

**Memorandum for Executive Council**

**SUBJECT**                                 **Establishment of a new Special Fund – Internal Audit Service  
Special Fund**

Memorandum by The Financial Secretary

**ADVICE SOUGHT**    **1. Executive Council is asked to consider and approve the establishment of a new Special Fund for the management of the trading activities of the SHG Internal Audit Service.**

**BACKGROUND & CONSIDERATIONS**    **2. The Internal Audit function within the St Helena Government (SHG) has been in existence for over 30 years, initially as part of the St Helena Audit Service (SHAS) which supports the Chief Auditor and later as a separate service within Corporate Services. Internal Audit contributes to achieving the “Effective, Efficient and Accountable Public Sector” goal.**

**3. The appointment of a Group Head of Internal Audit & Risk (GHIAR) in the Internal Audit Unit was done so that SHG could expand the provision of internal audit services to its owned entities while making the best use of scarce skills on the island. This has been identified by two entities trying to hire Internal Auditors without success in the earlier part of 2019. This change would allow for the GHIAR to sign Service Level Agreements (SLA) with each of the various entities/bodies to provide services. There are ten entities identified where the Internal Audit Service could potentially offer internal audit services.**

**4. Section 3(3) of the Public Finance Ordinance states that “The Governor may by order establish Special Funds for the purpose of managing government trading activities.”**

**5. With the Internal Audit Service potentially expanding its services to clients outside of St Helena Government, the establishment of a Special Fund to manage the trading activity is necessary for good financial management over the public funds associated with this activity.**

**6. Establishing a Special Fund Trading Account would allow greater flexibility in terms of resource as long as the Special Fund is generating sufficient revenue to meet the expenses. This will provide extended and improved assurance to SHG and its**

entities that will improve the ability to attain their goals and objectives. More resources means more hours available to perform the work to provide greater assurance to SHG.

7. The Special Fund Trading Account will also increase the independence of the Internal Audit function from other service areas within SHG. The Internal Audit budget currently sits within the Corporate Support budget but establishing the Special Fund will now allow the GHIAR as the Accounting Officer, enhanced financial independence. The Special Fund will also provide greater financial transparency and accountability in the management of the Internal Audit services.
8. Section 4(1) provides that *“The purpose of each Special Fund must be prescribed by the order establishing the Fund, and the order may contain provisions as to the management of the Fund, including the procedures for authorising payments from the Fund. Subject to any such provisions, Special Funds are to be managed in accordance with Financial Regulations.”*
9. The purpose of the Fund will be to manage the expenditure of the Internal Audit Unit of Corporate Services and the revenues from charges for services provided to any entity and to receive a contribution by SHG to its operations as agreed based on the work to be performed.
10. It is recommended that as part of the conditions that the management of the Special Fund and any funds received and disbursed shall be in accordance with and comply with the requirements of the Financial Regulations and Procurement Regulations of SHG.
11. It is also recommended that the Accounting Officer for the Internal Audit Service Special Fund shall be the Group Head of Internal Audit & Risk or equivalent position in the future.
12. A draft Establishment Order is attached for consideration as Annex A.
13. If the establishment of this Special Fund is not approved the Internal Audit Service will have to rely on the current budget process through legislative appropriation to manage their costs throughout the year. This will mean reliance on the supplementary appropriation process to adjust expenditure in the year resulting from changes to revenue generated. For a trading activity this is substantially limiting and places significant constraints on their ability to adapt and meet demand for their services particularly with regard to staffing resources.

**FINANCIAL  
IMPLICATIONS**

14. There are no significant financial implications or risks associated with the establishment of this Special Fund. The Accounting Officer will have responsibility for ensuring that expenditure is recovered through the fees that are charged or contributions received.
15. The Accounting Officer must provide a three year rolling annual budget in line with the MTEF process for scrutiny and clearance before any expenditure can be committed. The Accounting Officer will also ensure that any anticipated significant variances are brought to the attention of the Financial Secretary in accordance with the provisions of the Financial Regulations.
16. The Trading Account's main sources of funding will be as follows:
- Receive agreed contribution from SHG for the Internal Audit and Risk work performed for the financial year under review;
  - Receive amounts for services rendered to other entities based on the time and resources utilised during the audit work and attendance of meetings; and
  - External funding provided for specific training or development events.
17. SHG would be expected to continue to make a contribution to the Special Fund as has been the norm on an agreed upon basis with the GHIAR for the services that are provided to SHG. This is expected to initially be in line with the current IA funding provision of £37,000. Moving forward funding will be earmarked under Head 17 *Payments on behalf of the Crown* to transfer to the Special Fund on an annual basis from next financial year.

**ECONOMIC  
IMPLICATIONS**

18. There are no direct economic implications in establishing this new Special Fund. This is a financial management mechanism that increases transparency and allows greater accountability.

**CONSISTENCY  
WITH  
INVESTMENT  
POLICY  
PRINCIPLES**

19. N/A

**PUBLIC / SOCIAL  
IMPACT**

20. There are no public or social impacts associated with this decision.

**ENVIRONMENTAL  
IMPACT**

21. There are no direct environmental impacts associated with this decision.

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**PREVIOUS  
CONSULTATION /  
COMMITTEE  
INPUT**

22. There has been no previous Committee consultation as this is not a policy matter but financial management action.

**PUBLIC  
REACTION**

23. It is not anticipated that there will be notable reaction from the public. This a housekeeping exercise ensuring that the structure of Public Funds reflect the needs of SHG. The public will be assured that SHG are proactively managing public finances in a way that this transparent and allows greater accountability.

**PUBLICITY**

24. It is proposed that mention should be made in the ExCo Report and associated broadcast.

**SUPPORT TO  
STRATEGIC  
OBJECTIVES**

25. This paper supports the following national goal and strategic objective:

- 6. Effective Efficient and Accountatble Public Sector.
- 6.1 Ensure effective governance through efficient and effective systems and processes

**LINK TO  
SUSTAINABLE  
ECONOMIC  
DEVELOPMENT  
PLAN GOALS**

26. N/A

**OPEN /CLOSED  
AGENDA ITEM**  
Corporate Finance  
Corporate Services

27. It is recommended that this is held in open session.

*DLR*

*18 June 2019*