



SAINT HELENA AUDIT SERVICE
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2014 & 2015

To the Saint Helena Currency Commissioners

04/04/2016

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INTRODUCTION

As the external auditor for Saint Helena Government, I am required by the Currency Ordinance to report to the Commissioners of Currency my findings from the audit of the financial statements of the Saint Helena Currency Fund.

The purpose of this report is to summarise for the Commissioners of Currency the key issues arising from my audit of the Financial Statements for the year ended 31 March 2014 and 31 March 2015 report any material weaknesses in the accounting and internal controls that have come to my attention during the audit.

AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the Financial Statements of the Currency Fund present fairly the financial position of the Fund at both 31 March 2014 and 31 March 2015 and of its financial performance for those years, and confirm that the Financial Statements are prepared in accordance with the Currency Ordinance.

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 the Fund in the preparation of the Financial Statements.
- Assess whether the accounting policies are appropriate to the Fund's 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 Fund, as at the end of the financial year then ended; 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 Fund's accounts for that financial year.
- Submit for your consideration a Management Letter covering both audits undertaken.

My audit methodology for the collection of audit evidence is based on the Audit Manual of the Saint Helena Audit Service, 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 to consider fraud when carrying out the audit, the purpose of my audit is not the detection of fraud. Responsibility for the prevention and detection of fraud rests with the Fund 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.

There are statutory protections enshrined in the Saint Helena Constitution, in which the Chief Auditor and staff of the Saint Helena Audit Service are not subject to the direction or control of the Governor, the Executive Council or any other person or authority.

My staff have completed declarations of interest, and where there is an identified conflict, appropriate safeguards are 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

The Currency Ordinance requires that the Fund's accounts be prepared on an accruals basis but does not prescribe the financial reporting framework to be adopted. The Commissioners of Currency however adopted the accruals based reporting framework as set out under the International Public Sector Accounting Standards (IPSAS) for the first time during the 2012/13 audit.

Section 19 of the Ordinance appears to be in conflict with IPSAS 29, *Financial Instruments: Recognition and Measurement*, as the Ordinance requires that realized surpluses on the Fund's investments shall not be a charge upon the General Reserve and are not deemed to be part of the determination of the surplus or deficit of the Fund, as outlined in section 18. IPSAS 29.10 requires that these gains or losses be recognized in the Statement of Financial Performance, and therefore in the determination of the Fund's surplus or deficit for the year ending.

To resolve this conflict, the Fund's financial statements were amended to give effect to the IPSAS requirements for both the 2013/14 and 2014/15 financial years. The Statement of Movements on Reserves then analyses the Fund reserves between the General Reserve and Retained Surplus determined in accordance with statutory provisions.

AUDIT OPINION

I base my opinion on the detailed audit work that I carried out in accordance with International Standards on Auditing.

The Commissioners of Currency did not perform a physical count of notes and coin held as inventory at 31 March 2014. Accordingly I was unable to observe the count or satisfy myself by alternative means inventory quantities or currency in circulation at that date.

Since inventories and currency in circulation enter into the determination of the financial performance and financial position, I was unable to determine whether adjustments may have been necessary in respect of the deficit for the year ended 31 March 2014 reported in the Statement of Financial Performance or the net assets reported in the Statement of Financial Position. The absence of the physical count also causes a consequential uncertainty on the reported deficit for the year ended 31 March 2015.

My opinions are therefore qualified on an 'except for' basis in respect of these uncertainties. The form of my proposed Independent Auditors Reports are included in Appendix 3 (2013/14 audit) and Appendix 4 (2014/15 audit).

CORRECTED MISSTATEMENTS

During the course of my audit, I identified a number of misstatements which I requested the Currency Officer to correct. In recognition of your governance responsibilities I have scheduled those misstatements now corrected for the 2013/14 audit in Table 1 of Appendix 2, and for the 2014/15 audit in Table 2 of Appendix 2. Adjustments to note disclosures are noted in Table 3 of Appendix 2.

SIGNIFICANT ISSUES ARISING FROM THE AUDIT

ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND FINANCIAL STATEMENT DISCLOSURES

As stated above, both the 2013/14 and 2014/15 financial statements were prepared under the IPSAS financial reporting framework, which was first adopted by the Fund during the 2012/13 financial year end. The accounting policies of the Currency Fund are in accordance with IPSAS, after required adjustments to give effect to the recognition and measurement criteria for gains and losses on Investments as required by IPSAS 29.10.

In addition, I requested the Commissioners re-classify investments with a maturity date of less than 90 days after year end as a current asset and improve disclosures on Financial Instruments as required by IPSAS.

SIGNIFICANT DIFFICULTIES, IF ANY, ENCOUNTERED DURING THE AUDIT

There were a range of technical considerations associated with the preparation of the Currency Fund accounts in accordance with IPSAS for the first time. Otherwise there were no significant difficulties experienced by the audit team in carrying out the audit of both the 2013/14 and 2014/15 audits.

SIGNIFICANT MATTERS ARISING FROM THE AUDIT THAT WERE DISCUSSED, OR SUBJECT TO CORRESPONDENCE WITH MANAGEMENT

Each of the issues leading to a modification of the opinion was discussed with management together with a range of other significant matters. These matters are summarized in the following sections.

INVENTORY VERIFICATION

It is the responsibility of the Currency Commissioners as those charged with governance to prepare financial statements that are free from material misstatement. This will include ensuring that the quantity of notes and coin held as inventory and used to determine currency in circulation is well controlled and fairly represented. In the absence of a physical count there is limited assurance as to the validity of the quantity of currency held in the vault and in circulation at the year end.

A physical stock take to determine the actual amount of currency on hand at the year-end date 31 March 2014 was not performed. The balances of inventory on hand and currency in circulation are material – there is a risk that these balances may be materially misstated. As a result of no count having taken place, the audit report is modified to give effect to the possible material misstatement, resulting in a qualified opinion.

At the 31 March 2015 year end, a currency count did not take place at the year-end date, but at 28 May 2015, some two months after the year end date. Given physical controls over the vault access and since there were no movements between the year end and the physical count, the risk of misstatement is reduced to an acceptable level. The audit report will accordingly be modified for the 2014/15 only in respect of the opening position.

***Recommendation 1** The Commissioners ensure that a cash count is organized at every financial year end – as close as possible to the last day of that financial year.*

INVESTMENTS DISCLOSURE

In its Statement of Financial Position, the Fund had classified Investments with a value of £1,000,290 and a maturity date of less than 90 days after year end as being long-term investments. This investment has, subsequent to being reported to the Currency officer, been correctly classified as a current Investment, due to its pending maturity.

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

The Currency Ordinance in Section 22 requires the Commissioners to submit the audited financial statements of the Fund to the Governor and the Secretary of State within 12 months after the end of each financial year. This requirement has not been met for the 2013/14 financial year audit as the Fund's accounts were submitted for audit on 7 December 2015 – the financial statements are therefore being reported one year behind the legislated reporting cycle.

The 2014/15 audit will however be reported within the required statutory timeframe.

WRITTEN REPRESENTATIONS

Written representations were requested and received from the Currency Officer in line with those required by Auditing Standards.

GOING CONCERN

I have considered and reviewed the Commissioners assessment that the Fund is a going concern. I am satisfied that this assessment is appropriate based on discussions with the Currency Officer as well as consideration of the financial position of the Fund, which was positive for both the 2013/14 and 2014/15 financial years. In addition, the Currency Ordinance makes provision for the St Helena Government to provide the appropriate relief measures (i.e. “balancing of the fund”), should the total assets of the fund be less than its liabilities.

It will be necessary for the Commissioners to seek authority from the Governor in due course to transfer resource from the General Reserve to meet the Retained Deficit.

INTERNAL CONTROLS

In accordance with International Standards on Auditing (UK & Ireland) I have included a summary of matters which arose during the course of my audit and which I consider should be brought to the attention of the Commissioners. I have also followed-up matters reported previously.

FOLLOW UP OF PREVIOUS ISSUES

Five audit recommendations were raised in the Management Letter for 2012/13. The current status of these recommendations is summarized in the table below.

| Recommendation | Status |
|--|---|
| That the Commissioners consider adopting a recognised financial reporting framework. | Closed – IPSAS have now been adopted as the financial reporting framework. This was implemented starting with the 2013-2014 financial statements |
| That the Commissioners: (a) Consider the importance of producing half year statements, discuss their continued need with the Governor and Secretary of State and seek amendment to the Ordinance if considered appropriate; or (b) Ensure that the requirement of the Currency Ordinance with regard to half yearly statements be complied with. | Pending – no discussions have been entered into yet regarding changes to the Ordinance Pending – a commitment was made to do so as soon as is practicable. |
| That management consider compiling a comprehensive audit file and ensure that the documentation included corresponds with the financial statements to provide for a more efficient audit process and to mitigate the risk of increased audit fees. | Closed – a working paper file was compiled and submitted to SHAS. |

| Recommendation | Status |
|--|--|
| That management ensure that a clear audit trail exists between the financial statements and the underlying accounting records. | Closed – a trial balance supported by an analysed journal (spreadsheet) was maintained to provide an audit trail between the financial statements and the underlying records. |
| That management consider the appropriateness of the accounting treatment for unissued currency. | Closed – the stock of new notes and coins is now disclosed in the financial statements. |

The Public Accounts Committee had also made recommendations in respect of the Currency Fund audited financial statements for 2012/13. These recommendations were reported to the Legislative Council on 7 October 2014 and their current status is noted in the table below.

| Recommendation | Status |
|--|---|
| Legislative Council amends the Currency Fund Ordinance to require the audited accounts to be laid before Legislative Council | Pending – a LegCo question has been put but a bill for amendment to the Ordinance remains to be included in the forward Legislative programme. |
| The Currency Commissioners review the investment strategy to ensure it is designed to secure the optimum return whilst maintaining security of investment holdings | Closed – an updated investment strategy was discussed and approved by the Currency Commissioners on 4 December 2015. |

NEW ISSUES RAISED

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 Currency officers.

During the course of the audit I noted that the Vault Register was not an entirely reliable source of audit evidence because of a number of anomalies which included missing signatures, alterations and instances where notes and coins of a similar denomination were found on different pages making the register difficult to follow. In addition it is evident that the records were not always updated timely at the time of actual receipt or issue of currency.

We have noted however through discussions with the Currency Officer that the manual Vault Register has now been replaced by an electronic spread sheet which is supported by manual Vault Movement slips. Accordingly I do not intend to raise a recommendation for improvement in the quality of the Vault Register as management are already making changes. I will review the adequacy and effectiveness of the new register when performing subsequent audits.

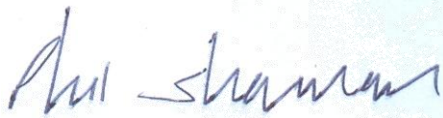
The three new matters raised in Appendix 2 are limited to those issues that I consider to be of sufficient importance to merit being reported to the Commissioners of Currency. These concern the following issues:

1. Ensuring inventory verification at the financial year end
2. Establishing risk management arrangements
3. Considering the use of an accounting ledger in place of the spread sheet solution

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

ACKNOWLEDGEMENT

I acknowledge and thank the Currency Officer for her assistance and co-operation given to the Audit Service during the course of the statutory audit.



Phil Sharman
Chief Auditor
Saint Helena Audit Service

4 April 2016

APPENDIX 1 - SCHEDULE OF ADJUSTMENTS 2013/14 & 2014/15

I identified the following misstatements during my audit and management have adjusted the financial statements to correct these errors. The amounts indicated herein are both material and immaterial.

Table 1: **Adjustments to the 2014 financial statements**

| Adjusted misstatement | Statement of Financial Performance | | Statement of Financial Position | |
|--|------------------------------------|----|---------------------------------|---------|
| | Dr | Cr | Dr | Cr |
| Description | £ | £ | £ | £ |
| 1. Fair value losses on investments | 175,852 | | | |
| General Reserve | | | | 175,852 |
| <i>Recognition of capital losses in the statement of financial performance</i> | | | | |
| 2. Audit Fees (2012/13) | 2,000 | | | |
| Audit Fees (2013/14) | 500 | | | |
| General Reserve | | | 3,700 | |
| Payables | | | | 6,200 |
| <i>Recognition of audit fee provision</i> | | | | |
| 3. General Reserve | | | 1,491 | |
| Inventories | | | | 1,491 |
| <i>Correction of the inventory valuation at 31 March 2013</i> | | | | |
| 4. Circulation currency | 1,361 | | | |
| Inventories | | | | 1,361 |
| <i>Correction of inventory and circulation currency amount for 2014</i> | | | | |

Table 2: Adjustments to the 2015 financial statements

| Adjusted misstatement | Statement of Financial Performance | | Statement of Financial Position | |
|--|------------------------------------|---------|---------------------------------|-----------|
| | Dr | Cr | Dr | Cr |
| Description | £ | £ | £ | £ |
| 1.General Reserve | | | 194,718 | |
| Fair value gains on investments | | 194,718 | | |
| <i>Recognition of capital gains in the statement of financial performance</i> | | | | |
| 2.Current assets - Investments | | | 1,000,290 | |
| Noncurrent assets - Investments | | | | 1,000,290 |
| <i>Reclassification of current investments from non-current assets to current assets</i> | | | | |
| 3.Audit Fees | 6,200 | | | |
| Payables | | | | 6,200 |
| <i>Recognition of audit fee provision</i> | | | | |
| 4. Inventories | | | 1,726 | |
| Circulation currency | | 1,726 | | |
| <i>Correction of inventory and circulation currency amount for 2015</i> | | | | |

Table 2: **Adjustments to financial note disclosures**

| Description of correction | Note affected | Value of the error |
|---|---------------|--------------------|
| Adjustments to accounting policy notes on inventory and the accounting of commemorative coins. | Note 1 | N/A |
| Adjustments in relation to the amount of detail provided by management on Note 18 – Financial Instruments | Note 18 | N/A |

APPENDIX 2 – RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

| No. | Recommendation | Priority | Timescale | Responsibility | Proposed Management Action |
|---|---|----------|--|-----------------------------|--|
| Financial year 2013/14 and 2014/15 audit recommendations | | | | | |
| 1 | The commissioners should organise a cash count at every year end. A physical count is important for providing assurance that recorded stock actually exists and for highlighting discrepancy if there are any. | High | Implemented with effect from 31 March 2015 year end. | Head of Accounting Services | N/A |
| 2 | To ensure that the Currency Commissioners are adequately equipped to deal with potential risks that may affect the operation of the Fund. The Commissioners should consider performing a risk assessment process. The objective being to identify potential risks and identifying measures to mitigate them if they do materialise. | Medium | December 2016 | Commissioners of Currency | Risks will be reviewed on an annual basis. |
| 3 | The Commissioners should monitor the volume of transactions relating to the Currency Fund consider using a tailor made accounting system for recording the transactions as opposed to spread sheets whose information can be easily lost or manipulated. | Medium | N/A | N/A | <p>The Commissioners have considered the use of an accounting package but given the small number of transactions, a tailor made accounting system is not considered to be cost effective.</p> <p>The risks associated with the use of spreadsheets are mitigated by internal controls which include segregation of duties, reconciliation of data and backup of data on the file server.</p> |

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. |

DRAFT INDEPENDENT AUDITOR'S REPORT

I have audited the financial statements of the Saint Helena Currency Fund for the year ended 31 March 2014 under the Public Finance Ordinance 2010 and the Currency Ordinance CAP 124. The Currency Fund financial statements comprise the Statement of Financial Performance, the Statement of Financial Position, the Statement of Changes in Net Assets and Reserves, the Statement of Cash Flows, and the related notes.

Respective responsibilities of the Commissioners and the Chief Auditor

The Commissioners of Currency are responsible for preparing the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and being satisfied that they present fairly the financial position, financial performance, and cash flows of the Currency Fund. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the APBs 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 Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the appendices to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Basis for Qualified Opinion due to Inventory Verification

The Commissioners did not perform a physical count of notes and coin held as inventory at the financial year end. Accordingly I was unable to observe the count or satisfy myself by alternative means inventory quantities or currency in circulation at 31 March 2014. Since inventories and currency in circulation enter into the determination of the financial performance and financial position, I was unable to determine whether adjustments may have been necessary in respect of the deficit for the year reported in the Statement of Financial Performance or the net assets reported in the Statement of Financial Position.

Qualified Opinion on the Financial Statements

In my opinion, except for any adjustments that may be required in respect of inventory or currency in circulation, the financial statements present fairly, in all material respects, the financial position of the Currency Fund as at 31 March 2014, and its financial performance and cash flows for the year then ended in accordance with IPSAS.

Phil Sharman CPFA
Chief Auditor for Saint Helena
Saint Helena Audit Service, Jamestown, St Helena

30 March 2016

DRAFT INDEPENDENT AUDITOR'S REPORT

Independent Auditor's report to the Currency Commissioners

I have audited the financial statements of Saint Helena Currency Fund for the year ended 31 March 2015 under the Public Finance Ordinance 2010 and the Currency Ordinance CAP 124. The Currency Fund financial statements comprise the Statement of Financial Performance, the Statement of Financial Position, the Statement of Changes in Net Assets and Reserves, the Statement of Cash Flows, and the related notes.

Respective responsibilities of the Commissioners and the Chief Auditor

The Commissioners of Currency are responsible for preparing the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and being satisfied that they present fairly the financial position, financial performance, and cash flows of the Currency Fund. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the APBs 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 Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the appendices to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Basis for Qualified Opinion due to Inventory Verification

The Commissioners did not perform a physical count of notes and coin held as inventory at the start of the financial year. Accordingly I was unable to observe the count or satisfy myself by alternative means on inventory quantities held at 1 April 2014. Since inventories enter into the determination of the financial performance, I was unable to determine whether adjustments may have been necessary in respect of the deficit for the year reported in the Statement of Financial Performance.

Qualified Opinion on the Financial Statements

In my opinion, except for any adjustments that may be required in respect of inventory, the financial statements present fairly, in all material respects, the financial position of the Currency Fund as at 31 March 2015, and its financial performance and cash flows for the year then ended in accordance with IPSAS.

Phil Sharman CPFA
Chief Auditor for Saint Helena
Saint Helena Audit Service, Jamestown, St Helena

30 March 2016