




ST. HELENA

SAINT HELENA AUDIT SERVICE

MANAGEMENT LETTER TO THE ST HELENA LEGISLATIVE
COUNCIL

FINANCIAL STATEMENTS 2013/2014

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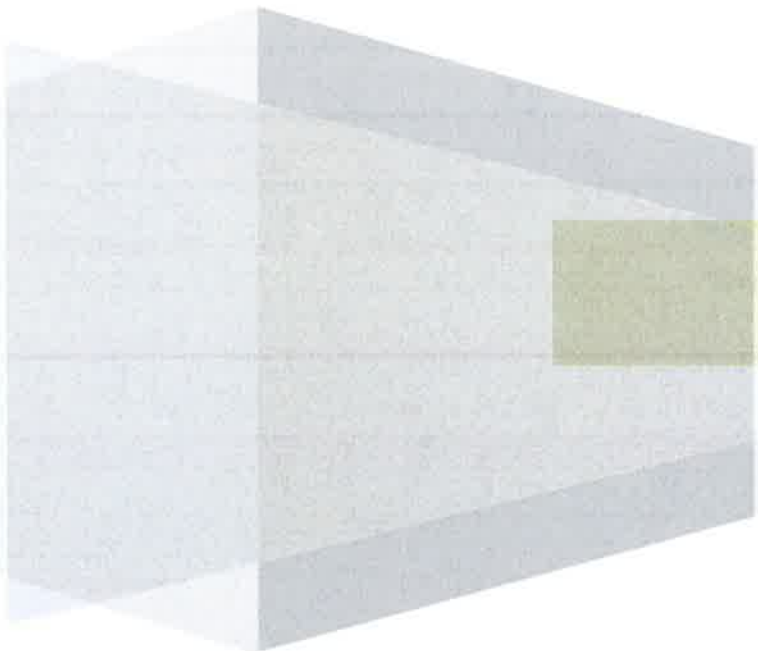


SAINT HELENA AUDIT SERVICE
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2013-14

To the Legislative Council of St Helena Government



14/06/2016

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INTRODUCTION

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

The purpose of this report is to summarise for LegCo the key issues arising from my audit of the financial statements for the year ended 31 March 2014 and report any significant accounting matters or weaknesses in internal controls that have come to my attention during the audit.

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

AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the financial statements of SHG present fairly the financial position of Government at 31 March 2014 and of its financial performance for the year, and confirm that the financial statements are prepared in accordance with all relevant laws and policies.

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

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

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

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

AUDITOR INDEPENDENCE

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

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

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

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

CHANGES TO ACCOUNTS AND SIGNIFICANT MATTERS

FINANCIAL REPORTING FRAMEWORK

The financial statements for the year 2013/14 are the third year of reporting on an accruals basis using International Public Sector Accounting Standards (IPSAS). The matters reported in this management letter relate to the draft 2013/14 financial statements submitted for audit in December 2015.

The accounting policies set out in Note 1 explain that the financial statements have not been prepared in accordance with IPSAS due to the non-compliance with IPSAS 6 *Consolidated and Separate Financial Statements*. SHG has used certain transitional provisions available for periods subsequent to first-time reporting under IPSAS but there is no exemption in respect of IPSAS 6. Accordingly, and consistent with prior-years, the audit report is modified in respect of consolidated financial reporting.

CHANGES IN ACCOUNTING POLICY

Some changes in accounting policy have been applied in 2013/14 to provide improved compliance with IPSAS. The major change concerns the recognition of EDF grant funding on an accruals basis thereby releasing the transitional provisions of IPSAS 23, *Revenue from Non Exchange Transactions*.

These changes in accounting policy and correction of material prior period errors which impact previous periods are applied in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, requiring the restatement of prior year comparatives on a consistent basis as explained in Note 3 to the financial statements.

LEGACY ISSUES

I commend SHG for having resolved or cleared the following matters that resulted in the modification of the 2012/13 audit report:

- Valuation of inventory holdings
- Accuracy of social benefit payments – Income Related Benefits

The following matters reported in the prior year and causing modification of the 2012/13 audit report also pertain to the current year 2013/14:

- Bulk Fuel Installation
- Non-consolidation of subsidiaries
- Accuracy of social benefit payments – Basic Island Pension

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

AUDIT OPINION

At the conclusion of the audit I will issue an Independent Auditors Report which will contain an opinion on the financial statements. I base my opinion on the detailed audit work that we carried out in accordance with ISAs.

A qualified opinion is proposed which is caused by the non-recognition of subsidiaries, incorrect classification of reserves, uncertainty in the value of airport infrastructure, and uncertainty in the accuracy of social benefit payments. As explained in the following sections these matters remain unresolved at the reporting date.

The form of my Independent Auditors Report containing the qualified opinion is included in Appendix A.

UNCORRECTED MISSTATEMENTS

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

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

I have formally requested that all material misstatements be corrected.

SIGNIFICANT ISSUES ARISING FROM THE AUDIT

ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND FINANCIAL STATEMENT DISCLOSURES

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

In overall terms the quality of the SHG financial statements presentation and disclosure shows clear improvement year on year notwithstanding the continuing audit qualification.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

The 2013/14 financial statements are being reported almost two-years behind the normal public reporting cycle. The late preparation of the accounts reflects the historic technical challenges encountered in preparing full IPSAS accruals accounts alongside the operational demands upon the professional accounting capacity within Corporate Finance.

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

A collaborative programme is underway between Corporate Finance and the St Helena Audit Service to clear the backlog in the statutory reporting of the financial statements of Government in St Helena. This programme is designed to address the backlog such that the 2015/16 accounts will follow the expected reporting cycle of preparation and audit reporting within nine-months of financial year end. The programme remains on track with audited accounts for all previous financial years to be reported by 31 December 2016.

SIGNIFICANT MATTERS ARISING FROM THE AUDIT WHICH REMAIN UNRESOLVED

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

RECOGNITION OF SUBSIDIARIES

SHG has control, from an accounting perspective, either by direct shareholding (subsidiaries) or through statutory provision, of several bodies. These bodies include the Bank of St Helena, Solomon & Company (St Helena) PLC, Enterprise St Helena, St Helena Fisheries Corporation, St Helena National Trust, St Helena Line Ltd and Connect St Helena.

The investment in all controlled entities listed in Note 25 except Connect St Helena has not been recognised in the accounts of Saint Helena Government as required by IPSAS 6. The utility service provider Connect St Helena Ltd divested on 1 April 2013 has been recognised as an investment in the financial statements using the equity method. Because the impact of non-recognition of these other investments in the financial statements is material, a qualified opinion will be issued.

***Recommendation 1** SHG should recognise its investment in subsidiaries in the financial statements for all qualifying public entities that meet the definition of control under IPSAS 6. That will ensure consistent application of accounting policies in respect of the separate financial statements of SHG.*

ELIGIBILITY OF SOCIAL BENEFIT PAYMENTS

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

***Recommendation 2** SHG should review all legacy applications and obtain documentation from the applicants to maintain on their records to confirm eligibility.*

BULK FUEL INSTALLATION

The BFI Agency Ordinance 2003 although enacted is not used to administer the BFI. Rather the BFI is managed on behalf of SHG by Solomon & Company (St Helena) PLC under a 2006 Management Agreement. Since the BFI has no separate legal identity, the operations and financial affairs of the BFI remain an activity of SHG. Accordingly the BFI financial results are incorporated within the financial statements of SHG.

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

- BFI expenditures amounting to £3.589m were made without the authority of an Appropriation Ordinance or Special fund; and
- BFI reserve balance and movements are reported within Special Funds rather than Consolidated Fund, these amount to £3.623m at 31 March 2014 (£1.222m at 31 March 2013). Accordingly the balance on Consolidated Fund and Special Funds and the movements in the Reserves Note 22 are misstated in respect of the BFI classification.

AIRPORT INFRASTRUCTURE

Aid funded infrastructure amounting to £105.718m reported within assets under construction in Note 15 Property Plant and Equipment is measured at replacement cost using an earned value basis. The earned value basis adopted by management in the determination of the replacement cost uses the current contract costs as the measurement basis. As explained in Note 2 there is a high degree of estimation uncertainty in the determination of replacement cost. In the absence of a professional valuation I am unable to determine whether the earned value as stated fairly reflects the airport infrastructure replacement cost.

To obtain an independent expert assessment of replacement cost before the reporting deadline of 15 June 2016 remains impractical. The Financial Secretary has advised that best value may be obtained in securing a formal valuation of the airport infrastructure as at the date of operational readiness as a basis for future depreciation. In these circumstances there is a practical limitation of scope presented by management that causes a qualification of the audit opinion on the grounds of material uncertainty.

***Recommendation 3** SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport Infrastructure.*

SIGNIFICANT MATTERS ARISING FROM THE AUDIT THAT WERE RESOLVED WITH MANAGEMENT

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

EUROPEAN DEVELOPMENT FUNDING

SHG receive funding from the European Development Fund (EDF). This funding had initially been recognised to the extent that related expenditure had been incurred on the EDF funded projects on an accruals basis.

However review of the EDF funding agreement identified that the receipt of the revenue was dependent on the satisfaction of specific performance based conditions. Under IPSAS 23, *Revenue from Non-Exchange Transactions*, this type of revenue should be recognised as and when SHG satisfy the conditions attached to each tranche of funding.

SHG made a joint application with Ascension Island (ASI) and Tristan Da Cunha (TDC) to the EDF. The performance conditions for each tranche of funding separately relate to SHG, ASI and TDC. SHG receive the whole of each tranche of funding. ASI and TDC then make claims to SHG to cover the related expenditure that they have incurred on their EDF funded projects.

Management have made appropriate adjustments to the financial statements to properly recognise the SHG portion of the EDF revenues on the conditional basis in accordance with IPSAS 23.

DfID AIRPORT FUNDING

Review of the schedule of payment made by DfID to Basil Read in respect of the Airport and Wharf projects identified additional items relating to fuel, explosives, a risk sharing mechanism and variations orders that had not been recognised as revenue in the first draft of the financial statements. The necessary correcting adjustments have been made in the financial statements

UNALLOCATED STORES INVENTORY

Some inventories under unallocated stores had been incorrectly expensed in 2013/14 financial year. The material portion of this balance had been transferred to Connect St Helena Ltd, allocated to other directorates or retained, whilst the remainder was eventually sold to the public or taken to the landfill. The appropriate adjustments were made in the financial statements.

AIRPORT INFRASTRUCTURE - GROUND BASED AUGMENTATION SYSTEM (GBAS)

An item of airport infrastructure capital expenditure had not been delivered until June 2015 but had been recognised as an asset in the Statement of Financial Position. The appropriate adjustments were made to reclassify the asset to prepayments in the financial statements.

DEFERRED LEAVE LIABILITY

Provision is made in the financial statements for the amount of annual leave SHG employees have accrued, but not taken, as at the year end. The report underlying the calculation of the accrual was found to be based on incorrect parameters and the leave liability for Technical Cooperation officers had been omitted. Management made the necessary adjustments to the financial statements.

PENSION LIABILITY

The valuation of the Defined Benefit Pension Scheme liability was received from the Government Actuary Department May 2016. The adjustments to recognise to the pension costs had not been recorded in the financial statements submitted for audit and the actuarial adjustments have been correctly made in the financial statements.

DISCLOSURE OF EVENTS AFTER THE REPORTING DATE

Disclosure for events after the reporting date in the financial statements omitted some key events including significantly the establishment of the subsidiary St Helena Hotel Development Ltd, and the entering into a Fuel Management Contract with Penspen. The relevant adjustments to the note 26 have been included in the financial statements.

STATEMENT SHOWING EACH HEAD OF EXPENDITURE PAID OUT OF AND EACH CATEGORY OF REVENUE ACCRUING TO THE CONSOLIDATED FUND

Public Finance Ordinance, Part III, Paragraph 10 (1)(a) requires that, statements showing each Head of Expenditure paid out of and each category of Revenue accruing to the Consolidated Fund and this had been omitted in the financial statements. Management have now included the required statement in the financial statements.

ACCOUNTING POLICY FOR NON-CURRENT INVESTMENTS

The accounting policies note 1 omitted the accounting policy for non-current investments relating to the investment in Connect St Helena Ltd recognized during the year. Accounting policies appropriate to the circumstances of the entity are required to be disclosed as required by IPSAS 3.9. Management have now included the non-current investments accounting policy in the financial statements.

RECLASSIFICATIONS

Impacting current year 2013/14

Expenditure on the R1 roads project was transferred from the DfID Infrastructure Projects Special Fund to the EDF Funded Projects Special Fund as it is EDF funded beyond the first £2.0 million.

RMS capital funding had been incorrectly mapped to the DfID TC Special Fund. It was subsequently correctly remapped to the DfID Funded Projects Special Fund.

The ESH Growth Funding Project had been incorrectly mapped to the DfID Infrastructure Projects Special Fund. It was subsequently correctly remapped to the DfID Funded Projects Special Fund.

Project expenditure claims made by Connect St Helena Ltd were reclassified from 'Payments to Contractors' to the more appropriate expenditure category 'Payments to Other Bodies, Agencies & Persons'.

Project expenditure claims made by Enterprise St Helena were reclassified from 'Other Expenditure' to the more appropriate expenditure category 'Payments to Other Bodies, Agencies & Persons'.

Impacting prior year 2012/13

Following a review of the opening reserves position a number of historic funding entry errors and errors in mapping in the ledger were identified by management. These were amended through a number of transfers between reserves as disclosed in Note 3.

In addition management have decided to treat project expenditure of £665k incurred on a strategic water resource consultancy during 2011/12 and 2012/13 as a recurrent expense. The consultancy project had previously been capitalised by SHG and included in the assets transferred to Connect St Helena Ltd upon divestment and represented by share capital.

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

COMPLIANCE WITH FINANCIAL REPORTING FRAMEWORK

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

***Recommendation 4** SHG should also prepare group financial statements consolidating the results of the subsidiary entities. These group statements are required under IPSAS 6 in addition to the separate financial statements of SHG.*

EXPENDITURE WITHOUT AUTHORITY

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

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

- **Bulk Fuel Installation** – the transactions of the BFI were not included within the budget estimates and therefore expenditure of £3.623m in the Statement of Financial Performance remains without the authority of an Appropriation Ordinance.
- **Office of the Governor** – actual expenditure was £170k compared to final budget of £169k giving rise to excess expenditure of £1k.
- **Police Directorate** – actual expenditure was £1,038k compared to final budget of £996k giving rise to excess expenditure of £42k.

These items cause a qualification to the regulatory opinion in the Independent Auditors Report in that the expenditure does not conform to statutory authority.

***Recommendation 5** The Financial Secretary should prepare a Statement of Expenditure in Excess as required by Section 106 of the Constitution and arrange for that to be laid before Legislative Council and reviewed by PAC. The Financial Secretary may also wish to develop for approval of LegCo and inclusion in Financial Regulations a materiality framework in relation to regularity matters.*

AUTHORISATION OF TRANSFERS FROM SPECIAL FUNDS TO THE CONSOLIDATED FUND

The Public Finance Ordinance (Part II - Paragraph 4(3)) requires that the Governor may, by warrant, order that any money in a Special Fund which is surplus to that required to meet the liabilities of such Fund, shall be transferred to the Consolidated Fund. During 2013/14, a transfer of £47k was made from Special Funds to the Consolidated Fund in respect of the Health Link 3 Programme. SHG had approval for the retention and utilization of the Special Fund from DfID but the transfer had not been authorised by the Governor. The required authorisation to regularise this transfer was received on 6 June 2016.

PENSION DEFICIT

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

The DBPS is unfunded and Note 19 to the accounts reports the pension liability amounting to £34.620m at 31 March 2014 (£38.279m at 31 March 2013) with no corresponding assets. Accordingly pensions in payment under the DBPS will continue to fall upon the Consolidated Fund on a pay-as-you-go basis.

WRITTEN REPRESENTATIONS

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

GOING CONCERN

The annual recurrent spend by SHG is 65% (£18.4m of £28.2m) funded from direct grant from DfID. These figures exclude internally generated income, which was included in the workings that set future targets for DfID income dependency reducing to 50% by 2014/15.

I have considered SHGs assessment that the organisation is a going concern. I am satisfied that this assessment is appropriate based on discussions with the Financial Secretary, a review of budgets, the Development Assistance Planning Mission Aide Memoir of February 2013 and the assumption that DfID will continue to provide grant-in-aid necessary to meet the reasonable needs of the Island.

ANNUAL GOVERNANCE STATEMENT

SHG does not currently have a regulatory basis requiring publication of the Annual Governance Statement (AGS) with the accounts of Saint Helena Government or prescribing its form. Accordingly whilst there is no AGS presented for the reporting periods 2013/14 or 2014/15, SHG plan to reintroduce an AGS in the 2015/16 financial statements in line with best public sector practice.

INTERNAL CONTROLS

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

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

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

FOLLOW-UP OF PREVIOUS ISSUES

Audit recommendations were made in previously issued Management Letters for 2011/12 and 2012/13. The current status of these items is summarized in the table of below.

Recommendation	Follow-up status
Recommendations from 2011/12	
2. Introduction of accruals budgeting	Pending – Financial Secretary has given a commitment to PAC that accruals based budgeting will be introduced with effect from financial year 2017/18
Recommendations from 2012/13	
1. Measurements of earned value should be prepared for subsequent accounting dates to facilitate the appropriate recognition of transferred assets at fair value in accordance with IPSAS 17.	Superseded – SHG should engage an expert to determine the replacement valuation of the Airport.
2. A separate review engagement should be commissioned in respect of EDF funded infrastructure in order to give specific assurance that the grant funds have been applied for the purposes intended.	Pending – Corporate Finance will approach EDF and request clarity on the audit procedures to be followed and share this with SHAS.
3. A Special Fund should be established to account for the operations of the BFI and therefore eliminate the need for statutory authorization of these transactions under an Appropriation Ordinance.	Complete – Special Fund was established for the BFI by Order in November 2015.

Recommendation	Follow-up status
4. A Code of Governance should be developed with reference to the CIPFA/IFAC International Framework on Good Governance in the Public Sector and adopted as a standard against which compliance may then be measured in the AGS.	Pending – To be reviewed and implemented in time for 2016/17 reporting.

NEW ISSUES RAISED THIS YEAR

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

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

CONCLUDING REMARKS

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



Phil Sharman
Chief Auditor for St Helena
St Helena Audit Service

14 June 2016

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

I have audited the financial statements of St Helena Government for the year ended 31 March 2014 under the Public Finance Ordinance 2010. The St Helena Government financial statements comprise the Statement of Financial Performance, Statement of Financial Position, Statement of Changes in Net Assets, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amounts, Statement of Revenue and Expenditure upon the Consolidated Fund and Special Funds, Statement of Trust Fund Movements, and the related notes.

Respective responsibilities of the Financial Secretary and the Chief Auditor

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

Scope of the audit of the financial statements

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

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

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

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

Basis for qualified opinion

1. Recognition of investment in controlled entities

As disclosed in Note 25 St Helena Government has control from an accounting perspective, either by direct shareholding or through statutory provision, of several entities, namely the Bank of St Helena, Solomon & Company (St Helena) PLC, Enterprise St Helena, St Helena Fisheries Corporation, St Helena National Trust, St Helena Line Ltd and Connect St Helena Ltd.

Connect St Helena Ltd is the only subsidiary recognised in the Statement of Financial Position on an equity basis in accordance with the accounting policy on non-current investments at Note 1(g). The non-recognition of the other controlled entities does not represent a consistent application of accounting policies as required by IPSAS 1 *Presentation of Financial Statements*.

Whilst I am unable to quantify the full impact of the non-recognition of the investment in the other controlled entities, I am satisfied that their omission is material, in that non-current investments and reserves in the Statement of Financial Position are understated by some £12.260m at 31 March 2014 (£11.996m at 31 March 2013).

2. Classification of reserves

The Bulk Fuel Installation (BFI) is an activity of Government undertaken without a Special Fund established for that purpose. The BFI reserve is incorrectly classified within Special Funds in the Statement of Financial Position and Note 22 rather than within the Consolidated Fund. The impact on the financial statements is overstatement of Special Funds in the amount of £3.610m at 31 March 2014 (£3.796m at 31 March 2013) and an understatement of the Consolidated Fund to the same extent.

3. Airport infrastructure valuation

Aid funded infrastructure amounting to £105.718m at 31 March 2014 (£57.096m at 31 March 2013) reported within Property Plant and Equipment in the Statement of Financial Position, and forming part of assets under construction in Note 15, is measured on an earned value basis. IPSAS 17, *Property Plant and Equipment* and IPSAS 23, *Non-Exchange Transactions* require that such aid funded assets are measured at replacement cost. Note 2 explains there is a high degree of estimation uncertainty associated with the valuation of the airport infrastructure.

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

4. Eligibility of social benefit payments

Government is responsible for the payment of a social benefit in the form of Basic Island Pension. The expenditure on this social benefit in 2013/14 was £1.458m (£1.309m in 2012/13). I was unable to obtain sufficient appropriate audit evidence about the accuracy of these pension payments because no evidence of eligibility is obtained or retained by Government. I was therefore unable to determine whether any adjustment to the reported expenditure was necessary.

Qualified opinion on the financial statements

Except for:

- the understatement of non-current investments, the understatement of the Consolidated Fund and the overstatement of Special Funds, as detailed in paragraphs 1 and 2 of the Basis for Qualified Opinion section above; and
- the possible effects of the matters described in paragraphs 3 and 4 of the Basis for Qualified Opinion section above;

in my opinion, the financial statements present fairly the financial position of St Helena Government as at 31 March 2014, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Basis for qualified regularity opinion

Included within expenditure is £3.623m (£1.222m for 2012/13) in respect of the Bulk Fuel Installation. This expenditure was incurred without specific statutory authority, estimate provision or legal authority under an Appropriate Ordinance.

For 2013/14 Legislative Council authorised total budgeted expenditure from Head 11 Governor of £0.169m and Head 15 Police of £0.996m. As disclosed in Note 6 to the financial statements the actual expenditures on these heads were £0.170m and £1.038m, resulting in expenditure in excess of authority amounting to £0.001m and £0.042m respectively.

Qualified opinion on regularity

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

Opinion on other matter required by statute

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

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

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

Phil Sharman CPFA CA
Chief Auditor for St Helena

June 2016

St Helena Audit Service, Jamestown, St Helena

SCHEDULE OF MATERIAL ADJUSTMENTS

APPENDIX B

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

Table 1: Material adjustments to the financial statements

Adjusted misstatement	Statement of Financial Position		Statement of Financial Performance	
	Dr £000	Cr £000	Dr £000	Cr £000
2013/14				
<i>Recognition of EDF funding in line with IPSAS</i>				
23 requirements				
Prepayments	55			
Accrued income	1,239			
Income received in advance		132		
Other development aid				1,162
<i>Remapping of RMS capital funding to correct special fund adjustments</i>				
DfID TC special fund	526			
DfID funded projects special fund		526		
<i>Remapping of ESH growth funding project expenditure to correct special fund</i>				
DfID funded projects special fund	1,060			
DfID infrastructure special fund		1,060		
<i>Prepayment of ground based augmentation system received post year end</i>				
Prepayments	1,036			
Capital reserve	1,036			
Assets under construction		1,036		
DfID funded projects special fund		1,036		

Adjusted misstatement	Statement of Financial Position	Statement of Financial Performance
<i>Recognition of additional payments made by DfID to Basil Read</i>		
Prepayments	2,380	
DfID airport infrastructure funding		2,380
<i>Reclassification of Connect claims for project expenditure</i>		
Payments to other bodies, agencies or persons		1,249
Payments to contractors		1,249
<i>Reclassification of ESH claims for project expenditure</i>		
Payments to other bodies, agencies or persons		853
Other expenditure		853
<i>Revised fair value measurement of the Airport Project</i>		
Prepayments	9,836	
DfID airport infrastructure funding		6,421
Assets under construction	3,415	
<i>Adjustment to staff leave liability</i>		
Leave accrual	232	
Employee costs		232
<i>Adjustment to pension liability</i>		
Pension cost		621
Pension liability	3,659	
General reserve	1,205	
Pension reserve		5,485

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

Description of correction	Note affected	Value of the error £000
Disclosure of the Jamestown Hospital refurbishment project, St Helena Hotel Development Ltd, and Fuel Management Contract.	Note 26 – Events after the Reporting Date	Narrative
Disclosure of the Rupert's Wharf construction project	Note 27 – Capital Commitments	Narrative
Disclosure of the Statement showing expenditure and revenue from Consolidation Fund to comply with Public Finance Ordinance	New Statement	Narrative
Disclosure of the accounting policy for non-current investments	Note 1 – Accounting Policies	Narrative
Amendments to sources of significant estimation uncertainty in relation to the airport infrastructure valuation	Note 2 – Key Sources of Estimation Uncertainty	Unable to quantify the error due to absence of sufficient appropriate audit evidence

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

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

Misstatement	Statement of Financial Performance		Statement of Financial Position	
	Dr £000	Cr £000	Dr £000	Cr £000
<i>Description</i>	<i>Value</i>		<i>Value</i>	
<i>Non-recognition of subsidiaries disclosed in Note 25 of the financial statements</i>				
Non-Current Investment Consolidated Fund			12,260	12,260
<i>BFI reserve reported within Special Funds not Consolidated Fund</i>				
Special Funds Consolidated Fund			3,610	3,610

No	Observation	Recommendation	Priority	Response & timescale
1	<p>Recognition of Subsidiaries</p> <p>SHG has control, from an accounting perspective, either by direct shareholding (subsidiaries) or through statutory provision, of several bodies. These bodies include the Bank of St Helena, Solomon & Company (St Helena) PLC, Enterprise St Helena, St Helena Fisheries Corporation, St Helena National Trust, St Helena Line Ltd and Connect St Helena.</p> <p>Except for Connect St Helena the investment in subsidiaries listed in Note 25 have not been recognised in the accounts of SHG as required by IPSAS 6, <i>Consolidated and Separate Financial Statements</i>.</p>	SHG should recognise its investment in subsidiaries in its financial statements for all qualifying public entities that meet the definition of control under IPSAS 6. That will ensure consistent application of accounting policies in respect of the separate financial statements of SHG.	H	<p>As part of a project to establish compliance with IPSAS 6, Corporate Finance plan to consistently apply the non-current investments accounting policy to all equity investments in controlled entities.</p> <p>2015/16 Financial Statements</p>
2	<p>Eligibility of Social Benefit Payments</p> <p>SHG is responsible for the payment of a social benefit in the form of Basic Island Pension. The expenditure on this social benefit in the year to 31 March 2014 was £1.458 million. I was unable to obtain sufficient appropriate audit evidence about the accuracy of such payments because the Government does not request or hold evidence for eligibility.</p>	SHG should review all legacy applications and obtain documentations from the applicants to maintain on their records to confirm eligibility.	H	<p>SHG are in the process of recruiting an additional Adjudication Officer for the Social Security Office. Their primary role will be the review, updating and collating of eligibility data for all recipients who were brought over from the old system in 2011 to provide assurance on the payment of the current Basic Island Pension.</p> <p>This work will be completed in June 2017</p>

No	Observation	Recommendation	Priority	Response& timescale
3	<p>Airport Infrastructure</p> <p>Aid funded infrastructure amounting to £105.718m reported within assets under construction in Note 15 Property Plant and Equipment is measured at replacement cost using an earned value basis. The earned value basis adopted by management in the determination of the replacement cost uses the current contract costs as the measurement basis. As explained in Note 2 there is a high degree of estimation uncertainty in the determination of replacement cost.</p>	<p>SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport Infrastructure.</p>	H	<p>Corporate Finance intend to secure the services of a professional valuer to determine the value of the Airport Infrastructure once the work has been certified.</p> <p>By December 2016</p>
4	<p>Compliance with Financial Reporting Framework</p> <p>Section 10(1) of the Public Finance Ordinance requires the financial statements to be prepared in accordance with the IPSAS financial reporting framework. IPSAS requires an explicit and unreserved statement of compliance to be made. As disclosed in note 1(a) Government has not prepared consolidated financial statements that incorporate the results of these entities and accordingly has not complied with IPSAS 6, <i>Consolidated and Separate Financial Statements</i>.</p> <p>IPSAS 6 requires group financial statements to be presented consolidating the results of subsidiary entities in addition to any separate financial statements that may be prepared.</p>	<p>SHG should prepare group financial statements consolidating the results of the subsidiary entities. These group statements are required under IPSAS 6 in addition to the separate financial statements of SHG.</p>	H	<p>Corporate Finance has commenced a plan for staged consolidation from 2015/16 financial statements onwards with a view of addressing this recommendation over two reporting periods to minimise the reporting burden on subsidiaries. Financial results of SHG will be consolidated with the results of five controlled entities in the 2015/16 financial statements.</p> <p>2015/16 Financial Statements</p>

No	Observation	Recommendation	Priority	Response& timescale
5	<p>Excess Expenditure</p> <p>Expenditure exceeding the limit of the approved estimate is without authorisation and is required to be scheduled in a Statement of Expenditure in Excess. These expenditures without authority are in respect of the following heads:</p> <ul style="list-style-type: none"> • Bulk Fuel Installation – the transactions of the BFI were not included within the budget estimates and therefore expenditure of £3.589m remains without the authority. • Office of the Governor – actual expenditure was £170k compared to final budget of £169k giving rise to excess expenditure of £1k. • Police Directorate – actual expenditure was £1,038k compared to final budget of £997k giving rise to excess expenditure of £41k. 	<p>SHG should prepare a Statement of Expenditure in Excess as required by Section 106 of the Constitution and arrange for that to be laid before Legislative Council and reviewed by PAC.</p> <p>The Financial Secretary may also wish to develop for approval of LegCo and inclusion in Financial Regulations a materiality framework in relation to regularity matters.</p>	H	<p>A Statement of Expenditure in Excess will be prepared for the financial year 2013/14 and laid be laid before Legislative Council at the July 2016 formal session.</p> <p>This will also be done for subsequent years 2014/15 and 2015/16 and laid before Legislative Council at the July 2016 formal session.</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.

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

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

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

