



ST. HELENA

ST HELENA PUBLIC ACCOUNTS COMMITTEE

REPORT TO LEGISLATIVE COUNCIL ON THE FORMAL
SESSION OF THE PUBLIC ACCOUNTS COMMITTEE
HELD ON 11TH NOVEMBER 2015

Laid on the Table 12 February 2016

St Helena Public Accounts Committee

Report to Legislative Council on the Formal Session of the Public Accounts Committee held on 11th November 2015

1. Introduction

In accordance with section 69 (6) of the Constitution of St Helena, the Public Accounts Committee hereby reports to Legislative Council on the Second Formal Session of the Committee held on 11th November 2015.

Membership of the Committee comprises:

Chairman:	Mr Rodney Buckley,
Vice Chairman:	Mr Stedson Francis, and
Members:	Hon. Dr. Corinda Essex,
	Hon. Cyril George,
	Hon. Nigel Dollery.

The Committee is advised by the Chief Auditor, Mr Phil Sharman and assisted by Miss Anita Legg as Secretary.

There were no declarations of interest relevant to the St Helena Line and the Airport Project report.

A transcript of these proceedings can be found on the SHG website and a copy is held in the public library.

2. Order Paper – Second Session

- I.** Chairman's Address
- II.** St Helena Audit Service: St Helena Airport Project Overview Audit
- III.** St Helena Line Limited
- IV.** SHG Response to PAC Recommendations

3. Chairman's Address

The Chairman welcomed all present and those listening on the radio. He also thanked those listening for taking an interest in the work of the Public Accounts Committee as well as South Atlantic Media Services (SAMS) for the radio coverage to the community.

The Chairman informed the meeting of the changes in membership. Cllr. Brian Isaac had stepped down from the Committee, having taken up a seat in Executive Council and is now replaced by Cllr. Cyril George on the Committee. He further noted that all Committee members were present except Cllr. Corinda Essex who was overseas.

The Chairman highlighted to the listeners that the Public Accounts Committee is a select committee of the Legislative Council. It was formed in accordance with section 69 of the St Helena, Ascension and Tristan da Cunha Constitution and Standing Order 23; the primary function of the committee is to objectively scrutinise how the Government spends the public pound.

Under the Constitution the Public Accounts Committee is protected to act independently and is not subject to the directions and control of the Governor, the Executive Council, or any other body or authority. He however indicated that the statutory power of the St Helena Public Accounts Committee requires a change to the Island's Constitution before it can objectively and efficiently scrutinise how Government is currently spending the public purse. The Committee has no statutory power to review budgets or financial estimates or current spending of Government and there is no Scrutiny or Performance Review committee in place. As a result there is no way of following the public pound other than those items normally referred to Legislative Council through the laying of accounts in the House and reports issued by the Chief Auditor.

He highlighted that there are currently two years of backlogged Government accounts, 2013/14 and 2014/15. This means that something in the region of £100m of taxpayer's money had been spent on St Helena over these two years, without external audit or parliamentary scrutiny through PAC. This particular concern about arrears in financial reporting and the attendant accountability gap in respect of the DFID grant-in-aid had been reported by PAC previously.

Accordingly the Chairman was pleased to note a programme of technical assistance to clear the backlog in preparation and audit of these Government accounts had been established and was already bearing fruit. Specifically the Chief Auditor has completed his audit on the 2012/13 accounts to be laid at the 13 November 2015 Legislative Council. Moreover the contract accountants and external auditors will now push ahead to clear the remainder of the backlog over the next 15 months. This will close the accountability gap on the UK taxpayer funding to St Helena and enable timely independent scrutiny by this Public Accounts Committee.

The Chairman also highlighted the initiative by the UK Foreign and Commonwealth Office in giving a commitment to the Joint Ministerial Council to assist in the strengthening of audit and parliamentary oversight in the Overseas Territories. Work is ongoing between the Foreign Office, the UK National Audit Office and Overseas Territories to develop a model framework which will cover legislation and regulation of the different roles of Public Accounts Committees, external and internal audit and how these can best work together using best practice. This work will continue over the next year or two and may require some changes to the Island's Constitution.

To become an effective Select Committee of the Legislative Council the statutory remit of the St Helena Public Accounts Committee will need some upgrading to be proactive, rather than reactive. Members of the community are encouraged to take full advantage of this initiative by the Foreign and Commonwealth Office and consult with Legislative Councillors in putting their views forward on how best the Public Accounts Committee should function.

Recommendations

In relation to its scrutiny and oversight function, **PAC recommends that:**

SHG maintain active interest in the FCO sponsored governance review and take all necessary steps to apply the model framework proposed for the Overseas Territories to strengthen financial governance, audit and parliamentary scrutiny in St Helena.

4. St Helena Audit Service: St Helena Airport Project Overview Audit

The report on the St Helena Airport Project Overview Audit was laid before Legislative Council on 8 July 2015. The report was then directly referred to PAC under the provisions of Section 69(6) of the Constitution and Standing Order 23, Rule 2(a)(iii). The audit overview focused on current assurance issues in place, which give confidence over governance, risk management, finances and delivery of the St Helena Airport Project.

The following persons attended to answer questions in respect of the St Helena Airport Project Overview Audit:-

- Airport Project Director – Ms Janet Lawrence
- Airport Contract Manager – Mr Edward Jerrard

PAC were concerned that no specific risk management strategy had been developed and implemented for Phase 1 – design and build, albeit project risk management was found to be tight and a range of persistent risks were being managed. *PAC received assurance that project risk management processes were in place and all risks that have been identified/classified as red have mitigation plans in place so as to manage the achievement of the project objectives.* Management effort is being applied to developing a risk management strategy for Phase 2 – operation.

PAC were concerned that the report highlights some issues regarding the milestone payment system, which eventually led to the work performed to calculate Earned Value for the project. As a result of the Earned Value calculations, attention was drawn to the financial exposure between the value of work done and milestone payments paid which led to additional top up bonding for the project.

The Earned Value model was explained to the PAC and it was highlighted that milestone contract payments were heavily frontloaded to Basil Read due to the magnitude and logistics of the project. As the Phase-1 project approaches its end, the work performed has caught up with contract payments made and upon completion there should be no material difference between the work certified and milestone payments made. *The Director intimated that further EV measurements would be a decision for the Project Board – PAC were concerned as to how the financial statements of Government could be prepared in the absence of EV measurements for the years ended 31 March 2014, 2015 and 2016.*

The PAC also raised the issue regarding the remaining work that has to be performed such as the certification, aerodrome manual, flight calibrations etc, and how management is going to ensure that the funds are adequate up to completion of Phase 1. *Management explained that there are independent assurance providers who are involved in the certification of the work performed (e.g. EY and PMU unit (Halcrow)). Management also highlighted that they have been using contingent funds for contract variations, e.g. in the case of design changes or identification of additional requirements, in order to meet the contract specification.*

The PAC asked how defect guarantees and maintenance obligations during the life of the Airport have been factored into the contract and whose responsibility these are. *PAC was assured that under Phase 1, the PMU unit (Halcrow) is responsible for accepting the works upon completion of components by Basil Read and a certificate of take over issued. The certificate stipulates defects that need to be corrected and SHG then enters into a contractual defects notification period. As Phase 2 starts the resident Engineer and PMU unit still have a role to play as they monitor the identified defects.*

PAC enquired as to how the £35 million allocated for Phase 2 - operations will be structured over the next 10 years. *Management explained to PAC that this phasing is defined in the payment schedule which is part of the signed contract with Basil Read for the operations phase.*

Recommendations

In relation to its scrutiny of the St. Helena Airport Project Overview audit report, **PAC recommends that:**

- 1. Consistent with the report recommendations Earned Value (EV) calculations on the airport project are commissioned by SHG for the years ended 31 March 2015 and 31 March 2016 so as to ensure that the valuation is available for the SHG annual financial statements.*
- 2. SHG must ensure that a risk management strategy is developed for the Airport Project Phase 2 and it must conform to risk management standards and best practice. The red risks (major risks) on the Airport Project should be tracked and mitigated to ensure that it does not affect the achievement of goals/objectives of the project.*

3. *Airport Management must implement the 8 recommendations contained in the audit report on the Airport project. The recommendations that have been provided by Audit should be used by management to develop control mechanisms for Phase 2 so as to transfer the learning from Airport Project Phase 1.*
4. *Management must develop an integrated assurance and approval plan for Phase 2 of the Airport Project Operations. Management must also determine areas where they require assurance so that its internal and external assurance providers can assist in that regard.*

5. St Helena Line Limited

The company St. Helena Line Limited ('SHL') was created as a nominee company for the holding and operation of the RMS St Helena. The legal title of the ship is held by the company as trustee on behalf of the Government of St Helena. The direct costs of operating the ship and associated aid-funded subsidy are captured within the company accounts. The operational management of the RMS is undertaken by AW Ship Management Limited under contract with SHL.

The following persons attended to answer questions on behalf of St Helena Line Limited:-

- Financial Secretary – Mr Colin Owen
- Acting Assistant Financial Secretary– Mr Nicholas Yon

Subsequent to the hearing the PAC received further written evidence from the SHG Shipping Officer, Mr Dax Richards, in response to questions raised in public session.

The audit of the Financial Statements of the Saint Helena Line Limited is completed by the appointed External Auditors, Bishop Fleming. However the accounts of the St Helena Line are not required to be laid before Legislative Council – this is another example of where the mandate of the PAC could be usefully extended to include all public bodies and enable it to follow the public pound.

Given the ownership of the SHL is with SHG and the scale of operations of the RMS St Helena and shipping subsidy funded by DFID, the accounts of the SHL are regarded by the Chief Auditor as a matter of importance and referred directly to PAC under the provisions of Section 69(6) of the Constitution and Standing Order 23, Rule 2(a)(iv). The Chief Auditor reported to PAC on the audited accounts of the St Helena Line for the three most recent financial reporting periods ended 31 March 2013, 2014 and 2015.

In their independent auditors' report the Bishop Fleming attested that the SHL financial statements presented a true and fair view of the state of the company's affairs, have been prepared in accordance with the applicable financial reporting framework and are in accordance with the Companies' Act. *PAC remain concerned that such a financial audit may meet Companies Act requirements but does not constitute a comprehensive audit mandate to include the question of whether value for money is achieved in the use of public funds and assets.*

The PAC noted the independent auditor's report but observed that limited value for money audit has been carried out on the shipping subsidy over the past 25 years of operation, and would not like to see a similar lack of scrutiny during the Airport Operation (Phase 2).

The PAC deliberated on the issues regarding the RMS St Helena and came to a view that given the ship is left with about 6-12 months in operation it would be useful for them as an oversight body to concentrate on the issues that must be looked at before the decommissioning of the ship to ensure a smooth transition. Some of the PAC's concerns are noted below with regards to the decommissioning:

- How will merchant goods and other freight be delivered to the island?
- How will the operations be actively managed over the next 6 months to control abortive expenditure?
- How will the disposal of the ship be managed?

The RMS has provided remarkable opportunities for the development of maritime and service skills within the local workforce who form the ship's officers. PAC is concerned on where these individuals will be employed going forward. *SHL Management assured the PAC that there are processes that they follow in cases of such redundancies such as notifying the home countries job centres so authorities are aware of this in case of job opportunities.*

The PAC regard the RMS and its passenger cargo service as being part of the islands heritage and are concerned that assets/memorabilia, which are part of the ship need to be managed correctly and they should be earmarked for retention by the island. *The PAC was assured that management agreement for the RMS requires that the Manager keeps a comprehensive inventory of all equipment, outfit and appliances. A copy is maintained by SHL and one is kept on the RMS at all times. An exercise has been undertaken to construct a list of all the artworks on the ship and SHG will be consulted on the future of all moveable assets and the appropriate security measures will be taken.*

Recommendations

In relation to its scrutiny of the St. Helena Line Limited accounts, PAC recommends that:

1. *A Project Board is established as a matter of urgency with an Elected Member and the SHG Shipping Officer amongst its membership to advise Executive Council and oversee the disposal process of the RMS St Helena and ensure that the following is in place:*
 - *Management engages the services of reputable independent expert to determine the value of the RMS St Helena and also advise on the disposal options based on the condition of the ship and current trends in the industry.*
 - *Management prepare a report on the disposal options for the RMS St Helena for consideration by the Project Board and Executive Council decision.*
 - *Ensure that a list of assets (inventory/heritage assets/fixed assets/movable assets) is maintained, currently up to date and a copy held by SHG. In addition an asset verification should be performed by the Audit Service.*
2. *In view of the uncertainty of the withdrawal date of the RMS St Helena, Executive Council makes appropriate budgetary provisions in the event that the service is extended.*
3. *SHG ensures that interested stakeholders and the public at large are kept informed on both the proposals for the provision of a cargo shipping service and the decommissioning of the RMS St Helena.*
4. *SHG must ensure that a Deputy Shipping Officer be appointed to ensure there is no disruption of services in the absence of the Shipping Officer.*

6. SHG response to PAC recommendations

The Sessional Paper 14/15 reporting on the formal PAC meeting held 29 April 2015 was submitted to Legislative Council on 8 July 2015. The accompanying motion that the report be accepted was passed with a request that Government provides a formal response in accordance with Section 69(9) of the Constitution.

The Government response in the form of Sessional Paper 25/15 was laid at the Legislative Council meeting of 13 November 2015 by the Financial Secretary as responsible member of Executive Council. The report of Government was referred to PAC for their review and disposal of responses on behalf of Council.

PAC have considered the Government response and find that of 43 recommendations in the report, 7 have been closed since the July 2015 LegCo meeting, a further 17 may be regarded as closed after the November 2015 LegCo meeting and 19 recommendations therefore remain open. Of those open recommendations 11 have tangible action in progress but 8 remain pending substantive action – details are summarised as follows.

Account area under review	Recommendation open – substantive action pending	Recommendation open – action in progress	Recommendation closed – action completed
ESH 2012/13	0	3	3
SHFC 2012/13	0	0	2
SHCF 2012/2013	0	2	0
BFI 2012/13	2	0	4
SHFC 2013/14	1	2	2
SNHT 2013/2014	0	2	2
SHG 2011/12	5	0	1
SHG VFM DGO	0	2	1
SHG VFM GLH	0	0	2
Total	8	11	17

Overall the PAC is satisfied with the progress being made by Government to address recommendations made by the Committee. Nonetheless management attention is required on areas where substantive management action is pending to close through the issues identified and demonstrate tangible improvements required in both public financial management and administration.

ANNEX STATUS OF OPEN PAC RECOMMENDATIONS

No	PAC Report	Body	Recommendation	Responsibility	Government Response	Status
1	7/10/2014	ESH	ESH should place more emphasis on output and outcome measures both in strategic plans and in non-financial performance reporting.	Dr Niall O'Keefe Chief Executive for Economic Development	ESH as a new organisation is continually developing procedures and policies to ensure that our outcomes are measurable and in line with our refocus. We have also in the past year registered with the Institute of Economic Development (IED) in the UK and currently working towards achieving "excellence in economic development".	Open – action in progress Need to evaluate non-financial performance reporting in ESH 2013/14 annual report
2	7/10/2014	ESH	ESH will need to develop management information systems to capture timely and accurate information for internal management and external performance reporting to stakeholders.	Dr Niall O'Keefe Chief Executive for Economic Development	ESH has implemented systems and processes to ensure that reporting is accurate and received in a timely manner in order to report accurately to all our stakeholders. We have also implemented a new post; Quality Standards and Information Manager to ensure that this process is done.	Open – action in progress Need to evaluate non-financial performance reporting in ESH 2013/14 annual report

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3	7/10/2014	ESH	ESH should use the commissioning relationship with provider organisations to require data returns, which measure not only inputs but also outputs and measures of impact.	Dr Niall O'Keefe Chief Executive for Economic Development	ESH is continually developing procedures and policies with the various organisations to ensure that data is returned timely and accurately in order to show the impact of the investment to that organisation. Achieving excellence in economic development will assist this process.	Open – action in progress Need to evaluate non-financial performance reporting in ESH 2013/14 annual report
14	7/10/2014	St Helena Currency Fund	Legislative Council amends the Currency Fund Ordinance to require the audited accounts to be laid before Legislative Council.	LEGCO	No progress has been made on this recommendation. LEGCO members to consider.	Open – action in progress
15	7/10/2014	St Helena Currency Fund	The Currency Commissioners review the investment strategy to ensure it is designed to secure the optimum return whilst maintaining security of investment holdings.	Financial Secretary, SHG	The investment strategy is currently being reviewed and will be discussed with the Currency Commissioners in due course.	Open – action in progress

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No	PAC Report	Body	Recommendation	Responsibility	Government Response	Status
19	29/4/2015	Bulk Fuel Installations	The 2003 Bulk Fuel Ordinance is reviewed to determine whether it is relevant to the operations of the new BFI and either applied for that purpose or repealed.	Financial Secretary	Still to be considered. Action to be taken forward.	Open – substantive action pending
22	29/4/2015	Bulk Fuel Installations	For accounting and asset management purposes infrastructure assets are tested for impairment annually and revalued at intervals not exceeding 5 years.	Financial Secretary	BFI is due to close during 2016/2017. We have no plans to revalue assets or carry out an impairment review during that period. The cost of such an exercise is disproportionate to any benefit. Recommendation is not accepted. Five yearly reviews will apply to the new BFI.	Open – substantive action pending Recommendation relates to the new BFI therefore remains applicable.

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No	PAC Report	Body	Recommendation	Responsibility	Government Response	Status
25	29/4/2015	St Helena Fisheries Corporation	The subsidiaries of any public body should through the articles of incorporation be made subject to audit review and PAC scrutiny for the purposes of openness and transparency.	SHFC Management Board	Although not currently a requirement under the articles, it was always intended that the annual accounts of ST Marine Resources Limited would be audited and then presented to the shareholders (ESH and SHFC boards) at an Annual General Meeting in accordance with the requirements under the Companies Ordinance. It is however unclear as to why there would then also be a requirement for such a limited liability company to be subjected to PAC scrutiny.	Open – substantive action pending PAC scrutiny is required in the public interest whenever SHG is a shareholder.

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28	29/4/2015	St Helena Fisheries Corporation	The Boards of ESH and the SHFC should review the Directors appointed to SMRL and at the very least seek to place industry expertise on the SMRL Board through the 4th appointed Director.	SMRL Shareholders	Under the distribution of shareholding in SMRL, the SHFC Board is able to appoint up to 3 Board Members and the ESH Board is able to appoint 1 Board Member. There is an existing vacancy in relation to SHFC representation, following the resignation of a Board Member on the 4 th of July 2014, and discussion has taken place with the SHFC Board in relation to this, however Members were of the view that such an appointment should not be made until current matters relating to the MFV Extractor have been concluded. One of the current Directors has 30+ years associated with the fishing industry. This will be reviewed further by the Shareholders at the Annual General Meeting when accounts have been audited and are ready for presentation.	Open – action in progress.

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29	29/4/2015	St Helena Fisheries Corporation	Internal management capacity remains a concern and the appointment of a counterpart General Manager will be required if the Corporation is to continue going forward.	SHFC Management Board	In light of the Argos decision to withdraw from the Cold Store Operation on the island by November 2015, the future of the Corporation and the Fishing industry will likely see new operational structure being put in place by SHG which will probably have such a management structure.	Open – action in progress
31	29/4/2015	St Helena National Trust	The Trust plans to report audited accounts within six months of the financial year end and requires a standing extension from the Governor until such a time as section 18(1) of the Ordinance may be amended.	Trust Director & President	The Trust Director and President are currently reviewing the ordinance with a view to suggesting amendments to section 18(1) along with a number of other amendments.	Open – action in progress
33	29/4/2015	St Helena National Trust	The Trust reviews requirements for reporting on individual donor funded projects, to ensure that specific conditions are met in respect of any project completion audits, required by donors, in addition to the Trust Financial Statements.	Trust Director & President	This is being done.	Open – action in progress

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36	29/4/2015	St Helena Government	The MTEF process is maintained with the objective of establishing a 3-year financial budget for SHG.	Financial Secretary	MTEF approach now in its fourth year and is embedded in SHG's processes. New guidance for 2016/17 issued in May 2015 (guidance is reviewed annually) and Directors are now pulling together budgets for a three year period as was the case in 2015/16. DFID have stated that they are looking for a three year budget settlement.	Open – action in progress Will remain open until 3 year budget is confirmed.
37	29/4/2015	St Helena Government	The Chief Secretary provides a written statement of progress against recommendations and the Chief Auditor performs a substantive follow-up review on the progress made, in six – nine months and report his findings to PAC in due course.	Chief Secretary	Chief Secretary to provide a written statement. Chief Auditor to follow up in six – nine months	Open – action in progress

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No	PAC Report	Body	Recommendation	Responsibility	Government Response	Status
1PR	10/2/2014 Updated 7/10/14	SHG Financial Statements 2011/12	The Financial Secretary should improve the timeliness of accounts preparation. Legislative Council should amend the public Finance Ordinance to require the Financial Secretary to present financial statements to the Chief Auditor for audit within 4 months of year end consistent with the PEFA report of February 2014.	Financial Secretary	Once the backlog of Financial Statements has been addressed we will aim to produce the Financial statements within four months of the year end for audit by the SHAS. The aim will be for the Financial Statements to be signed off (i.e. opinion given by the Chief Auditor) by the end of December each year.	Open – action in progress
2PR	10/2/2014	SHG Financial Statements 2011/12	The Financial Secretary should continue with plans to introduce accruals based budgeting in time for the 2016/17 budget process.	Financial Secretary	We agree with the recommendation but not the timeline and we are aiming to introduce for the 2017/18 financial year.	Open – action in progress

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No	PAC Report	Body	Recommendation	Responsibility	Government Response	Status
3PR	10/2/2014	SHG Financial Statements 2011/12	The Financial Secretary should prepare an analysis of the costs of consolidating subsidiary bodies in the Financial Statements, to allow Executive Council to assess whether the costs outweigh the benefits of accurate reporting of the Government's financial position.	Financial Secretary	The decision to consolidate subsidiary bodies is that of the Financial Secretary. Further consideration has been given to this matter and is currently stands SHG do not have the resources to implement such a consolidation. We have procured an additional three people to address the backlog of the Financial Statements as it currently stands. The additional resources are being focused on the backlog, in line with the agreed working plan with the SHAS. Further consideration will be given to consolidation of the Financial Statements in 2016 for the 2017/18 financial year.	Open – action in progress

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No	PAC Report	Body	Recommendation	Responsibility	Government Response	Status
4PR	10/2/2014	SHG Financial Statements 2011/12	Legislative Council should amend the Social Security Ordinance to ensure that sufficient evidence is obtained and retained as part of the evaluation of claims.	Financial Secretary	We have decided in agreements with the AG that it would not be appropriate to legislate for this. Further work is being done on the balance of probability and evidence requirements for this. An evidence matrix will be developed for inclusion in the BIP and IRB Guidelines. This will spell out clearly what is required and what weighting is given to each piece of evidence. This will be retained on file. The Social Protection working group is taking forward. Evidence requirements will be published so that applicants will know what evidence they need to present with their application.	Open – action in progress
5PR	10/2/2014	SHG Financial Statements 2011/12	The Financial Secretary should prepare a phased programme of valuation of government land and buildings to ensure that all land and buildings are valued by 31 March 2017.	Financial Secretary	This is progressing and a joint procurement exercise with Solomons (to save costs) is being progressed with an appointment likely later in the year to carry out the valuation of assets.	Open – action in progress

