this case, the financial statements for the year to 31 March 2013 (FY 2012/13) were available as a first draft in December 2013, so they were used to bring the budget credibility indicators more up to date.

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have to be consolidated with government into a single set of financial statements. This is in line with private sector International Financial Reporting Standards, but is difficult to achieve for various reasons and its value added is still controversial.

## 2 Country background information

### 2.1 Country economic situation

Saint Helena, named after Saint Helena of Constantinople, is an island of volcanic origin in the South Atlantic Ocean. It is the largest part of the British Overseas Territory of St Helena, Ascension and Tristan da Cunha. St Helena measures about 10 miles by 5 miles and has a population of 4,255 (2008). Residents of St Helena are commonly called Saints.

The island was uninhabited when discovered by the Portuguese in 1502. One of the most isolated islands in the world, it was for centuries an important stopover for ships sailing to Europe from Asia and South Africa. The British also used the island as a place of exile, most notably for Napoleon I (1815-21), a Zulu king (1890-97) and more than 5,000 Boer prisoners. St Helena is Britain's second oldest overseas territory after Bermuda.

St Helena is at present only accessible by sea, ie. five days from Cape Town. Due to its isolation, it has been in a long period of economic decline and depopulation. DFID provides annual budgetary support and subsidises the sea transport links to South Africa and Ascension. This support covers the annual fiscal deficit and balance of payments deficit. DFID announced its commitment in July 2010 that it would fund the construction of the island's first airport (projected cost £201.5 million). Construction started in November 2011 and the airport is expected to be open for scheduled flights by early 2016. This, together with other investments in infrastructure, will open the island to far more tourists. The beauty of the island, its flora and fauna, and its long history will drive the development of the tourist industry. This is expected to be the catalyst for the transformation of the economy (Sustainable Development Plan 2012/13-2014/15, and Sustainable Economic Development Plan 2012/13-2021/22).

Statistical data are sketchy and what there is needs careful interpretation. GDP was last estimated for FY 2009/10. The Government Statistician is working on 2010/11 and 2011/12. The Government Economist needs this and other key data to input to a macroeconomic forecasting model, which has been under development since 2011. Gross national product is rather higher than GDP because of inward remittances to St Helena from non-resident Saints, estimated at £1.6m in 2011/12. Table 1 below shows some key data that are available. There is little poverty because of the social security system and unemployment is low (1.5%, according to the Budget Speech 2013/14). Inflation was down to 0.5% at the end of September 2013, the lowest rate for 10 years, though some are sceptical of the official figures, which are far lower than inflation rates in South Africa and UK. The population estimate includes expatriate workers in SHG (Technical Cooperation Officers) and those working on the airport, but there is also a steady flow of Saints returning to live in St Helena (a net immigration). A private sector employment survey is planned, and a household living standards and expenditure survey.

**Table 1: Some key economic and social indicators**

	2009/10	2010/11	2011/12	2012/13
GDP (nominal, £000)	15,550			
GNP	19,040			
Population (based on 2008 census)	4,080	4,110	4,180	4,281
Labour force	2,819			

Government employees				774
Unemployment (no. on unemployment benefit)	56			12
Imports (£000)	10,267	11,851	13,021	
Exports (£000)	641	255	852	
Inflation (RPI % increase on year)	5.2	5.4	7.6	2.4
Literacy (ave of reading and writing %s)	95.8			
Visitor arrivals, Jan-September 2012 & 2013			2,297	2,713
Exchange rate of SH pound to GBP	1.0	1.0	1.0	1.0

Source: Government Statistician

SHG is heavily dependent on external aid as shown in the table below. The percentage of aid to total revenues (58% in 2010/11) is projected to fall to 50% by 2014/15, and further after the completion of the airport and the growth of tourism and related activity.

**Table 2: St Helena Government Revenues (£000)**

	2009/10	2010/11	2011/12	2012/13
Own revenues	9,059	9,667	9,419	10,378
UK budget support (grant-in aid)	7,650	12,303	12,100	13,060
Donor tied project support:	12,963	21,327	14,226	
o/w Technical Cooperation Officers (UK)	2,050	2,268	2,643	
Shipping subsidy (UK)	3,390	3,897	4,750	5,000
Other project support (UK, EC, UNDP)	7,523	15,162	6,833	
<b>Total</b>	<b>29,672</b>	<b>43,297</b>	<b>35,745</b>	

Source: Statistical Yearbook 2012/13. Figures for 2012/13 are from Finance Directorate. They are unaudited and do not yet include some end-of-year adjustments. Accounting Services were unable to complete the column for 2012/13.

The SHG has recently concluded a Public Sector Modernisation Programme (PSMP, 2008-November 2012), funded by DFID. This has resulted in a major restructuring of SHG and its management systems. A Strategic Policy and Planning Unit (SPPU) was established in 2010 to coordinate policy formulation, planning and performance management. At the centre, the Administration, Support to Councils, Information and Public Relations, ICT, Finance, Legal, Internal Audit, SPPU, Attorney General and Human Resources were grouped into a Corporate Services Directorate. The number of directorates was reduced with the formation of the Environment and Natural Resources Directorate (ENRD) from the former departments for infrastructure, environment, lands and buildings, agriculture and transport. A Programme Board and Project Management Unit have been set up in ENRD to plan and monitor all SHG investment projects. A Corporate Procurement Unit was also established and a new procurement strategy and guidelines adopted. The overall aim has been (and continues to be) the rationalisation of government, its reduction to core processes with non-core services divested or outsourced, and greater efficiency in the delivery of public services. Overall headcount has been reduced from 976 in 2009 to the present 774 (excluding 20 vacancies).

SHG has become more open, transparent and 'joined up', both internally and externally. New software (SharePoint) has been installed and a wide area network (intranet) facilitates collaboration.<sup>4</sup> More SHG meetings are open to the public, and more key documents are being posted onto the website (sainthelena.gov.sh). Government PR and communications

<sup>4</sup> A recent internal audit report doubted whether SharePoint is yet providing value for money.

have improved. A new Chief Public Relations Officer has been recruited, and a new strategy published.

An ethical behaviour initiative was started with an island-wide survey of perceptions. Codes of conduct and policies were reviewed and updated. Specific risk areas have been identified and mechanisms to give assurance that ethical codes are being followed have been set up through the Audit Committee. The UK Bribery Act 2010 became applicable to St Helena in 2013.

The PSMP and DFID FRA have been the context for PFM reform. No formal written PFM Reform Programme has been seen, but substantial changes have been made in the past few years and are continuing, including the following:

- Promulgation of the Public Finance Ordinance 2010, and repeal of the Financial Management Ordinance and Audit Ordinance, Caps. 142 and 143
- Completion of wide-area network linking all directorates in December 2010 (fibre optic cabling now being installed)
- Development of a rolling medium-term expenditure framework (MTEF) in close consultation with Elected Members of the Legislative Council wef 2010/11
- Move from cash accounting and reporting of expenditure to accrual accounting wef 2011/12
- Adoption of output-based budgeting wef 2011/12
- Income tax and customs duty reforms wef April 2012
- Electricity, water and drainage services were divested to a new company (Connect St Helena) wef April 2013
- The Tenders Board was replaced by a Procurement Board, and new Procurement Regulations introduced wef July 2013.

## **2.2 Budgetary outcomes**

It has not proved possible to draw up a statement of fiscal performance in IMF GFS format on either economic or functional classification. As the DFID grants cover the projected deficits on current account, and separate grants are made for capital projects, the actual surplus or deficit each year would be small, and consist only of savings on current expenditure budgets and unspent capital grants.

The recurrent expenditure over the three years to 31 March 2013 (see Annex B) show that the budget is regularly respected in total, being slightly underspent each year, though there is some reallocation each year among directorates (see analysis under PI-2).

## **2.3 Legal and institutional framework for PFM**

St Helena is an Overseas Territory of the UK. Under the Act of that name in 2002, all Saints became UK citizens. They have self-governing autonomy except in defence and external relations. A new Constitution was passed in the UK in 2009. It includes a Bill of Rights, which enables people to raise legal challenges in the local courts on human rights issues, instead of having to go to the European Court of Human Rights in Strasbourg. Among other changes under the new Constitution, the Governor's power has been limited in a number of areas as have the powers of senior officials and the Administration, while more power has been entrusted to elected councillors.

The executive branch of SHG consists of a Governor, an Executive Council, and a Civil Service Administration. The Governor is appointed by the UK Foreign and Commonwealth Office (FCO). He heads a Governor's Office.

The Executive Council (ExCo) consists of the Governor (chair), three ex officio members (Chief Secretary, Financial Secretary and Attorney General), and five members elected by the Legislative Council from among themselves. Professional management is led by the Chief Secretary and Financial Secretary, each being appointed following an international recruitment process. The ex officio posts do not have the vote.

The Administration has recently been restructured under a Public Service Modernisation Programme (see chart at Annex E). All central agencies have been brought together as Corporate Services (Finance, Strategic Policy & Planning, Human Resources, Internal Audit, Governor's Office and Attorney General's Chambers).

The legislative branch of SHG is the Legislative Council (LegCo), which comprises a Speaker, Deputy Speaker, 12 Elected Members and three ex officio members, as for the ExCo. The ex officio members do not vote. The LegCo meets at least three times a year.

Councillors are elected by universal adult secret ballot and serve for four years. Elections are held in the eight districts of the island for the 12 seats. There are no political parties. The last election was held in July 2013. It was peaceful, and resulted in seven new members. Under the Constitution, all elected members of LegCo must declare their interest in the Register of Interests, which is updated at the beginning of each financial year or earlier if circumstances change.

The LegCo Committee system has been reformed and there are now five Committees covering different aspects of Government. Three Committees are devoted to the three front line Directorates (Education and Employment, Health and Social Welfare, and Environment and Natural Resources) and have the right to develop policies, and to review and approve the budgets of their respective departments within the overall parameters set by ExCo. For the rest of government these functions are the responsibility of the Planning and Finance Committee. The Public Accounts Committee (PAC) of LegCo provides oversight of the administration of finance (see under PI-27 and PI-28).

Part 8 of the Constitution covers public finance and follows Westminster conventions. No taxes can be imposed except by Ordinance. All taxes and other revenues are payable into a Consolidated Fund, and nothing can be withdrawn from the Consolidated Fund except by an Appropriation Ordinance (or Supplementary Appropriation Ordinance), with the usual

exceptions. The Public Finance Ordinance (Number 11 of 2010, effective from FY 2011/12) has replaced the former Financial Management Ordinance and Audit Ordinance and has strengthened financial controls. Financial Regulations have been issued by the Financial Secretary under the authority of the Ordinance.

Responsibility for each department is assigned to its head who as 'Accounting Officer' is answerable to LegCo for the revenue, expenditure and outputs of his/her department. Small procurements are decentralised to Accounting Officers, but all significant procurements are reviewed and risk-graded centrally. All payments are made centrally by the Finance Department, except petty cash payments. The accounts are kept on a single networked information system, for which Finance Department is responsible. Accounting Officers remain responsible for ensuring that data on their departments is correctly input and that all reconciliations and checks are performed. Payroll and pension preparation is centralised and all payments are made directly to the beneficiaries' bank accounts.

The judicial branch of SHG consists of the Supreme Court, the Court of Appeal and the Magistrate Court.

### 3. Assessment of the PFM systems, processes and institutions

This section examines SHG performance against the criteria of assessment of each of the indicators in turn. There are 31 indicators, including three that pertain mainly to the donor impact on PFM systems. Most of the indicators have more than one dimension (sub-indicator). Each dimension has its own criteria for assessment according to a four-point scale, A, B, C or D. All of the criteria must be met for a given rating. An A rating signifies that the government meets generally accepted international standards. C and D ratings indicate weaknesses.

For each indicator, the ratings of its dimensions are combined into an overall rating according to one of two methods. Where performance on each dimension is independent of other dimensions (as in PI-8, 11, 12, 13, 14, 17, 19 and 22), the indicator is rated on the average of the dimension ratings (M-2 method). As ratings are alphabetical, the average is laid down in a table in the Blue Book. For instance the average of A, B, C and D is C+.

For all other indicators, dimensions are inter-dependent, so the overall rating depends on the lowest dimension rating, which is the weakest link (M-1 method). If any other dimension has a higher rating, a plus sign is added to the overall rating. On this method of combination, an A, B, C and D would combine to give an overall D+ for the indicator.

Indicator ratings are not combined into an overall government PFM rating, as this would imply that they are all equally important.

#### 3.1 Budget credibility

##### PI-1

The ability to implement the budgeted expenditure is an important factor in supporting the Government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure (recurrent and capital) compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports). Expenditure includes donor-funded project expenditure, which is under SHG control, and is included in its budgets and accounts. There are no debt service payments, so primary expenditure is the same as total expenditure.

To be assessed: The difference between actual expenditure and the originally budgeted expenditure

Minimum Requirements	Score
In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.	A
In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.	B
In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.	C
In two or all of the last three years did the actual expenditure deviate from	D

budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.	
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Annex B shows that actual recurrent expenditure was 0.3%, 0% and 3.4% less than original budget in the last three years. Though revenue was 9.7% higher than budget in 2009/10 and DFID maintained its level of grant, expenditure remained close to the original budget.

The slightly higher saving in 2012/13 was mainly due to under-spending in Access and Shipping Directorate (head 21).

Since actual expenditure did not deviate from the budget by more than 5% in any of the last three years, the score for this indicator is A.

## **PI-2 Composition of expenditure out-turn compared to original approved budget**

Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an assessment of expenditure out-turns against the original budget at a sub-aggregate level. As budgets are usually adopted and managed on an administrative (ministry/department/agency) basis, this is the preferred basis for assessment. Variance is to be calculated for the main budgetary heads (votes) of directorates/departments, which are included in the approved budget.

Changes in the overall level of expenditure (assessed in PI-1) will translate into changes in spending for administrative budget heads. The first dimension of this indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. Contingency items are not included in the calculation. The second dimension recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve (although this should not be so large as to undermine the credibility of the overall budget), accepted “good practice” requires that these amounts be vired to those votes against which the unforeseen expenditure is recorded (in other words, that expenditure is not charged directly to the contingency vote). The calibration is based on the volume of expenditure recorded against the contingency vote as this represents a deviation from policy intent.

Dimensions to be assessed (scoring method M1):

- (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items (the methodology to rate this dimension is set out in the footnote7).
- (ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

<b>Minimum Requirements</b>	<b>Score</b>
(i) Variance in expenditure composition exceeded 5 % in no more than one of the last three years. (ii) Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.	A
(i) Variance in expenditure composition exceeded 10 % in no more than one of the last three years. (ii) Actual expenditure charged to the contingency vote was on	B

average more than 3% but less than 6% of the original budget.	
(i) Variance in expenditure composition exceeded 15 % in no more than one of the last three years. D (ii) Actual expenditure charged to the contingency vote was on average more than 6% but less than 10% of the original budget.	C
(i) Variance in expenditure composition exceeded 15 % in at least two of the last three years. (ii) Actual expenditure charged to the contingency vote was on average more than 10% of the original budget.	D

In St Helena, there is no budget item called 'contingency', but there is a line item in the Finance Department called 'Other Employee Costs' which provides for salary award, salary increments and redundancy payments during the year. This provision is vired to the receiving directorates during the year and actual expenditures charged to the directorates, which is good practice.

Annex B shows that variance in the composition of recurrent expenditure was 9.8%, 7.1% and 3.3% in the last three years. Some directorates overspent their budgets, especially in 2010/11 when revenue collections were 10% over budget, and many underspent. The biggest overspending was by Finance in 2011/12 (3.2% over adjusted budget).

As the variance in expenditure composition exceeded 5% in two years, but did not exceed 10% in any year, the score on dimension (i) is B. There is no charging of expenditure against the contingency provision, so the score on dimension (ii) is A.

The overall score for PI-2 is therefore B+.

### PI-3 Aggregate revenue out-turn compared to original approved budget

An accurate revenue forecast is a key input to the preparation of a credible budget. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations and to larger fiscal deficits if spending is not correspondingly reduced. On the other hand, pessimism in the forecast can result in the proceeds of an over-realisation being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of under-realisation are more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing revenue over-realisation.

It is recognized that the revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of the forecast, such as a major macroeconomic shock. For this reason, the calibration allows for one unusual or "outlier" year to be excluded by focusing on significant deviations from the forecast that occur in two or more of the three years covered by the assessment.

The indicator is limited to domestic revenue, which may include 'windfalls' such as proceeds from the sale of assets.

To be assessed: Actual domestic revenue compared to domestic revenue in the originally approved budget.

Minimum Requirements	Score
Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years	A
Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years	B
Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years	C
Actual domestic revenue was below 92% or above 116% of budgeted domestic revenue in two or all of the last three years	D

Revenue is estimated by the Government Economist together with the revenue-earning directorates using a Macroeconomic Framework. This has been under development since 2011 but needs more reliable data, particularly on GDP.

Annex B shows that revenue collections were 109.7%, 96.6% and 97.3% of budget in the last three years. Score = B.

#### PI-4 Stock and monitoring of expenditure payment arrears

Expenditure payment arrears are expenditure obligations that have been incurred by government, for which payments to the employee, supplier, contractor or loan creditor are overdue, and constitute a form of non-transparent financing. A high level of arrears can indicate a number of different problems such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items and lack of information. Expenditure arrears assume that the outstanding payment is due under a specific legal obligation or contractual commitment, which the government has entered, and may include due but unpaid claims for salaries, pensions, supplies, services, rents, interest on domestic and external debt. The default for the assessment would be internationally accepted business practices according to which a claim is in arrears if payment has not been made within 30 days from government's receipt of the supplier's invoice/claim (for supplies, services or works delivered), whereas the failure to make staff payroll payment or meet a deadline for payment of interest on debt immediately results in the payment being in arrears.

Dimensions to be assessed (scoring method M1):

- (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.
- (ii) Availability of data for monitoring the stock of expenditure payment arrears.

Minimum Requirements	Score
(i) The stock of arrears is low (i.e. is below 2% of total expenditure) (ii) Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).	A
(i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years. (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget	B

institutions.	
(i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.	C
(i) The stock of arrears exceeds 10% of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years.	D

SHG records expenditures on an accrual basis. Invoices are received by Directorates, approved by Accounting Officers and passed to Finance for entry in the Access Dimensions system according to the date of invoice. The interval between receipt by Directorates and registration in Access is short (perhaps two days). At 31 March 2012 there was a balance of £448K accrued. Payments are made weekly by Finance, and there are no overdue amounts.

(i) Arrears are nil. Score = A.

(ii) Since reliable data are generated and there are no arrears, the rating is A.

The overall score for this indicator is therefore A.

## 3.2 Comprehensiveness and transparency

### PI-5 Classification of the budget

A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional/programme, and funding source. Where standard classification practices are applied, governments can report and track selected expenditures. The budget will be presented in a format that reflects the most important classifications (usually administrative combined with economic, functional and/or programmatic) and the classification will be embedded in the chart of accounts to ensure that all transactions can be reported in accordance with any of the classifications used.

The international standard for classification systems is the IMF Government Finance Statistics (GFS), which provides the framework for economic and functional classification of transactions. Under the UN-supported Classification of Functions of Government (COFOG), which is the functional classification applied in GFS, there are ten main functions at the highest level and 69 functions at the second (sub-functional) level.

No international standard for programmatic classification exists, and this type of classification is used in diverse ways. However, programme classification can be an important tool in budget formulation, management and reporting (ref. indicator PI-12).

There is just one dimension to be assessed: the classification system used for formulation, execution and reporting of the central government's budget.

Minimum Requirements	Score
The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards	A

or a standard that can produce consistent documentation according to those standards. (Programme classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)	
The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.	B
The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.	C
The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).	D

Expenditure in the annual budget is classified first into capital and recurrent, then by head (directorates), then by cost centre (these are broadly functional), sub-head (economic classification) and line item. However, project expenditure is classified only by donor and project. The consolidation of expenditure across the board has proved extremely difficult.

Expenditure is not classified by the UN/IMF COFOG. There is no bridging table to convert the output categories to COFOG main functions or sub-functions. The in-year and end-of-year financial statements follow the budget classification. There is no intention to introduce COFOG classification, but this could be considered following review of whether the new system is providing the full range of statistical information required (FRA ASP 2012). It is not recommended that SHG change to a COFOG classification without full consideration: a national functional classification tailored closely to the Sustainable Development Plan might be more useful. The advantage of being able to convert a national classification to the COFOG classification, eg. by means of a bridging table, would be to provide data for international comparisons that is independent of any future organisational restructuring. SHG does not at present submit annual returns to the IMF GFS database.

It is recommended (1) that SHG classify all expenditure (recurrent, capital and project) to the responsible heads, with the same cost centre and economic classification as is used for recurrent expenditure, and (2) prepare a bridging table to convert the cost centre classification to COFOG. This would enable SHG to prepare internationally-comparable summaries of expenditure by COFOG function and sub-function.

Budgets and in-year reports show expenditure of each department gross of reallocations (re-charges) to other departments for whom work is done. Re-charges are shown as revenues of the departments doing the work. Re-charges are eliminated in the annual statements of accounts. Budgets and in-year reports are therefore comparable, but not budgets and annual statements of accounts.

The economic classification is based, not on international GFS definitions and formats, but on donor conventions. In effect, the budget is divided into four sub-budgets according to source of funding, viz, the recurrent budget, less own revenues, which is funded by a DFID grant. Secondly there is a capital budget, funded by tied grants. Thirdly, there is a budget for sea access, net of shipping revenues, which is funded by DFID subsidies. Fourthly, there is a

budget for technical cooperation officers, also funded by DFID.<sup>5</sup> This is not compatible with output costing, and obscures rational allocation of resources to functional areas.

Expenditure is also classified by input or line item, which is broadly consistent with the IMF-GFS economic classification, except that there is no clear separation of transfers (grants, subsidies and social benefits paid by the SHG) from payments for supplies and services.<sup>6</sup> The accounts code shows these mixed together under the headings “Payment to Other Agencies, Bodies or Persons” and “Other Expenditure”. Expenditure on Technical Cooperation Officers, which is significant, is not brought into the recurrent expenditure classificaton. Also, there is reported misuse of the accounts codes by departmental accounts officers. Adjustments to the procedure for virements have reduced the risks of miscoding. The Budget does not clearly show the overall deficit in accordance with the GFS definition owing to the separation of capital, project and recurrent expenditures.

In 2011/12, output budgeting was introduced into the MTEF/budget process. This is intended to relate expenditure to the physical outputs of defined activities and projects. Together with accrual accounting and output costing, this will show the true annual cost of each activity/project and enable: (1) cost control, (2) value-for-money comparisons, (3) provide cost information to inform decisions on contracting out, and (4) decisions on setting fees and charges (where it is government policy to do so). The main difference that will need to be explained to users is that activities using depreciating assets will be charged the depreciation over and above their recurrent expenditures. Until the budget is also put on an accrual basis, it will be difficult to make budget/actual comparisons.

Budget formulation and execution is not based on a GFS compatible classification, nor a functional classification that can be aligned with COFOG. Score = D.

## **PI-6 Comprehensiveness of information included in budget documentation**

Annual budget documentation (the annual budget and budget supporting documents), as submitted to the legislature for scrutiny and approval, should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the following elements:

	<b>Element</b>	<b>In St Helena Budget Book</b>
1.	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Not met
2.	Fiscal deficit, defined according to GFS or other	Not met (see PI-

<sup>5</sup> The salary of the Governor, who also constitutes ‘technical cooperation’, is paid by the UK Government and is not brought into the SHG accounts.

<sup>6</sup> A grant is a non-compulsory current or capital transfer from one government unit to another or to an international organisation. A subsidy is an unrequited payment to an enterprise. A social benefit expense is a transfer to a household or a nonprofit institution serving households (IMF-GFS Manual 2001, p.70).

	internationally recognized standard.	5 above)
3.	Deficit financing, describing anticipated composition.	Not met
4.	Debt stock, including details at least for the beginning of the current year.	Not applicable
5.	Financial assets, including details at least for the beginning of the current year.	Not met
6.	Prior year's budget outturn, presented in the same format as the budget proposal.	Not met
7.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Met
8.	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Not met
9.	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes	Not met

There is just one dimension to be assessed: share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).

Minimum Requirements	Score
Recent budget documentation fulfils 7-9 of the 9 information benchmarks	A
Recent budget documentation fulfils 5-6 of the 9 information benchmarks	B
Recent budget documentation fulfils 3-4 of the 9 information benchmarks	C
Recent budget documentation fulfils 2 or less of the 9 information benchmarks	D

LegCo gets the Budget Guidelines, the Budget Book and the Budget Speech by the Financial Secretary. The Budget Book (Estimates of Recurrent Expenditure and Revenue, Capital Expenditure and Project Fund Estimates) is prefaced by an introduction by the Financial Secretary. These documents do not mention expected GDP growth, inflation, or the exchange rate to major trading currencies other than the British pound (with which the St Helenian pound has parity). The 2013/14 Budget shows the budget (original and revised) for 2012/13, but not the budget or outcomes for 2011/12.

As only one of the benchmarks is fulfilled, the score is D.

## PI-7 Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public, should cover all budgetary and extra-budgetary activities of central government to allow a complete picture of central government revenue, expenditures across all categories, and financing. This will be the case if (i) extra-budgetary operations (central government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds), are insignificant or if any significant expenditures on extra- budgetary activities are included in fiscal reports, and if (ii) activities included in the budget but managed outside the government's budget management and accounting system

(mainly donor funded projects) are insignificant or included in government fiscal reporting.

While donor project funding is partially outside government control (particularly for inputs provided in kind i.e. supplied and paid under contracts to which the government is not a party), agencies in charge of implementing donor-funded projects should at least be able to provide adequate financial reports on the receipt and use of donor funding received in cash. Donors' assistance to the government in providing full financial information on project support (including inputs in kind) is assessed in indicator D-2.

Dimensions to be assessed (scoring method M1):

- (i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.
- (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

<b>Minimum requirements</b>	<b>Score</b>
(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	A
(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure. (ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.	B
(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5-10% of total expenditure. (ii) Complete income/expenditure information for all loan-financed projects is included in fiscal reports.	C
(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure. (ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.	D

The budget and accounts cover all receipts and payments of the Consolidated Fund and Special Funds (which are counted as 'public money'), and trust funds/deposits held for others. The former Development Fund was wound up and its assets transferred to Special Funds by the Public Finance Ordinance at 31 March 2011. There are 11 Special Funds, of which six are held to manage tied project funds from DFID, EDF and UNDP, four are trading accounts (for IT, transport, housing and audit) and one is an unallocated stores account. SHG divested electricity and water generation/distribution activities to a Government owned company, Connect St Helena (CSH) from April 2013. CSH receives an operational subsidy and funds for capital investments within SHG's infrastructure plan.

There are now ten publicly owned bodies, which are legally separate from SHG and submit separate accounts. They are tentatively classified according to IMF-GFS as follows:

**Table 3: Classification of the public sector at 31 March 2013 except where otherwise stated**

Body	SHG ownership %	Equity £000	SHG grant/ subsidy £000	Total expenditure	Surplus / (deficit) after grant/ subsidy £000	GFS classif'n	Notes
Bank of St Helena	100	4,514	0	884	290	FPC	Set up under Ordinance of 2002, repealed 31 March 2013 and assets & liabilities taken over by a SH company, under Financial Services Regulatory Authority. The only bank in SH.
Bulk Fuel Installation (data from 2011/12 accounts)	100	3,816	0	4,078	11	Part of Solomon (NFPC)	Procurement, storage and distribution of gasoline and diesel oil. Not a legal entity. A project managed by Solomon & Co on behalf of SHG, for which separate accounts are kept.
Connect St Helena (data from 2013/14 budget)	100	5,406	1,080	4,570	0	NFPC	SH Company. Provides electricity, water and drainage services to consumers. Formerly provided by SHG, divested wef 1 April 2013.
Enterprise St Helena	100	1,640	630	766	(37)	NPI	Corporation set up by 1994 Ordinance as St Helena Development Agency, amended and name changed 2012. Assistance to entrepreneurs.
Solomon & Co PLC	62.9	5,729	0	8,583	603	NFPC	UK reg'd company
St Helena Currency Fund	100	1,304	0	39	94	FPC	Set up by Ordinance Cap.124. Issues SH currency.
St Helena Fisheries Corporation (data based on 2011/12 accounts)	100	234	0	501	17	NFPC	Set up by Ordinance 2001. Purchases and sells fish to locals, sells fuel from BFI to fishermen. Buying a fishing vessel.
St Helena National Trust (data from 2011/12 accounts)	100	30	19	337	36	NPI	Set up by 2001 Ordinance.
St Helena News Media Service	100	13	48	123	(13)	NFPC	Established by Ordinance Cap.160. Restructured as South Atlantic Media Service and put under community

							control. though subsidised by SHG. Runs a newspaper (Sentinel) and 2 radio stations.
St Helena Line	100	1	4,938	11,777	0	NFPC	UK registered company. Shipping line (RMS St Helena) managed by Andrew Weir.

FPC = financial public corporation. NFPC = non-financial public corporation. NPI = non-market non-profit institution controlled by government

There are also two regulatory bodies – the Financial Services Regulatory Authority and the Utilities Regulatory Authority. Their expenditure is negligible.

All revenues including education and health charges are fully brought to account.

(i) As explained in section 1.4 above, government business corporations (FPCs and NFPCs) are not part of government, and are excluded from this indicator. The above table shows that only Enterprise St Helena and the St Helena National Trust are within the GFS definition of government and are extra-budgetary. Their annual expenditure, from latest available accounts, added up to £1,103,000 and they received SHG grants totalling £649,000. Only the grants are accounted for within the SHG budget and Statement of Accounts. The additional expenditure of £454,000 was funded from other revenues, including several grants to the National Trust. This represents 1.4% of total recorded expenditure for the year. Score = B.

(ii) Donor project funds are fully budgeted and accounted for. Score = A.

The overall score for this indicator, using method M1, is B+

## PI-8 Transparency of inter-governmental fiscal relations

SNG has no sub-national level of government, so this indicator is not applicable.

## PI-9 Oversight of aggregate fiscal risk from other public sector entities

Central government will usually have a formal oversight role in relation to other public sector entities and should monitor and manage fiscal risks with national implications arising from activities of sub-national (SN) levels of government, autonomous government agencies (AGA), public enterprises (PE),<sup>7</sup> including state-owned banks, but may also for political reasons be obliged to assume responsibility for financial default of other public sector entities, where no formal oversight role exists. Fiscal risks can be created by SN government, AGAs and PEs and inter alia take the form of debt service defaulting (with or

<sup>7</sup> The PEFA terminology differs slightly from the IMF-GFS. Autonomous government agencies are called non-profit institutions by GFS, and public enterprises are called public corporations.

without guarantees issued by central government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations. Central government should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. AGAs and PEs often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for central government. Central government’s monitoring of these fiscal risks should enable it to take corrective measures arising from actions of AGAs, PEs and SN governments, in a manner consistent with transparency, governance and accountability arrangements, and the relative responsibilities of central government for the rest of the public sector.

Dimensions to be assessed:

- i) Extent of central government monitoring of AGAs and PEs.
- ii) Extent of central government monitoring of SN governments’ fiscal position.

In the absence of sub-national government. Only dimension (i) applies.

<b>Minimum requirement</b>	<b>Score</b>
All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually	A
All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report.	B
Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete.	C
No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete.	D

(i) All the bodies listed in table 7 above submit their audited annual accounts to Finance Department. Monthly performance reports track events/areas that are likely to hinder or impede progress in achieving strategic priorities to ensure that any negative impact is kept to a minimum. However there is no formal regular or consolidated overview of fiscal risk. Score = C.

(ii) Not applicable.

The overall score for this indicator is C.

## **PI-10 Public access to key fiscal information**

Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest groups.

The narrative of the assessment should comment on the quality of information made available (e.g. understandable language and structure, appropriate layout, summarised for large documents) and the means used to facilitate public access (such as the press, websites, sale of major documents at no more than printing cost and notice boards for mainly locally relevant information). The extent to which the means are appropriate depends on the nature of the documentation and the characteristics of the relevant interest or user groups, such as access to different media.

Elements of information to which public access is essential include:

- (i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.
- (ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.
- (iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.
- (iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.
- (v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.
- (vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).

To be assessed: number of the above listed elements of public access to information that is fulfilled. (In order to count in the assessment, the full specification of the information benchmark must be met).

<b>Minimum Requirements</b>	<b>Score</b>
(i) the government makes available to the public 5-6 of the 6 listed types of information	A
(i) the government makes available to the public 3-4 of the 6 listed types of information	B
(i) the government makes available to the public 1-2 of the 6 listed types of information	C
(i) the government makes available to the public none of the 6 listed types of information	D

At the time of this assessment, five of the above elements are provided, either in hard copy or on the SHG website. The annual budget is posted on the website at the time it is presented to LegCo. Monthly performance reports, annual statements of accounts and audit reports are also posted on the website within the respective time limits. Contract awards have started being posted. Resources available to primary schools and primary health clinics are known to the respective directorates, but are not published. Score = A.

### **3.3 Policy-based budgeting**

#### **PI-11 Orderliness and participation in the annual budget process**

While the Ministry of Finance is usually the driver of the annual budget formulation process, effective participation in the budget formulation process by other ministries, departments and agencies (MDAs) as well as the political leadership, impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top- down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.

The calendar should allow for passing of the budget law before the start of the fiscal year as

well as for sufficient time for the other MDAs to meaningfully prepare their detailed budget proposals as per the guidance. Delays in passing the budget may create uncertainty about the level of approved expenditures and delays in some government activities, including major contracts. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas.

In order to avoid last minute changes to budget proposals, it is important that the political leadership is actively involved in the setting of aggregate allocations (particularly for sectors or functions) from an early stage of the budget preparation process. This should be initiated through review and approval of the allocation ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate allocations (e.g. in a budget outlook paper).

Dimensions to be assessed (scoring method M2):

- (i) Existence of and adherence to a fixed budget calendar;
- (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);
- (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);

<b>Dimension</b>	<b>Minimum requirements.</b>
(i) Existence of and adherence to a fixed budget calendar	Score = A: A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.
	Score = B: A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time,
	Score = C: An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.
	Score = D: A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.
(ii) Guidance on the preparation of budget submissions	Score = A: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.
	Score = B: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.
	Score = C: A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.

	Score = D: A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.
(iii) Timely budget approval by the legislature	Score = A: The legislature has, during the last three years, approved the budget before the start of the fiscal year.
	Score = B: The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.
	Score = C: The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.
	Score = D: The budget has been approved with more than two months delay in two of the last three years.

Budget arrangements are laid out in the Constitution (Articles 100 to 107) and the Public Finance Ordinance. In the past the budget was prepared on an annual incremental basis. However, supported by the Public Service Modernisation Project, since the 2009/10 budget it has been based on a three-year Medium Term Expenditure Framework (MTEF). Indicative budget ceilings are set by LegCo Elected Members in May, taking into account projected revenue (derived from the Macroeconomic Framework), DFID grant (as intimated in the last DAPM) and the SDP priorities. As there was an election in July 2013, the ceilings for 2014/15-2016/17 were assumed to be the same as in the previous year, and Directorates were warned that ceilings might be changed by the new LegCo.

Planning and Budget Guidelines are issued by Corporate Services each July. The guidelines set out the priorities of the budget and the main assumptions that Accounting Officers must take into account in the preparation of their individual recurrent budgets. These include budgeting assumptions for UK and South African inflation, assumptions on utility prices, divestment, headcount reduction, etc. The preparation process includes cross-department budget negotiation meetings and discussions with the relevant LegCo Committees. The annual DAPM by DFID, usually in January, constitutes an independent check on the realism and credibility of the budget. DFID endeavours to complete negotiations and get approval of the grant in time for overall budget approval, avoiding 'rollover'.

**Table 4: Outline timetable for the 2014/15-2016/17 MTEF (recurrent expenditure only)**

Activity	Responsible	Date
Guidelines and templates issued	Finance/SPPU	12 July 2013
Draft Strategic Plans submitted to SPPU	Directorates	30 August
Budgets submitted to Finance	Directorates	6 September
Budget meetings with Directorates	Finance/HR/Directorates	September
Review and revision of Budgets, and discussion at Directorate meetings	All	October
Discussions with Councillors	All	October
DFID review (DAPM)	SHG/DFID	October/November
Endorsement of Draft Budget	ExCo	December
Submission of Budget to DFID	Finance	December
Approval of Budget	LegCo	March 2014

Capital project budgets follow a different path and timetable. The funds available each budget year are calculated by Finance with DFID input from the total of SHG reserves and donor commitments, less projected project expenditures to come in the current year.<sup>8</sup> About October, PMU invites SHG Directorates, CSH and ESH<sup>9</sup> to propose new projects. Directors submit Concept Notes for their project proposals, which are reviewed and scored for priority by PMU on agreed criteria. Equipment replacements are treated the same way (there is no depreciation fund or separate budget for replacements). Prioritised projects are approved by LegCo in January and Project Managers then prepare detailed Project Initiation Documents (PIDs) (February/March). PMU prepares the Capital Programme showing both ongoing projects and newly approved projects, expenditure by month and milestone dates. Finance assigns cost codes in March so that they can be entered in Access Dimensions database and tracked during the year.

(i) The budget calendar is fixed in advance and is generally adhered to (though the calendar itself was delayed in election year 2013). Directorates have about 8 weeks from receipt of Budget Guidelines to complete and submit their detailed recurrent estimates. The timetable for capital expenditure estimates is more extended. Score = A.

(ii) The recurrent budget circular and PMU advertisement together are comprehensive and reflect ceilings which are known to LegCo and Exco members. Ceilings are determined mainly by DFID and other donors. Score = A.

(iii) LegCo consistently approves the budget before the start of the budget year (1 April). Score = A.

The overall score for the indicator (M2 method) is A.

## **PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting**

Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) must be the foundation for policy changes.

Expenditure policy decisions or options should be described in sector strategy documents, which are fully costed in terms of estimates of forward expenditures (including expenditures both of a recurring nature as well as those involving investment commitments and their recurrent cost implications) to determine whether current and new policies are affordable within aggregate fiscal targets. On this basis, policy choices should be made and indicative, medium-term sector allocations be established. The extent to which forward estimates include explicit costing of the implication of new policy initiatives, involve clear, strategy-

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<sup>8</sup> Due to under-expenditures and non-use of capital budgets in past years, the programme of DFID funded projects will be over-committed by 20% (Project Handbook, October 2013, p.6).

<sup>9</sup> Connect St Helena and Enterprise St Helena, being private enterprises since they were hived off from SHG, are not eligible for direct financing from DFID. Their capital expenditures on approved projects are reimbursed by SHG.

linked selection criteria for investments and are integrated into the annual budget formulation process will then complete the policy-budget link.

Countries that have effectively introduced multi-annual program budgeting are likely to show good performance on most aspects of this indicator. In this regard, assessors could substitute programmes for functions in dimension (i) and for sector strategies in dimensions (iii) and (iv) of the indicator.

Dimensions to be assessed (scoring method M2):

- (i) Preparation of multi -year fiscal forecasts and functional allocations;
- (ii) Scope and frequency of debt sustainability analysis
- (iii) Existence of sector strategies with multi-year costing of recurrent & investment expenditure;
- (iv) Linkages between investment budgets and forward expenditure estimates.

<b>Dimension</b>	<b>Minimum requirements for dimension score</b>
(i) Multi-year fiscal forecasts and functional allocations	Score = A: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained
	Score = B: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained.
	Score = C: Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.
	Score = D: No forward estimates of fiscal aggregates are undertaken
(ii) Scope and frequency of debt sustainability analysis	Score = A: DSA for external and domestic debt is undertaken annually.
	Score = B: DSA for external and domestic debt is undertaken at least once during the last three years.
	Score = C: A DSA for at least for external debt undertaken once during last three years.
	Score = D: No DSA has been undertaken in the last three years
(iii) Existence of costed sector strategies	Score = A: Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.
	Score = B: Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.
	Score = C: Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.
	Score = D: Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.
(iv) Linkages between	Score = A: Investments are consistently selected on the basis of

investment budgets and forward expenditure estimates	relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
	Score = B: The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
	Score = C: Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.
	Score = D: Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.

Strategic plans have a three-year horizon and are rolled forward each year. They cover both investment expenditure and recurrent expenditure in accordance with the Programme Management Manual. Indicative budget ceilings for each Directorate, based on the projection of resources available, are agreed each May. Each Director has to ensure its budget is aligned to its strategic plan and that resources are allocated to the highest priorities within the ceiling and the overall fiscal forecast. DFID is moving toward a three-year indicative framework of funding. DAPM has requested that the budget give greater focus to the outer years and ensure that projected savings are realistic. The problem is a shortage of analytical capacity and lack of funding for feasibility studies.

(i) Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for three years on a rolling annual basis, but links between multi-year estimates and subsequent setting of annual budget ceilings are not clear. Score = C.

(ii) There is no debt, other than accounts payable and the liability on pensions, and this dimension is not applicable.

(iii) Sector strategies are prepared by each Directorate. Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. Score = A

(iv) Capital and development projects are funded and managed through the Capital Programme Board. The recurrent implications of capital expenditure are brought into the operational and maintenance budgets with some exceptions. The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector. Score = B.

The overall score for the indicator (method M2) is B.

### 3.4 Predictability and control in budget execution

#### PI-13. Transparency of Taxpayer Obligations and Liabilities

Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system (ref. PI-14) but is also very dependent on the direct involvement and co-operation of the taxpayers from the individual and corporate private sector. Their contribution to ensuring overall compliance with tax policy is encouraged and

facilitated by a high degree transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability.

A good tax collection system encourages compliance and limits individual negotiation of tax liability by ensuring that tax legislation is clear and comprehensive and that it limits discretionary powers (especially in decisions on tax assessments and exemptions) of the government entities involved, such as e.g. the revenue administration (RA), the ministry of finance and investment promotion agencies.

Taxpayer education is an important part of facilitating taxpayer compliance with registration, declaration and payment procedures. Actual and potential taxpayers need easy access to user friendly, comprehensive and up-to-date information on the laws, regulations and procedures (e.g. posted on government websites, made available through taxpayer seminars, widely distributed guidelines/pamphlets and other taxpayer education measures). Potential taxpayers also need to be made aware of their liabilities through taxpayer education campaigns.

Taxpayers' ability to contest decisions and assessment made by the revenue administration requires the existence of an effective complaints/appeals mechanism that guarantees the taxpayer a fair treatment. The assessment of the tax appeals mechanism should reflect the existence in practice of such a system, its independence in terms of organisational structure, appointments and finance, its powers in terms of having its decisions acted upon as well as its functionality in terms of access (number and size of cases), efficiency (case processing periods), and fairness (balance in verdicts).

Dimensions to be assessed (scoring method M2):

<b>Dimensions</b>	<b>Minimum requirements</b>
(i) Clarity and comprehensiveness of tax liabilities	Score = A: Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.
	Score = B: Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.
	Score = C: Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.
	Score = D: Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	Score A: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.
	Score = B: Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.
	Score = C: Taxpayers have access to some information on tax

	liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.
	Score = D: Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient.
(iii) Existence and functioning of a tax appeals mechanism.	Score A: A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.
	Score = B: A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed..
	Score = C: A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.
	Score = D: No functioning tax appeals system has been established

Income tax and corporation tax account for 35% of local revenue (2013/14 Budget). The income tax system in St Helena was introduced in 1986 and has been operating with relatively minor changes since that time. Detailed analytical work has been undertaken in order to identify a more equitable and efficient income tax model, which would broaden the tax base and facilitate improved compliance. The Income Tax (Amendment) Ordinance came into force on 1 April 2011. Phase one of the tax reform project simplified the tax system, lowered the top rates of income and corporation tax and broadened the tax base. Phase two of the tax reform project came into effect from 1 April 2012 when a new set of investment incentives were introduced including investment tax credits, accelerated depreciation, indefinite carry forward of losses, rollover relief on capital gains from sale of business assets; and reduction in the rate of capital gains tax from 25% to 10%. According to the Budget for 2013/14, phase three of the tax reform project builds on the early reforms and aims to align taxes to investment policy. Plans have been proposed to offer additional support for large investors who would be the catalyst for economic change.

There are about 500 registered business taxpayers. The Income Tax section of Finance Department has issued a series of guides and booklets explaining changes in the tax system (11 on the website). The Income Tax section provides out-of-hours call-in surgeries to help businesses, particularly small businesses, complete their annual returns. There are no accountancy firms or tax advisers resident in St Helena. The Financial Secretary and Assistant Commissioner also meet with LegCo members and speak at meetings of the Chamber of Commerce to ensure understanding of the tax system and to get their inputs to amendments.

Customs duty accounts for 46% of total domestic revenue and is governed by the Customs Duty Ordinance Cap.145 of 2001, amended to July 2011. Recent changes to duties include the indexation of specific duties in line with inflation. There are about 20-30 importers into St Helena and changes to rates of duty and procedures are communicated by email. ASYCUDA World software is being introduced to facilitate customs entry, and will be interfaced with Access Dimensions.

Appeals against assessments may be made to the Commissioner, who is the Financial Secretary. In practice there are few appeals.

- (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. Score = A.
  - (ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. Score = B.
  - (iii) A tax appeals system of administrative procedures has been established, but is not independent of the revenue authority. Score = C.
- Overall score for the indicator is B.

## **PI-14. Effectiveness of measures for taxpayer registration and tax assessment**

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers.

Taxpayer registration is facilitated by control mechanisms introduced by the revenue administration (RA). Maintenance of a taxpayer database based on a unique taxpayer identification number is an important element of such a control system, but is most effective if combined with other government registration systems that involve elements of taxable turnover and assets (such as e.g. issue of business licenses, opening of bank accounts and pension fund accounts). In addition, RAs should ensure compliance with registration requirements through occasional surveys of potential taxpayers e.g. by selective, physical inspection of business premises and residences.

Ensuring that taxpayers comply with their procedural obligations of taxpayer registration and tax declaration is usually encouraged by penalties that may vary with the seriousness of the fault. Effectiveness of such penalties is determined by the extent to which penalties are sufficiently high to have the desired impact, and are consistently and fairly administered.

Modern RAs rely increasingly on self-assessment and use risk targeted auditing of taxpayers as a key activity to improve compliance and deter tax evasion. Inevitable resource constraints mean that audit selection processes must be refined to identify taxpayers and taxable activities that involve the largest potential risk of non-compliance. Indicators of risk are the frequency of amendments to returns and additional tax assessed from tax audit work. Collection and analysis of information on non-compliance and other risks is necessary for focusing tax audit activities and resources towards specific sectors, and types of taxpayers have the highest risk of revenue leakage. More serious issues of non-compliance involve deliberate attempts of tax evasion and fraud, which may involve collusion with representatives of the RA. The ability of the RA to identify, investigate and successfully prosecute major evasion and fraud cases on a regular basis is essential for ensuring that taxpayers comply with their obligations.

Dimensions to be assessed (scoring method M2):

<b>Dimensions</b>	<b>Minimum requirements for dimension score</b>
(i) Controls in the taxpayer registration	Score = A: Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government

system.	registration systems and financial sector regulations.
	Score = B: Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.
	Score = C: Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.
	Score = D: Taxpayer registration is not subject to any effective controls or enforcement systems
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	Score = A: Penalties for all areas of non-compliance are set sufficiently high to act as deterrents and are consistently administered.
	Score = B: Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.
	Score = C: Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.
	Score = D: Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).
(iii) Planning and monitoring of tax audit programs.	Score A: Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.
	Score = B: Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.
	Score = C: There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.
	Score = D: Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.

Income tax return forms are issued in April, requiring self-assessment and return by 30 June. This is accompanied by advertisements in the media. The penalties for non-return are sufficiently high for most businesses that there is high compliance (97% of returns are received on time). Two cases of non-submission of returns in 2012/13 were successfully prosecuted. Tax is withheld on salaries (PAYE) and remitted to SHG the following month. Tax on interest paid to bank depositors is also withheld and remitted to the Consolidated Fund. There is a continuous programme of tax audit, based on assessment of risk, for corporate income tax and import duty, but not all taxes. For customs duty, approved importers may import on a signed bond and are allowed provisional entry pending checks of valuation. Payments are sometimes late.

(i) Taxpayers are registered in database systems for individual taxes, which are not linked. Linkages to other registration/licensing functions are also weak but are supplemented by occasional surveys of potential taxpayers and information received. Score = C.

(ii) Penalties for all areas of non-compliance are set sufficiently high to act as deterrents and are consistently administered. Score = A.

(iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment. Score = B.

Overall score for the indicator is B.

## PI-15. Effectiveness in collection of tax payments

Accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily and need close follow up. The level of tax arrears itself does not necessarily correlate to the effectiveness of the tax collection system, since a major tax assessment drive may substantially increase tax arrears. However, the RA's ability to collect the taxes assessed is critical, unless the overall level of arrears is insignificant. Part of the arrears collection effort relates to resolution of tax debt in dispute. In some countries, tax arrears in dispute constitute a significant part of the total tax arrears, for which reason there may be a major difference between gross and net arrears (including and excluding disputes respectively).

Prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending. This may take place either by having a system that obliges taxpayers to pay directly into accounts controlled by the Treasury (possibly managed by a bank) or, where the RA maintains its own collection accounts, by frequent and full transfers from those accounts to Treasury controlled accounts (time periods mentioned do not include delays in the banking system).

Aggregate reporting on tax assessments, collections, arrears and transfers to (and receipts by) the Treasury must take place regularly and be reconciled, where appropriate, in order to ensure that the collection system functions as intended, that tax arrears are monitored and the revenue float is minimized.

Dimensions to be assessed (scoring method M1):

- (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).
- (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.
- (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

Score	Minimum requirements
A	(i) The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections).
	(ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.
	(iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.

B	(i) The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant.
	(ii) Revenue collections are transferred to the Treasury at least weekly.
	(iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.
C	(i) The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant
	(ii) Revenue collections are transferred to the Treasury at least monthly.
	(iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.
D	(i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections).
	(ii) Revenue collections are transferred to the Treasury less regularly than monthly
	(iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months• delay.

Taxpayers pay directly into the Consolidated Fund through the Bank of St Helena (the only bank in St Helena) or a Customer Service Centre in Jamestown. Daily statements are sent to Finance Department, which are posted into the Access Dimensions system (a separate account for each taxpayer). Tax assessments, collections and arrears are reconciled monthly. At 31 March 2012, tax arrears were £17,170, of which £6,920 was collected during 2012/13. Tax arrears are about 0.2% of annual collections.

(i) The total amount of tax arrears is insignificant. Score = A.  
(ii) All tax revenue is paid directly into accounts controlled by the Finance Department. Score = A.  
(iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month. Score = A.  
The overall score of this indicator is A.

## PI-16 Predictability in the availability of funds for commitment of expenditures

Effective execution of the budget, in accordance with the work plans, requires that the spending ministries, departments and agencies (MDAs) receive reliable information on availability of funds within which they can commit expenditure for recurrent and capital inputs. This indicator assesses the extent to which the central ministry of finance provides reliable information on the availability of funds to MDAs, that manage administrative (or programme) budget heads (or votes) in the central government budget and therefore are the primary recipients of such information from the ministry of finance. The MDAs concerned in this indicator are the same as those concerned in indicator PI- 11.

In some systems, funds (commitment ceilings, authority to spend or transfers of cash) are released by the ministry of finance in stages within the budget year (monthly, quarterly etc).

In others, the passing of the annual budget law grants the full authority to spend at the beginning of the year, but the ministry of finance (or other central agency) may in practice impose delays on ministries in incurring new commitments (and making related payments), when cash flow problems arise. To be reliable, the amount of funds made available to an entity for a specific period should not be reduced during that period.

Predictability for MDAs in the availability of funds is facilitated by effective cash flow planning, monitoring and management by the Treasury, based on regular and reliable forecasts of cash inflows and of major, atypical outflows (such as the cost of holding an election and discrete capital investments) which are linked to the budget implementation and commitment plans for individual MDAs, and incorporates the planned in-year borrowing to ensure adequate liquidity at any time.

Governments may need to make in-year adjustments to allocations in the light of unanticipated events impacting revenues and/or expenditures. The impact on predictability and on the integrity of original budget allocations is minimized by specifying, in advance, an adjustment mechanism that relates adjustment to the budget priorities in a systematic and transparent manner (e.g. protection of particular votes or budget lines that are declared to be high priority, or say ‘poverty related’). In contrast, adjustments can take place without clear rules/guidelines or can be undertaken informally (e.g. through imposing delays on new commitments). While many budget adjustments can take place administratively with little implication for the expenditure composition outturn at the more aggregate level of budget classifications, other more significant changes may change the actual composition at fairly aggregate administrative, functional and economic classification levels. Rules for when the legislature should be involved in such in-year budget amendments are assessed in PI- 27 and not covered here.

The adherence of MDAs with the ceilings for expenditure commitment and payments is not assessed here, but is covered by indicator PI-20 on internal controls.

Dimensions to be assessed (scoring method M1):

- (i) Extent to which cash flows are forecast and monitored.
- (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment
- (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.

<b>Score</b>	<b>Minimum requirements</b>
A	(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows.
	(ii) MDAs are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations.
	(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.
B	(i) A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows.
	(ii) MDAs are provided reliable information on commitment ceilings at least quarterly in advance.
	(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
C	(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated.

	(ii) MDAs are provided reliable information for one or two months in advance.
	(iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.
D	(i) Cash flow planning and monitoring are not undertaken or of very poor quality.
	(ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.
	(iii) Significant in-year budget adjustments are frequent and not done in a transparent manner.

A cash flow forecast is made from the annual approved budget, broken down by head and by month. This is updated by the Directorates in November and is the basis for a Supplementary Estimate to LegCo (normally one each year). Directorates can commit funds in accordance with their budgets and Procurement Regulations (see also under PI-20 (i)). Warrants are required only for expenditure beyond the budget. If there were a shortfall in expected fund inflows, the Finance Department would initiate a Withdrawal Warrant. This happened in 2012/13 when one Directorate lost £300K from its budget, which was reallocated by Special Warrant to other heads. Normally, Directorates and Departments are assured of being able to spend their budgets, and can plan their programmes accordingly.

(i) A cash flow forecast is prepared for the fiscal year, but is updated only after six months. Score = C.  
(ii) Directorates are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations. Score = A.  
(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way. Score = A  
Overall score for the indicator (method M1) = C+.

## **PI-17 Cash and debt management**

Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees are often major elements of overall fiscal management. Poor management of debt and guarantees can create unnecessarily high debt service costs and can create significant fiscal risks. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over.

An important requirement for avoiding unnecessary borrowing and interest costs is that cash balances in all government bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled project accounts). Calculation and consolidation of bank accounts are facilitated where a single Treasury account exists or where all accounts are centralised. In order to achieve regular consolidation of multiple bank accounts not held centrally, timely electronic clearing and payment arrangements with the government's bankers will generally be required.

Critical to debt management performance are also the proper recording and reporting of government issued guarantees, and the approval of all guarantees by a single government entity (e.g. the ministry of finance or a debt management commission) against adequate and transparent criteria.

Dimensions to be assessed (scoring method M2):

Dimension	Minimum requirements for dimension score.
(i) Quality of debt data recording and reporting	Score = A: Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly
	Score = B: Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.
	Score = C: Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content.
	Score = D: Debt data records are incomplete and inaccurate to a significant degree.
(ii) Extent of consolidation of the government's cash balances	Score = A: All cash balances are calculated daily and consolidated.
	Score = B: Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.
	Score = C: Calculation of most government cash balances takes place at least monthly, but the system used does not allow consolidation of bank balances
	Score = D: Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances.
(iii) Systems for contracting loans and issuance of guarantees.	Score = A: Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.
	Score = B: Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.
	Score = C: Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.
	Score = D: Central government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.

Under the Constitution (section 112), SHG may borrow or issue a guarantee only in accordance with guidelines agreed with DFID and authorised by Ordinance. At present, SHG is not permitted to issue Treasury Bills nor to borrow domestically or internationally. There is

no formal debt management. Public debt comprises only short-term payables, BoSH overdraft and liabilities for pensions.

Finance Department maintains five bank accounts - one with Crown Agents UK for all overseas payments in all currencies, and four in the Bank of St Helena. One account is for all receivables and one for all local payables, which are cleared weekly to a third account, called Cash. This is normally in overdraft, and is cleared by DFID grant through Crown Agents account. The fourth local bank account is a temporary transit account for receiving payments due to Connect St Helena from customers who have not yet changed their bankers' orders.

The Crown Agents account contains cash received from past capital grants that have not been spent, in effect a reserve. By agreement with DFID, this can be used for new capital projects. It cannot be used for spending on recurrent account. Following advice from SHG's Banking Adviser, SHG has taken a more proactive approach to investment of its sterling funds.

- (i) There is no substantial debt. This dimension is not applicable.
  - (ii) Most cash balances are calculated and consolidated daily, but funds with two extrabudgetary bodies (SHNT and ESH) remain outside the arrangement. Score = B.
  - (iii) SHG gives no guarantees. This dimension is not applicable.
- The overall score for this indicator is B.

## **PI-18 Effectiveness of payroll controls**

The wage bill is usually one of the biggest items of government expenditure and susceptible to weak control and corruption. This indicator is concerned with the payroll for public servants only. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of general internal controls (PI-20). However, different segments of the public service may be recorded in different payrolls. All of the more important of such payrolls should be assessed as the basis for scoring this indicator, and mentioned in the narrative.

The payroll is underpinned by a personnel database (in some cases called the "nominal roll" and not necessarily computerized), which provides a list of all staff, who should be paid every month and which can be verified against the approved establishment list and the individual personnel records (or staff files). The link between the personnel database and the payroll is a key control. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps and identify control weaknesses.

Dimensions to be assessed (scoring method M1):

- (i) Degree of integration and reconciliation between personnel records and payroll data.
- (ii) Timeliness of changes to personnel records and the payroll
- (iii) Internal controls of changes to personnel records and the payroll.
- (iv) Payroll audits to identify control weaknesses and/or ghost workers.

<b>Score</b>	<b>Minimum requirements</b>
A	(i) Personnel database and payroll are directly linked to ensure data

	<p>consistency and monthly reconciliation.</p> <p>(ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(iii) Authority to change records and payroll is restricted and results in an audit trail.</p> <p>(iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.</p>
B	<p>(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.</p> <p>(iii) Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).</p>
C	<p>(i) A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months.</p> <p>(ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments.</p> <p>(iii) Controls exist, but are not adequate to ensure full integrity of data.</p> <p>(iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.</p>
D	<p>(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.</p> <p>(ii) Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.</p> <p>(iii) Controls of changes to records are deficient and facilitate payment errors.</p> <p>(iv) No payroll audits have been undertaken within the last three years.</p>

There are 774 monthly salaried employees of SHG including full-time equivalents of some part-time workers, and including also 65 long-term technical cooperation officers (TCOs) funded separately by DFID. This total excludes 20 vacancies. The total headcount has to be reduced to 749 by March 2014 in accordance with an agreement with DFID (one of the pre-conditions for the signing of the airport construction contract in 2011). Though some of the directorates could save money in the long run by hiring *additional* officers, notably in health, the Environment and Natural Resources Directorate expects to identify non-core services that can be contracted out, thus meeting the overall target. Cleaning services were divested in April 2013. A constant problem is attracting and retaining core personnel. The need for better manpower and succession planning is recognised and, in the long term, effective knowledge transfer and the replacement of TCOs by capable Saints. However the cost of sending trainees abroad or bringing trainers to St Helena is high and the training budget is small. Increasing use is made of distance learning.

Personnel details are recorded in a computerised Human Resource Information System (HRIS). The Payroll and Pensions section of Finance prepares the monthly payroll on the Access Payroll computerised system, using the previous payroll and a list of changes (starters, leavers, promotions and transfers) provided by HR, and notifications of overtime, mileage allowance and other variable data from the Directorates.<sup>10</sup> Employees are paid by transfers directly to their bank accounts (all with BoSH) on a fixed date of the month for each department, and notified by payroll slip. All changes notified to Payroll at least three days before the pay date are included in that month's payroll. There are very few delays in payment.

The written payroll procedure provides for segregation of duties, an audit trail of changes, and appropriate levels of authorisation (responsible directors and the Assistant Financial Secretary), and a reconciliation report that matches the HRIS with the payroll spreadsheet and highlights differences. It does not, however, include an overall check on each month's payroll by reconciling the total of each payroll column (gross pay, PAYE, loan repayments, etc) with totals of the previous month and the list of changes. This is a simple and effective check and is recommended.

(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month. It is not checked against the previous month's payroll data. Rating = C.

(ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. Rating = A.

(iii) Authority to change records and payroll is restricted and results in an audit trail. Rating = A.

(iv) Internal Audit Department did a full payroll audit in 2011. Rating = B.

Overall rating of C, A, A, and B (method M2) is C+.

## **PI-19 Transparency, competition and complaints mechanisms in procurement**

Significant public spending takes place through the public procurement system. A well functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs, and value for money in delivery of programmes and services by the government. The principles of a well functioning system need to be stated in a well-defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability and controls. One of the key principles established by the legal framework is the use of transparency and competition as a means to obtain fair and reasonable prices and overall value for money.

While the procurement system operates within its own framework, it benefits from the overall

<sup>10</sup> The Payroll Section also prepares the payroll for 57 employees of Connect St Helena as a service to the company. Other subsidiaries do their own payrolls. In addition, the Payroll Section pays 282 pensioners monthly by transfer directly to their bank accounts, and weekly social benefits to 793 citizens, mainly in cash.

control environment that exists in the PFM system, including public access to information, internal controls operated by implementing agencies, and external audit. The procurement system also contributes to many aspects of the PFM system, providing information that enables realistic budget formulation, providing access to information to stakeholders that contribute to public awareness and transparency, and supporting efficiency and accountability in delivery of government programmes. (The following indicators impact on or are influenced by procurement: PI-4, PI-10, PI- 12, P-20, PI-21, PI-24, PI-26 and PI-28). However, unique to the public procurement process is the involvement of participants from the private sector and the civil society who are key stakeholders in the outcome of the procurement process. A good procurement system uses the participation of these stakeholders as part of the control system in the process for submission and resolution of complaints in a fair, transparent, independent and timely manner. The timely resolution of complaints is necessary to allow contract awards to be reversed if necessary and limit remedies tied to profit loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeals.

Public dissemination of information through appropriate means (e.g. government or agency level websites, procurement journals, national or regional newspapers, on demand from procurement bodies) on procurement processes and its outcomes are key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and be secure.

Dimensions to be assessed (scoring method M2):

- (i) Transparency, comprehensiveness and competition in the legal and regulatory framework.
- (ii) Use of competitive procurement methods.
- (iii) Public access to complete, reliable and timely procurement information.
- (iv) Existence of an independent administrative procurement complaints system.

While dimension (i) is concerned with the existence and scope of the legal and regulatory framework, dimensions (ii), (iii) and (iv) focus on the operation of the system.

<b>Dimension</b>	<b>Minimum requirements</b>	<b>St Helena practice</b>
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	The legal and regulatory framework for procurement should: <ul style="list-style-type: none"> <li>(i) be organized hierarchically and precedence is clearly established;</li> <li>(ii) be freely and easily accessible to the public through appropriate means</li> <li>(iii) apply to all procurement undertaken using government funds</li> <li>(iv) make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;</li> <li>(v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards,</li> </ul>	<ul style="list-style-type: none"> <li>(i) Met</li> <li>(ii) Met</li> <li>(iii) Met</li> <li>(iv) Met</li> <li>(v) Not met in respect of publication of</li> </ul>

	<p>and data on resolution of procurement complaints; (vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.</p> <p>SCORE = A: the legal framework meets all six of the listed requirements SCORE = B: the legal framework meets four or five of the six listed requirements SCORE = C: the legal framework meets two or three of the six listed requirements SCORE = D: the legal framework meets one or none of the six listed requirements</p>	<p>data on complaints</p> <p>(vi) Not met</p>
<p>(ii) Use of competitive procurement methods</p>	<p>When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements:</p> <p>SCORE = A: In all cases. SCORE = B: For at least 80% of the value of contracts awarded. SCORE = C: For at least 60% of the value of contracts awarded. SCORE = D: For less than 60% of the value of contracts awarded, OR reliable data is not available.</p>	<p>Non-competitive contracts are almost always justified, but no data are available on this.</p>
<p>(iii) Public access to complete, reliable and timely procurement information</p>	<p>Key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public through appropriate means.</p> <p>SCORE = A: All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means. SCORE = B: At least three of the key procurement information elements are complete and reliable for government units representing 75% of procurement operations (by value) and made available to the public in a timely manner through appropriate means. SCORE = C: At least two of the key procurement information elements are complete and reliable for government units representing 50% of procurement operations (by value) and made available to the public through appropriate means. SCORE = D: The government lacks a system to</p>	<p>Government procurement plans and bidding opportunities are made available to the public on SHG website.</p>

	generate substantial and reliable coverage of key procurement information, OR does not systematically make key procurement information available to the public.	
(iv) Existence of an independent administrative procurement complaints system	<p>Complaints are reviewed by a body which:</p> <ul style="list-style-type: none"> <li>(i) is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;</li> <li>(ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;</li> <li>(iii) does not charge fees that prohibit access by concerned parties;</li> <li>(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;</li> <li>(v) exercises the authority to suspend the procurement process;</li> <li>(vi) issues decisions within the timeframe specified in the rules/regulations; and</li> <li>(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).</li> </ul> <p>SCORE = A: The procurement complaints system meets all seven criteria.            SCORE = B: The procurement complaints system meets criteria (i), (ii) and three of the other five criteria.            SCORE = C: The procurement complaints system meets criteria (i), (ii) and one of the other five criteria.            SCORE = D: The procurement complaints system does not meet criteria (i) &amp; (ii) and one other criterion,            OR there is no independent procurement complaints review body.</p>	<ul style="list-style-type: none"> <li>(i) Not met as appeals lie only to SHG officers.</li> <li>(ii) Not met, as the Head of Procurement Services is directly involved in procurement.</li> <li>(iii) Met, as no fee is charged</li> <li>(iv) Met, as the complaints procedure is on SHG website</li> <li>(v) Met, as the process can be suspended</li> <li>(vi) Not applicable, as no decisions yet</li> <li>(vii) Met, as decisions are binding on all parties without precluding appeal to the Court.</li> </ul>

In January 2013 a Corporate Procurement Executive was hired as an adviser and in July 2013 new Procurement Regulations came into effect, managed by the Head, Procurement Services (presently vacant) and a Procurement Board, which replaces the former Tenders Board. The Procurement Board is chaired by the Financial Secretary, and includes the Procurement Executive, Head of Procurement Services, the Solicitor General and the Directors of the three front line Directorates. It meets monthly. The Regulations apply to all SHG units, but not to the subsidiaries.

The Procurement Executive has one staff (unqualified), and 70-100 officers work on procurement in the Directorates, though they are not a separate cadre and can be transferred into non-procurement duties.

It is recommended that, as recommended by the Structure Report of June 2013, the procurement function be upgraded by professionalization of officers working on supply and procurement, and that they be formed into a separate cadre with protection against arbitrary transfer and loss of training investment.

The Head of Procurement Services categorises all procurements over £5,000 by level of risk, and specifies the process to be followed and the level of approval accordingly. Procurements below £5,000 are approved by Accounting Officers. Procurements above £5,000 are submitted to the Procurement Executive who categorises them as high, medium or low risk. Low risk contracts are passed back to the Accounting Officer for implementation.

All planned contracts are entered on a Rolling Procurement Plan, which is updated monthly by Accounting Officers. At 8 October 2013, the Plan showed details of 83 contracts, all over £5,000, with a total value of £19.4m. The management of the procurement process, including approval of specification, commencement of procurement action, award of contract, contract variation, and waiver) is shown in various tables of the Regulations, but they are difficult to understand. For instance, it is not clear if the Accounting Officer can approve contract awards over £50,000 where the risk is low (as implied in paras. 20.2 and 20.3), and awards below £5,000 where the risk is medium or high.

The same limits and regulations apply to *sales* of SHG property including privatisations. Waiver of any regulation can be given only by the Programme Board, and is entered into a Register of Waivers which is posted on the SHG website. There is no preference to local suppliers over overseas suppliers, nor vice versa. Local building contractors have limited capacity, said to be no more than £2.5m a year.

The default method of procurement is open tendering “where there is a number of tenderers readily available”. Contracts below £5,000 need at least one written quotation. Contracts over £5,000 need at least three written quotations, while contracts over £50,000 that go to tender need at least four responses. If there is an insufficient number of quotations or responses, the Head of Procurement Services can vary the requirement at his discretion.

All tenderers are informed within two working days of the award decision. An aggrieved tenderer can appeal within six weeks to the Head of Procurement Services, who has four weeks to decide. If the tenderer is still not satisfied, appeal can be made to the Chief Secretary whose decision is final. On contracts given to date (75), there are no appeals so far. The SHG website shows procurement plans and invitations to tender, and contract awards have just started being posted. It is important to keep the process transparent so as to reduce corruption and improve competition and value for money. All suppliers are paid by bank instruction.

These regulations are aimed at improving value for money, fairness, transparency and accountability, and appear appropriate for the St Helena environment. However, it is too soon since they were issued to judge how far they are being followed.

(i) As can be seen above, the legal framework meets four of the six listed requirements. Score = B.

(ii) When contracts are awarded by methods other than open tender, they are justified in accordance with the legal requirements in almost all cases. Score = B.

(iii) Two of the key procurement information elements are complete and reliable for

government units representing most procurement and made available to the public through the SHG website. There are no data on procurement complaints. When contract awards are posted on the website, the score will go up. Present score = B.

(iv) The procurement complaints system does not meet criteria (i) & (ii). Score = D.

Overall score for this indicator is C+.

## PI-20 Effectiveness of internal controls for non-salary expenditure

An effective internal control system is one that (a) is relevant (i.e. based on an assessment of risks and the controls required to manage the risks), (b) incorporates a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) is widely understood and complied with, and (d) is circumvented only for genuine emergency reasons. Evidence of the effectiveness of the internal control system should come from government financial controllers, regular internal and external audits or other surveys carried out by management. One type of information could be error or rejection rates in routine financial procedures.

Other indicators in this set cover controls in debt management, payroll management and management of advances. This indicator, therefore, covers only the control of expenditure commitments and payment for goods and services, casual labor wages and discretionary staff allowances. The effectiveness of expenditure commitment controls is singled out as a separate dimension of this indicator due the importance of such controls for ensuring that the government's payment obligations remain within the limits of projected cash availability, thereby avoiding creation of expenditure arrears (ref. indicator PI-4).

Dimensions to be assessed (scoring method M1):

- (i) Effectiveness of expenditure commitment controls.
- (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.
- (iii) Degree of compliance with rules for processing and recording transactions.

Score	Minimum requirements
A	(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised).
	(ii) Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost effective set of controls, which are widely understood.
	(iii) Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.
B	(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.
	(ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.

	(iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.
C	(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.
	(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.
	(iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.
D	(i) Commitment control systems are generally lacking OR they are routinely violated.
	(ii) Clear, comprehensive control rules/procedures are lacking in other important areas
	(iii) The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures.

The Access Dimensions system will not accept accrual of an expenditure that would take the total over the authorised budget as amended. There is no separate system control against *payments* exceeding the budget, but a control on accruals is effectively also a control on payments. However, the cash management system does not limit payments during the year. Provided the total accrued expenditure is within the budget, each payment is processed and made. As the budget is still on a cash basis, comparisons are difficult.

Other internal controls (Financial Regulations, 2012) have recently been updated and are fairly comprehensive and understood and applied by those primarily responsible. Judging from internal and external audit reports, there is a high level of compliance. The external audit of 2011/12 reviewed internal controls and noted there was *no* instance of misconduct, fraud or irregularity discovered in the course of audit (Audit Service Management Letter on the Financial Statement for 2011/12, p.1). The new procurement regulations apply appropriate controls since July 2013, though it is too soon for audit reports to check how those controls are observed.

The Financial Regulations (section 8g) say that the person placing an order must evidence that sufficient funds are available in the sub-head. There is no requirement to record commitments eg. in a Vote Service Register, or to keep track of uncommitted balances of sub-head budgets. Similarly, the Procurement Regulations say that every officer shall have regard to the Public Finance Ordinance, but do not say *how* the Financial Regulations apply to procurement. Procurement Regulations usually reinforce Financial Regulations by stating who is responsible for checking that a proposed commitment is within budget, how commitments that will be partly met in subsequent years are handled, what records such as Vote Books are kept to track the uncommitted balance of appropriations, and how subsequent variations in the amount of commitment such as change orders are recorded and controlled.

It is recommended that consideration be given to strengthening the Access Dimensions system to ensure that commitments cannot be made that would take accrued expenditure over the budget, and that in due course the budget be also put onto an accrual basis.

(i) Expenditure commitment controls are in place and effectively limit commitments to approved budget allocations, but not to cash availability. Score = C.

(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Score = C.

(iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification. Score = B.

Overall score for this indicator (method M1) is C+.

## PI-21. Effectiveness of internal audit

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should meet international standards such as the ISPPA, in terms of (a) appropriate structure particularly with regard to professional independence, (b) sufficient breadth of mandate, access to information and power to report, (c) use of professional audit methods, including risk assessment techniques. The function should be focused on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. Internal audit functions are in some countries concerned only with pre-audit of transactions, which is here considered part of the internal control system and therefore assessed as part of indicator PI-20.

Specific evidence of an effective internal audit (or systems monitoring) function would also include a focus on high-risk areas, use by the supreme audit institution (SAI) of the internal audit reports, and action by management on internal audit findings. The latter is of critical importance since lack of action on findings completely undermines the rationale for the internal audit function.

Dimensions to be assessed (scoring method M1):

- (i) Coverage and quality of the internal audit function.
- (ii) Frequency and distribution of reports.
- (iii) Extent of management response to internal audit findings.

Score	Minimum requirements
A	(i) Internal audit is operational for all central government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time).
	(ii) Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI
	(iii) Action by management on internal audit findings is prompt and comprehensive across central government entities.
A	(i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time).
	(ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.
	(iii) Prompt and comprehensive action is taken by many (but not all)

	managers
B	(i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.
	(ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.
	(iii) A fair degree of action taken by many managers on major issues but often with delay
C	(i) There is little or no internal audit focused on systems monitoring.
	(ii) Reports are either non-existent or very irregular.
	(iii) Internal audit recommendations are usually ignored (with few exceptions).

The mandate of the Internal Audit Office (IAO) derives from the Financial Regulations and an Audit Charter given it by the Chief Secretary in 2009, which established internal audit as a corporate services function and separate from external audit. Its stated mission is to optimise SHG's ability to achieve its objectives through consultancy services and independent assurance on internal control, governance and risk management. It comprises the Head of Internal Audit and three staff. Only the Head is professionally qualified: others are following professional courses.

The IAO covers only SHG, not CSH and ESH since they were divested. It appears that these subsidiaries do not have their own internal audit function, though they use SHG procedures and are reimbursed by SHG for their project expenditures (see under PI-11).

It is recommended that all subsidiaries of SHG have their own functioning internal audit units, as this is the first line of defence against the risks of fraud, error and waste, and the risk to SHG that it has to bail them out.

The Office aims to follow the International Standards for Professional Practice in Internal Audit and Code of Ethics, issued by the Institute of Internal Auditors, and states in its reports any exceptions. The Charter provides adequate powers, and the Head, Internal Audit, has adequate independence as she reports functionally to the Chief Secretary and to an Audit Committee (AC) since it was set up in 2007. The AC is chaired by the Head of the Governor's Office and members include both SHG and non-government persons with a strong financial or management background.

The IAO draws up an annual internal audit plan based partly on its own assessment of risks and partly on requests for special investigations from the Chief Secretary and Financial Secretary. All core systems are reviewed every year. The plan is agreed with the AC and the IAO reports to the AC every two months on its implementation. A report is issued each year on each of the five Directorates, and an Annual Assurance Statement. Reports go to the respective auditees, and to the Chief Secretary, Financial Secretary, Strategic Management Team, AC and the Audit Service (external audit). The IAO tracks its own recommendations in a Follow-up Register. Management are given due dates for corrective action, but tend to ask for extensions.

- (i) Internal audit is operational for all central government entities, and generally meets professional standards. It is focused wholly on systemic issues. Score = A.
- (ii) Reports are issued regularly for most audited entities and distributed to the audited entity, Finance Department and the Audit Service. Score = A.

(iii) A fair degree of action taken by many managers on major issues but often with delay.  
Score = C.  
The overall score for the indicator is C+.

### 3.5 Accounting, recording and reporting

#### PI-22. Timeliness and regularity of accounts reconciliation

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants – this is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. Two critical types of reconciliation are (i) reconciliation of accounting data, held in the government’s books, with government bank account data held by central and commercial banks, in such a way that no material differences are left unexplained; and (ii) clearing and reconciliation of suspense accounts and advances i.e. of cash payments made, from which no expenditures have yet been recorded. Advances would include travel advances and operational imprests, but not budgeted transfers to autonomous agencies and SN governments which are classified as expenditures when they are effected, even if reporting on any earmarked portion of the transfers is expected periodically.

Dimensions to be assessed (scoring method M2):

- (i) Regularity of bank reconciliations
- (ii) Regularity of reconciliation and clearance of suspense accounts and advances.

Dimension	Minimum requirements for dimension score
(i) Regularity of bank reconciliations	<p>Score = A: Bank reconciliation for all central government bank accounts takes place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.</p> <p>Score = B: Bank reconciliation for all Treasury managed bank accounts takes place at least monthly, usually within 4 weeks from end of month.</p> <p>Score = C: Bank reconciliation for all Treasury managed bank accounts takes place quarterly, usually within 8 weeks of end of quarter.</p> <p>Score = D: Bank reconciliation for all Treasury managed bank accounts takes place less frequently than quarterly OR with backlogs of several months.</p>
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	<p>Score = A: Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.</p> <p>Score = B: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.</p> <p>Score = C: Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.</p>

	Score = D: Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.
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Reconciliation of fiscal bank records with the electronic cashbook is carried out three times a week, and is up to date.

The Audit Management Letter for 2010/11 commented that some advances were not being recovered, and some were static for seven years. The management response was that all such balances were reviewed at the end of 2011/12 and provision made for doubtful debts. All suspense accounts are cleared by the end of the year.

- (i) Bank reconciliation for all central government bank accounts takes place weekly at aggregate and detailed levels, within the following week. Score = A.
  - (ii) Reconciliation and clearance of suspense accounts and advances takes place at least annually within two months of end of period. Some accounts have uncleared balances brought forward. Score = B.
- Overall score for the indicator (method M2) is B+.

### **PI-23. Availability of information on resources received by service delivery units**

Problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining resources that were intended for their use, whether in terms of cash transfers, distribution of materials in kind (e.g. drugs and school books) or provision of centrally recruited and paid personnel. The intended resource provision may not be explicit in budget documentation, but is likely to form part of line ministries internal budget estimates preparation. Front line service delivery units, being furthest in the resource allocation chain, may be the ones to suffer most when overall resources fall short of budget estimates, or when higher level organizational units decide to re-direct resources to other (e.g. administrative) purposes. There may be significant delays in transfers of resources to the unit whether in cash or in kind. Tracking of such information is crucial in order to determine, if the PFM systems effectively support front-line service delivery.

Information about the receipt of resources by service units is often lacking. The accounting system, if sufficiently extensive, reliable and timely, should provide this information, but frequently information on expenditures in the field is incomplete and unreliable and the flow of information disrupted by different and unconnected systems being used at different levels of government (most primary service delivery units typically being the responsibility of sub-national governments). Routine data collection systems, other than accounting systems (i.e. statistical systems), may exist and be able to capture the relevant information along with other service delivery information. Public Expenditure Tracking Surveys, inspections, audits (whether by internal or external auditors) or other ad hoc assessments may constitute alternative information sources.

There is just one dimension to be assessed: collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level

of government is responsible for the operation and funding of those units.

<b>Score</b>	<b>Minimum requirements</b>
A	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.
B	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).
C	Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.
D	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

In St Helena there are three primary schools (total 329 pupils) and one secondary school (250 pupils). The Education and Employment Directorate maintains records showing the resources received by each school.

Following closures, there are three primary health clinics. The Health and Social Welfare Directorate maintains records showing the resources received by each clinic.

Routine accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually. Score = A.

## **PI-24. Quality and timeliness of in-year budget reports**

The ability to execute the budget requires timely and regular information on actual budget performance to be available both to the ministry of finance (and Cabinet), to monitor performance and if necessary to identify new actions to get the budget back on track, and to the MDAs for managing the affairs for which they are accountable. The indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget (i.e. flash reports on release of funds to MDAs are not sufficient). Coverage of expenditure at both the commitment and the payment stage is important for monitoring of budget implementation and utilization of funds released. Accounting for expenditure made from transfers to deconcentrated units within central government (such as provincial administrations) should be included.

The division of responsibility between the ministry of finance and line ministries in the preparation of the reports will depend on the type of accounting and payment system in operation. The role of the ministry of finance may be simply to consolidate reports provided by line ministries (and where applicable, from deconcentrated units) from their accounting records; in other cases the ministry of finance may undertake the data entry and accounting for transactions in which case the role of the line ministry is reduced, perhaps to reconciling

ministry of finance data with their own records; in yet other cases ministry of finance can generate reports out of integrated, computerized accounting systems. The important requirement is that data is sufficiently accurate to be of real use to all parties.

Dimensions to be assessed (scoring method M1):

- (i) Scope of reports in terms of coverage and compatibility with budget estimates
- (ii) Timeliness of the issue of reports
- (iii) Quality of information

<b>Score</b>	<b>Minimum requirements</b>
A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. (iii) There are no material concerns regarding data accuracy.
B	(i) Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly, and issued within 6 weeks of end of quarter. (iii) There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/usefulness.
C	i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter. (iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.
D	(i) Comparison to the budget may not be possible across all main administrative headings. (ii) Quarterly reports are either not prepared or often issued with more than 8 weeks delay. (iii) Data is too inaccurate to be of any real use

Corporate Services produce monthly performance reports, including revenue and expenditure by directorate for the year to date against budget (year to date budget and full year budget, both original and revised). The capital expenditure is reported by project against overall project budgets (original and revised). Assets and liabilities are also reported. Expenditure is on an accrual basis but there is still some confusion about the difference from the former cash basis.

It is recommended that an Accounting Manual be prepared and further training given.

Outputs are also reported including performance against 15 key performance indicators, 16 key areas highlighted by the previous DAPM, and project milestones reached.

- (i) Comparison to budget is possible only for main administrative headings. Expenditure is captured only at accrual stage, not commitment stage. Score = C .
- (ii) Reports are prepared monthly, and issued within four weeks of end of month. Score = A.

(iii) There are some concerns about accuracy, but data issues do not compromise overall consistency/usefulness. Score = B

Overall score (method M1) = C+

## PI-25. Quality and timeliness of annual financial statements

Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete they must be based on details for all ministries, independent departments and deconcentrated units. In addition, the ability to prepare year-end financial statements in a timely fashion is a key indicator of how well the accounting system is operating, and the quality of records maintained. In some systems, individual ministries, departments and deconcentrated units issue financial statements that are subsequently consolidated by the ministry of finance. In more centralized systems, all information for the statements is held by the ministry of finance. Validation of the financial statements through certification by the external auditor is covered in indicator PI- 26. Submission of annual financial statements from AGAs that are part of central government is covered in indicator PI-9.

In order to be useful and to contribute to transparency, financial statements must be understandable to the reader, and deal with transactions, assets and liabilities in a transparent and consistent manner. This is the purpose of financial reporting standards. Some countries have their own public sector financial reporting standards, set by government or another authorized body. To be generally acceptable, such national standards are usually aligned with international standards such as the International Federation of Accountants' International Public Sector Accounting Standards (IPSAS), of which some are relevant for countries that adopt accrual based accounting, while others are relevant for cash-based systems.

Dimensions to be assessed (scoring method M1):

- (i) Completeness of the financial statements
- (ii) Timeliness of submission of the financial statements
- (iii) Accounting standards used

Score	Minimum requirements
A	(i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied for all statements.
B	(i) A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenue, expenditure and financial assets/liabilities (ii) The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year (iii) IPSAS or corresponding national standards are applied.
C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) The statements are submitted for external audit within 15 months of the end of the fiscal year. (iii) Statements are presented in consistent format over time with some disclosure of accounting standards.

D	<p>(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit.</p> <p>(ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year</p> <p>(iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed.</p>
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The Finance Department prepares an Annual Statement of Accounts that includes information on revenue, expenditure and financial assets/liabilities. The only significant omission in the 2011/12 accounts was the true expenditure on pensions, due to lack of an opening actuarial valuation of its liabilities under the defined benefits contribution scheme. The audit opinion was qualified on this ground, and also on lack of sufficient evidence of eligibility for social benefits.

The major concern, however, was the lack of consolidation of its subsidiaries. SHG has control, either by majority equity ownership or by the Governor's power of appointment of board members, of the Bank of St Helena, Solomon & Company (St Helena) PLC, the Bulk Fuel Installation, the St Helena Currency Fund, Connect St Helena, Enterprise St Helena (formerly the St Helena Development Agency till March 2012), the St Helena Fisheries Corporation, the St Helena National Trust, and St Helena Line. There is also the St Helena News Media Service which is being transferred to community ownership and may now be outside SHG control.

The accounts of these bodies for 2011/12 were not consolidated with those of SHG as appears to be required by IPSAS 6, *Consolidated and Separate Financial Statements*. This resulted in an *adverse* audit opinion for that year.<sup>11</sup> The reasons for the adverse opinion, however valid, are not understood outside the Audit Service and the Finance Department. The LegCo Elected Members, for instance, were told that this was a 'technical' issue.

Going forward, the practical problems of consolidation are being addressed in preparing the financial statements for 2012/13, which are similarly delayed, but the difficulty of aligning the accounting policies of such a diverse group of entities<sup>12</sup> and eliminating all intra-group transactions may result in a similar audit opinion for some years. Together with the transition to output budgeting and accrual accounting, this is a massive challenge, which so far has been met by only a few highly developed countries over several years. Even the UK 'whole of government accounts' do not include some publicly controlled entities.<sup>13</sup>

It should be noted that the adoption of accrual accounting is quite separate from the consolidation of all controlled entities. One does not imply the other, even though the accrual IPSAS treats them together. Even accounts prepared on a cash basis could be consolidated,

<sup>11</sup> The former Chief Auditor said: I cannot accurately quantify the effects of these omissions on the Accounts (due to not having the necessary information to calculate the adjustments that would arise from aligning accounting policies, as required to provide a consolidated view). The impact is an understatement of net assets (approximately £15m) and probably financial performance (recalculated to exclude transactions internal to the group).

<sup>12</sup> There is wide variation, for instance, in the basis of valuation of property, plant and equipment. The Solomon accounts last valued their assets in 1973.

<sup>13</sup> The UK whole-of-government accounts for 2010/11, which took 19 months to produce, were criticised by the Auditor General for omitting Network Rail and publicly-owned banks. The impact of omissions could not be quantified and the Auditor General gave a qualified opinion.

while accrual accounting can be restricted to the Consolidated and Special Funds. It is therefore sensible to consider each goal separately and prioritise their respective paths.

The IPSAS Board recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. Public Finance Ordinance section 10 (2) says: If it appears to the Financial Secretary that it is inappropriate, in the circumstances of St. Helena, to follow the International Public Sector Accounting Standards in respect of any aspect of the statement of accounts, he may proceed in a manner which he considers is appropriate, but shall record in the relevant statement the departure from the said standards and the reason therefore. In the 2011/12 notes on accounting policies, the Financial Secretary acknowledged that the Accounts did not comply with the IPSAS requirements and gave the reasons for doing so.

There are 36 separate standards for accrual-based statements and all 36 must be met in full before an entity can say it complies with IPSAS. Some of these have transitional provisions that allow an entity additional time to meet its requirements, counting from the time the government elects to adopt the accrual basis, which was 2011/12. SHG has taken advantage of transitional provisions with regard to IPSAS 1 (non-disclosure of prior year data in the first year of adopting accrual accounting), IPSAS 13 (leases), IPSAS 17 (property, plant and equipment, as land has not been reliably valued – five years grace allowed), and IPSAS 23 (tax revenue is still accounted on a cash basis – five years grace allowed). There is no general transitional period or 'get-out clause' for all 36 standards. In particular, there is no transitional period for IPSAS 6 on consolidation.

IPSAS 6 says that the accounts of all agencies under the control of the executive authority should be consolidated and disclosed so that the executive can be held accountable for how it has used its authority. That principle underlies IFRS for group accounts in the private sector and applies equally in the public sector. Without consolidation, it is not possible, for instance, to know how much is being spent on each multi-agency sector or programme and relate costs to benefits. However, a key characteristic of a public sector reporting entity is the *existence of service recipients or resource providers who are dependent on its financial statements for information for accountability or decision-making purposes* (IPSASB Conceptual Framework, para. 4.5). Consolidation should serve real national needs. In effect, the definition of what should be included in the 'economic entity' requires not only the 'control' condition (power and benefit elements), but also a 'feasibility' condition, ie. that the incremental benefits to users of general-purpose financial statements (GPFS) of inclusion of a controlled entity outweigh the incremental costs. This would relate GPFS to what stakeholders really want. Statements prepared on this basis would then comply fully with IPSAS.

It is recommended that the Financial Secretary, with technical assistance as necessary, and in consultation with the Chief Auditor and DFID, decide what should be consolidated and what should not. In St Helena, for instance, the consolidation of the Bank of St Helena and Currency Fund accounts with the main SHG accounts has not been requested by anyone, and it is difficult to see who or what purpose it would serve.

The 2010/11 financial statements were submitted for audit in October 2011 and the financial statements for 2011/12 on 28 February 2013. These delays were due to problems of the first year of accrual accounting. Previously, the accounts were submitted about July each year. The accounts for 2012/13 have not been seen at the date of this report (5 December 2013). There is no legal time limit for submission, though there is a six month time limit for their audit. DFID requires the audited accounts by end of December (nine months after the end of year).

It is recommended that the Public Finance Ordinance be amended to require submission of the Annual Statement of Accounts within four months of the end of the year, ie, by 31 July.

- (i) A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenue, expenditure and financial assets/liabilities. Score = B
  - (ii) The accounts for 2011/12 were submitted for audit 12 months after the end of the year. Score = C.
  - (iii) Accrual IPSAS standards are applied with some exceptions that are disclosed. Score = B.
- Overall score for the indicator (method M1) is C+

### 3.6 External scrutiny and audit

#### PI-26. Scope, nature and follow-up of external audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope/coverage of the audit, adherence to appropriate auditing standards including independence of the external audit institution (ref. INTOSAI and IFAC/IAASB), focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit (such as e.g. value for money in major infrastructure contracts) would also be expected of a high quality audit function.

The scope of audit mandate should include extra-budgetary funds and autonomous agencies. The latter may not always be audited by the Supreme Audit Institution (SAI), as the use of other audit institutions may be foreseen. The scope indicates the entities and sources of funds that are audited in any given year. Where SAI capacity is limited, the audit program may be planned by the SAI in line with legal audit obligations on a multi-year basis in order to ensure that most important or risk-prone entities and functions are covered annually, whereas other entities and functions may be covered less frequently.

While the exact process will depend to some degree on the system of government, in general the executive (the individual audited entities and/or the ministry of finance) would be expected to follow up of the audit findings through correction of errors and of system weaknesses identified by the auditors. Evidence of effective follow up of the audit findings includes the issuance by the executive or audited entity of a formal written response to the audit findings indicating how these will be or already have been addressed. The following year's external audit report may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations.

Dimensions to be assessed (scoring method M1):

- (i) Scope/nature of audit performed (incl. adherence to auditing standards).
- (ii) Timeliness of submission of audit reports to legislature.
- (iii) Evidence of follow up on audit recommendations.

Score	Minimum requirements
A	(i) All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some

	<p>aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.</p> <p>ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.</p> <p>iii) There is clear evidence of effective and timely follow up.</p>
B	<p>(i) Central government entities representing at least 75% of total expenditures<sup>13</sup> are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adhere to auditing standards, focusing on significant and systemic issues.</p> <p>(ii) Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.</p> <p>(iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up.</p>
C	<p>(i) Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.</p> <p>(ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors).</p> <p>(iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.</p>
D	<p>(i) Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues.</p> <p>(ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors).</p> <p>(iii) There is little evidence of response or follow up.</p>

External audit is mandated by the Constitution and the Public Finance Ordinance. Under the Constitution (section 110) only the Governor has the power to appoint and dismiss the Chief Auditor, acting with the approval of the Secretary of State. The former Chief Auditor was dismissed on 18 October 2013 on the ground that he had not satisfied the terms of his probation under a TCO contract. As the Chief Auditor had given an adverse opinion on the Statement of Accounts for 2011/12 on 8 October 2013, there is a perception that this was the cause of his departure. Whatever the actual reasons for his dismissal (on which there are more rumours than facts), the lack of transparency has thrown doubt on the independence of his position from the executive power. A new Acting Chief Auditor was appointed on 31 October 2013.

The salary of the Chief Auditor is a first charge on the Consolidated Fund, and the budget for the rest of the Audit Service is set by LegCo on the recommendation of the PAC. The Audit Service presently has nine posts, but only five of these are filled. There are insufficient audit staff to undertake the value-for-money audits that are requested by LegCo and it is difficult to find suitable candidates.

The Chief Auditor has all the necessary powers of access to documents and persons to enable him to perform his functions. According to the Public Finance Ordinance, he reports to the Financial Secretary, who is required to lay the audited accounts before the next

meeting of the LegCo. In practice, the Chief Auditor reports directly to ExCo, and there is no question as to his independence. There is a statutory time limit of six months after receipt of the Annual Statement of Accounts for submitting his annual report. The Accounts for 2011/12 (second draft) were submitted to the Chief Auditor on 28 March 2013, and the audit report was signed off on 8 October 2013, just over the six month deadline.

The range of activities includes the full range of financial and value-for-money audits. All public sector entities have their financial accounts audited by the Audit Service every year, except for Solomon & Co, which is a UK registered company and is audited by a UK firm of accountants. Value-for-money audits depend on staff capacity. The Audit Service follows UK Standards of Auditing, which are close to the International Standards of Auditing (ISAs). The International Standards for Supreme Audit Institutions (ISSAIs) issued by INTOSAI in 2010, which include the ISAs and add Practice Notes for their application to the public sector, are not used. Management Letters by the Audit Service provide evidence of effective and timely follow up of recommendations.

SH Connect should also be audited by the Chief Auditor, as planned. As it has just been established, there is a need for a pre-audit of its internal control system.

(i) All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and adhere to auditing standards, focusing on significant and systemic issues. Score = A.

(ii) Audit reports are submitted to the legislature within 8 months of the receipt of the annual financial statements. Score = B

(iii) There is clear evidence of effective and timely follow up. Score = A.

Overall score for the indicator, using method M1, is B+.

## **PI-27. Legislative scrutiny of the annual budget law**

The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allowed for that process.

Adequacy of the budget documentation made available to the legislature is covered by PI-6. In-year budget amendments constitute a common feature of annual budget processes. In order not to undermine the significance of the original budget, the authorisation of amendments that can be done by the executive must be clearly defined, including limits on the extent to which expenditure budgets may be expanded and re-allocated and time limits for the executive's presentation of amendments for retroactive approval by the legislature. These rules must also be adhered to.

Dimensions to be assessed (scoring method M1):

(i) Scope of the legislature's scrutiny.

- (ii) Extent to which the legislature’s procedures are well established and respected.
- (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).
- (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.

<b>Score</b>	<b>Minimum requirements</b>
A	(i) The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.
	(ii) The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.
	(iii) The legislature has at least two months to review the budget proposals.
	(iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
B	(i) The legislature’s review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.
	ii) Simple procedures exist for the legislature’s budget review and are respected
	(iii) The legislature has at least one month to review the budget proposals.
	(iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.
C	(i) The legislature’s review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.
	(ii) Some procedures exist for the legislature’s budget review, but they are not comprehensive and only partially respected.
	(iii) The legislature has at least one month to review the budget proposals.
	(iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	(i) The legislature’s review is non-existent or extremely limited, OR there is no functioning legislature.
	(ii) Procedures for the legislature’s review are non-existent or not respected.
	(iii) The time allowed for the legislature’s review is clearly insufficient for a meaningful debate (significantly less than one month).
	(iv) Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear, OR they are usually not respected.

The Legislative Council plays an important role in setting the budget.<sup>14</sup> Indicative budget ceilings for the Directorates are set by Elected Members, normally in May. Directorates discuss their detailed estimates with the respective Committees of LegCo in October. The budget is finally approved in March. The Medium Term Expenditure Framework is considered by LegCo although not in advance of expenditure details. Fiscal policies are subject to review by the Planning and Finance Committee and the full Council.

<sup>14</sup> Though one Elected Member complained that they had no influence on prioritisation.

The Financial Secretary may allow virement of a budget from one cost centre (sub-head) to another on application from an Accounting Officer, but no increase in the expenditure on the head as a whole. The Accounting Officer can vire within a cost centre on his/her own authority. The Governor may allow expenditure of an urgent and unforeseeable nature for which there is no budget (Special Warrant), but only on the recommendation of the Financial Secretary and after consultation with the Executive Council. The Legislative Council must then be informed. This exception has been used to provide relief after a drought.

Any expenditure in excess of the authorised budget for a head requires a Supplementary Estimate. This must be submitted to LegCo for approval. This is normally done once a year about October to redistribute budget provisions for the year. The process is similar to the annual budget process and is transparent.

(i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. Score = A.

(ii) The legislature's procedures for budget review are well established and respected. They include review by specialised committees. Score = A.

(iii) The legislature has at least two months to review the budget proposals. Score = A

(iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on the extent and nature of amendments and are consistently respected. Score = A.

The overall score for the indicator (method M1) is A.

## **PI-28. Legislative scrutiny of external audit reports**

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors (ref. PI-26).

The focus in this indicator is on central government entities, including autonomous agencies to the extent that either (a) they are required by law to submit audit reports to the legislative or (b) their parent or controlling ministry/department must answer questions and take action on the agencies' behalf.

Timeliness of the legislature's scrutiny can be affected by a surge in audit report submissions, where external auditors are catching up on a backlog. In such situations, the committee(s) may decide to give first priority to audit reports covering the most recent reporting periods and audited entities that have a history of poor compliance. The assessment should favorably consider such elements of good practice and not be based on the resulting delay in scrutinizing reports covering more distant periods.

Dimensions to be assessed (scoring method M1):

- (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).
- (ii) Extent of hearings on key findings undertaken by the legislature.
- (iii) Issue of recommendations by the legislature and implementation by the

executive.

Score	Minimum requirements
A	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.
	(ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.
	(iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.
B	(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports.
	(ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion.
	(iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.
C	(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports.
	(ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.
	(iii) Actions are recommended, but are rarely acted upon by the executive.
D	(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete.
	(ii) No in-depth hearings are conducted by the legislature.
	(iii) No recommendations are being issued by the legislature.

The Public Accounts Committee has been strengthened by including private sector representation, but the election of 2013 has resulted in seven new elected members of the Council (out of 12). The Commonwealth Parliamentary Association, UK Branch, gave a one-week seminar for new members in August 2013. The new PAC had not been constituted at the time of this assessment. The last PAC scrutinised the audited accounts up to 2010/11 and value for money reports, meeting almost weekly. They have support from the Chief Auditor at all sittings, and call the Financial Secretary and relevant Accounting Officers, Roads Engineer, etc. The findings of the PAC are decided mainly by consensus: there is no formal voting. Hearings are open to the public. Members follow up progress on recommendations made in previous sessions. Recommendations are being implemented, but some take a long time, eg. the solid waste management project. PAC reports are laid before LegCo, but they are not further debated or approved.

**Table 5: Scrutiny of Audit Reports on the Statement of Accounts**

Year	Date of receipt of Audit Report	Date of scrutiny by PAC	Date PAC Report issued to Speaker
2009/10	May/June 2011	July 2011	September 2011
2010/11	February 2012	April 2012	September 2012
2011/12	October 2013	Expected January 2014	Expected March 2014

Source: Public Accounts Committee Secretary

(i) Scrutiny of audit reports is usually completed by LegCo within 6 months from receipt of the

reports. Score = B.

(ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. Score = A.

(iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence. Score = B.

Overall score for the indicator (M1 method) is B+.

### 3.7 Donor practices

#### D-1. Predictability of Direct Budget Support

Direct budget support constitutes an important source of revenue for central government in many countries. Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection. Both the shortfalls in the total amount of budget support and the delays in the in-year distribution of the in-flows can have serious implications for the government's ability to implement its budget as planned.

Direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors. When received by the government's treasury, the funds will be used in accordance with the procedures applying to all other general revenue. Direct budget support may be channelled through separate or joint donor holding accounts before being released to the treasury. The narrative should explain possible reasons for the observed deviation between forecasts and actual disbursements, which could include non-implementation or delay of actions agreed with the government as condition for disbursement.

Dimensions to be assessed (scoring method M1):

- (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).
- (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates). This should be assessed on the basis of the quarterly distribution of actual budget support inflows compared to the distribution according to the agreed plan. The weighted disbursement delay would be calculated as the percent of funds delayed multiplied by the number of quarters of the delay (so if 10% of the actual inflows arrive in the fourth quarter instead of the first quarter as planned, the weighted delay is 30%).

Score	Minimum requirements
A	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
B	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%. ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays

	(weighted) have not exceeded 25% in two of the last three years.
C	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years.
D	(i) In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15% OR no comprehensive and timely forecast for the year(s) was provided by the donor agencies. (ii) The requirements for score C (or higher) are not met.

The only provider of general budget support is DFID, managed by the Overseas Territories Department. Each year a Development Assistance Planning Mission (DAPM) team visits the island and discusses the performance of SHG for the current year and targets for the following three years, and agrees the next year's grant-in-aid, subject to Ministerial approval. The grant is based on the projected deficit on recurrent account. Capital requirements are considered separately and may be met through tied project aid.

The 2013/14 grant was agreed in February 2013. The previous years' grants were agreed in February 2012 and in May 2011. Both the grant and the timing of releases, normally in three tranches in April, August and January, are agreed. Releases are subject to submission of financial and performance monitoring reports. In each of the last three years, the full amount was released as agreed.

Ideally, budget support is agreed at the start of each year's budget process so that prioritisation and choices can be made within firm monetary limits (ceilings). Late notification of changes in grants requires re-prioritisation and may be rushed if the budget deadline is near. SHG would welcome earlier involvement from DFID in the MTEF process of the 2014/15 budget, and the DAPM of January 2014 agreed that earlier engagement with DFID from August to January would be more helpful. On the other hand, the DAPM is a single annual mission: substantially earlier timing of the final budget mission would make it more difficult to check the realism of the budget (see PI-11) and project outcomes for the current year. The amount of general budget support in the last two years has been augmented by transfers from DFID-funded project support for health and education by agreement with the DAPM.

(i) In none of the last three years has direct budget support outturn fallen short of the forecast. Score = A.

(ii) Disbursement estimates have been agreed with donors before the beginning of the fiscal year and there have been no delays in actual disbursements in the last three years. Score = A.

The overall score for the indicator (method M1) is A.

## D-2. Financial information provided by donors for budgeting and reporting on project and programme aid

Predictability of disbursement of donor support for projects and programmes (below referred to only as projects) affect the implementation of specific line items in the budget. Project support can be delivered in a wide range of ways, with varying degrees of government involvement in planning and management of resources. A lower degree of government

involvement leads to problems in budgeting the resources (including presentation in the budget documents for legislative approval) and in reporting of actual disbursement and use of funds (which will be entirely the donor’s responsibility where aid is provided in-kind). While the government through its spending units should be able to budget and report on aid transferred in cash (often as extra-budgetary funding or through separate bank accounts), the government is dependent on donors for budget estimates and reporting on implementation for aid in-kind. Donor reports on cash disbursements are also important for reconciliation between donor disbursement records and government project accounts.

Dimensions to be assessed (scoring method M1):

- (i) Completeness and timeliness of budget estimates by donors for project support.
- (ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

<b>Score</b>	<b>Minimum requirements</b>
A	(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government’s budget calendar and with a breakdown consistent with the government’s budget classification.
	(ii) Donors provide quarterly reports within one month of end-of-quarter on all disbursements made for at least 85% of the externally financed project estimates in the budget, with a breakdown consistent with the government budget classification.
B	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government’s budget calendar and with a breakdown consistent with the government’s budget classification.
	(ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 70% of the externally financed project estimates in the budget with a breakdown consistent with the government budget classification.
C	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government’s coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government’s budget classification.
	(ii) Donors provide quarterly reports within two months of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a breakdown consistent with the government budget classification.
D	(i) Not all major donors provide budget estimates for disbursement of project aid at least for the government’s coming fiscal year and at least three months prior its start.
	(ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

Project aid to SHG comprises the shipping subsidy by DFID (since this is tied to the operation of the RMS St Helena), aid to development projects on grant terms mainly by DFID, and some by EC/EDF and UNDP, and technical cooperation (expatriate Technical Cooperation Officers on contract to SHG, consultants, and overseas training for Saints), mainly funded by DFID.

DFID project aid is all agreed during the annual DAPM. Since it is all contracted and managed directly by SHG, there is no need for donor reporting. It is fully budgeted, accounted for and reported by SHG. The only exception is the Basil Read contract for the construction of the airport, for which SHG gets monthly reports of expenditure and progress. All this expenditure is charged to a single account for Construction Work in Progress in the SHG Statement of Assets and Liabilities. It is subject to audit by the Chief Auditor.

EC/EDF provisional aid is notified in advance but often not confirmed before the budget is approved.

(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. Score = A.

(ii) Donors provide monthly reports within one month of end-of-month on all disbursements made for the only externally financed and managed project in the budget, with a breakdown consistent with the government budget classification. Score = A.

The overall score for this indicator (method M1) is A.

### **D-3. Proportion of aid that is managed by use of national procedures**

National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions of the government. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have different requirements. Conversely, the use of national systems by donors can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

The use of national procedures mean that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds. All direct and un-earmarked budget support (general or sector based) will by definition use national procedures in all respects. Other types of donor funding such as e.g. earmarked budget support, basket funds and discrete project funding may use some or no elements of national procedures.

The dimension to be assessed is the overall proportion of aid funds to central government that are managed through national procedures. This proportion should be arrived at as an average of the proportion of donor funds that use national systems for each of the four areas: procurement, payment/ accounting, audit and reporting respectively.

<b>Score</b>	<b>Minimum requirements</b>
A	(i) 90% or more of aid funds to central government are managed through national procedures.
B	(i) 75% or more of aid funds to central government are managed through national procedures.

C	(i) 50% or more of aid funds to central government are managed through national procedures.
D	(i) Less than 50% of aid funds to central government are managed through national procedures.

As explained under D-2 above, all aid is budgeted, accounted, reported and audited using SHG procedures. The only exception is the procurement and payments for the airport project. Up to 31 March 2012, a capital grant had been received from DFID of £40.478m to cover progress payments. This is estimated to be 53% of all payments for the year. It has not been possible to estimate the proportion of all procurement attributable to this project. For the purpose of this assessment, it is assumed that this is also 53%. The reporting and audit of aid follow SHG procedures (irrespective of Basil Read own reporting). The average of 53, 53, 100 and 100% is 76%.

75% or more of aid funds to central government are managed through national procedures.  
Score = B.

## **4 Government reform process**

### **4.1 Recent and on-going reforms**

The most important recent and ongoing PFM reforms are summarized in section 2.1 above.

### **4.2 Institutional factors supporting reform planning and implementation**

The PSM programme was run by a TCO and Working Group. It formally finished in November 2012, but reforms are continuing to be consolidated.

No current PFM reform programme has been seen. Past reforms have been coordinated by the Strategic Management Team (Chief Secretary, Financial Secretary, Chief Executive Economic Development, three operational Directors, Director Police, Assistant Financial Secretary, Airport Director, Assistant Chief Secretary (Performance), and Assistant Chief Secretary (Support)). This has been an effective coordinating mechanism.



## Annex A Terms of reference

### TERMS OF REFERENCE FOR A PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE MEASUREMENT ASSESSMENT OF SAINT HELENA GOVERNMENT (SHG).

#### Background

St Helena is a UK Overseas Territory located in the South Atlantic. Only accessible by sea on the RMS St Helena, the island has a population of just over 4,000 and has been in a long period of economic decline due to its isolation. The British Government's Department for International Development (DFID) provides budgetary support to SHG on an annual basis to keep the government functioning and the economy running. It also subsidises the sea transport link.

In a major effort to break out of the pattern of economic decline and depopulation, DFID has agreed to fund the development of air access through the building of the island's first airport. Construction of the airport commenced in November 2011 and it is due to open for scheduled operations by February 2016. The construction of the airport is a catalyst for island-wide change, with the ultimate goal being a sustainable economy, built upon low volume, high value tourism and fishing. The target is to have the equivalent of 30,000 visitors to the island per annum by 2021/22 (an average of circa 600 visitors on the island per week).

The Sustainable Development Plan (SDP) provides the island's overall approach to exploiting this opportunity and the Sustainable Economic Development Plan (SEDP) sets out how the transformation to a tourism driven economy will be implemented.

Both the general running of SHG and the preparations for economic transformation through the air link require high levels of efficiency and effectiveness in the financial management of Government (PFM - Public Financial Management). A vital element in ensuring efficient and effective PFM is completion on a regular basis of assessments of the financial system. Two instruments are used: Financial Risk Analysis (FRA) developed by DFID and PEFA developed by the World Bank with bilateral donor support.

SHG completed a FRA in 2010/11 and the intention is to complete an SHG PEFA in October 2013.

The TOR for the PEFA are set out below:

#### Objective

The objective of the PEFA assessment is to carry out a comprehensive review of the SHG PFM system, identifying strengths and weaknesses and areas for improvement and reform.

#### Coverage

PEFA requires assessment of six core dimensions:

1. Credibility of the budget i.e. realism and likelihood of implementation.
2. Comprehensiveness and transparency of the budget i.e. that the budget covers all aspects and is accessible to the public.
3. The policy basis of the budget i.e. it accurately reflects SHG policy.

### **Final PEFA report on St Helena Government**

4. The predictability and control in budget execution i.e. it is implemented in an orderly and predictable manner.
5. Adequacy of recording and reporting of key financial information.
6. Effectiveness of external scrutiny and external audit.

Assessment will be required of the trend in each dimension-whether there is improvement or not and the reasons for the assessment.

The specific functions which will require examination are mainly but not exclusively the following:

- planning;
- budgeting;
- treasury operations;
- internal controls;
- revenue administration;
- payroll;
- procurement;
- accounting;
- internal audit;
- external audit;
- fiscal risk management;
- local government.

### **Recipients**

The work will be carried out for SHG and DFID.

### **Scope of Work**

1. Scrutiny of relevant financial records and procedures in the Corporate Finance, Corporate Services, Internal Audit, St Helena Audit Service (External Audit), other SHGF Directorates and Enterprise St. Helena and such other areas of SHG as are agreed between The Financial Secretary and the Consultant appointed see relevant.
2. Discussions with key officials involved in the departments above.
3. Discussions with the resident DFID Representative on the Island.
4. Discussion and agreement with the Financial Secretary and his senior officials of the draft conclusions and recommendations while on Island.
5. Provide draft report to Financial Secretary before issuing to DFID.
6. On return to UK, presentation and discussion of conclusions and recommendations to the Saint Helena Team in the DFID Overseas Territories Department located in DFID East Kilbride with SHG offices attending via telecom.

NB: This scope of work will be dependent on how long the consultant can spend on the Island which in turn depends on when it is possible to join the ship and the ship's movements. If the period on the Island is reduced from two weeks, then the work programme will have to be truncated by agreement between the Financial Secretary and the Consultant appointed.

## **Outputs**

1. Draft report following the PEFA required pattern of conclusions, ratings and recommendations.
2. Final report setting out agreed conclusions and recommendations.

## **Reporting**

The consultant appointed will report in the first instance to Colin Owen, Financial Secretary, the Castle, St Helena, South Atlantic, +290 2470 [financial.secretary@sainthelena.gov.sh](mailto:financial.secretary@sainthelena.gov.sh) who should be copied in on all correspondence. In the FS's absence to the Acting Financial Secretary, Dax Richards, at the same address and telephone number [saccountant@sainthelena.gov.sh](mailto:saccountant@sainthelena.gov.sh).

## **Timing and Duration**

It is intended that the assignment will be completed over a six week period in either September/October or October/November 2013. The need is to be able to spend two weeks on the Island. Travel time will be required via Ascension to St Helena, which is estimated to be 6-8 days dependent on the flight and shipping schedules. Precise timing for the assignment will have to be adjusted to fit in with travel arrangements.

## **Qualifications and Experience Required**

The consultant appointed will have either a professional accountancy or economics qualification. Extensive experience of PFM in developing countries and considerable experience of PEFA completions will be essential. Previous work on PFM and PEFA's in small island states would be desirable.

## **Proposals and Contracting**

SHG will contract with the chosen consultant. Consultancy proposals should contain at a minimum: the CV of the proposed specialist; fee rates and other expenses; and a statement of availability between September and November 2013.

## Annex B Calculation of PI-1, PI-2 and PI-3 variances

**Table 1 - Fiscal years for assessment**

Year 1 =	2010/11
Year 2 =	2011/12
Year 3 =	2012/13

**Table 2**

**Data for year = 2010/11**

Organisational head (£000)	budget	actual	adjusted budget	deviation	absolute deviation	percent
Governor's Office	161	157	165.3	-8.3	8.3	5.0%
Secretariat	732	782	751.7	30.3	30.3	4.0%
Human Resources	2,814	2,654	2,889.7	-235.7	235.7	8.2%
Legal and Lands	665	504	682.9	-178.9	178.9	26.2%
Police	915	914	939.6	-25.6	25.6	2.7%
Audit Service	98	90	100.6	-10.6	10.6	10.6%
Finance	595	1,293	611.0	682.0	682.0	111.6%
Dev't and Economic Planning	193	193	198.2	-5.2	5.2	2.6%
Post Office	139	112	142.7	-30.7	30.7	21.5%
Pensions and Gratuities	971	1,050	997.1	52.9	52.9	5.3%
Education	2,112	2,068	2,168.8	-100.8	100.8	4.6%
Health and Social Services	3,732	4,321	3,832.4	488.6	488.6	12.7%
Employment & Social Security	1,956	1,784	2,008.6	-224.6	224.6	11.2%
Agriculture and Nat. Resources	1,572	1,498	1,614.3	-116.3	116.3	7.2%
Public Works and Services	4,058	4,031	4,167.2	-136.2	136.2	3.3%
Wharf Trading Account	117	118	120.1	-2.1	2.1	1.8%
Shipping	4,159	4,083	4,270.9	-187.9	187.9	4.4%
Internal Audit	49	46	50.3	-4.3	4.3	8.6%
Tourist Office	91	107	93.4	13.6	13.6	14.5%
allocated expenditure	25,129	25,805	25,805.0	0.0	2,534.7	
contingency	744	0				
total expenditure	25,873	25,805				
overall (PI-1) variance						0.3%
composition (PI-2) variance						9.8%
contingency share of budget						0.0%

**Table 3**

**Data for year = 2011/12**

Organisational head (£000)	budget	actual	adjusted budget	deviation	absolute deviation	percent
Governor's Office	161	170	161.8	8.2	8.2	5.1%
Chief Secretary	974	992	978.7	13.3	13.3	1.4%
Human Resources	3,003	2,629	3,017.5	-388.5	388.5	12.9%
Attorney General	68	66	68.3	-2.3	2.3	3.4%
Legal and Lands	682	666	685.3	-19.3	19.3	2.8%
Police	762	753	765.7	-12.7	12.7	1.7%
Audit Service	92	89	92.4	-3.4	3.4	3.7%
Finance	2,997	3,968	3,011.5	956.5	956.5	31.8%
Dev't and Economic Planning	222	220	223.1	-3.1	3.1	1.4%
Pensions and Gratuities	883	942	887.3	54.7	54.7	6.2%
Education	2,751	2,657	2,764.3	-107.3	107.3	3.9%
Health and Social Services	6,301	6,175	6,331.5	-156.5	156.5	2.5%
Agriculture and Nat. Resources	1,566	1,507	1,573.6	-66.6	66.6	4.2%
Public Works & Services	4,733	4,449	4,755.9	-306.9	306.9	6.5%
Shipping	4,757	4,798	4,780.0	18.0	18.0	0.4%
Internal Audit	49	42	49.2	-7.2	7.2	14.7%
Tourist Office	199	223	200.0	23.0	23.0	11.5%

**Final PEFA Report on St Helena Government**

allocated expenditure	30,200	30,346	30,346.0	0.0	2,147.6	
contingency	158	0				
total expenditure	30,358	30,346				
overall (PI-1) variance						0.0%
composition (PI-2) variance						7.1%
contingency share of budget						0.0%

**Table 4**

**Data for year = 2012/13**

Organisational head (£000)	budget	actual	adjusted budget	deviation	absolute deviation	percent
Governor	171	191	166.0	25.0	25.0	15.0%
Secretariat/Corporate Support	1,181	1,160	1,146.8	13.2	13.2	1.2%
HR	3,309	3,264	3,213.2	50.8	50.8	1.6%
Attorney General	84	82	81.6	0.4	0.4	0.5%
Police	770	782	747.7	34.3	34.3	4.6%
Audit Service	80	76	77.7	-1.7	1.7	2.2%
Finance incl Dev & Econ Plg	2,520	2,561	2,447.0	114.0	114.0	4.7%
Procurement	0	0	0.0	0.0	0.0	0.0%
Tourism	676	697	656.4	40.6	40.6	6.2%
Pensions	2,879	2,943	2,795.6	147.4	147.4	5.3%
Access and Shipping	5,014	4,458	4,868.8	-410.8	410.8	8.4%
Education & Employment	2,598	2,567	2,522.8	44.2	44.2	1.8%
Health and SW	5,716	5,455	5,550.5	-95.5	95.5	1.7%
Internal Audit	54	54	52.4	1.6	1.6	3.0%
Agric and NR	1,174	1,130	1,140.0	-10.0	10.0	0.9%
Environment & Nat Resources	5,546	5,425	5,385.4	39.6	39.6	0.7%
Environmental Mgt	137	140	133.0	7.0	7.0	5.2%
allocated expenditure	31,909	30,985	30,985.0	0.0	1,036.0	
contingency	181	0				
total expenditure	32,090	30,985				
overall (PI-1) variance						3.4%
composition (PI-2) variance						3.3%
contingency share of budget						0.0%

**Table 5 - Results Matrix**

year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2010/11	0.3%	9.8%	0.0%
2011/12	0.0%	7.1%	
2012/13	3.4%	3.3%	

**Score for indicator PI-1:**

**Score for indicator PI-2 (i)**

**Score for indicator PI-2 (ii)**

**A**

**B**

**A**

**B+**

**PI-3**

Year	Budg. Dom Rev	Actual Dom Rev	Actual as a % of budget
2010/11	8,813	9,667	109.7
2011/12	9,750	9,419	96.6
2012/13	10,670	10,378	97.3

**Score for indicator PI-3:**

**B**

**Sources:**

Head, Accounting Services, consultant calculations.

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Expenditure includes recurrent expenditure only.

The only contingency budget is sub-head 021-01400 Other Employee Costs, which consists of salary award, salary increments and other amounts held by Finance until they are assigned to Directorates.

The budget is then vired to the receiving Directorates. Nothing is charged against the budget line.

Revenue omits DFID grant and recharges between directorates.

## **Annex C References/bibliography**

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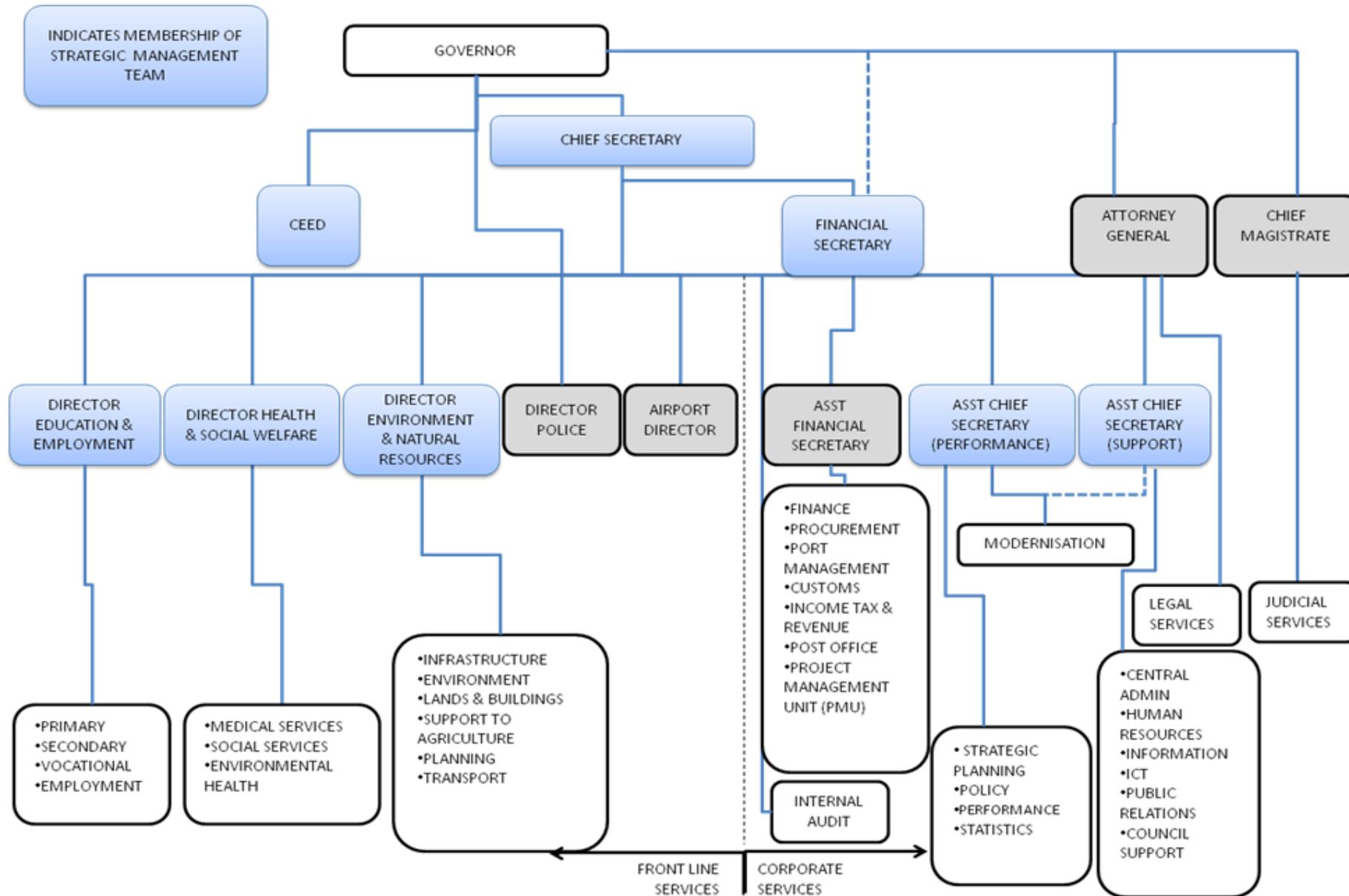
## Annex D Persons seen

Name	Post	Organisation
Owen Sullivan	Chief Secretary	St Helena Government
Colin Owen	Financial Secretary	
Dax Richards	Assistant Financial Secretary	
Nicholas Yon	Head, Accounting Services	
Susan O'Bey	Director, Strategic Policy and Planning	
Paul McGinnety	Director, Environment and Natural Resources	
David Jenkins	Director, Health and Social Welfare	
Helen Lawrence	Assistant Secretary, D/HSW	
Colin Moore	Director, Education and Employment	
Jerry Roberts	Manager, IT Section	
Helena Bennett	Head of Internal Audit	
John Gilchrist	Chief Auditor	
Connie Stevens	Audit Manager	
Paula McLeod	Statistician	
Ian Smyth	Government Economist	
David Woosey	Corporate Procurement Executive	
Barbara George	Human Resources Manager	
Enid Joshua	Head, Pensions and Payroll	
Sarah Troman	Capital Projects Manager	
Gillian Knipe	Assistant Commissioner, Income Tax	
Lionel Joshua	Customs Manager	
Anita Legg	Secretary, Public Accounts Committee	LegCo
Hon Nigel Dollery	Elected Member	LegCo
Barry Hubbard	Chief Executive Officer	Connect St Helena

***Final PEFA report on St Helena Government***

Robert Midwinter	Director	Enterprise St Helena
Michielle Yon	Head of Finance	Enterprise St Helena
Carolyn Thomas	Chairperson	Bank of St Helena
Rosemary Bargo	Managing Director	Bank of St Helena
Corinda Essex	President	Chamber of Commerce

# Annex E Public Service Structure



February 2014





