



ST. HELENA

SAINT HELENA AUDIT SERVICE
MANAGING GRANTS AND SUBSIDIES
PERFORMANCE AUDIT
MARCH 2016

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SAINT HELENA AUDIT SERVICE
External Auditors

Managing Grants and Subsidies

Performance Audit



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CONTENTS

Executive Summary	2
Areas of Strength.....	2
Areas of Improvement.....	2
Introduction	4
Background	4
Objectives.....	6
Scope	7
Methods.....	7
Sources Used	8
Sampling.....	8
Grant Schemes.....	9
Findings	11
Policy and Planning	11
Management and Target Setting.....	13
Performance Measurement.....	17
SHG Grant Schemes	19
Conclusions	21
Acknowledgements	22
Management Action Plan	23
Appendix 1 - Glossary	25
Appendix 2 – New Horizons Letter	26
Appendix 3 – SAMS Letter	27
Appendix 4 – Connect Letter	28
Appendix 5 - Public Utilities Objectives and Targets	33
Appendix 6 – SHG Combined Performance Reporting.....	35
Appendix 7 - Methodology	36

EXECUTIVE SUMMARY

AREAS OF STRENGTH

During the grants and subsidies audit we identified areas of strength where we commend management for ensuring that adequate and effective processes are in place in the managing of grants and subsidies. The following are the instances identified:

1. Grants and subsidies award letters are in place that confirm that appropriate governance processes have taken place.
2. St Helena Government (SHG) is monitoring awarded grant conditions and withdrawing the Q4 quarterly tranche if audit report is not submitted.
3. SHG is on a monthly basis reporting performance towards its set targets/ indicators.
4. SHG has developed and implemented a combined performance reporting framework.
5. St Helena Community Development Organisation (SHCDO) has developed and implemented the following documents for use in the application, awarding and monitoring of small grants:
 - Community Grant Scheme Award Guidelines
 - Community Grant Scheme Information
 - Community Grant Scheme Applications Template
 - Community Grant Scheme Evaluation Template
6. Agriculture and Natural Resources Directorate (ANRD) has developed good policy documents which link its grant scheme to high level strategic plans and specific pillars of growth over the medium term period.

AREAS OF IMPROVEMENT

There are also some areas which we have identified during the audit that offer significant opportunity for improvement in the management of subsidies.

POLICIES AND PLANNING

There is a lack of an approved policy and procedural documentation relating to the issuing of government subsidies. The policy framework and procedural guidance should be proportionate to the scale of the funding provision and therefore risk to the public purse.

MANAGEMENT AND TARGET SETTING

No targets had been set which are attached to the monies transferred to the subsidy receiving entities/ organisations by SHG. Furthermore the budgets in the business cases that are used as a basis for awarding the subsidies are not linked to the objectives/ targets that are to be achieved.

No formal assessment of the impact of the subsidies being provided is being carried out after the end of the fiscal year and therefore no formal feedback mechanism exists within SHG. No proper structural cascading of the strategic goals to the operational plans and therefore leads to gaps in the attainment of legislative objectives. We would expect these disciplines to be established for the larger subsidies.

The absence of these management arrangements results in the following:

- It is not possible to assess the effectiveness of the subsidy due to it not being linked to any specific deliverable/target/conditions on the subsidy award letter.
- No formal assessments for monitoring poor performance on the awarded subsidies which may limit SHG's options for discontinuing or reducing the subsidy awards.
- Gaps exist in the framework for monitoring of the subsidy to Connect St Helena Ltd (Connect) in particular. These are due to missing linkages between Legislation, Sustainable Development plan (SDP), the Regulator and the subsidy award letter by SHG.

PERFORMANCE MEASUREMENT

We analysed SHG's performance management systems with regards to subsidies, which utilises Key Performance Indicators (KPIs) to monitor targets set in the SDP. We noted that for the Utilities KPIs reported performance, as contained in the 2014/15 Performance Report, not all targets were validated in the reported information by SHG. The identified issues could result in the following:

- SHG reporting incorrect performance to stakeholders due to the information not being validated.
- SHG management making planning/budgeting and other important decisions based on incorrect performance reported.
- SHG not able to take corrective action towards the attainment of the achievement of annual targets if the reported performance during the year is inaccurate.

Our review of the target setting and performance monitoring is made in the context of the management of grants and subsidies and accordingly may not identify all the control issues that a more specific examination of the performance management framework may develop.

INTRODUCTION

BACKGROUND

The Saint Helena Audit Service (SHAS) is the body that carries out financial and performance audits on behalf of the Chief Auditor.

The Chief Auditor is a statutory position required by the Constitution (Section 110). The Chief Auditor's responsibilities are set out in the Constitution and the Public Finance Ordinance:

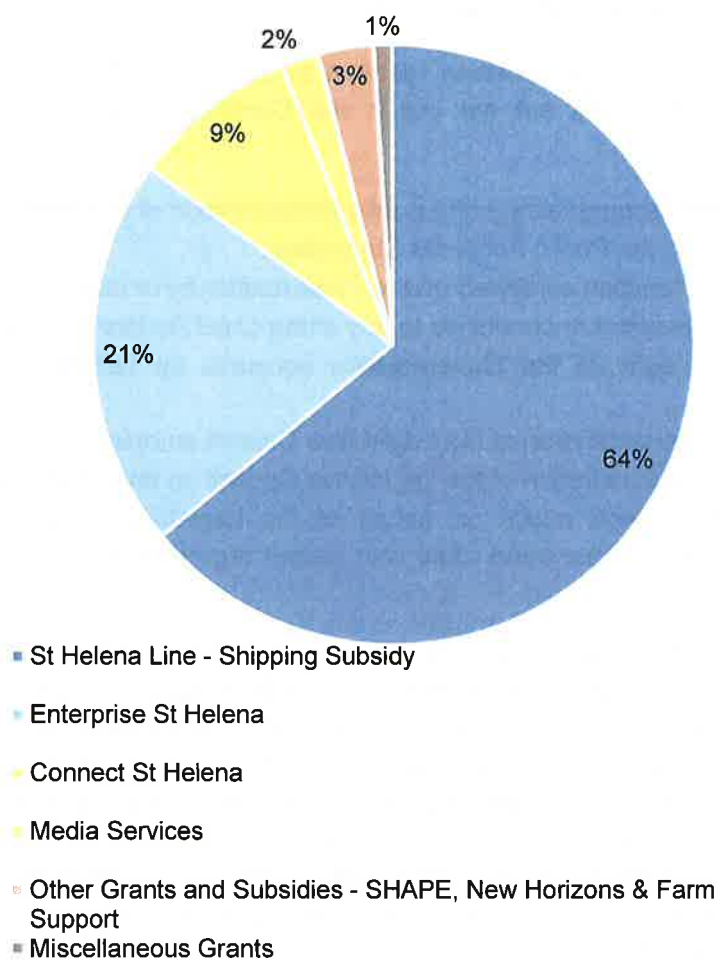
- Promote public accountability in the public administration of St Helena.
- Act as adviser to the Public Accounts Committee.
- Undertake any function conferred on the Chief Auditor by or under any Ordinance.
- Do anything incidental or conducive to any of the Chief Auditor's functions.
- Undertake an audit of the Government's accounts on behalf of the Legislative Council.
- Submit for the consideration of the Legislative Council an opinion on the audit.
- Submit for the consideration of the Legislative Council an annual management letter.
- Conduct performance audits on behalf of the Legislative Council to determine whether resources have been used with proper regard to economy, efficiency and effectiveness.

The Public Accounts Committee (PAC) is a Select Committee of the Legislative Council (LegCo). It was formed in accordance with section 69 of the St Helena Constitution and Order 23; the primary function of the Committee is to objectively scrutinise how the government spends public funds. During the Chief Auditor's consultations on performance audit topics, PAC expressed an interest in the evaluation of how government grants and subsidies are being utilised and managed. This performance audit report is therefore designed to assess whether the arrangements established to manage grants and subsidies secure proper stewardship and accountability and promote economy, efficiency and effectiveness in the use of public resources.

SHG estimates show that some £6m was distributed as grants or subsidies in the 2014/15 period. This covers everything from the Department for International Development (DfID) funded shipping subsidy to the St Helena Line Ltd (SHL) (£3.9million) at the higher end, to the Heritage Society (£14k) at the lower end of the spectrum.

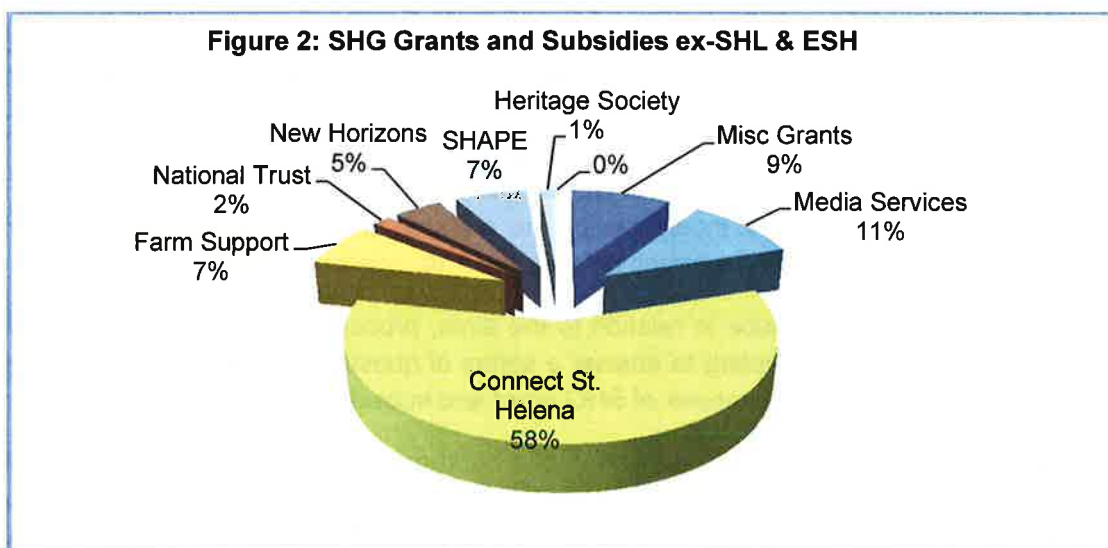
Figure 1 below shows the relative proportions of grants and subsidies provided by SHG.

Figure 1: SHG Grants and Subsidies



Source: SHG (2014); ESTIMATES OF RECURRENT REVENUE, EXPENDITURE AND CAPITAL

Figure 2 below shows these proportions after excluding SHL (Shipping) and Enterprise St Helena (ESH) (Economic Development and Tourism) which consume approximately 85% of the total SHG grant and subsidy funding.



Source: SHG (2014); ESTIMATES OF RECURRENT REVENUE, EXPENDITURE AND CAPITAL

OBJECTIVES

The overall aim of the review is to help SHG improve the management of the use of grants and subsidies. This is done by assessing the arrangements established by SHG to ensure that funds provided through grants and subsidies are managed effectively and efficiently. Our objectives are to assess these management arrangements from three angles:

Grants & Subsidies Aims

- The policy framework for grant funding and the expected outcomes

Processes

- The compliance with required procedures for issuing grant funding within these policies

Monitoring & Reporting

- The monitoring of performance of grant recipients to ensure proper accountability

SCOPE

We identified the areas of government expenditure that can be considered a grant or subsidy using the National Audit Office's (NAO's) definition that a grant is a permanent transfer of funding for a specific purpose and used in accordance with a set of terms and conditions¹. This excludes money transferred to individuals for welfare purposes, such as pensions or social security, as there are no conditions attached. It also excludes government expenditure on services which would usually be provided by government such as access to healthcare and education. A subsidy is similar to a grant, but can include other forms of financial benefits, such as tax incentives or the transfer of cheap land rights. For the purpose of this audit we will be focussing only on direct transfers of money by SHG.

We probed the systems in place in relation to the aims, processes and monitoring of grant and subsidy funding by attempting to answer a series of questions, aimed at examining the economy, efficiency and effectiveness of SHG grant and subsidy management.

The audit included an independent evaluation of a number of grants and subsidies schemes that have been allocated in the financial year 2014/15 in order to gain an understanding of SHG policy in practice. Due to the size of the grants provided to SHL and ESH, they have been specifically selected to be part of the two year performance audit strategic plan and will be excluded for the purposes of this assignment.

METHODS

This performance audit followed a system based approach. We examined the adequacy and proper functioning of systems and processes for the management of grants and subsidies and assessed whether controls were in place to ensure that accurate and reliable performance is being reported.

To collect audit evidence for the review, we used a range of methods:

- **Enquiries of management** – We made appropriate enquiries to individuals including SHG officials and senior management as well as councillors. We spoke to management from grant receiving entities. This was done electronically, through meetings and interviews and with the distribution of questionnaires.
- **Documentation review** – We looked at a range of written material, including that available from SHG, relevant policy documents and company accounting records.
- **Assessment and evaluation** – We documented our findings and assessed against a set of best practice criteria which we sourced from previous audits, UK government guidance and advice from professional bodies. We evaluated the systems, policies and procedures in place to produce recommendations for improvement.

¹ Contained in NAO (2014) Government Grant Services Report

SOURCES USED

The following sources were used for the Grants and Subsidies audit as benchmarks of possible practices that SHG could implement going forward:

- NAO: Government Grant Services Report - 2014.
- SHG: Budget/Estimate Books - 2013/14 & 14/15.
- SHG: Corporate Finance - 2014/15 Payment Schedule.
- United Kingdom (UK) Cabinet Office - Public Bodies: A Guide for Departments Chapter 7: Financial Management - Planning, Funding and Control.
- South Africa National Treasury Framework for Strategic Plans and Annual Performance Plans.
- NAO: Choosing the right FABRIC - A Framework for Performance Information.
- SHG: Corporate Services - Safeguarding Children's Board Grant Scheme.
- ANRD: Grant Funding 2014/15.
- Community Roads Grants 2014/15.
- SHCDO: Community Grant Scheme information pack.

SAMPLING

SHG delivers a large portion of its budget to non-governmental organisations and persons in the form of grants and subsidies. SHG estimates that £6m was distributed in the 2014/15 year. SHG distributes these funds in various ways: some organisations are subsidised based on their budget deficit each year, with the rest funded through various grant schemes run by directorates. Occasionally, some funds are transferred directly to individuals or organisations on a one-off basis.

In selecting our sample to evaluate with regards to the grants and subsidies assignment we have made the following considerations so that our observations and recommendations are in as much as possible representative of the entire population:

- Strategic Considerations - We analysed entities/organisations whose mandate and function is important to the attainment of the island's Key Result Areas (KRA) as per the SDP. Connect was selected due to its pivotal role in ensuring that the island achieves its Utilities KRAs.
- Quantitative Considerations – We analysed entities/organisations that have received a substantial amount of money from SHG to fund their operations. Connect and South Atlantic Media Services (SAMS) were selected due to the materiality of the subsidy amounts received from SHG in the 2014/2015 year.
- Qualitative Considerations – We analysed entities/organisations that have received funding consistently over the past 5 years. New Horizons has been identified and selected as an organisation that has consistently received funding over the past 5 years.

Table 1 summarises the SHG subsidy payments for 2014/15. The entities/organisations that have been highlighted are the ones that have been selected for evaluation for the purposes of this assignment:

Table 1: Budget/Actual Subsidy Payments 2014/15

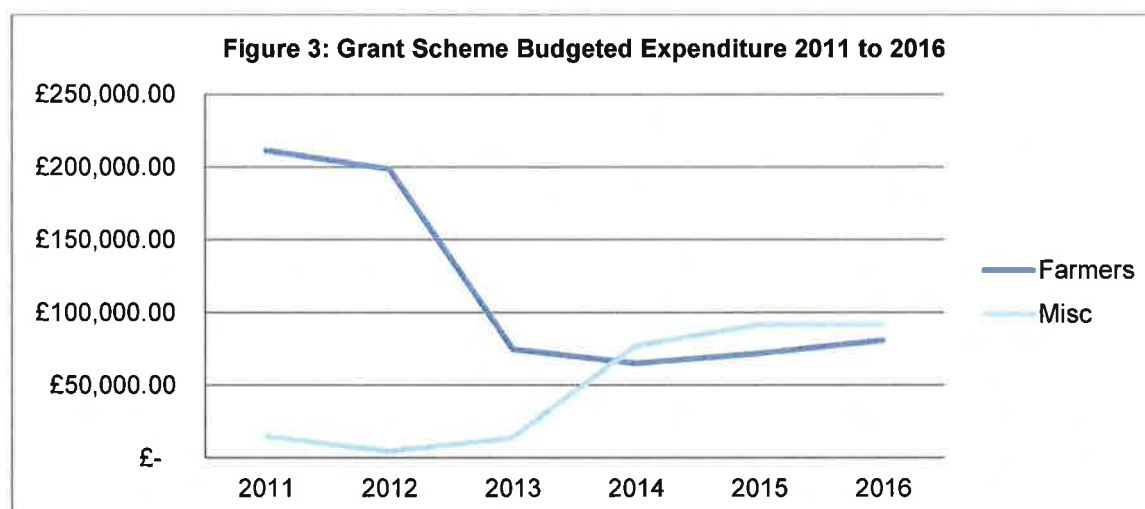
Entity/Organisation	Budget (£)	Actual (£)
New Horizons	44,000	44,000
St Helena National Trust	17,000	17,000
SHAPE	67,000	67,000
Public Solicitor	62,000	62,000
SAMS Ltd	105,000	105,000
Connect St Helena	578,000	578,000
Enterprise St Helena	*1,275,000	1,211,000
Heritage Society	14,000	14,000
Human Rights Commission	23,100	23,100
St Helena Line (Shipping)	*3,923,000	2,952,000
Total	6,108,100	5,073,100

Source: SHG Corporate Finance: 2014/15 Payment Schedule

** Due to the size of the subsidies that are granted to ESH and the St Helena Line (Shipping), these two areas were excluded from the scope of this audit review and have been selected for review through separate engagements in the two year Performance Audit Strategic Plan.*

GRANT SCHEMES

The grant schemes funded by SHG are 2% of the total grants and subsidies budget. Quantitatively these grants may seem immaterial but are of qualitative importance to SHG towards achieving its goals and objectives. The audit has sought to assess whether management of public funds is being done to best practice standards, with economy and efficiency in mind while producing the predetermined outcomes.



Source: SHG Corporate Finance: 2014/15 Payment Schedule

Historically, the agricultural sector took not only a large proportion of grant schemes but of grant and subsidies funding as a whole. However, following policies designed to increase efficiency in the agricultural sector, these schemes were cut significantly, from £200k to £75k, which represents a 63% reduction. These policies included schemes such as the introduction of Public Private Partnerships (PPP).

SHG Miscellaneous Grants consist of community grants and the safeguarding grant schemes and these grants have been increasing since 2011 as depicted in Figure 3. The table below depicts some of the grant spends on these grants:

Table 2: SHG Grant Schemes 2014/15

Scheme	Original Budget £	Actual Spend £	Number of recipients
Community Grants Scheme	50,000	46,606	23
Farm Support	60,200	55,140	Pasture maintenance – 5 Fertigation support – 5 PPPs – 2
Safeguarding	35,000	35,000	35
Community Roads	19,000	17,900	15
Total	164,200	154,646	

Sources:

- *SHG Corporate finance; 2014/15 Payment Schedule*
- *SHG Corporate Services; Safeguarding Children's Board Grant Scheme*
- *ANRD: Grant Funding 2014/15*
- *Community Roads Grants 2014/15*

FINDINGS

POLICY AND PLANNING

All publicly funded subsidies, especially those which form a significant part of SHG's budget, must be based on an approved policy and must be awarded based on this policy. Policies must be well documented, so that their implementation is clear and concise at all levels of government that are responsible.

The rationale for the commitment of public funds within this policy area may be categorised into three broad classes as summarised below.

Commissioning

- Commissioning of public services through a non-governmental organisation or private sector provider as an alternative to direct provision by government.
- Requires clear specification of required service outputs in terms of quantity and quality usually through contractual agreement and service specification.

Subsidies

- Targetted subsidies enable an external service provider to deliver a particular public policy objective or meet a particular need where market drivers alone would not achieve the desired public benefit outcome.
- Requires clear articulation by government of expectations by the provider in return for the provision of the financial subsidy usually in the form of a memorandum of understanding.

Grants

- Public grants are made which are conducive to the achievement of a public policy objective or specified purpose but represent lower overall risk to the funding agency.
- Normally administered through a delegated framework with controls exercised at the award stage allowing more simplified accountability.

As part of SHG's 2014/2015 budget, the government makes use of grants and subsidies to entities/ organisations to assist them to achieve goals as enshrined in the SDP:

National Goal 1: A vibrant economy providing opportunities for all to participate.

National Goal 2: Strong community and family life.

National Goal 3: Effective management of the environment.

The budget was approved by LegCo after prioritization by Councilors to ensure that much of the financial resources directly support the above mentioned goals and the more detailed strategic priorities that underpin them. The grants and subsidies awarded to various organisations play an important role towards the achievement of these national goals.

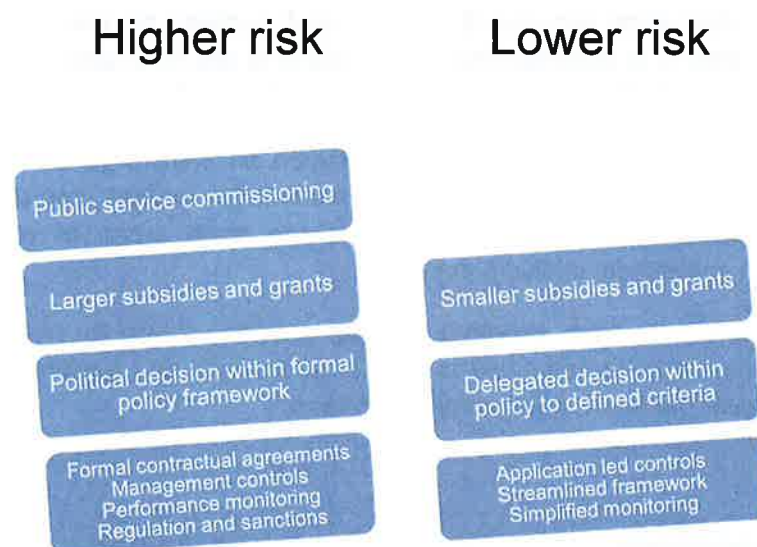
For organisations such as New Horizons, a youth centre, the grant funding can be linked to strong community and family life. For Connect, the subsidy is designed to keep utilities costs affordable and contribute to a vibrant economy, while using renewable energies contributing to an effective management of the environment.

Although the need for news media subsidies is less clear, arguably it promotes all three national goals. These arguments were highlighted in the SAMS business plan and were considered by LegCo when it approved the subsidy. A review of SHG's media policy is underway and may provide better clarity on the funding mechanisms.

One of the main issues we encountered during the audit was the lack of policy and procedural documentation relating to the issuing of government grants and subsidies. We were informed that there are no procedural documents relating to the issue of SHG grants, and that there is no policy covering grants and subsidies from SHG. Furthermore no guidance or briefing documents is forwarded to LegCo to consider during their initial budget evaluation.

The process then is that, certain entities (listed above in Table 1) are invited annually to submit their business cases and budgets to apply for their operational subsidies. These applications are considered by Councilors within the budget setting process along with any additional requests for funding.

In conclusion there is need to develop a clear policy framework and associated procedural guidelines for the provision and administration of public funding in this area. The policies should differentiate between commissioning, subsidies and grants and the associated management procedures controls be designed proportionate to the scale of public funding and the degree of risk.



RECOMMENDATION

1. *Develop and approve a policy framework which properly differentiates the intended public benefit objective between commissioning, subsidies and grants and the associated decision process. The quantitative thresholds in terms of scale of funding should be defined within the policy framework.*
2. *Develop approve and implement procedures for the administration and management of service commissioning, subsidies and grants which are proportionate to the assessed risk and defined quantitative thresholds.*

MANAGEMENT AND TARGET SETTING

Once the need for the subsidy has been established, and LegCo has made budgetary provision for the grant or subsidy, it is important to set up proper management systems to ensure that the subsidy achieves value for money throughout its distribution to the organisation.

Budgets should include output and performance measures and there should be regular evaluation of what has been achieved compared with the targets which have been set.²

The budgeting system should not be separate from Non-Departmental Public Bodies' (NDPB) other financial management and information systems. It is important that all are part of a single overall system. For example there must be links from budgets to the corporate plan, through the setting of output measures and the monitoring of these, to the annual report cycle, which culminates in the annual accounts.

Management of performance requires that plans and budgets be integrated to improve operating effectiveness. It is important for budget plans to link to strategic plans to ensure that key objectives and priorities are budgeted for and achieved.³

Budget programme structure provides the link between an entity/organisation's objectives and its detailed operational budgets. To provide this link the budget programme structure (programme and sub-programmes) should reflect the main areas of responsibility or objectives within an entity/organisation's mandate.

An entity/organisation's budget structure should provide a stable framework linking successive plans and strategic priorities to budget allocations and performance indicators that track delivery over the short, medium and long term.

² *Contained in* UK Cabinet Office – Public Bodies: A Guide for Departments Chapter 7: Financial Management- Planning, Funding and Control
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80084/PublicBodiesGuide2006_7_planning_funding_0.pdf

³ *Contained in* Framework for Strategic Plans and Annual Performance Plans
<http://www.treasury.gov.za/publications/guidelines/SP%20APP%20Framework.pdf>

During the audit we noted that the following entities/organisations were awarded subsidies as per their award letters and there were no targets/deliverables/conditions that were to be attained in lieu of these subsidies:

- New Horizons' key objective is to support community development and safeguarding but no specific targets or deliverables or conditions were attached to them being awarded a subsidy by SHG (Appendix 2).
- SAMS does not have specific targets or deliverables or conditions attached to them being awarded a subsidy by SHG except that they produce an audited annual statement. We also noted that SAMS' Q4 subsidy was withheld due to the late production of the audited annual statements which shows that some form of monitoring of compliance with grant requirements was being performed. SAMS also produces management accounts for review by SHG as a condition of subsidy receipt (Appendix 3). There are no performance targets/ deliverables/ conditions stipulated in the award letter.

Furthermore the business cases submitted by New Horizons and SAMS which propose the 2014/2015 subsidies do not have budgets that are linked to any targets that are to be achieved and therefore makes it impossible to be able to evaluate if value was derived from the subsidy award.

The issues noted above have the following possible resultant effects on the ability of SHG to track the performance of grant/subsidy receiving entities/organisations:

- It is not possible to assess the effectiveness of the subsidy due to it not being linked to any specific deliverable/target/conditions on the grant/subsidy award letter.
- No formal assessments for monitoring poor performance on the awarded subsidies which may limit SHG's options with regards to discontinuing or reducing the subsidy awards.
- Assessment if the subsidies have achieved their goals/objectives/targets are practically impossible to conclude as there is no basis to evaluate economy, efficiency and effectiveness.

Again the policy framework and procedural guidance should be designed proportionate to the scale of the funding and the nature of the relationship with the provider entity. The larger the funding and the more direct dependencies with the achievement of national goals then the tighter should be the policy framework and the formality of the funding agreement and monitoring arrangements.

In the case of Connect St Helena, the issues are slightly more complex due to the size of the subsidy it receives and the political, social and economic attention that comes hand in hand with being the sole utility provider on the island.

The national goals set out in the previous section, are developed within the SDP. The SDP is the master document for all SHG's strategic planning and objective setting. This document sets out key performance indicators for the three year period, for the following eight key result areas:

- Economic Development.
- Health & Wellbeing.
- Utilities.

- Education.
- Transport.
- Community & Housing.
- Security.
- Environment.

For the purpose of this assignment, we examined how the utilities KPIs reflect the performance of Connect.

The SDP sets out the targets for Connect which are:

- Percentage (%) of treated water to households.
- Percentage (%) of energy produced by renewable means.
- The number of unplanned electricity interruptions.

Corporate Services collects these performance achievements on a monthly basis and this information is reported to various stakeholders via a performance report published on the website.

Connect, being the utility provider, is also under scrutiny by the Utilities Regulator, who also reports on the performance of the company in line with the Utilities Services Ordinance. We are cognisant of the fact that the Utilities Regulator is an independent body to SHG.

The Utilities Regulator is now monitoring and reporting on Connect through the Public Utilities Development Plan. This includes 14 measurement targets under three headings of Reliability, Quality and Customer Service. The existence of the utilities regulator comes from the Utilities Services Ordinance and as such is required by law. The specific objectives of the Utilities Regulator as stated in the Utilities Services Ordinance are:

'4. (1) The objective of the Authority is to regulate the development and provision of public utility services in a manner which—

(a) ensures that users of such services are protected from both unreasonable prices and unreasonably low levels of service;

(b) ensures (so far as is consistent with paragraphs (d) and (e)) that the prices charged for such services do not create unreasonable hardships for households or unreasonable hindrance to commercial and economic development in St Helena;

(c) motivates Utilities Providers to improve the quality of the services they provide;

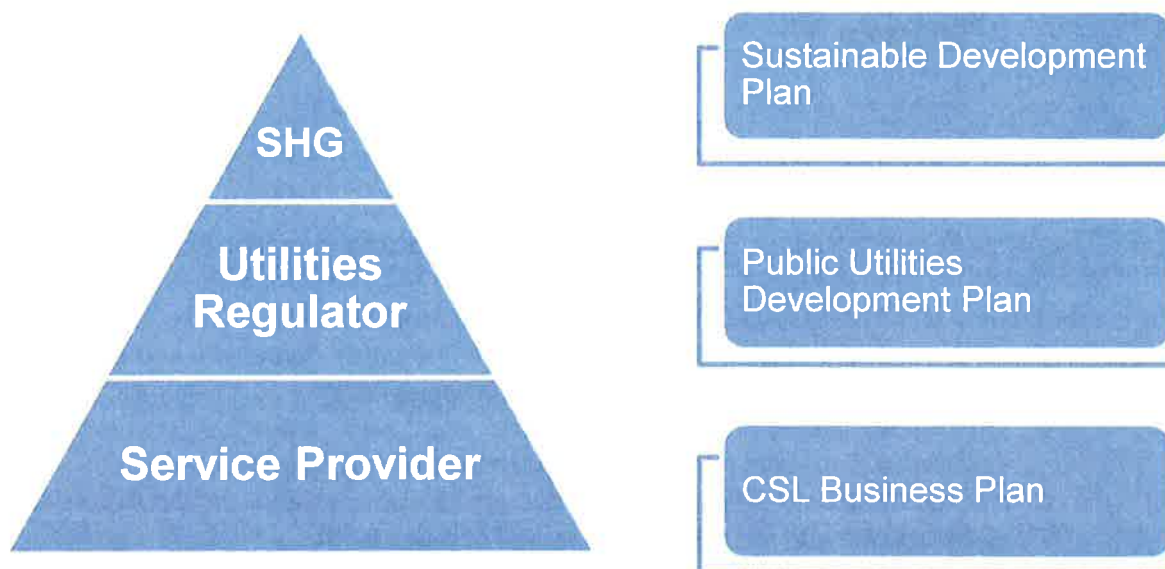
(d) ensures stability and predictability in the public utilities industry in the medium and long terms;

(e) supports a progressive reduction in levels of subsidy from public funds; and

(f) has regard to such other regulatory objectives (if any) as may be prescribed.'

Based on the cascading principle, which is NAO best practice⁴, the following relationship would be expected in the SHG set up:

Figure 4: Cascading framework for performance measurement



Appendix 5 maps the targets required from Connect at different levels across government. It is clear that whilst there is some degree of cascading, there are gaps in the reporting framework which should be addressed.

With regards to the Public Utilities Ordinance, and the objectives that can be identified from the Ordinance, we have noted that levels of service, quality and sustainability are all addressed throughout the structure of monitoring. The SDP does not cover all the objectives such as (b), (e) and (f). We also noted a gap in the adequacy of the subsidy award letter as there is no alignment to the SDP targets and/or Utilities Regulatory Authority (URA) targets. Furthermore there is no condition in the letter of award to Connect which links the funds to any of the targets (SDP or URA) regarding utilities provision. Below is a table that highlights issues being highlighted in this paragraph and expanded in Appendix 5.

Objectives required by the Regulator as per the Public Utilities Ordinance section 4	(a)	(b)	(c)	(d)	(e)	(f)
SHG Sustainable Development Plan (2015 – 2017)	✓	×	✓	✓	×	×
Target areas set by the Utilities Regulator (Public Utilities Development Plan)	✓	×	✓	×	×	×
Conditions of the Subsidy (Appendix 4)	×	×	×	×	×	✓

⁴ Choosing the right FABRIC: A Framework for Performance Information
<https://www.nao.org.uk/wp-content/uploads/2013/02/fabric.pdf>

Legend:

✓	Target has been set that satisfactorily meets the Ordinance objective.
✗	No target has been set to address the objective as per the Public Utilities Ordinance

RECOMMENDATION

3. *The policy framework should set out the criteria for awarding subsidies and be supported by management procedures. The development of a template award letters will ensure consistency of the conditions that are used in award process.*
4. *For the larger grants and subsidies we recommend the policy framework and associated administrative procedures should include the following specifics:*
 - a. *Objectives defined in the SDP should align with respective statute set by Legislative Council to ensure consistent monitoring of performance.*
 - b. *The policy should deal with instances where subsidy receiving bodies make a profit/ surplus and the resulting treatment of those funds.*
 - c. *Key performance indicators should be established at the outset which will provide a basis for monitoring and performance evaluation. These KPIs must be set through a consultative process.*
 - d. *SHG should put in place a mid-year assessment process to evaluate performance and determine if variations or other interventions are required including corrective actions required of the entity management.*
 - e. *A close-out report should be a condition so that a reporting or feedback mechanism is in place after utilisation of the grant or subsidy and this report must include the necessary supporting information to allow evaluation of the reporting entity/organisation's performance against the predetermined KPIs.*

PERFORMANCE MEASUREMENT

As noted, budgets should include output and performance measures and there should be regular evaluation of what has been achieved compared with the targets which have been set.⁵

The role of performance information shows how well an organisation is performing against its stated objectives. Knowing how well the organisation is currently doing is essential in developing strategy and policies to meet the organisation's aims.⁶

⁵ *Contained in* UK Cabinet Office – Public Bodies: A Guide for Departments Chapter 7: Financial Management- Planning, Funding and Control
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80084/PublicBodiesGuide2006_7_planning_funding_0.pdf

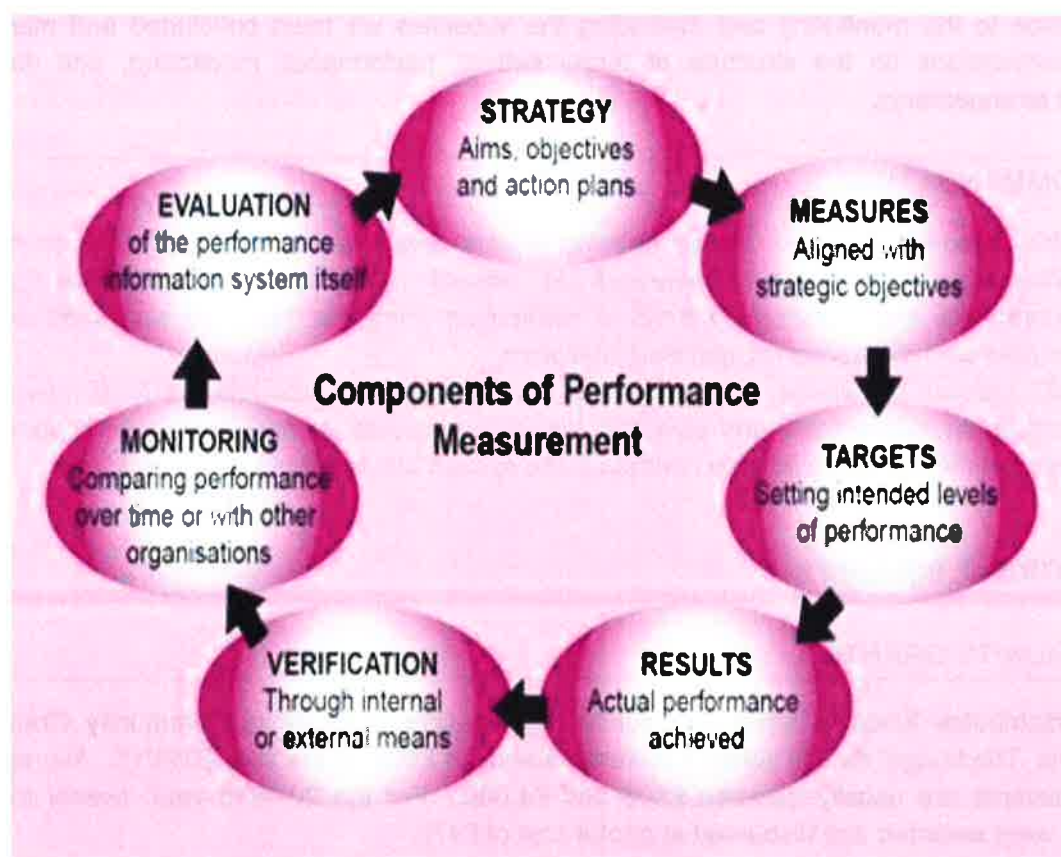
⁶ *Contained in* Choosing the right FABRIC: A Framework for Performance Information
<https://www.nao.org.uk/wp-content/uploads/2013/02/fabric.pdf>

Performance information helps to make public services accountable to stakeholders, including the public and Parliament. Performance measures describe whether the service has achieved the goals that were set.⁸

COMPONENTS OF PERFORMANCE MEASUREMENT

Putting performance measurement into place in an organisation involves more than producing a set of high quality measures. The measures must be set in the context of the organisation, the results of the measures followed through, and the system itself evaluated. This diagram sets out elements that need to be in place for performance measurement to be most useful:⁶

Figure 5: Components of performance measurement



Whilst the scope of this audit was confined to grants and subsidies it did provide a limited perspective to examine the SHG performance management framework. The findings should therefore be taken in context and accordingly may not identify or develop those areas that a more comprehensive and detailed examination may explore.

KPIs in the SHG Performance Report are monitored and the tracker is updated on a monthly basis. We inspected the SHG website and confirmed that on a monthly basis the reported performance is uploaded on the website.

For monitoring of KPIs, a reporting template is sent to reporting entities/organisations/directorates and completed by the respective responsible individuals and returned to Corporate Services (Appendix 6). Based on the work performed, we noted that not all the underlying supporting documents/ information are collated for verification by Corporate Services before the information is reported to the various stakeholders.

The information that is reported has therefore not been completely verified for validity, accuracy and completeness and therefore could result in the following:

- SHG reporting incorrect performance to stakeholders due to the information not being validated.
- SHG management making planning/budgeting and other important decision based on incorrect performance reported.
- SHG not able to take corrective action towards the attainment of the achievement of annual targets if the reported performance is inaccurate.

In relation to the monitoring and evaluating the subsidies we have concluded and made recommendations on the structure of target setting, performance monitoring, and data quality arrangements.

RECOMMENDATION

5. *SHG Corporate Services should develop a data quality policy and apply this to the performance management framework to ensure the information collected from departments and reported by SHG is verified as complete, accurate and valid and complies with definitions for specified indicators.*
6. *SHG secures assurance, on the annual/ mid-term performance reports, from Internal Audit as an independent and objective assurance provider to ensure that the reported performance is reliable and the controls in the system are adequate and effective.*

SHG GRANT SCHEMES

COMMUNITY GRANTS

SHG distributes funds to small community organisations through its Community Grants Scheme. The budget for this scheme currently stands at £50k for the year 2014/15. Average grant awards are usually between £500 and £4,000. For the 2014/15 year, twenty four grants were awarded and disbursed at a total cost of £47k.

The grant scheme is administered separately to SHG Corporate Finance, which agrees the budget with elected members of Legislative Council and allows the management of this budget to be run by the Saint Helena Community Development Organisation (SHCDO).

From an overview, the aims, processes and monitoring of these grants are considered adequate, based on documentation review and enquiries with the head of the SHCDO for the following reasons:

- There are clear aims stipulated in the grant scheme guidance notes and information pack.
- There are clear processes that must be followed by applicants and grant administrators, with clear rules and guidelines for recipients.

- There is a monitoring mechanism in place for follow up on grant funded projects, which is in the form of evaluation forms filled out by applicants. We requested to view completed evaluation forms but they were not forthcoming therefore we are unable to comment on whether monitoring takes place on a regular basis.

FARM SUPPORT

ANRD supports local farmers and the National Agricultural Policy through a series of grant programmes and projects. Grant funding in 2014/15 in agriculture was budgeted at £60k. This was through a number of programmes:

Table 5: Agriculture Grants

Grant Support	Amount Projected (£)	Actual Spent (£)	Comments
Pasture maintenance programme	4,700	1,100	12 Syndicates were offered support, however, only 5 producers claimed.
Fertigation support	4,500	2,938	8 Producers were offered support, however, only 5 producers claim
Public Private Partnerships	30,000	31,483	Two PPP supported- Green Wagon & Roddy's Chicken Farm
Support for ANRD responsibilities for leasing/licensing of Crown Land	20,000	17,254	6 contracts undertaken to improve Crown Pastureland
Total	59,200	52,776	

The most significant portion of this budget (57%) is spent on the PPP Programmes. Two PPPs were supported which are Green Wagon and Roddy's Farm. The pasture maintenance program seems to be underperforming due to lack of interest from syndicates as is the fertigation support. This is expected to improve in time as local producers become more aware of the programmes through media adverts/announcements and other mechanisms.

What is encouraging with the agricultural support programmes is that there is a policy document; the National Agricultural Policy Implementation Strategy (NAPIS), which sets out a clear vision, strategy, objectives and implementation plan for the sector. It can be seen that the grants issued by ANRD align with the targets and implementation strategy. The grants focus on 'production, productivity and competitiveness', one of the three key areas of targeting in the agricultural strategy. The grants are also targeted at specific producers in order to improve competitive advantage in new and innovative businesses, and as such can be monitored effectively.

The grants issued are all specified in separate policy documents issued by ANRD and link to the NAPIS.

CONCLUSIONS

We have completed the audit of the policy framework, processes and systems behind the management, distribution and monitoring of SHG grants and subsidies. The review has focussed upon both operational subsidies for certain organisations, being Connect, SAMS and New Horizons, as well as some additional grant schemes run by directorates: Agriculture and Community Grants.

An improvement is required in the management and administration of SHG subsidies, starting from the development of policy framework and administrative procedures and ending with securing assurance over reported performance. We have however noted some encouraging practices in how the smaller grant schemes are being managed.

We summarise the following key issues that have been highlighted in our observations:

1. There is no clear policy framework or documented decision pathway relating to the award of grants and subsidies. Accordingly the reasons for award of each subsidy from SHG Executive's point of view appeared unclear from our sampling. The policy framework and administrative procedures should be quantitatively differentiated so that the decision process and management arrangements are proportionate to the overall risk and public funding committed.
2. No targets had been set which are attached to the monies transferred to the subsidy receiving entities/organisations by SHG. Furthermore the budgets in the business cases that are used as a basis for awarding the subsidies are not linked to the objectives/targets that are to be achieved. No formal assessment of the impact of the subsidies being provided is being carried out after the end of the fiscal year and therefore no formal feedback mechanism exists within SHG. Without setting of targets/deliverables/conditions on awarded subsidies there is no practical basis for evaluating the economy, efficiency or effectiveness of the subsidies awarded.
3. Gaps exist in the framework for monitoring Connect due to SHG's relationship with Connect Saint Helena Ltd and the Utilities regulator. We have been unable to link the subsidy provided to specific targets.
4. We analysed SHG's performance management systems with regards to subsidies, which utilises KPIs to monitor targets set in the Sustainable Development Plan. We noted that for the Utilities KPIs reported performance as contained in the 2014/15 Performance Report, not all targets were validated on the reported information by SHG. The failure to completely verify reported performance may lead to incorrect/inaccurate information being reported to stakeholders, and planning and budgets being compiled based on incorrect information. Target monitoring cannot be conclusive if limited/no assurance is being provided to management and oversight committees.

We noted during the audit that grant schemes, operated by ANRD and the Community Development Organisation have the required processes/systems in place and based on our review, are operating effectively.

ACKNOWLEDGEMENTS

The Saint Helena Audit Service acknowledges the cooperation and assistance received from the Corporate Finance and Corporate Services during the course of this performance audit.

A handwritten signature in blue ink, appearing to read 'Phil Sharman', is positioned above the printed name and title.

Phil Sharman
Chief Auditor

18 June 2016

MANAGEMENT ACTION PLAN

No	Recommendation	Management Response	Timescale	Responsible Officer
1	Develop and approve a policy framework which properly differentiates the intended public benefit objective between commissioning, subsidies and grants and the associated decision process. The quantitative thresholds in terms of scale of funding should be defined within the policy framework.	Agreed – to be implemented as part of the next round of budget discussions.	October 2016	Head of Accounting Services
2	Develop approve and implement procedures for the administration and management of service commissioning, subsidies and grants which are proportionate to the assessed risk and defined quantitative thresholds.	Agreed – to be implemented as part of the next round of budget discussions.	October 2016	Head of Accounting Services
2	Objectives defined in the SDP should align with respective laws/ordinance set by LegCo and be applicable to the subsidies delivered by SHG to ensure consistent monitoring of the subsidy at all levels. This is not only in the case for Connect as above, but for all subsidy recipients.	Agreed – to be implemented in next round of budget discussions in relation to subsidies	October 2016	Assistant Chief Secretary (Performance)
3	The policy framework should set out the criteria for awarding subsidies and be supported by management procedures. The development of a template award letters will ensure consistency of the conditions that are used in award process.	Agreed – to be implemented as part of the next round of budget discussions.	October 2016	Head of Accounting Services
4	For the larger grants and subsidies we recommend the policy framework and associated administrative procedures should include the following specifics:			
(a)	Objectives defined in the SDP should align with respective statute set by Legislative Council to ensure consistent monitoring of performance.	Agreed – to be implemented at part of next SDP and to picked up as ongoing Policy role	October 2016	Assistant Chief Secretary (Performance)
(b)	The policy should deal with instances where subsidy receiving bodies make a profit/ surplus and the resulting treatment of those funds.	Agreed – to be implemented as part of the next round of budget discussions.	October 2016	Head of Accounting Services

No	Recommendation	Management Response	Timescale	Responsible Officer
(c)	Key performance indicators should be established at the outset which will provide a basis for monitoring and performance evaluation. These KPIs must be set through a consultative process.	Agreed – to be implemented before new subsidies or grants are approved	October 2016	Assistant Chief Secretary (Performance)
(d)	SHG should put in place a mid-year assessment process to evaluate performance and determine if variations or other interventions are required including corrective actions required of the entity management.	Agreed – to be implemented as part of the next round of budget discussions.	October 2016	Head of Accounting Services
(e)	A close-out report should be a condition so that a reporting or feedback mechanism is in place after utilisation of the grant or subsidy and this report must include the necessary supporting information to allow evaluation of the reporting entity/organisation's performance against the predetermined KPIs.	Agreed – to be implemented as part of the next round of budget discussions.	April 2017	Head of Accounting Services
5	SHG Corporate Services should develop a data quality policy and apply this to the performance management framework to ensure the information collected from departments and reported by SHG is verified as complete, accurate and valid and complies with definitions for specified indicators.	Agreed – will be taken forward in conjunction with internal audit	October 2016	Assistant Chief Secretary (Performance)/ Head of Internal Audit
6	SHG secures assurance, on the annual/ mid-term performance reports, from Internal Audit as an independent and objective assurance provider to ensure that the reported performance is reliable and the controls in the system are adequate and effective.	Agreed – to be implemented as part of ongoing performance management improvements	October 2016	Assistant Chief Secretary (Performance)/ Head of Internal Audit

APPENDIX 1 - GLOSSARY

ANRD	Agriculture and Natural Resources Directorate
DfID	Department for International Development (UK)
ESH	Enterprise Saint Helena
G&S	Grants and Subsidies
KPIs	Key Performance Indicators
KRA	Key Result Areas
LegCo	Legislative Council
NAO	National Audit Office
NAPIS	National Agricultural Policy Implementation Strategy
NDPB	Non-Departmental Public Bodies
PAC	Public Accounts Committee
PPP	Public Private Partnership
RMS	Royal Mail Ship (St Helena)
SAMS	South Atlantic Media Services
SDP	Sustainable Development Plan
SHAPE	Saint Helena Active Participation in Enterprise
SHAS	Saint Helena Audit Service
SHCDO	Saint Helena Community Development Organisation
SHG	Saint Helena Government
SHL	Saint Helena Line Ltd
SMART	Specific, Measurable, Attainable, Realistic, and Timely
UK	United Kingdom
URA	Utilities Regulatory Authority
VFM	Value for Money

APPENDIX 2 – NEW HORIZONS LETTER



St Helena Government

Mr. Nicholas Stevens
Youth Leader
New Horizons
Jamestown

4 April 2014

Dear Nicholas

GOVERNMENT OF ST HELENA SUBSIDY FOR FINANCIAL YEAR 2014-2015

Following the recent approval of the St Helena Government Budget for the financial year 2014-2015, I am pleased to confirm that the total subsidy payment to New Horizons for the period 1 April 2014 – 31 March 2015 is £44,000.00 (Forty Four Thousand pounds).

The subsidy will be paid to you by quarterly installments, in advance pending receipt of the previous quarter's accounts. Subsidy for quarter 1 of 2014-2015 will be paid to you following the receipt of the 2013-2014 accounts.

The subsidy will be paid directly into your organizations bank account. We currently hold the following banking details for you.

Bank Name: **Bank of Saint Helena**
Account Name: **New Horizons**
Account Number: **21547003**

If this is not the correct banking details for your organization please inform us so that we can make this amendment and it does not hold up the payment.

For further information on the payment of your subsidy please contact Nicholas Yon, Head of Accounting Services on telephone no. 22470 or by emailing accounting.sm@sainthelena.gov.sh.

Yours sincerely

Colin Owen
Financial Secretary
Corporate Finance

Corporate Services, St Helena Government, Island of St Helena, South Atlantic Ocean, STHL 1ZZ
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www.sainthelena.gov.sh

APPENDIX 3 – SAMS LETTER



St Helena Government

Mr Darrin Henry
Chief Executive Officer
South Atlantic Media Services Ltd
1st Floor, New Porteous House
Jamestown

7 April 2014

Dear Darrin

GOVERNMENT OF ST HELENA SUBSIDY FOR FINANCIAL YEAR 2014-2015

Following the recent approval of the St Helena Government Budget for the financial year 2014-2015, I am pleased to confirm that the total subsidy payment to South Atlantic Media Services Ltd for the period 1 April 2014 – 31 March 2015 is £105,000.00 (One Hundred and Five Thousand pounds).

The subsidy will be paid to you by quarterly installments, in advance pending receipt of the previous quarter's accounts. Subsidy for quarter 1 of 2014-2015 will be paid to you following the receipt of the March 2014 Management Accounts. In order to receive quarter 4 subsidy payment, an audited set of statements must be provided to me within 9 months of the 2013-2014 Financial Year end.

The subsidy will be paid directly into your organization's bank account. We currently hold the following banking details for you.

Bank Name: **Bank of Saint Helena**
Account Name: **SAMS Ltd**
Account Number: **23407002**

If this is not the correct banking details for your organization please inform us so that we can make this amendment and it does not hold up the payment.

For further information on the payment of your subsidy please contact Nicholas Yon, Head of Accounting Services on telephone no. 22470 or by emailing accounting.sm@sainthelena.gov.sh.

Yours sincerely

Colin Owen
Financial Secretary

Corporate Finance

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APPENDIX 4 – CONNECT LETTER



St Helena Government

Mr Barry Hubbard
Chief Executive Officer
Connect Saint Helena Ltd
Seales Corner Complex
Jamestown

7 April 2014

Dear Barry

GOVERNMENT OF ST HELENA SUBSIDY FOR FINANCIAL YEAR 2014-2015

Following the recent approval of the St Helena Government Budget for the financial year 2014-2015, I am pleased to confirm that the total subsidy payment to Connect Saint Helena Ltd for the period 1 April 2014 – 31 March 2015 is £578,000.00 (Five Hundred and Seventy Eight Thousand pounds). I will inform you in due course of additional funding pending approval from Legislative Council.

The subsidy will be paid to you by quarterly installments, in advance pending receipt of the previous quarter's accounts. Subsidy for quarter 1 of 2014-2015 will be paid to you following the receipt of the March 2014 Management Accounts. In order to receive quarter 4 subsidy payment, an audited set of statements must be provided to me within 9 months of the 2013-2014 Financial Year end.

The subsidy will be paid directly into your organization's bank account. We currently hold the following banking details for you.

Bank Name: **Bank of Saint Helena**
Account Name: **Connect St. Helena Ltd**
Account Number: **23804002**

If this is not the correct banking details for your organization please inform us so that we can make this amendment and it does not hold up the payment.

For further information on the payment of your subsidy please contact Nicholas Yon, Head of Accounting Services on telephone no. 22470 or by emailing accounting.sm@sainthelena.gov.sh.

Yours sincerely

Colin Owen
Financial Secretary

Corporate Finance

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APPENDIX 5 - PUBLIC UTILITIES OBJECTIVES AND TARGETS

Target areas set by the SHG Sustainable Development Plan (2015 – 2017)

Number of unplanned electricity interruptions	Percentage of treated water distributed to households	Percentage of energy produced by renewable means
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Objectives of the Regulator as per the Public Utilities Ordinance

(a)	(b)	(c)	(d)	(e)	(f)
Ensures that users of such services are protected from both unreasonable prices and unreasonably low levels of service	Ensures (so far as is consistent with paragraphs (d) and (e)) that the prices charged for such services do not create unreasonable hardships for households or unreasonable hindrance to commercial and economic development in St Helena;	Motivates Utilities Providers to improve the quality of the services they provide	Ensures stability and predictability in the public utilities industry in the medium and long terms;	Supports a progressive reduction in levels of subsidy from public funds	Has regard to such other regulatory objectives (if any) as may be prescribed.

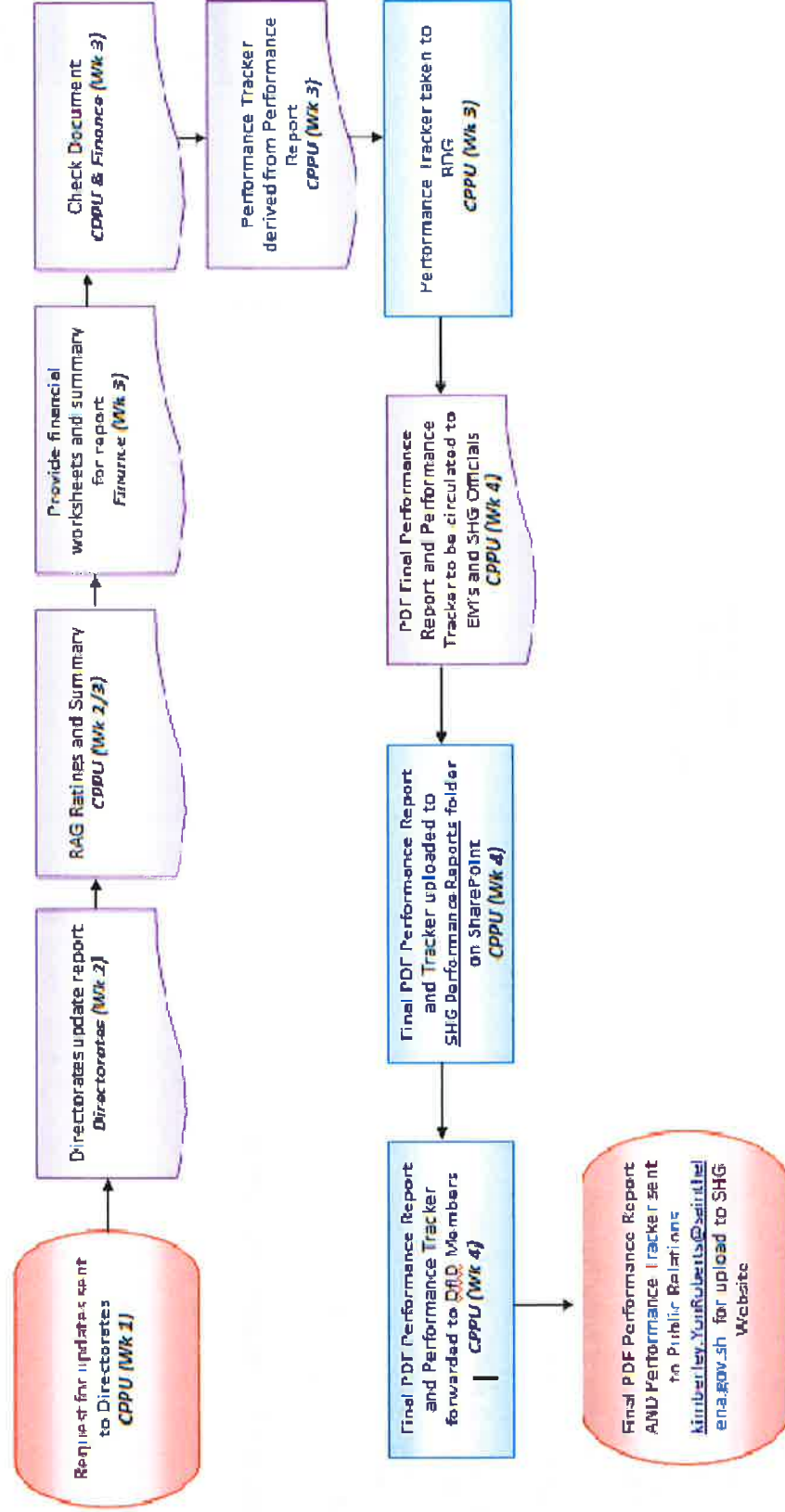
Target areas set by The Utilities Regulator (Public Utilities Development Plan)

Reliability	Quality
Reliability of Electricity Distribution Network (Out of Hours Disruptions)	Appearance of Treated Water in CSH Network
Reliability of Electricity Network (Working Hours Disruptions)	Appearance of Treated Water at Consumer Premises
Reliability of Electricity Network (Power Station Disruptions)	Microbiological Integrity of Treated Water in CSH

Overall Reliability of Electricity Network	Network			
Reliability of Water Distribution Network (Out of Hours)	Microbiological Integrity of Treated Water at Consumer Meter			
Reliability of Water Network (Working Hours)				
Overall Reliability of Water Network				
Customer Service				
Time taken to perform Electricity Connection				
Time taken to perform Water Connection				
Total Customer Complaints handled within COP parameters				
Conditions of the Subsidy (Appendix 4)				
				Production of management accounts to receive Q1 Subsidy
				Production of 2013/14 audited statements within 9 months to receive Q4 payment

APPENDIX 6 – SHG COMBINED PERFORMANCE REPORTING

SHG COMBINED PERFORMANCE REPORTING



Start and end points in process

Process/ action step that produces a document

Decision

APPENDIX 7 - METHODOLOGY

The methods applied to the audit of grants differ depending on the type of grant that is being audited. On the one side, we have conditional grants and on the other we have operational grants.

Conditional grants can be audited by first identifying the conditions attached to the grant, usually set out in a Grant Letter or Memorandum of Understanding, and testing to see if those conditions are being met. These conditions can be specific conditions, which would usually be SMART⁷, for example a certain percentage completion of a project must be met at a set date, or they can be general and high level. An example of a high level condition may be that a grant funded project must contribute to greater social welfare in a certain district/ area.

In conducting a performance audit on conditional grants, it is usually more useful to target the specific grant conditions, so that a qualitative assessment can be made on the effectiveness of the grant, based on certain measures that are already in place. There are other areas to analyse however which include:

- Assessing the systems surrounding the grant, such as the efficiency of the administrative procedures
- The effectiveness of the monitoring arrangements in place of the grant giver. This includes their physical checking procedures and/or how they use data to monitor activity. What assurances do they have over project data?
- Looking at the economy of the grant scheme; have alternative funding arrangements been considered?

Operational grants will usually be much less specific in terms of measurable targets thus forcing the audit to focus on higher level targets set by the grant giver. In the case of public sector grants, one would expect a link with policy or strategic goals set by the government: the operational grant should be in place to achieve something and this is what can be audited. The administration and monitoring arrangements can also be examined, as above.

Most of the grants and subsidies in St Helena, at least those with the highest value, are of an operational nature. Thus most of the examination methods used in this audit look at whether the operational grants are helping the entity to achieve targets set in government policy. In the case of the utilities provider, there is a direct link to the sustainable development plan and the divestment strategy, both of which are high level documents. We also look into the assurances surrounding the data used for reporting on KPIs associated with the grants awarded.

While a substantial part of the audit looks into the operational grants issued by SHG, we also touch on some of the smaller grant schemes which are conditional, and have desired outputs. While looking at these schemes we not only examine the outputs to conclude on their effectiveness, but also at the systems of monitoring and evaluation to ensure that these schemes do not merely distribute funds without having appropriate accountability processes in place to ensure fraud and/or wastage does not occur.

⁷ Specific, Measurable, Attainable, Realistic and Timely.

