



SAINT HELENA AUDIT SERVICE
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2016-17

To the Saint Helena Currency Commissioners



27/03/2018

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INTRODUCTION

As the Chief Auditor for St Helena, I am required by section 22 of the Currency Ordinance to report to the Commissioners of Currency my findings from the audit of the financial statements of the Saint Helena Currency Fund.

The purpose of this report is to summarise for the Commissioners of Currency the key issues arising from my audit of the Financial Statements for the year ended 31 March 2017 report any material weaknesses in the accounting and internal controls that have come to my attention during the audit.

AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the Financial Statements of the Currency Fund present fairly the financial position of the fund at 31 March 2017 and of its financial performance and cash flows for the year then ended, and confirm that the Financial Statements are prepared in accordance with the Currency Ordinance.

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

- Examine, on a test basis, evidence relevant to the amounts and disclosures in the Financial Statements.
- Assess any significant estimates and judgements made by the Fund in the preparation of the Financial Statements.
- Assess whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.
- Evaluate the overall adequacy of the presentation of information in the Financial Statements to ensure compliance with International Public Sector Accounting Standards (IPSAS).
- Report to you my opinion that the Financial Statements present fairly, in all material respects, the financial position of the Fund, as at the accounting date and its financial performance for the year then ended.
- Report to you such other information as I consider necessary or appropriate to assist you in your consideration of the Fund's accounts for that financial year.
- Submit for your consideration a Management Letter covering the audit undertaken.

My methodology for the collection of audit evidence is based on the Audit Manual of the Saint Helena Audit Service (SHAS), which has been developed to reflect International Auditing Standards (ISAs).

Although I am required under ISAs to consider the risk of material misstatement arising from fraud, the purpose of my audit is not for the detection of fraud. Responsibility for the prevention and detection of fraud rests with the Fund who should not rely on the external audit function to discharge these responsibilities.

AUDITOR INDEPENDENCE

I confirm that myself as Chief Auditor, and the audit engagement team, have complied with relevant ethical requirements regarding independence under the Code of Ethics issued by the International Ethical Standards Board for Accountants (the IESBA Code).

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

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

CHANGES TO ACCOUNTS AND SIGNIFICANT MATTERS

TRANSFER TO THE GENERAL REVENUES OF SHG

Two separate matters arose in regard to transfers between the Currency Fund and the General Revenues of SHG. These separate matters relate to transfers under Section 17(d) and 17(c) of the Currency Ordinance as set out in the following sections.

Section 17(d) of the Currency Ordinance provides that:

(d) if at the end of any financial year the General Reserve exceeds 10% of the liabilities of the Fund, the Commissioners, with the approval of the Governor acting in his or her discretion, may direct that the amount in excess of the said 10% is to be transferred in whole or in part to the General Revenue of St Helena.

The balance on the Currency Fund General Reserve at 31 March 2017 exceeded 10% of the demand liabilities but no request of was made of the Governor during the year 2016/17 to make any transfer. Instead on 18 August 2017 the Financial Secretary sought approval for a transfer of £0.5m to have retrospective effect so that it may be booked within the SHG and Currency Fund accounts for 2016/17.

Notwithstanding any point of lawfulness on the retrospective application of a direction made by the Governor under section 17(d), from an accounting perspective two types of events are identified in IPSAS 14 *Events after the Reporting Date*:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

In applying the IPSAS 14 it becomes clear that the requested transfer £0.5m from Currency Fund to Consolidated Fund is discretionary rather than obligating and was not a condition that existed at the reporting date. Moreover the standard requires that any dividend or similar distribution declared after the reporting date shall not be recognized as a liability at the reporting date. Such dividends or distributions are included in the notes in accordance with IPSAS 1.

Management have accepted that the direction under section 17(d) must by definition be a non-adjusting post-balance sheet event and accordingly the £0.5m transfer booked in the draft accounts of the Currency Fund has been reversed.

Section 17(c) does however provide that:

(c) any remaining surplus must be transferred to the General Revenue of St Helena, but the Governor may direct that further allocation to the General Reserve may be made out of such remaining surplus;

In terms of this provision a retained surplus was reported on the Currency Fund at 31 March 2017 of £29,907 which, in the absence of any direction from the Governor to the contrary, must be transferred to the General Revenue of St Helena Government. In this case there is an automatic statutory requirement for this transfer to be made in the 2016/17 accounts from the Currency Fund to the General Revenues of SHG. The Currency Officer has processed this amendment.

PROVISIONS TO COVER A DEFICIT

The Currency Ordinance only provides detail on the calculation and distribution of a surplus on the Currency Fund (section 17 and 18) – however there are no provisions as to how to cover any in-year deficit arising on the Fund. The current presumption is that the deficit is carried on the Surplus Account as a retained deficit until such time that subsequent surpluses extinguish any retained deficit but this treatment does not have specific statutory backing.

***Recommendation 1** The Currency Commissioners should consider amending the Currency Ordinance so that it specifies how to deal with a deficit when it arises.*

UNQUALIFIED AUDIT OPINION

I base my opinion on the detailed audit work that we carried out in accordance with International Standards on Auditing. In my opinion, the Financial Statements present fairly, in all material respects, the Financial Position of Fund as at 31 March 2017 and its Financial Performance and Cash Flows for the year then ended in accordance with IPSAS.

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

CORRECTED MISSTATEMENTS

During the course of my audit, I identified some misstatements which I requested the Currency Officer as management to correct. In recognition of your governance responsibilities as the Commissioners of Currency I have scheduled these adjustments to the 2016/17 financial statements in Appendix 1.

SIGNIFICANT DIFFICULTIES, IF ANY, ENCOUNTERED DURING THE AUDIT

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

WRITTEN REPRESENTATIONS

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

GOING CONCERN

I have considered and reviewed management's assessment that the Fund is a going concern. I am satisfied that this assessment is appropriate based on discussions with the Currency Officer as well as consideration of the Financial Position of the Fund, which was positive for the 2016/17 financial year. In addition, the Currency Ordinance makes provision for the St Helena Government to provide the appropriate relief measures (i.e. "balancing of the fund"), should the total assets of the fund be less than its liabilities.

INTERNAL CONTROLS

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

FOLLOW UP OF PREVIOUS ISSUES

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

Financial statement	Recommendation open – action required	Recommendation closed – action completed
Audit 2014/15	1	0
Audit 2015/16	0	3
Total	1	3

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

ACKNOWLEDGEMENT

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



Phil Sharman
Chief Auditor
Saint Helena Audit Service

27 March 2018

APPENDIX 1 - SCHEDULE OF ADJUSTMENTS

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

Table 1: **Adjustments to financial statements**

Adjusted misstatement	Statement of Financial Performance		Statement of Financial Position	
	Dr	Cr	Dr	Cr
Description	£	£	£	£
1. Receivables – SHG			500,000	
General Reserve				500,000
<i>Being reversal of a non-adjusting post balance sheet event .i.e. transfer of funds to SHG general reserve.</i>				
2. Retained Surplus			29,907	
Receivables – SHG				29,907
<i>Being transfer of any Currency Fund surplus in line with Section 17 (c) of the currency ordinance</i>				

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

Description of correction	Note affected	Value of the error
Adjustments to disclose the significant non-adjusting event regarding the transfer of £500,000 from the Currency Fund to the SHG Consolidated Fund approved in August 2017.	Note 20	N/A
Adjustment to enhance understand ability on Accounting policy Note (g) – Reserves by changing the name Surplus Fund to Surplus Account	Note 1	N/A

APPENDIX 2 – RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

No	Observation	Recommendation	Priority	Response & timescale
1	The Currency Ordinance only provides detail on the calculation and distribution of a surplus on the Currency Fund (section 17 and 18) – however there are no provisions as to how to cover any deficit arising. Current presumption is that the deficit is carried as a retained deficit until such time that subsequent surpluses extinguish any retained deficit but this treatment does not have specific statutory backing.	The Currency commissioners should consider amending the Currency Ordinance so that it specifies how to deal with a deficit when it arises.	M	This matter will be addressed in the 2018/19 financial reporting year.

APPENDIX 3 – FOLLOW UP OF OPEN RECOMMENDATIONS FROM PRIOR YEARS

No	Observation	Recommendation	Priority	Response & timescale
1	The balance of funds owed by SHG has grown significantly between March 2013 and March 2016 – which can be regarded as for SHG on behalf of the Currency Fund. These funds represent idle money, with the Currency Fund forfeiting the related interest income.	To realise the best returns from funds held the Commissioners should require settlement of receivables and ensure that all surplus funds are invested in interest bearing investments.	M	Implemented The balance owed by SHG is monitored on a monthly basis and surplus funds invested. There was an increase in the balance held with SHG during the latter half of the prior year, 2015/16, as the issue of currency into circulation exceeded withdrawals. Surplus funds were invested after the year end. £2.08m of surplus funds reinvested. UK Government Treasury Bonds purchased on 26 April 2016.

<p>2 During the year end cash count we observed that sealed boxes containing currency inventory were poorly marked making it difficult to establish the contents of each box.</p>	<p>M To ensure easier future cash counts sealed boxes should be marked properly.</p>	<p>Closed The Commissioners are content that the observation does not present a risk of any significance, evidenced by the fact that all involved in the process are cognisant of the identity of the contents of the boxes.</p>
<p>3 Non-compliance with Section 5.2 of the Currency Ordinance – we observed that some currency issues (albeit of low value) were made with the authorisation of only one Currency Commissioner.</p>	<p>M The Commissioners should ensure that all issues of currency are authorized by at least two commissioners in compliance with the Currency Ordinance.</p>	<p>Implemented This recommendation refers to the issue of coins from the Vault. With effect from 10 November 2016, Requisition and Issue vouchers for the withdrawal of coins are signed by two Commissioners.</p>
<p>4 To ensure that the Currency Commissioners are adequately equipped to deal with potential risks that may affect the operation of the Fund. The Commissioners should consider performing a risk assessment process. The objective being to identify potential risks and identifying measures to mitigate them if they do materialise</p>	<p>M</p>	<p>Pending Risks will be reviewed on an annual basis. Starting December 2016</p>

<p>Definition of Priorities</p>	
<p>HIGH</p>	<p>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.</p>
<p>MEDIUM</p>	<p>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.</p>



SAINT HELENA AUDIT SERVICE

External Auditors

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of Currency

Report on the Audit of the Financial Statements

Opinion

I have audited the Financial Statements of the Currency Fund (the Fund), which comprise the Statement of Financial Position as at 31 March 2017, and the Statement of Financial Performance, Statement of Changes in Net Assets, and Statement of Cash Flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In my opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the Fund as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Fund in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and I have fulfilled my other ethical responsibilities in accordance with the IESBA Code. I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with IPSAS and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of the auditor's responsibilities for the audit of the Financial Statements is located at Annex A. This description forms part of my auditor's report.

Phil Sharman CA CPFA
Chief Auditor

St Helena Audit Service
Post Office Building, Jamestown, St Helena Island, South Atlantic Ocean, STHL 1ZZ

27 March 2018

Annex A to the Independent Auditors Report

Further description of the auditor's responsibilities for the audit of the Financial Statements

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the management's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.