SAINT HELENA AUDIT SERVICE
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2014-15

To the Legislative Council of St Helena Government

14/09/2016

CONTENTS

INTRODUCTION

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

The purpose of this report is to summarise for LegCo the key issues arising from my audit of the financial statements for the year ended 31 March 2015 and report any significant accounting matters or weaknesses in internal controls that have come to my attention during the audit.

A draft of this Management Letter was reported to the Financial Secretary and Executive Council (ExCo) for review prior to submission of the final report to the LegCo.

AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the financial statements of SHG present fairly the financial position of Government at 31 March 2015 and of its financial performance and cash flows for the year, and confirm that the financial statements are prepared in accordance with all relevant laws and policies.

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

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

My audit methodology for the collection of audit evidence is based on the Audit Manual of the Saint Helena Audit Service (SHAS), which has been developed to reflect current international auditing standards. The methodology adopts a risk-based approach in accordance with International Standards on Auditing (UK & Ireland).

Although I am required under International Standards on Auditing (ISA) to consider fraud when carrying out the audit, the purpose of my audit is not for the detection of fraud. Responsibility for the prevention and detection of fraud rests with the Government who should not rely on the external audit function to discharge these responsibilities.

AUDITOR INDEPENDENCE

The audit engagement team has complied with relevant ethical requirements regarding independence. The following circumstances may present a perceived threat to the independence of the Saint Helena Audit Service:

- The audit of SHG accounts for more than 50% of the annual fee income for the SHAS.
- I am appointed by HE the Governor, with the approval of the Secretary of State, and my staff are appointed on the same terms and conditions of service as other public servants of SHG.

The threats to independence in respect of the financial statements audit are reduced to an acceptable level through the protections enshrined in the Saint Helena Constitution, in which the Chief Auditor and staff of the Saint Helena Audit Service are not be subject to the direction or control of the Governor, the Executive Council or any other person or authority.

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

CHANGES TO ACCOUNTS AND SIGNIFICANT MATTERS

FINANCIAL REPORTING FRAMEWORK

Section 10(1) of the Public Finance Ordinance requires that the annual financial statements of Government comply with the IPSAS. The financial statements for the year 2014/15 are the fourth year of reporting on an accruals basis using IPSAS. The matters reported in this management letter relate to the draft 2014/15 financial statements submitted for audit in March 2016.

The accounting policies set out in Note 1 explain that the separate financial statements of SHG have been prepared in accordance with IPSAS. However, SHG have not discharged the requirement in IPSAS 6 *Consolidated and Separate Financial Statements* to prepare consolidated financial statements – whereby SHG's ownership interest in subsidiary undertakings are accounted for and presented, along with SHGs financial statements, as a single economic entity. SHG has used certain transitional provisions available for periods subsequent to first-time reporting under IPSAS but there is no exemption in respect of IPSAS 6.

Accordingly, and consistent with the prior-year, the audit report is modified to report that the financial statements have not been prepared in accordance with all relevant laws and policies.

CHANGES IN ACCOUNTING POLICY

The major impact concerns the consistent recognition (in the separate financial statements of SHG) of those entities in which SHG has a controlling equity ownership. SHG accounting policy requires investments in these subsidiaries to be recognised initially at cost and adjusted for profit/loss and other equity movements based on the latest available financial statements of the subsidiary. These controlled entities, including those in which SHG has no ownership interest are disclosed in Note 25 – Controlled Entities.

This consistent application of this accounting policy and the associated correction of material prior period errors, in accordance with IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors,* required the restatement of prior year comparatives on a consistent basis as explained in Note 3 to the financial statements.

LEGACY ISSUES

The following matters reported in the prior year and causing modification of the 2013/14 audit report also pertain to the current year 2014/15:

- Airport infrastructure valuation – in respect of recognition at fair value
- Classification of reserves – in respect of the Bulk Fuel Installation
- Social benefit payments – accuracy of expenditures on Basic Island Pension
- Regularity of expenditure – in respect of expenditure in excess of budgetary authority
- Statutory matters – non-preparation of consolidated financial statements

The details of the legacy matters that still exist are highlighted in the section on significant matters arising from the audit which remain unresolved.

The previous qualification arising from the non-recognition of investments in controlled entities in the separate financial statements of SHG has been cleared. The 2014/15 financial statements now recognise these equity ownership interests as non-current investments in the Statement of Financial Position. These are described in Note 10 to the financial statements and now include the following shareholdings:

- Bank of St Helena Ltd
- Connect St Helena Ltd
- Solomon & Company PLC
- St Helena Hotel Development Ltd
- St Helena Line Ltd

AUDIT OPINION

At the conclusion of the audit I issued my Independent Auditors Report containing an opinion on the financial statements. I based my opinion on the detailed audit work that I carried out in accordance with ISAs.

The qualified opinion is caused by the incorrect classification of reserves, uncertainty in the value of capital infrastructure, and uncertainty in the accuracy of social benefit payments. The report is further modified in respect of the regularity of expenditure in excess and the statutory requirement to prepare consolidated financial statements.

As explained in the following sections these matters remain unresolved at the reporting date. The form of my Independent Auditors Report containing the qualified opinion is included in Appendix A.

UNCORRECTED MISSTATEMENTS

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

However my report also identifies remaining areas of error or uncertainty which, in my opinion, would result in further material adjustments once further work quantified the full extent of the misstatements. These matters remain uncorrected. Their effects on the financial statements are described in the section on unresolved matters below and are detailed in Appendix C.

SIGNIFICANT ISSUES ARISING FROM THE AUDIT

ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND FINANCIAL STATEMENT DISCLOSURES

The accounting policies disclosed are in accordance with IPSAS except for those recognized areas of non-compliance in terms of IPSAS 6 *Consolidated and Separate Financial Statements,* as explained further below. After making required adjustments the policies, practices and disclosures are otherwise compliant with IPSAS taking account of transitional provisions and are appropriate to the Saint Helena Government.

In overall terms the SHG financial statements maintain the improvement in presentation notwithstanding the continuing audit qualifications.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

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

The financial statements are becoming more timely albeit these 2014/15 statements are being reported 18 months after the financial year-end. The late preparation of the accounts as previously documented reflects the historic technical challenges encountered in preparing full IPSAS accruals accounts alongside the operational demands upon the professional accounting capacity within Corporate Finance and SHAS.

The collaborative programme to clear the backlog in the statutory reporting of the financial statements is reporting significant gains and remains on track. Indeed the 2015/16 accounts target an expected reporting cycle of preparation and audit reporting within nine-months of financial year end.

Notwithstanding the progress made there are attendant challenges in preparing and auditing the statutory accounts during the recovery period. A significant matter is the scale of changes between the draft financial statements and the final audited statements. The material consequential adjustments required after the reporting of audited accounts for the preceding year is understood and is a function of the overlapping timelines in the recovery programme.

However the omission of the numbers for the pension scheme means that the accounts require material adjustment during the audit process. For 2014/15 the actuarial report was not obtained until 26 August 2016 – some 5 months after the accounts were submitted for audit and less than 3 weeks before the planned audit completion date.

To achieve and maintain the statutory audit reporting timeline it will not be acceptable in future periods to update the draft accounts for such material omissions after the submission date. The Financial Secretary has assured me that these difficulties associated with the backlogged reporting timetable are non-recurrent in nature. More specifically a detailed closedown plan has been prepared by Corporate Finance for the timely production of the statutory accounts with financial information timeously secured from experts appointed by management including the government actuary, professional valuations, and results of group entities.

SIGNIFICANT MATTERS ARISING FROM THE AUDIT WHICH REMAIN UNRESOLVED

Each of the issues leading to a modification of the audit opinion were discussed with management together with a range of other significant matters. These unresolved matters are summarised in this section.

ELIGIBILITY OF SOCIAL BENEFIT PAYMENTS

SHG is responsible for the payment of Income Related Benefit (IRB) and Basic Island Pension (BIP) under the Social Security Ordinance 2010. Consistent with 2013/14 I was able to obtain satisfactory evidence of eligibility for those persons in receipt of IRB during 2014/15. However I was unable to obtain sufficient appropriate audit evidence about the accuracy of those persons in receipt of BIP because SHG does not request or hold evidence of eligibility. This material uncertainty gives rise to a limitation of scope qualification in the audit opinion. The expenditure on BIP in the year to 31 March 2015 was £1.564m (£1.458m in 2013/14).

> ***Recommendation 1 [repeated from prior year]*** SHG should review all legacy applications and obtain documentation from the applicants to maintain on their records to confirm eligibility.

BULK FUEL INSTALLATION

As reported in prior years the Bulk Fuel Installation (BFI) is managed on behalf of SHG by Solomon & Company (St Helena) PLC under a 2006 Management Agreement. Since the BFI has no separate legal identity, the operations and financial affairs of the BFI remain an activity of SHG. Accordingly the BFI financial results are incorporated within the financial statements of SHG.

In response to the regularity qualification in 2012/13 SHG established a Special Fund for the BFI in November 2015 which will take effect for 2015/16. In the interim period a qualification of the audit opinion will remain since:

- BFI expenditures amounting to £2.906m in 2014/15 (£3.589m in 2013/14) were made without the authority of an Appropriation Ordinance or Special fund; and
- BFI reserve balance and movements are reported within Special Funds rather than Consolidated Fund, these amount to £3.340m at 31 March 2015 (£3.610m at 31 March 2014). Accordingly the balance on Consolidated Fund and Special Funds and the movements in the Reserves Note 22 are misstated in respect of the BFI classification.

AID FUNDED INFRASTRUCTURE

DFID funded infrastructure in respect of the new airport and permanent wharf amounting to £165.9m at 31 March 2015 (£105.7m at 31 March 2014) reported within Property Plant and Equipment and forming part of assets under construction in Note 15, is required to be measured at replacement cost in accordance with IPSAS 17 and 23. The earned value basis adopted by management as a proxy for replacement cost uses the current contract cost as the measurement basis. As explained in Note 2 there is a high degree of estimation uncertainty in the determination of replacement cost. In the absence of a professional valuation I am unable to determine whether the earned value as stated fairly reflects the replacement cost for the DFID funded airport and wharf infrastructure.

To obtain an independent expert assessment of replacement cost before the reporting deadline remains impractical. The Financial Secretary has advised that best value may be obtained in securing a formal valuation of these infrastructure assets as at the date of operational readiness as a basis for future depreciation. In these circumstances there is a practical limitation of scope presented by management that causes a qualification of the audit opinion on the grounds of material uncertainty.

> ***Recommendation 2 [repeated from prior year]*** *SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the airport and wharf infrastructure.*

SIGNIFICANT MATTERS ARISING FROM THE AUDIT THAT WERE RESOLVED WITH MANAGEMENT

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

PENSION SCHEME

The valuation of the Defined Benefit Pension Scheme (DBPS) was received from the Government Actuary Department in August 2016. Accordingly the actuarial adjustments to recognise to the pension costs and liability had not been recorded in the draft financial statements submitted for audit. The required adjustments have been made in the financial statements and are disclosed in Note 19 – Pension Liabilities.

WHARF INFRASTRUCTURE

The permanent wharf infrastructure reported within assets under construction is financed through a combination of DFID and EDF grant funding. The accounting treatment adopted in the draft financial statements was to recognise the asset under construction at cost. IPSAS 23 requires that where an asset is acquired through a combination of exchange and non-exchange transactions, those components should be distinguished, with the EDF funded component recognised at cost and the DFID funded recognised at fair value. Management have therefore amended the disclosure of accounting policies in Note 1 and key estimation assumptions in Note 2 to properly reflect the mixed funding for the wharf infrastructure. Nonetheless the absence of a reliable measure of fair value means for the DFID component means that the qualified opinion relating to the airport infrastructure similarly applies to the new wharf.

DFID FUNDED CAPITAL PROGRAMME

SHG signed a Memorandum of Understanding (MOU) with DFID for a 3-year programme of support to the capital programme commencing 1 September 2014. Section 9.2.1 of the Annex to the MOU expressly prohibits SHG entering into aid-funded commitments prior to the MOU being signed. The audit identified that SHG entered into contracts with associated capital expenditure amounting to £0.4m prior to the effective date of the MOU. The Financial Secretary has since secured confirmation from DFID that advance capital expenditure remains eligible for support under this programme.

RECOGNTION OF CONTROLLED ENTITIES

IPSAS 6 requires that where SHG has control of another entity it should be appropriately recognised in the financial statements. Note 25 lists those entities where SHG has an ownership interest – these equity investments now being appropriately recognised in the statement of financial position and Note 10 to the financial statements; and those other entities where SHG has a controlling interest.

I am satisfied that the IPSAS 6 requirement for control is not met in the case of the Saint Helena National Trust and accordingly the entity is now removed from Note 24 – Related Parties and Note 25 – Controlled Entities.

RECLASSIFICATIONS

There have been a range of material adjustments processed by management with audit agreement to correctly classify items of account in the financial statements as disclosed in Appendix B. A number of these are expected consequential adjustments arising from the closure of the financial statements for the prior year 2013/14 on 14 June 2016 being after the submission date for the draft financial statements for 2014/15 on 15 March 2016. Some other significant adjustments were required to ensure the correct presentation of DFID project expenditure incurred by related parties including Connect St Helena and Enterprise St Helena. I have made recommendations to the Financial Secretary to improve the ledger coding and mapping to the chart of accounts in my Final Accounts Memorandum.

OTHER MATTERS ARISING FROM THE AUDIT THAT ARE SIGNIFICANT TO THE OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

COMPLIANCE WITH FINANCIAL REPORTING FRAMEWORK

Section 10(1) of the Public Finance Ordinance requires the financial statements to be prepared in accordance with the IPSAS financial reporting framework. IPSAS requires an explicit and unreserved statement of compliance to be made. As disclosed in note 1(a) Government has not prepared consolidated financial statements that incorporate the results of these entities and accordingly has not complied with IPSAS 6, *Consolidated and Separate Financial Statements*. Therefore the accounts and financial statements have not been prepared in accordance with all relevant laws and policies. This issue is reported within the section 'other matter required by statute' in my Independent Auditors Report.

> ***Recommendation 3 [repeated from prior year]*** *SHG should also prepare group financial statements consolidating the results of the controlled entities. These group statements are required under IPSAS 6 in addition to the separate financial statements of SHG.*

EXPENDITURE WITHOUT AUTHORITY

The Statement of Comparison of Budget and Actual Amounts and related Note 6 to the financial statements reports heads of expenditure and revenue at output level compared with the budget estimate. Expenditure exceeding the limit of the approved estimate is without authorisation and is required to be scheduled in a Statement of Expenditure in Excess in accordance with Section 106 of the Constitution.

These expenditures without authority are in respect of the following heads:

- **Bulk Fuel Installation** – the transactions of the BFI were not included within the budget estimates and therefore expenditure of £2.906m in 2014/15 (£3.589m in 2013/14) in the Statement of Financial Performance remains without the authority of an Appropriation Ordinance.
- **Office of the Governor** – actual expenditure was £169,224 compared to a final budget of £164,000 giving rise to excess expenditure of £5,224.
- **Attorney General** – actual expenditure was £61,761 compared to a final budget of £53,000 giving rise to excess expenditure of £8,761.
- **ENRD – Programme Management Unit** – actual expenditure was £31,288 compared to a final budget of £31,000 giving rise to excess expenditure of £288.
- **Education & Employment** – actual expenditure was £2.798m compared to a final budget of £2.739m giving rise to excess expenditure of £58,783.

These items cause a qualification to the regulatory opinion in the Independent Auditors Report in that the expenditure does not conform to statutory authority. The Financial Secretary has laid a Statement of Expenditure in Excess as required by Section 106 of the Constitution. This was referred to the Public Accounts Committee (PAC) for scrutiny at the 18 July 2016 meeting of LegCo – until that constitutional process is completed the expenditure remains without statutory authority.

PENSION LIABILITY

The Government has a Defined Benefit Pension Scheme (DBPS) which is explained in accounting policies Note 1(j). The DBPS was closed to new members on 31 March 2010 with eligible employees joining after 1 April 2010 being enrolled into the new Defined Contribution Pension Scheme (DCPS).

Note 19 to the accounts reports the actuarially assessed pension liability has increased to £48.424m at 31 March 2015 an increase of some £13.8m on the £34.620m balance reported at the previous accounting date. The DBPS has no corresponding assets and accordingly pensions in payment continue to fall upon the Consolidated Fund on a pay-as-you-go basis with SHG remaining exposed to this unfunded liability.

The last full actuarial review was performed at 31 March 2012 with roll-forward updates from that point which carry an inherent degree of uncertainty. In view of the elapsed period and scale of change in the pension liability a full actuarial assessment is now recommended.

> ***Recommendation 5*** *SHG should commission from Government Actuarial Department a full actuarial review of the Defined Benefit Pension Scheme as at the reporting date 31 March 2016.*

WRITTEN REPRESENTATIONS

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

GOING CONCERN

The annual recurrent spend by SHG is 62% (£17.563m of £28.386m) funded from direct grant from DFID. I have therefore considered SHG's assessment that the Government as an economic reporting entity is a going concern.

I am satisfied that the going concern reporting basis is appropriate based on my discussions with the Financial Secretary, a review of budgets and the DFID Memorandum of Understanding for non-budget support to SHG covering the periods 1 April 2016 up to 31 March 2019. The amount pledged by DFID for the 2016/17 budget year will not exceed £22.5m and includes the allocation towards Technical Cooperation.

ANNUAL GOVERNANCE STATEMENT

SHG does not currently have a regulatory basis requiring publication of the Annual Governance Statement (AGS) with the accounts of SHG or prescribing its form. Accordingly whilst there is no AGS presented for the 2014/15 reporting period, SHG plan to reintroduce an AGS in the 2015/16 financial statements in line with best public sector practice.

INTERNAL CONTROLS

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

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

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

FOLLOW-UP OF PREVIOUS ISSUES

Audit recommendations were made in previously issued Management Letters for 2011/12 through 2013/14. The current status of these items is summarized in the table of below.

Recommendation	Follow-up status
Recommendations from 2011/12	
1. Introduction of accruals budgeting	**Pending** – Financial Secretary has given a commitment to PAC that accruals based budgeting will be introduced with effect from financial year 2017/18.

Recommendation	Follow-up status
Recommendations from 2012/13	
2. Measurements of earned value should be prepared for subsequent accounting dates to facilitate the appropriate recognition of transferred assets at fair value in accordance with IPSAS 17, *Property, Plant and Equipment*	**Superceded** – requirement updated in repeat recommendation for 2013/14 [refer to item 8 below].
3. A separate review engagement should be commissioned in respect of EDF funded infrastructure in order to give specific assurance that the grant funds have been applied for the purposes intended.	**Pending** – Corporate Finance will approach EDF and request clarity on the audit procedures to be followed and share this with SHAS.
4. A Code of Governance should be developed with reference to the CIPFA/IFAC International Framework on Good Governance in the Public Sector and adopted as a standard against which compliance may then be measured in the AGS.	**Pending** – To be reviewed and implemented in time for 2016/17 reporting.
Recommendations from 2013/14	
5. SHG has control, from an accounting perspective, either by direct shareholding (subsidiaries) or through statutory provision, of several bodies, as listed in Note 25, controlled entities. Except for Bank of St Helena, Connect St Helena Ltd, Solomon & Company PLC, St Helena Hotel Development Ltd and St Helena Line Ltd, the remaining subsidiaries have not been recognised in the SHG accounts as required by IPSAS 6, *Consolidated and Separate Financial Statements*.	**Cleared** – The 2014/15 financial statements recognise equity ownership interests as non-current investments in the Statement of Financial Position. These are described in Note 10.
6. Expenditure exceeding the limit of the approved estimate is without authorisation and is required to be scheduled in a Statement of Expenditure in Excess. These expenditures without authority are in respect of the following heads: • Bulk Fuel Installation • Office of the Governor • Police Directorate	**Cleared** – Statements of Expenditure in Excess for the financial years 2012/13, 2013/14, 2014/15 and 2015/16 were laid before LegCo at the July 2016 formal session and referred to PAC for scrutiny.
7. SHG should review all legacy Social Benefit Payments applications and obtain documentations from the applicants to maintain on their records to confirm eligibility.	**Pending** – SHG are in the process of recruiting an additional Adjudication Officer for the Social Security Office. Their primary role will be the review, updating and collating of eligibility data for all recipients who were brought over from the old system in 2011 to provide assurance on the payment of the current BIP.

Recommendation	Follow-up status
8. SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport Infrastructure.	**Pending** – Corporate Finance intend to secure the services of a professional valuer to determine the value of the Airport Infrastructure once the work has been certified.
9. SHG should prepare group financial statements consolidating the results of the subsidiary entities. These group statements are required under IPSAS 6, *Consolidated and Separate Financial Statements* in addition to the separate financial statements of SHG.	**Pending** – Corporate Finance has commenced a plan for staged consolidation from 2015/16 financial statements onwards with a view of addressing this recommendation over two reporting periods to minimise the reporting burden on subsidiaries.

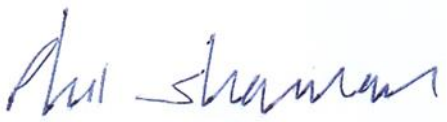
NEW ISSUES RAISED THIS YEAR

The new matters now reported in Appendix D are limited to those deficiencies that I consider to be of sufficient importance to merit being reported to Council. Less significant matters will be reported to the Financial Secretary in a separate Final Accounts Memorandum.

I have noted in the Appendix the actions proposed by management in regard to the audit recommendations made in this Letter.

CONCLUDING REMARKS

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



Phil Sharman
Chief Auditor for St Helena
St Helena Audit Service

14 September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAINT HELENA GOVERNMENT

I have audited the financial statements of St Helena Government for the year ended 31 March 2015 under the Public Finance Ordinance 2010. The St Helena Government financial statements comprise the Statement of Financial Performance, Statement of Financial Position, Statement of Changes in Net Assets, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amounts, Statement of Revenue and Expenditure upon the Consolidated Fund and Special Funds, Statement of Trust Fund Movements, and the related notes.

Respective responsibilities of the Financial Secretary and the Chief Auditor

The Financial Secretary is responsible for preparing the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and being satisfied that they present fairly the financial position, financial performance, and cash flows of St Helena Government. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board (APB) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the government's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Financial Secretary; and the overall presentation of the financial statements.

I also assess whether the accounts and financial statements have been prepared in accordance with all relevant laws and policies; and whether in all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

1. Classification of reserves

The Bulk Fuel Installation (BFI) is an activity of Government undertaken without a Special Fund established for that purpose. The BFI reserve is incorrectly classified within Special Funds in the Statement of Financial Position and Note 22 rather than within the Consolidated Fund. The impact on the financial statements is overstatement of Special Funds in the amount of £3.340m at 31 March 2015 (£3.610m at 31 March 2014) and an understatement of the Consolidated Fund to the same extent.

2. Infrastructure valuation

Aid funded infrastructure amounting to £165.9m at 31 March 2015 (£105.7m at 31 March 2014) reported within Property Plant and Equipment in the Statement of Financial Position, and forming part of assets under construction in Note 15, is measured on an earned value basis. IPSAS 17, *Property Plant and Equipment* and IPSAS 23, *Non-Exchange Transactions* require that such aid funded assets are measured at replacement cost. Note 2 explains there is a high degree of estimation uncertainty associated with the valuation of the airport and wharf infrastructure.

I was unable to obtain sufficient appropriate audit evidence regarding the asset valuation by the reporting date, either from management or by using alternative audit procedures. In these circumstances, I am unable to determine whether the use of an estimate based on earned value would give rise to a material misstatement, and whether any adjustment was necessary to the reported value of Property Plant and Equipment and associated reserves.

3. Accuracy of social benefit payments

Government is responsible for the payment of a social benefit in the form of Basic Island Pension. The expenditure on this social benefit, forming part of Benefit Payments in the Statement of Financial Performance, was £1.564m in 2014/15 (£1.458m in 2013/14). I was unable to obtain sufficient appropriate audit evidence about the accuracy of these pension payments because no evidence of eligibility is obtained or retained by Government. I was therefore unable to determine whether any adjustment to the reported expenditure was necessary.

Qualified opinion on the financial statements

Except for:

- the understatement of the Consolidated Fund and the overstatement of Special Funds, as detailed in paragraphs 1 of the Basis for Qualified Opinion section above; and

- the possible effects of the matters described in paragraphs 2 and 3 of the Basis for Qualified Opinion section above;

in my opinion, the financial statements present fairly the financial position of St Helena Government as at 31 March 2015, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Basis for qualified regularity opinion

Included within expenditure reported as Trading Activities in the Statement of Financial Performance is £2.906m (£3.589m for 2013/14) in respect of the Bulk Fuel Installation. This expenditure was incurred without specific statutory authority, estimate provision or legal authority under an Appropriate Ordinance.

For 2014/15 Legislative Council authorized total budgeted expenditure from Head 11: Governor of £164,000, Head 14: Attorney General of £53,000, Head 18: ENRD – Programme Management Unit of £31,000 and Head 22: Education and Employment £2.739m. As disclosed in Note 6 to the financial statements the actual expenditures on these heads were £169,224, £61,761, £31,288 and £2.798m respectively, resulting in expenditure in excess of authority amounting to £5,224, £8,761, £288 and £58,783 respectively.

Qualified opinion on regularity

Except for the incurrence of expenditure without authority, as described in the basis for qualified regularity opinion paragraph, in my opinion in all material respects the expenditure and income has been applied to the purposes intended and conform to the authorities which govern them.

Opinion on other matter required by statute

Section 29(1) (b) of the Public Finance Ordinance requires me to report on whether the financial statements have been prepared in accordance with all relevant laws or policies.

Section 10(1) of the Public Finance Ordinance requires the financial statements to be prepared in a manner consistent with the International Public Sector Accounting Standards (IPSAS). IPSAS require an explicit and unreserved statement of compliance to be made. As disclosed in note 1(a), and contrary to the requirements of IPSAS 6, *Consolidated and Separate Financial Statements*, Government has not prepared consolidated financial statements for the economic entity that incorporate the results of the entire group.

In consequence, in my opinion, the financial statements have not been prepared in accordance with all relevant laws or policies.

Phil Sharman CPFA CA
Chief Auditor for St Helena

14 September 2016

St Helena Audit Service, Jamestown, St Helena

SCHEDULE OF MATERIAL ADJUSTMENTS — APPENDIX B

I identified the following misstatements during my audit and management have adjusted the financial statements to correct these errors. The table does not repeat the restatements of prior year figures already presented in Note 3 to the financial statements.

Table 1: **Material adjustments to the financial statements**

Adjusted misstatement	Statement of Financial Position		Statement of Financial Performance	
2014/15	**Dr £'000**	**Cr £'000**	**Dr £'000**	**Cr £'000**
Being classification correction of Connect claims for project expenditure (no change to classification by function)				
Payments to Other Bodies, agencies, persons contractors			3,245	
Payments to contractors				3,245
Being correction to classification of ESH claims for project expenditure (no change to classification by function)				
Payments to Other Bodies, agencies, persons			1,388	
Other expenditure				1,388
Being impact of 1314 audit adjustment for pension movements on the 1415 accounts				
Defined benefit pension liability	2,454			
Pension Reserve		2,454		
Being adjustments to recognise actuarial movements in pension liability for 2014/15				
Pension Reserve (Actuarial Gain/Loss)	13,143			
Defined Benefit Pension Liability		14,972		
Employee Costs (Current Service Cost)			660	
Employee Costs (Interest on scheme liability)			1,169	

Adjusted misstatement	Statement of Financial Position		Statement of Financial Performance	
2014/15	**Dr £'000**	**Cr £'000**	**Dr £'000**	**Cr £'000**
Being entries to reflect the revised estimate of replacement cost in relation to the Airport Project in the 2014/15 trial balance				
PPE: Assets Under Construction - Cost	44,161			
Current Assets: Prepayments		33,461		
Airport Infrastructure Reserve		10,450		
Revenue: DfID Airport Infrastructure Funding				250
Being impact of 1314 audit adjustment for equity accounting on investment in Connect not reflected in the Trial Balance				
General Reserve	434			
Investment in Connect		434		
Being equity accounting entries in 2014/15 for investments in Connect, BOSH and Solomon's				
Investment in Connect	355			
Investment in BOSH	266			
Investment in Solomon's	230			
Dividends received			25	
Share of profit of subsidiaries				876
General Reserve	105			
Subsidiary Reserve		105		
Being transfer of completed works on Cape Villa completed on 31 March 2015				
PPE: Buildings – Freehold	559			
Transfers to Completed Works		559		
Being construction of the CBU (Ebony View) at the ex-HTH Primary School completed on 31 March 2015				
PPE: Buildings – Freehold	363			
Transfers to Completed Works		363		

Adjusted misstatement	Statement of Financial Position		Statement of Financial Performance	
2014/15	**Dr £'000**	**Cr £'000**	**Dr £'000**	**Cr £'000**
Being reclassification of shipping subsidy underspent – now retained as grant-in-aid per DfID agreement				
Revenue: DfID Shipping Subsidy			1,738	
Revenue: DfID Grant in Aid				1,738
Being entry to recognise the PENSPEN fuel management contract payments and related DfID funding netted off				
Expenditure: ENRD - Payments to Contractors			1,575	
Revenue: DfID Development Aid				1,575
Being entry to reflect revised cost centre mapping following review of the capital programme				
Reserves: DfID Infrastructure	1,091			
Reserves: Locally Funded		68		
Reserves: DfID Funded		588		
Reserves: DfID TC		435		
Being entry to recognise the 2014/15 wharf project balances				
PPE: Assets Under Construction	10,513			
Prepayments: Wharf		10,513		
Reserves: EDF Reserve	978			
Reserves: Capital Reserve		978		
Being entry to reclassify spend on the Air Access Project to General Public Service.				
Environment and Natural Resources			1,884	
General Public Service				1,884

Table 2: **Material adjustments to financial note disclosures**

Description of correction	Note affected	Value of the error £'000
Disclosure that the separate financial statements are compliant with IPSAS	Note 1 (a) – Accounting policies	Narrative
Improvement in accounting policies relating to property plant and equipment and related note on significant estimation assumptions arising from the accounting treatment for airport and wharf infrastructure	Note 1 (a) – Accounting policies Note 3 – Key estimation assumptions	Narrative
Omission of reconciliation of comparable amounts to net cash flows from operating activities and net investing activities as required by IPSAS 24.47(b)	Statement of Comparison of Budget & Actual Amounts	Narrative
Incorrect classification of movement in Prepayments – requiring reclassification of £978k within cash flow statement from operating activities to investing activities	Note 23 – Statement of Cash Flows – movement in working capital	£978k
Exclusion of St Helena National Trust not being a controlled entity that meets the definition of IPSAS 6	Note 25 – Controlled Entities Note 24 – Related Party Transactions	Narrative
Presentational changes – amendment to notional allocation of Long Term TC costs by nature of expense. Includes correction of costs allocated to GPS in error instead of Police and ENRD respectively.	Note 5 – Expenditure by category	£1,433k
Omission from Note 26 – events after the reporting date regarding buildings transferred to St Helena Hotel Development Limited on 1 July 2016	Note 26 – Events after the Reporting Date	£600k

SCHEDULE OF UNCORRECTED MISTATEMENTS APPENDIX C

I identified the following misstatements during my audit which remain unadjusted in the financial statements. This list is for errors relating to disagreements noted and does not include potential misstatements where the financial effect cannot be quantified due to a limitation of scope.

Table 1: **Uncorrected misstatements in the main financial statements**

Misstatement	**Statement of Financial Performance**		**Statement of Financial Position**	
	Dr £'000	**Cr £'000**	**Dr £'000**	**Cr £'000**
Description	***Value***		***Value***	
BFI reserve reported within Special Funds not Consolidated Fund				
Special Funds			3,340	
Consolidated Fund				3,340
Aggregate soft error projections from audit testing affecting:				
Expenditure			36	
Creditors		36		

RECOMMENDATIONS TO MANAGEMENT — APPENDIX D

No	Observation	Recommendation	Priority	Response & timescale
1	**Eligibility of Social Benefit Payments (First raised 2011/12)** SHG is responsible for the payment of a social benefit in the form of Basic Island Pension. The expenditure on this social benefit in the year to 31 March 2015 was £1.564m (£1.458m in 2013/14). I was unable to obtain sufficient appropriate audit evidence about the accuracy of such payments because the Government does not request or hold evidence for eligibility.	SHG should review all legacy applications and obtain documentations from the applicants to maintain on their records to confirm eligibility.	H	SHG are in the process of recruiting an additional Adjudication Officer for the Social Security Office. Their primary role will be the review, updating and collating of eligibility data for all recipients who were brought over from the old system in 2011 to provide assurance on the payment of the current Basic Island Pension. **To be completed by June 2017**
2	**Aid Funded Infrastructure (First raised 2012/13)** Aid funded infrastructure amounting to £165.9m at 31 March 2015 (£105.7m at 31 March 2014) reported within assets under construction in Note 15 Property Plant and Equipment is measured at replacement cost using an earned value basis. The earned value basis adopted by management in the determination of the replacement cost uses the current contract costs as the measurement basis. As explained in Note 2 there is a high degree of estimation uncertainty in the determination of replacement cost.	SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport and Wharf Infrastructure.	H	Corporate Finance intend to secure the services of a professional valuer to determine the value of the Airport Infrastructure once the work has been certified. **Work expected to commence by November 2016**

No	Observation	Recommendation	Priority	Response & timescale
3	**Compliance with Financial Reporting Framework (First raised 2013/14)** Section 10(1) of the Public Finance Ordinance requires the financial statements to be prepared in accordance with the IPSAS financial reporting framework. IPSAS requires an explicit and unreserved statement of compliance to be made. As disclosed in note 1(a) Government has not prepared consolidated financial statements that incorporate the results of these entities and accordingly has not complied with IPSAS 6, *Consolidated and Separate Financial Statements.* IPSAS 6 requires group financial statements to be presented consolidating the results of subsidiary entities in addition to any separate financial statements that may be prepared.	SHG should prepare group financial statements consolidating the results of the subsidiary entities. These group statements are required under IPSAS 6 in addition to the separate financial statements of SHG.	H	Corporate Finance has commenced a plan for staged consolidation from 2015/16 financial statements onwards with a view of addressing this recommendation over two reporting periods to minimise the reporting burden on subsidiaries. Financial results will be consolidated with the results of five controlled entities in the 2015/16 financial statements. **To be completed by early 2017 following sign-off of Separate Financial Statements**
4	**Actuarial Review (New for 2014/15)** The last full actuarial review of the DBPS was performed at 31 March 2012 with roll-forward updates from that point which carry an inherent degree of uncertainty. In view of the elapsed period and scale of change in the valuation a full actuarial assessment is now recommended.	SHG should commission from Government Actuarial Department a full actuarial review of the Defined Benefit Pension Scheme as at the reporting date 31 March 2016	H	Corporate Finance has engaged the services of the UK Government Actuary's Department to complete a full actuarial valuation of the defined benefit pension liability as at 31 March 2016. **To be completed by 31 October 2016**

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

As explained in the paragraph on other matters relating to non-consolidating group entities, the financial statements do not present the financial results of the group as required by IPSAS 6, *Consolidated and Separate financial statements*. The group entities that should have been consolidated along with the separate Financial Statements of SHG are:

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

The lack of consolidation means that I am unable to report on the internal control arrangements of group entities. I have not carried out such audit work on the group entities which I act for, nor communicated with other component auditors.