



SAINT HELENA AUDIT SERVICE
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2015/16

To the Saint Helena Currency Commissioners

14/11/2016

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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 2016 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 31 March 2016 and of its financial performance for the year, 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 Commissioners 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 the audit 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 has 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

CURRENT/NON-CURRENT INVESTMENTS

The financial statements of the Fund have previously been presented showing current and non-current assets, as separate classifications on the face of the Statement of Financial Position in terms of paragraph 76-78 of IPSAS 1. Investments having a maturity date of more than 1-year are nonetheless classified as being financial instruments held at fair value through surplus or deficit. Accordingly these may be better classified as current assets on the basis of liquidity in the Statement of Financial Position in accordance with IPSAS 1 paragraph 70.

The presentation has now been amended to recognize that all investments are essentially current assets thereby making the non-current current asset distinction unnecessary. Note 2 explains the corresponding reclassification to the prior year.

COMMEMORATIVE COINS HELD AS INVENTORY

Note 2 describes that coin packs to the value of £38,400 identified as being held by the SHG Treasury had not previously been recognized as inventory belonging to the Currency Fund. The recognition of these coins was initially treated as a receivable to the Currency Fund but has now been corrected to reflect the holding as inventory held on a consignment basis with SHG Treasury.

FINANCIAL INSTRUMENTS DISCLOSURE

In its notes to the accounts, the Fund had not disclosed for each class of financial instruments the level in the fair value hierarchy into which the fair value measurements are categorized in line with IPSAS 30. Note 1 Financial Instruments accounting policy has been amended to note that all financial instruments are classed as level 1 in the fair value hierarchy with values based upon quoted prices in active markets.

UNQUALIFIED AUDIT OPINION

I base my opinion on the detailed audit work that we carried out in accordance with International Standards on Auditing. In my opinion, the Financial Statements present fairly the Financial Position of Fund as at 31 March 2016 and its Financial Performance and Cash Flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

A copy of my Independent Auditors report is included in Appendix 4.

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 these adjustments to the 2015/16 financial statements in Appendix 1.

SIGNIFICANT ISSUES ARISING FROM THE AUDIT

SHG RECEIVABLE

We have noted that the balance of funds owed by SHG has grown thirteen times since March 2013 to £700,369 (refer to Table 1 below) this is in effect working capital for SHG on behalf of the Currency Fund.

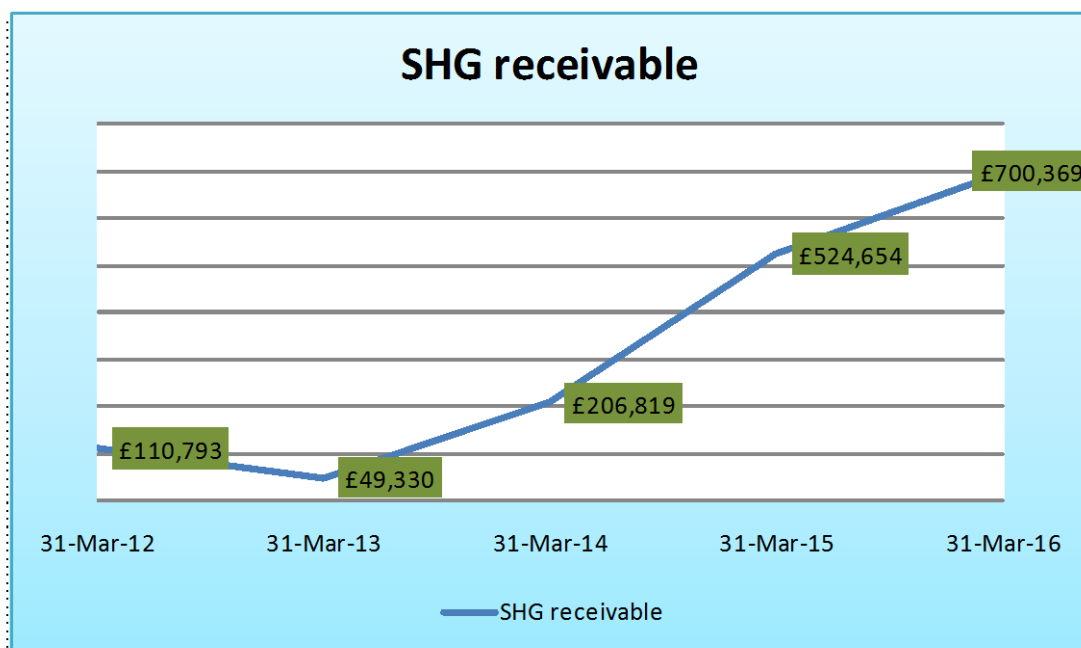


Table 1: Plotting the SHG receivables balance from March 2012 - March 2016

These funds represent idle money that is not earning interest or investment income for the Currency Fund (refer to Table 2 below for income foregone). Assuming that the total balance had been invested for the whole year at the average rate of return for the year the benefit to the Currency Fund is £11,400. The Currency Commissioners have a duty to the Currency Fund and should exercise credit control on receivables and require settlement of the SHG.

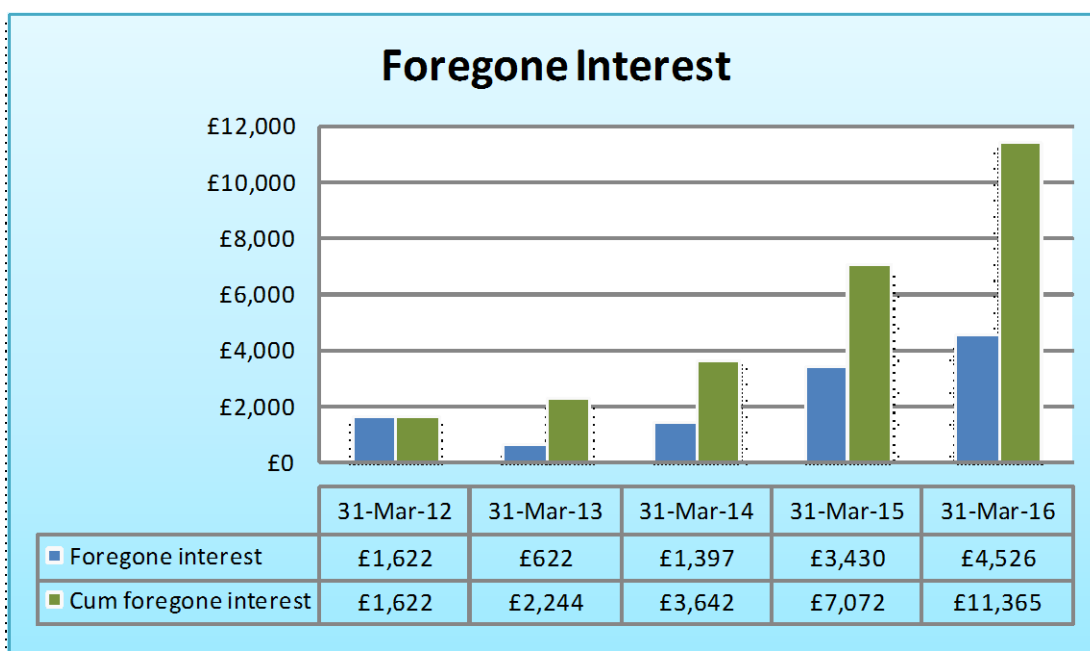


Table 2: Plotting the interest income foregone by not investing funds.

***Recommendation 1** to realize the best returns from funds held the Commissioners should require settlement of receivables and ensure that all surplus funds are invested in interest bearing investments.*

SIGNIFICANT DIFFICULTIES, IF ANY, ENCOUNTERED DURING THE AUDIT

No significant difficulties were encountered in the performance of the audit. The working paper file prepared for the audit was of a good standard and the Currency Officer was responsive to requests for information.

WRITTEN REPRESENTATIONS

Written representations were requested and received from the Currency Officer in line with those required by Auditing Standards. This included a specific representation in regard to currency inventory held in sealed boxes.

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 the 2015/16 financial year. 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 resources 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.

The matters described in this section came to our attention during the normal course of our 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 Commissioners.

I have noted in the Appendix 2 the actions proposed by management in regard to the recommendations made in this Letter.

INVENTORY VERIFICATION

During the year end cash count we observed that sealed boxes containing currency inventory were poorly marked making it a difficult task to establish the denomination currency contained in each sealed box.

***Recommendation 2** To avoid any uncertainty or confusion in the inspection of inventory holdings, sealed boxes should be clearly and unambiguously marked with their stated contents upon secure receipt from the Royal Mint.*

COMPLIANCE WITH CURRENCY ORDINANCE

Section 5.2 of the Currency Ordinance states that any duty devolving, and any power conferred, on the Commissioners may be discharged or exercised by any two of them acting together. During the audit we observed that some currency issues albeit of low value were made with the authorisation of only one Commissioner.

***Recommendation 3** The Commissioners should ensure that all issues of currency are authorized by at least two commissioners in compliance with the Currency Ordinance.*

FOLLOW UP OF PREVIOUS ISSUES

We have also followed-up previous audit recommendations. The table below sets out the summary position on these recommendations in terms of those raised and those either closed or remaining open and requiring further management response:

Financial statement	Recommendation open – action required	Recommendation closed – action completed
Audit 2012/13	0	2
Audit 2014/15	1	2
Total	1	4

We have reported open recommendations from prior periods requiring further attention from management in Appendix 3 to this report.

ACKNOWLEDGEMENT

I acknowledge and thank the Corporate Finance team for their assistance and co-operation given to the Audit Service during the course of the statutory audit.



Phil Sharman
Chief Auditor
Saint Helena Audit Service

16 November 2016

APPENDIX 1 – SCHEDULE OF ADJUSTMENTS

Description of correction	Area affected	Value £
Amendments to include a disclosure in the financial statements categorising the financial assets using the fair value hierarchy required by IPSAS 30.	Note 1 Accounting Policies	N/A
Changes to the statement of financial position to classify investments as current assets on the basis of liquidity. Disclosure in Note 2 restatement of prior year figures.	Statement of Financial Position Note 2 Restatements	3,537,670 (15/16) 3,720,222 (14/15)
Correction of the figure disclosed for historical value of UK Bond Investments as at 1 April 2015.	Note 9 Investments	57,289
Amendment to correct the recognition of coins that were initially treated as a receivable to the Currency Fund when held on a consignment basis with SHG Treasury.	Statement of Financial Position Note 2 Restatements Note 11 Inventory Note 12 Receivables	38,400

APPENDIX 2 – RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

No	Observation	Recommendation	Priority	Response & timescale
1	The balance of funds owed by SHG has grown significantly between March 2013 and March 2016 – which can be regarded as for SHG on behalf of the Currency Fund. These funds represent idle money, with the Currency Fund forfeiting the related interest income.	To realize the best returns from funds held the Commissioners should require settlement of receivables and ensure that all surplus funds are invested in interest bearing investments.	M	<p>Already implemented.</p> <p>The balance owed by SHG is monitored on a monthly basis and surplus funds invested. There was an increase in the balance held with SHG during the latter half of year as the issue of currency into circulation exceeded withdrawals. Surplus funds were invested after the year end.</p>
2	During the year end cash count we observed that sealed boxes containing currency inventory were poorly marked making it difficult to establish the contents of each box.	To avoid any uncertainty or confusion in the inspection of inventory holdings, sealed boxes should be clearly and unambiguously marked with their stated contents upon secure receipt from the Royal Mint.	M	<p>The process is already in place.</p> <p>The Commissioners are content that the observation does not present a risk of any significance, evidenced by the fact that all involved in the process are cognisant of the identity of the contents of the boxes.</p>
3	Non-compliance with Section 5.2 of the Currency Ordinance – we observed that some currency issues (albeit of low value) were made with the authorisation of only one Currency Commissioner.	The Commissioners should ensure that all issues of currency are authorized by at least two commissioners in compliance with the Currency Ordinance.	M	<p>Already implemented.</p> <p>This recommendation refers to the issue of coins from the Vault. With effect from 10 November 2016, Requisition and Issue vouchers for the withdrawal of coins are signed by two Commissioners.</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.

APPENDIX 3 – FOLLOW UP OF OPEN RECOMMENDATIONS FROM PRIOR YEARS

No	Recommendation	Priority	Follow up status/ further action required
1	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	M	Pending – Risks will be reviewed on an annual basis. Starting December 2016

APPENDIX 4 – AUDITORS REPORT

INDEPENDENTS AUDITORS REPORT TO THE CURRENCY COMMISSIONERS

I have audited the financial statements of the Saint Helena Currency Fund for the year ended 31 March 2016 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 Accounting Practices Board's (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 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.

Opinion on the Financial Statements

In my opinion, the Financial Statements present fairly the Financial Position of the Currency Fund as at 31 March 2016, and its Financial Performance and Cash Flows for the year then ended, in accordance with the IPSAS Financial Reporting Framework.

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

11 November 2016