

# St Helena Public Accounts Committee

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## **Report to Legislative Council on the Formal Session of the Public Accounts Committee held on the 14<sup>th</sup> and 15<sup>th</sup> of May 2018.**

### **1. Introduction**

In accordance with section 69 (6) of the Constitution of St Helena the Public Accounts Committee hereby reports to Legislative Council on the Formal Session of the Committee, held on the 14th and 15th of May 2018.

Membership of the Committee comprises:

Chairman:	Mr Cyril (Ferdie) Gunnell
Vice Chairman:	Mr Mark Yon
Members:	Hon Dr Corinda Essex
	Hon Clint Beard
	Hon Brian Isaac

PAC is advised professionally by the Chief Auditor, Mr Phil Sharman.

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

## **2. Order Paper – Second Session 2018**

### **14<sup>th</sup> of May 2018**

- I.** Chairman's Address
- II.** St Helena Government 2016/17 Audited Annual Financial Statements and Management Letter
- III.** St Helena Hotel Development Ltd 2016/17 Audited Annual Financial Statements

### **15<sup>th</sup> of May 2018**

- IV.** Connect Saint Helena Ltd 2016/17 Audited Annual Financial Statements
- V.** Enterprise St Helena 2016/17 Audited Annual Financial Statements
- VI.** Bank of St Helena Ltd 2016/17 Audited Annual Financial Statements

## **I. Chairman's Address**

The Chairman opened the meeting and welcomed all in attendance and those listening over the radio, thanking them for their interest in the work of the Public Accounts Committee (PAC). Thanks were also extended to South Atlantic Media Services (SAMS) for broadcasting the formal hearing.

The Chairman acknowledged the work of the Chief Auditor, Mr Phil Sharman, as the Professional Advisor, Miss Anita Legg, the Committee Clerk and the Performance Audit Manager, Mr Anesu Happyman Makamure.

For the benefit of first time listeners, the Chairman explained that PAC is a Select Committee of Legislative Council in accordance with section 69 of the Constitution and Standing Order 23, the PAC's function is statutory. Its primary function is to objectively scrutinise how the Government spends the public purse. The PAC is protected to act independently and is not subject to the directions and control of the Governor, the Executive Council or any other body or authority. It has the power to call any Government official to give evidence orally. The scrutiny role of PAC is seen as a mainstay of good governance in terms of holding Government to account.

He further highlighted that the UK Foreign and Commonwealth Office is currently sponsoring a programme of institutional development across the British Overseas Territories, directed at strengthening the PAC alongside the audit functions here in St Helena.

PAC members attended in the UK, in November 2017, to observe PAC workings in Westminster and the Isle of Man. PAC also welcomed on attachment to St Helena, the Clerk to the PAC for the National Assembly of Wales, Fay Bowen, during May 2018.

He highlighted the composition of the Committee for this session with the following five members:

Chairman	Mr Cyril Gunnell
Vice Chairman	Mr Mark Yon
Member	Hon Dr Corinda Essex
Member	Hon Brian Isaac
Member	Hon Clint Beard

To ensure the Committee operated independently and free from any bias or conflict of interest, arrangements had been made for temporary members to cover for members conflicted by the item of business under scrutiny. For this purpose the following alternate members were invited to serve on the Committee at specific points in the proceedings:

- Hon Gavin Ellick replacing Hon Dr Corinda Essex for enquiries on Enterprise St Helena,
- Temporary independent member Mr Cyril George, covering for the Vice Chair, Mr Mark Yon, on Connect Saint Helena Ltd.

The Chair explained this was the second formal session of the Public Accounts Committee for 2018. The first formal session was held in January 2018 focused upon scrutiny of the Statement of Expenditure in Excess.

At this session the Committee concluded its enquiries on Excess Expenditure and moved to other business including the scrutiny of a range of audited public accounts for 2016/17. Given the volume of business that was transacted the sitting was divided over two days, Monday 14<sup>th</sup> May and Tuesday 15<sup>th</sup> May.

On the 14<sup>th</sup> of May 2018 session, PAC examined the 2016/17 audited accounts for:

- St Helena Government
- St Helena Hotel Development Ltd

On the 15<sup>th</sup> of May 2018 session, PAC examined the 2016/17 audited accounts for the following three parastatal bodies:

- Connect Saint Helena Ltd
- Enterprise St Helena
- Bank of St Helena Ltd

## **II. St Helena Government (SHG) 2016/17 Audited Annual Financial Statements and Management Letter**

The following persons attended to answer questions in respect of SHG:

- Financial Secretary – Mr Dax Richards
- Assistant Financial Secretary – Mr Nicholas Yon
- Head of Finance Services – Ms Connie Stevens
- Financial Accountant – Mrs Jessica Harper

The audited SHG Financial Statements for the year ended 31 March 2017 were audited and finalised on the 28 March 2018 and referred to PAC under section 69 (6) (b) of the St Helena Constitution.

The audited financial statements were accompanied by the Chief Auditor's Management Letter which reports the main issues raised from the audit and areas for attention of the Financial Secretary. The financial statements were qualified by the Chief Auditor meaning there are reservations which affect the fair presentation of the accounts, along with other significant matters which are drawn to the attention of Legislative Council.

PAC enquired on the following issues from SHG management:

- The Management Letter has highlighted there were delays in the production of the financial statements and PAC were interested in what caused these delays.
- The Management Letter highlighted that a range of material adjustments had to be made to the financial statements before sign off and PAC were interested in the action being taken to minimise material adjustments being required.
- The Chief Auditor's audit report on the financial statements contained five qualifications, two of fair presentation, two of regularity and one of statutory compliance. PAC required explanations on the nature of these qualifications.
- Why it was necessary to present this statement on a cash basis when the main accounts were presented on an accruals basis.
- Why withholding tax in Note 10.1 was stated as zero for the financial year 2016/17, as it was noted £43k had been collected in the previous financial year.
- Which departments/directorates were using the data collected from ASYCUDA, and for what purposes they were being used.
- The current ownership status of the Rupert's Wharf and Haul Road.

- The existence of any differentiation in the price between land which is sold to a local resident or to that which is sold to an inward investor.
- Whether there were any specifications for fire engines that were recently procured but not able to work on the island terrain.
- The cost of the crane acquired from Basil Read and whether any value was derived?
- The reason for the depletion in the General Reserve balance and steps being taken to restore this balance.
- Whether an updated rationale had been prepared, with supporting analysis, to determine a minimum and preferred level of working balance on the Consolidated Fund for approval of SHG and DfID in partnership.
- The Pensions Reserve and the Litigation Reserve represents unfunded liabilities on SHG's financial statements, PAC enquired how these reserves would be funded when required.
- An explanation on why St Helena lost out on €800k from EDF and who else was entitled to that funding.
- Whether Corporate Finance was satisfied with the financial and operational performance of the SHG controlled entities during the year under review.
- Whether the SHG controlled entities have an appointed Government Director, what was being done going forward to strengthen that role and to ensure that there is appropriate corporate governance and to what extent have those entities' operational performance met the required standards.
- Whether the Financial Secretary could confirm the accounting treatment adopted for the write down of the Connect shareholding, during the year in question, conforms to Financial Regulations and the required authorisations.
- The total value of the SHG shareholding in all its arm's length entities as of 31<sup>st</sup> March 2017 and what dividend had SHG received in the same period for those holdings.
- The remedial action being taken by SHG in response to the significant governance issues identified in the Annual Governance Statement.
- Why withdrawal warrants, as per section 104 of the St Helena Constitution were not laid in Legislative Council as required.
- The cause of the slow progress in clearing the remaining nine recommendations from prior years Management Letters issued by the Chief Auditor.
- Actions proposed by the Financial Secretary in response to the six recommendations raised in the 2016/17 Management Letter?

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 14th May 2018 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

In addition to the verbal evidence SHG management committed to provide written responses for the following matters where they could not provide responses to the PAC:

- Investigate and determine why the withholding tax for 2016/17 was nil.
- ASYCUDA: Total investment in the system and annual cost of running the system.
- Reason why the Haul Road, not handed over to SHG, has been delayed from opening.
- Written rationale for the write-off of the £665k water design project from the SHG investment in Connect St Helena Ltd.

Based on the responses provided by management the below main conclusions are drawn and recommendations proposed after PAC deliberations.

### **Main conclusions**

The delay in reporting the 2016/17 draft financial statements is concerning after the effort to catch-up the arrears in the public accounts – albeit the valuation of the public estate was recognised as a significant achievement. Every effort should now be made to bring the accounts timetable back to reporting audited accounts within 9-months of year end as required by DFID.

PAC expect the Financial Secretary to place a priority on addressing the recommendations made by the Chief Auditor in the Management Letter where a number of these recommendations are long-outstanding.

PAC were concerned at the reported deterioration of the unrestricted balance on the General Reserve moving to an overdrawn position of £700k at 31 March 2018 but accepted the representations made by the Financial Secretary as to the circumstances and the proposed Corporate Finance improvement plan.

PAC noted the implementation of the ASYCUDA customs system had presented some difficulties but the system now provides efficiency for importers and improved revenues, controls and statistics for Government.

PAC were particularly concerned about the delayed handover and benefits realisation from key infrastructure projects, including the Rupert's Wharf, the Haul Road and the Bulk Fuel Installation. The restriction on the operational use of the wharf due to the requirement for capital investment in rockfall mitigation measures and the absence of cargo handling and storage facilities was seen as particularly bad forward planning by SHG. The annual cost of barging landed goods from Rupert's to Jamestown will potentially run into millions and represents waste and inefficiency of public money on a grand scale.

PAC were also greatly perplexed on the apparent loss of €800k in grant funding from EDF 10 as a result of required project indicators not being met, as required under the agreement. When the Island is crucially short of capital funding the loss of such a significant sum towards key infrastructure development cannot be underestimated.

The procurement of two second hand fire engines for the sum of £160k, which had proved unfit for purpose in climbing the steep terrain in St Helena, was a further cause for concern. Whilst it was understood that options are being investigated it points again to the need for procurement specifications to be designed to meet the needs.

And finally on the subject of waste and inefficiency, PAC remains concerned about the value for money secured from the £665k expended on the Fairhurst water design project – this being the subject of previous PAC recommendation 120. The SHG accounts show the value of the investment in Connect Saint Helena Ltd has been written-down by this sum after the company rejected this project as forming part of its transferred capital.

### **Recommendations**

In relation to its scrutiny of SHG financial statements for the year ended 31 March 2017, **PAC recommends that:**

1. SHG should ensure that the Financial Secretary has access to sufficient technical capacity to maintain both the reporting of the financial statements on a timely basis and the monitoring and management of the current financial position.
2. The Financial Secretary should maintain effort on clearance of the matters causing continued qualification of the SHG financial statements.

3. EDF programme governance, management and monitoring arrangements, should be improved to ensure that required variable project indicators are met and timely returns are made to the European Commission to ensure that committed EDF funds are realised to the benefit of St Helena.
4. The Chief Auditor is invited to examine the root cause of the waste and inefficiency identified by this Committee (including the un-readiness of the Ruperts Wharf for cargo operations, the Fire Engines which are not fit for purpose, and the write-off of the Water solutions project) and make recommendations to Government to prevent these failings going forward.

### **III. St Helena Hotel Development Ltd (SHHDL) 2016/17 Audited Annual Financial Statements**

The following persons attended to answer questions in respect of SHHDL:

- Director – Mr Dax Richards
- Director – Mrs Susan O’Bey

The independent examination of the St. Helena Hotel Development Limited (‘SHHDL’) financial statements for the year ended 31 March 2017 was completed on 13 December 2017 and referred to PAC as a matter of importance by the Chief Auditor under Standing Order 23 Rule 2 (a) (iv).

PAC enquired on the following issues from the Directors of SHHDL:

- Matters of significance raised in the Chief Auditor’s Management Letter to the Board.
- Composition of the Board of Directors and how that composition changed from overseeing hotel construction through to overseeing hotel operations.
- Whether the Board possessed the necessary skills to be able to discharge its oversight and governance responsibilities, and whether a Company Secretary was in place.
- How the land and buildings transfer value for 1, 2 & 3 Main Street was determined for £601,210 and how often the hotel would be re-valued.
- What the total borrowings by SHHDL were and from which organisations; and also the management’s plan to service these borrowings.
- The hotel’s current occupancy rate.
- Whether the Board was monitoring the efforts of Mantis and other organisations to market the hotel.
- Mantis had recently entered into a partnership with Accor; PAC was interested in how this would help the Mantis St Helena Hotel and how it would affect the local operations.
- How was the total share capital of SHHDL determined as £10 million and whether this is the value for the hotel. PAC also enquired as to what were the intentions with regards to the unissued shares.
- What was the final contract amount with AGMAC for the construction, how much had been paid to AGMAC thus far and what variations were agreed to the contract price.

- Whether SHHDL took a forward foreign currency hedge on the bill of quantities denominated in South African Rand and if not then why was a hedge not taken.
- The Hotel was constructed to South African Building Standards which deemed to be superior to the current St Helena Building Regulations, therefore how was the quality assurance comparable to UK standards.
- Whether an improvement to the St Helena Building Regulations was required to be able to bring them up to the required standards.
- The involvement of the Chief Planning Officer in the construction phase of the Mantis St Helena Hotel and the date when the occupancy certificate was issued by the Building Authority.
- The retention sum held by SHHDL as a warranty for remedial works and the defects warranty period.
- SHHDL signed a Hotel Management Agreement (HMA) with Mantis Collections at a management fee of £50,000 per annum for the first 3 years. PAC enquired as to how this would be financed, at what intervals would payments be made and would this include the name franchise.
- How the performance of the hotel over time would be measured and what was the Key Performance Indicators (KPI) agreed with Mantis.
- Whether the management contract with Mantis represented value for money.
- The current staff numbers for the hotel.
- How long the current financial situation would be allowed to continue before a decision takes place as to the final future of 1-2-3 Main.
- What steps would be taken to ensure cost effectiveness of the operation.
- When the SHG hotel exit strategy would likely be actually finalised.
- How the Board intends to manage the capital risks associated with the public investment in the hotel.

PAC received explanations and assurances for the above mentioned enquiries from the Directors of SHHDL and these have been recorded in the 14<sup>th</sup> of May 2018 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee>).

SHHDL Directors committed to provide written responses for the following matters that they could not provide responses to the PAC:

- Report detailing the comparison of South African Building Standards to the current St Helena Building Regulations.
- List of defects identified in the hotel that had to be rectified.
- Hotel Management Agreement and the Key Performance Indicators for circulation to members.

- Confirmation of hotel staff numbers, both temporary and permanent.

Based on the responses provided by management the below main conclusions are drawn and recommendations proposed after PAC deliberations.

### **Main conclusions**

PAC accept the 2016/17 financial statements report the results of the company during the construction phase of the hotel which continued into the following year before the official opening on 1 November 2017.

PAC's main interest therefore was on the construction phase as reported. In that respect PAC were concerned to find that the defects warranty period on a multi-million pound development was just 3-months and the retention sum had been released already. The agreement of a large scale contract without adequate warranty may indicate a significant failing in the technical advice to the Board at the procurement stage.

PAC were also concerned about the exchange rate risk accepted by the Company with a contract agreed in GBP but the bill of quantities priced in ZAR at an exchange rate of 1:21 without any hedging instrument. The exposure to this risk caused significant cost escalation during the contract which required the Board to make cost savings in the design and fit-out.

PAC agree that as the SHHDL moves from the construction phase to the operational phase a review is needed of the Board membership to ensure the Company has the skills and capacity necessary to provide executive oversight of the operator in accordance with the Hotel Management Agreement.

### **Recommendations**

In relation to its scrutiny of SHHDL financial statements for the year ended 31 March 2017, **PAC recommends that:**

1. Public construction projects have a defects warranty period and contract sum withholding clause, commensurate with the nature of the development works and the public exposure to risk associated with non-performance and the remedy of defects in design or workmanship or operational utility.
2. Procurement Regulations require that where any public procurement contracts is written in a foreign currency, a forward hedging agreement is arranged by the Financial Secretary to manage the associated exchange rate exposure for the duration of the contract.

3. PAC underlines recommendations 63 and 64 made in July 2016 that SHG documents how it will manage the capital risk associated with public investment in this project and develop a time bound exit strategy, which may include an initial public offering of shares.
4. PAC refers to recommendation 130 made in May 2017, SHG should review and update the range of skills on the SHHDL Board to accord with the requirements of the Company during the operational phase and reconsider explicitly the question of conflict of interest of the present directors of SHHDL.
5. SHG review the whole appointment process for Executive Directors and Non-Executive Directors across the SHG controlled entities, consistent with the Chief Auditors report on the Governance of SHG Group Entities.

#### **IV. Connect Saint Helena Ltd (Connect) 2016/17 Audited Annual financial Statements**

The following persons attended to answer questions in respect of Connect:

- Chief Executive Officer – Mr Barry Hubbard
- Operations Director – Mr Leon de Wet
- Head of Finance – Mr Makion Chiwade

The audit of Connect's financial statements for the year ended 31 March 2017 was completed on 27 October 2017 under the Public Utilities Ordinance and the Companies Ordinance 2004. The audit was performed by Moore Stephens LLP as the External Auditor of Connect Saint Helena Ltd. This was the fourth year of reporting by Connect as a Limited company.

The audited financial statements were referred to PAC as a matter of importance by the Chief Auditor under Standing Order 23 Rule 2 (a) (iv).

PAC enquired on the following issues from Connect management:

- Any matters of significance raised in the Auditor's Management Letter to the Connect Board.
- Electricity division had a gross profit of £1.07m whilst the water division had a gross loss of £1.03m, PAC were interested whether the electricity division was subsidising the water division and how these losses can be practically rectified.
- The significant investment in water infrastructure made in recent times, causes of the high operational costs within the water division and measures being taken to reduce these costs.
- PAC enquired whether it was possible to differentiate between treated and untreated water when recording the volume of losses, how these losses affected the costing of water and whether management can accurately quantify the costs relating to these losses.
- The future plans for renewal of infrastructures with regards to raw water catchments, distribution systems and pumped water resources.
- The progress on installing bulk water meters and whether this has helped in reconciling the network losses.
- Cost of sales have increased by 8% year-on-year excluding the drought related cost, PAC enquired as to the cause of this increase.
- Employee costs within costs of sales have increased by £100k; PAC enquired what was being done in terms of managing staff costs while maintaining staff retention.

- Connect's main efficiency target, how the crewing is organised to maintain operational efficiency and how many vehicles form part of Connect's fleet.
- Management compensation represented 40% administrative costs, PAC were interested in how many individuals formed part of key management, the total number of staff members, whether the key management of Connect sign performance contracts and their terms of engagement, and whether Connect have a succession plan in place.
- The meter reading costs accounted for in the ledger.
- The reasons for an increase in receivables held by £1m over the past year; and an increase in provision for doubtful debt from £77k to £168k, year on year and whether it was because of an increased risk of default by consumers.
- The reasons for regression in the electricity generated by renewable energy from the prior year and whether the maintenance costs to wind turbines and solar panels are expensed or capitalised.
- The proposed power purchase agreement and how it would work in practice between Connect and PASH.
- Connect cancelled 701,577 SHG shares linked to the £665k cost of the Fairhurst water design consultancy project. PAC enquired who approved the cancellation of the SHG shareholding and whether any value for money had been derived from the aid funded water design project written-off.

PAC received explanations and assurances for the above mentioned enquiries from Connect management and these have been recorded in the 15th May 2018 transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

In addition to the verbal evidence Connect management committed to provide written responses for the following matters where they could not provide responses to the PAC:

- Number of fleet vehicles owned by Connect.
- Number of people employed by Connect.
- List of positions which are part of key management.
- Water losses in litres and percentage to the total.

Based on the responses provided by management the below main conclusions are drawn and recommendations proposed after PAC deliberations.

## Main conclusions

PAC commended Connect on its commitment to implement previous PAC recommendations in a timely manner.

PAC were concerned with the cross subsidies on the water division by the electricity division. Management explained that they are now moving towards a strategy where they are trying to rationalise the water prices so that revenues are matched to the cost of water supply and is not subsidised by the electricity division. The proposal is that water charges increase but electricity prices will be fixed so the overall increase to the consumer household is reasonable.

PAC noted that drought mitigation measures were necessary during the 2016/17 year but the additional costs incurred were offset by earmarked grant funding of £233k. Aside from this special funding, the water division consumed the entirety of the revenue grant subsidy received by Connect amounting to £605k in 2016/17.

PAC noted the depleted condition of the inherited water infrastructure and the remedial investment in replacement and renewal. The concern is that further capital investment is required with already perceived high operational costs. Management explained their strategy with regards to improving water infrastructure. Some of the capital investment comes from internally generated funds rather than from grant funding.

PAC were concerned with the high employee costs both under production and administrative costs. Management explained the need to hire a Chartered Civil Engineer to assist in the water division. They also explained that a succession plan was in place to ensure training and transfer of skills in the operational teams.

## Recommendations

In relation to its scrutiny of Connect financial statements for the year ended 31 March 2017, **PAC recommends that:**

1. Connect ensure that comprehensive asset management plans are developed to drive the planned maintenance of electricity and water infrastructure assets.
2. Connect develop efficiency plans designed to manage operating costs through optimum use of labour, transport, plant and materials and contain non-productive costs and overheads.

3. SHG review the whole appointment process for Executive Directors and Non-Executive Directors across the SHG controlled entities, consistent with the Chief Auditors report on the Governance of SHG Group Entities.

## **V. Enterprise St Helena (ESH) - 2016/17 Audited Annual Financial Statements**

The following persons attended to answer questions in respect of ESH:

- Chief Executive for Economic Development – Dr Niall O’Keeffe
- Director: Resources – Mrs Michielle Yon
- Director: Policy Development and Social Enterprise – Mr Robert Midwinter
- Director: Commercial Development and Enterprise – Mr Martin George
- Director: Tourism – Ms Helena Bennett
- Manager: Quality Systems and Information – Mrs Kirsty Joshua

The audit of the ESH financial statements for the year ended 31 March 2017 was completed on 27 March 2018 by Moore Stephens and complied with the requirement under section 10 (1) of the ESH Ordinance that the accounts are audited within 12 months. The annual report and financial statements were laid at the 8 June 2018 meeting of Legislative Council satisfying the requirement of section 10 (2) and referred to PAC under section 69 (6) (b) of the Constitution.

PAC enquired on the following issues from ESH management:

- The 2016/17 financial year was an extension of the 3-year DFID Phase-1 support, PAC enquired as to how much was made available to spend during this extension period.
- The steps ESH took to utilise that funding during the extension period.
- Whether the objectives for ESH under Phase-1 support through DFID have been realised.
- The annual report talks of the success achieved and PAC were interested in what didn’t go so well during the first 3-years.
- The extent to which ESH had a measurable impact on that economic growth or contraction.
- Cash on hand as at 31st March 2017 amounted to £836k – what this meant in terms of 2016/17 being the end of the Phase-1 ESH support programme.
- The nature of the DFID support to ESH for Phase-2 commencing with effect from 1 January 2017 and for what period that covered.
- Changes and improvements that have been made to Phase-2 as a consequence of learning from Phase-1.

- Any matters of significance raised in the Auditor's management letter to the Board.
- Why ESH has continued to publish their Annual Report and Financial Statements separately rather than combined as implied by section 10 of their Ordinance.
- The financial statements report ESH investments in associates in Note 4. PAC enquired on the nature of this investment in an associate company, why the investment in the associate £20,737 was written-off and what actions were being taken to recover the value of this investment.
- ESH wholly-owns subsidiary Bertrand's Cottage Ltd. PAC enquired as to what the company does, what arrangements have been made for the independent audit of this company and has Bertrand's Cottage Ltd been consolidated within ESH financial statements.
- PAC also enquired on the Directors of the Board of Bertrand's Cottage Ltd and the capital investment in converting Bertrand's Cottage.
- Why the project expenditure of £610k did not form part of ESH Property, Plant and Equipment, has this capital expenditure been recognised by SHG and which assets were disposed of for a loss of £32k and the reason.
- The development of a management information system to capture timely and accurate information for internal management and external performance reporting to stakeholders.
- The implementation of a commissioning relationship with other provider organisations to require data returns, which measure not only inputs but also outputs and measures of impact.
- The relationship between the number of start-ups supported by ESH and those remaining in business after two years.
- The reason for the Board of Director's remuneration increase by 240% and Salaries and Wages increase from £428,153 to £535,017 in the current year.
- The progress on ESH's involvement in attracting SHELCO to invest on the island.
- The movement on Enterprise St Helena Project whose expenditure was £1,189,325 in the prior year and £1,596,842 in the year under review.

PAC received explanations and assurances for the above mentioned enquiries from ESH management and these have been recorded in the 15th May 2018 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

In addition to the verbal evidence ESH management committed to provide written responses for the following matters where they could not provide responses to the PAC:

- Annual Financial Statements for Bertrand's Cottage Ltd for 2016/17 financial year.
- DfID Assessment Report for ESH Support Phase 1.

### **Main conclusions**

PAC remains worried with the slow clearance by ESH of previous PAC recommendations and the late submission of responses to the Financial Secretary, for comments to be included in the periodic sessional papers. In terms of substantive improvement PAC remain concerned at the slow transition to performance reporting in terms of outputs and outcomes rather than inputs and activities.

PAC noted that the financial year 2016/17 was in effect an extension to Phase 1 approved by DfID to allow ESH to utilise unspent grant from the 3-year MOU. Management explained DfID had completed a performance review which confirmed the Phase 1 project objectives had been achieved by ESH.

PAC was concerned about ESH still publishing the financial statements and annual report as separate documents contrary to their recommendations. Management agreed to look towards the amalgamation of these two reports in conformance with section 10 of the Ordinance.

PAC had various concerns around Bertrand's Cottage Ltd regarding their financial statements, consolidation with ESH, audit arrangements, Board of Directors and ownership. These above matters were explained during the formal hearing but PAC had reservations with the current Board composition of ESH staff with associated conflicts of interest.

PAC noted the DfID support to ESH Phase 2 was for a period of 3 years at £4.9m. Management had sought a longer funding agreement of 5 years at £8.4m.

### **Recommendations**

In relation to its scrutiny of ESH financial statements for the year ended 31 March 2017, **PAC recommends that:**

1. ESH Board take ownership of the PAC recommendations addressed to ESH and focus on clearing those long outstanding items.

2. ESH should appoint independent non-executive directors on the Board of Bertrand's Cottage Ltd and avoid any conflicts of interest.
3. ESH should review the accounting treatment of grant funded capital works so that the financial statements of ESH properly recognise the right obligations and service potential accruing from these assets.

#### **4. Bank of St Helena Ltd (BOSH) - 2016/17 Audited Annual Financial Statements**

The following persons attended to answer questions in respect of the BOSH:

- Chairperson – Ms Helena Bennett
- Managing Director (Designate) – Mrs Josephine George
- Deputy Managing Director – Mrs Lee-Ann Henry
- Finance Officer – Ms Lisa Ryan
- IT Officer – Mrs Kim Francis

The audit of the BOSH financial statements for the year ended 31 March 2017 was completed on 11 September 2017 under the Financial Services Ordinance 2008 and the Companies Ordinance 2004. The audit was completed by Moore Stephens LLP, as appointed external auditor to the Bank.

The audited financial statements were referred to PAC as a matter of importance by the Chief Auditor under Standing Order 23 Rule 2 (a) (iv).

PAC enquired on the following issues from BOSH management:

- Any matters of significance raised in the Auditor's Management Letter to the Board.
- Any significant matters raised by the BOSH's Internal Auditor to Management and the Board.
- Whether the BOSH has an Audit Committee and whether its members sit on the Board.
- The reason for the decrease in the percentage of profit on ordinary activities from the prior year even though there was an increase in total income.
- The impact on utility costs from the introduction of new automated systems.
- The reason for increase in overall staff numbers from 45 to 47 given that the bank is implementing automation.
- The number of people in the Ascension branch and the cost of the branch's upkeep.
- The implications on staffing from the implementation of automation.
- The governments that is included in the customer current and depositor's accounts analysis amounting to £10.5m.
- Any practical impact on the BOSH if dividends were to be distributed.

- How the BOSH has ensured continuity and minimal disruption of operations due to the management and director movements.
- How non-executive director positions within the Board are appointed ensuring that necessary skills for oversight are available and the remuneration paid to Non-executive Directors.
- How the Board manages the potential conflict of interest with the CEED being a Director, as well as serving on ESH which may refer persons to the Bank for commercial lending.
- Whether there is a bonus scheme for Senior Management and Directors and whether any of these bonuses are performance related.
- The scales of charges for using debit cards and what gets charged to the business and potential customers.
- How the return on investment will be achieved, on the system, on the investment (debit cards).
- How the payment process works regarding the debit card and if there are any costs that could potentially prohibit the use of this service continuing.
- An explanation on the delay in the implementation of the international pre-paid cards and the likely date of implementation.
- Whether the BOSH is still pursuing the issue of ATMs on the island.
- Whether SHG has communicated its future strategy with respect to the St Helena Government shareholding in the BOSH and has there been any exploration of options for disposal or dilution of shareholding through an independent public offering.
- Whether the Bank of St Helena, Enterprise St Helena and St Helena Government has considered partnerships that will see the ESH advisors and SHG representatives' abroad assisting bank clients that may be experiencing complications with their bank cards and bank queries.
- Any structured training programme that the BOSH might offer its staff members that will lead to a professional qualification.
- Based on the global economic climate, Brexit and everything else, would there ever be a chance of the interest rate dropping to zero.
- PAC was also interested in who handles the BOSH's investments.

PAC received explanations and assurances for the above mentioned enquiries from BOSH management and these have been recorded in the 15th May 2018 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

In addition to the verbal evidence BOSH management committed to provide written responses for the following matters where they could not provide responses to the PAC:

- Provide information to PAC regarding countries or territories listed as comprising Government in the financial statements.

### **Main conclusions**

PAC were concerned to learn that the profit share for directors and staff was linked to the Bank securing an unqualified opinion on the financial statements. This presents an ethical conflict in the audit process as directors and staff have a direct pecuniary interest in securing a favourable outcome.

PAC noted the shareholder representative directors were the Financial Secretary and the Chief Executive of Economic Development. The process by which these directors receive their instructions and the management of conflicts of interest in their responsibilities to the BOSH, SHG and ESH respectively was unclear.

PAC identified that there had been no clear communication between SHG and the Board regarding the expected financial performance or its dividend, or indeed its strategy with regard to the SHG £6m shareholding in the Bank.

PAC noted the Bank had invested some £230k in technology to introduce the local debit card with expected return on investment from internal operational efficiencies and transaction fees. Solomon's as the largest merchant had not accepted the card when the entity was majority owned by Government – this appeared contradictory in terms of governance and strategy. The system of charges for card transactions and for the bank transfers also seemed to be causing unintended consequences, with customers reverting to cash and thereby defeating the savings in transaction processing efficiency, the card was intended to achieve.

PAC were also concerned at the extended delay in the introduction of the proposed international bank card which would help resolve the issue of foreign currency being available when travelling overseas.

### **Recommendations**

In relation to its scrutiny of BOSH financial statements for the year ended 31 March 2017, **PAC recommends that:**

1. BOSH Board removes the link between the pay bonus and the audit report and looks instead at alternative performance measures.
2. BOSH review the performance and operational resilience of the local debit card scheme and make changes necessary to improve take-up and realise the operational efficiencies of electronic transaction processing.
3. BOSH look to introduce the international pre-paid card as soon as possible to alleviate the practical difficulties of exchanging local currency for travel overseas.
4. SHG articulates strategic direction and performance expectations for the Bank and determines distribution of retained earnings as dividend.
5. SHG review the whole appointment process for Executive Directors and Non-Executive Directors across the SHG controlled entities, consistent with the Chief Auditors report on the Governance of SHG Group Entities.

### **3. Concluding Remarks**

PAC acknowledges the work of the Chief Auditor and staff of the St Helena Audit Service and attending officers of St Helena Government in assisting with this sessional report.

This sessional report on PAC proceedings held on the 14<sup>th</sup> and 15<sup>th</sup> of May 2018 is hereby authorised for issue to Legislative Council in accordance with section 69 (8) of the Constitution of St Helena.

Cyril (Ferdie) Gunnell  
Chairman  
8<sup>th</sup> October 2018