

# 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 4<sup>th</sup> of February 2019

### 1. Introduction

In accordance with section 106(2) of the Constitution of St Helena, the Public Accounts Committee (PAC) hereby reports to Legislative Council on the Formal Session of the Committee, held on the 4<sup>th</sup> of February 2019, to examine the Statement of Expenditure in Excess for 2017/18.

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

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

A transcript of these proceedings can be found on the SHG website and in the Public Library.

### 2. Order Paper – First Session 2019

PAC held a formal meeting on the 4<sup>th</sup> of February 2019 where the following matters regarding Expenditure in Excess, 2017/18, were discussed:

- I. Chairman's Address
- II. Corporate Finance
- III. Health Directorate
- IV. Education Directorate
- V. Environmental and Natural Resources Directorate
- VI. Safeguarding Directorate

## **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; thanks were also extended to South Atlantic Media Services (SAMS) for broadcasting the formal hearing live.

The Chairman highlighted that this was the first formal session of PAC for 2019 and explained that PAC is established by section 69 of the Constitution and operates under Standing Order 23 of Legislative Council. The primary function of PAC is to objectively scrutinise the Government's stewardship of the public purse and it has the power to call any person to give evidence orally, after which the PAC reports its findings to Legislative Council. He added that PAC is protected to act independently and is not subject to the direction or control of the Governor, the Executive Council, or any other body or authority.

Through these statutory provisions the scrutiny role of PAC serves as a mainstay of good governance, holding Government and other public bodies to account. The importance of PAC in ensuring openness and transparency in public financial management has been recognised by the UK Overseas Territories Joint Ministerial Council in partnership with the Foreign & Commonwealth Office. Indeed St Helena had benefitted directly from a funded technical assistance programme led by the UK CPA over the previous two years. The training and development initiatives included funded visits to Westminster and the Isle of Man PAC and the St Helena attachment of the PAC Clerk from the National Assembly for Wales.

Furthermore the Chairman was pleased to advise that St Helena will again be represented at the second UK Overseas Territories PAC forum in March 2019. The forum will report on the project impact to date and help shape the next phase of technical assistance in this key area of ensuring good governance, through effective parliamentary oversight and audit.

The Chairman further highlighted that in developing local arrangements to accord with published best practice, it has become apparent the PAC statutory framework in St Helena is in serious need of reform, in following the public pound beyond the Government and through to statutory bodies and public corporations. Some planned PAC enquiries in 2018 were frustrated by the absence of powers to examine the accounts and operations of corporations in public ownership. Thus a motion will be put to the next Legislative Council to give the clear mandate to bring legislation forward to update the statutory basis for the operation of an effective PAC.

The Chairman acknowledged the work of the Chief Auditor, Mr Phil Sharman, as the Professional Advisor working closely with the Head of Audit Services, Mr Anesu Makamure and with Committee support through Miss Anita Legg as Clerk.

To ensure the PAC operated independently and free from any bias or conflict of interest, the Chairman advised that arrangements had been made for temporary members to cover for members conflicted by the item of business under scrutiny.

For the Education head of expenditure:

Councillors Cruyff Buckley, Cyril Leo and Gavin Ellick substituted for Councillors Clint Beard, Brian Isaac and Corinda Essex who are all members of the Education Committee. In addition Mrs Pamela Ward Pearce substituted for independent member Mr Mark Yon, who provides services to the Education Directorate.

For the Health head of expenditure:

Councillor Gavin Ellick substituted for Councillor Brian Isaac who is the Deputy Chair of the Public Health Committee.

For the Environment & Natural Resources Directorate (ENRD) head of expenditure:

Councillor Kylie Hercules substituted for Councillor Corinda Essex who is the Deputy Chair of the Environment and Natural Resources Committee.

The Chairman moved on to the programme of business for the day, being focused upon scrutiny of the St Helena Government Statement of Expenditure in Excess for 2017/18.

Government of St Helena sets a budget each year which is approved by Legislative Council, giving Accounting Officers the express authority to incur expenditure in the provision of public services to the approved budget limit on each head. Where at the end of the financial year the approved limit is exceeded for whatever reason, the constitutional provisions in Section 106 require the Financial Secretary to prepare a Statement of Expenditure in Excess. The Financial Secretary laid the Statement of Expenditure in Excess as Sessional paper 46/18 at the Legislative Council meeting held on 26<sup>th</sup> October 2018, which was then referred directly to PAC for examination and to report to Legislative Council within six-months. This examination was the subject of the hearing relating to four directorate heads.

## II. Corporate Finance

The following persons attended to answer questions in respect of Corporate Finance:

- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon

PAC enquired on the following issues from SHG management:

- The nature of the Expenditure in Excess arising in the year 2017/18 as set out in Sessional Paper (SP) 46/18 under the various directorate heads;
- How these amounts were incurred by the directorate Accounting Officers without cover of an appropriation;
- How unauthorised capital expenditure had arisen on three of the excess heads and what appropriation had been made for capital expenditure in the budget for 2017/18;
- Whether this indicated there was a problem in the budgeting for revenue and capital expenditure for 2017/18 year;
- The time at which the Financial Secretary was notified of expenditures in excess as required by section 12(2)(i);
- The Public Finance Ordinance section 11(1)(h) states that the Financial Secretary shall report to the Governor, in writing, any apparent defect that comes to his or her notice concerning any financial related matter, PAC were interested as to whether the Governor had been notified in writing of the breakdown of controls that resulted in Expenditure in Excess in the 2017/18 financial year;
- The Public Finance Ordinance section 19(1)(a) provides the Financial Secretary with power of surcharge where an officer is or was responsible for any improper payment of public money (including payments in excess of appropriation) or for the payment of any money which were not duly vouched and PAC queried if the Financial Secretary had considered whether the circumstances giving rise to these Excess Expenditures would warrant recovery through surcharge under section 19;
- The follow-up to previous PAC recommendations on Expenditure in Excess for the 2016/17 financial year:
  - An explanation on what actions had been taken in respect of the 14 separate PAC recommendations in SP 38/18;
  - The subsequent formal Government response to the PAC recommendations contained in SP 48/18 as laid before Legislative Council;

- Whether the Financial Secretary was satisfied that Accounting Officers have learned lessons from the overspending noted in 2016/17 and taken heed of the PAC recommendations;
- Whether the Financial Secretary would commit to responding promptly to recommendations coming forward from this current scrutiny of the 2017/18 Expenditure in Excess.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 4<sup>th</sup> February 2019 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

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

### **Main conclusions**

The Financial Secretary gave PAC context to the Expenditure in Excess for 2017/18 which represented recurrent expenditure on the Health Head relating to medical referrals overseas and capital expenditure on three other Heads.

The Financial Secretary explained there was no capital budget authorised for 2017/18 in the original appropriation ordinance as SHG was unable to proceed with a new capital programme for 2017/18 year without support from DFID. All in-year capital expenditure at Directorate level would need to be subsequently authorised through supplementary appropriation. In total some £474,000 was approved for capital purpose although final capital expenditure amounted to £570,000.

The Financial Secretary further explained that the prime reason for the excess expenditure on capital was due to recurrent expenditure being identified when the financial statements were prepared and then properly reclassified as capital expenditure in the accounts. Since the accounts are prepared after year-end the opportunity to authorise this expenditure through supplementary appropriation had lapsed.

In questioning, the Financial Secretary advised that the Governor had been made aware of these excess heads and further had satisfied himself that recovery through surcharge was not appropriate in these instances.

With these capital expenditures aside PAC were pleased with the overall reduction of excess votes on recurrent heads – indicating that steps had been taken to better monitor and manage in-year expenditure in context of budgetary authorisation.

PAC also noted that the Financial Secretary had presented in SP 48/18 the Government response to PAC recommendations arising from examination of Expenditure in Excess for 2016/17. PAC were content to accept the proposed responses as outlined in the paper and allow their implementation to be tracked through the official register maintained by the Financial Secretary.

## **Recommendations**

In relation to its scrutiny of the Corporate Finance Services' Expenditure in Excess for the year ended 31 March 2018, **PAC recommends that:**

- The Financial Secretary introduce measures to identify capital expenditure when preparing budget estimates and during the financial year by reference to the contracts register and through other means.

### III. Health Directorate

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

- Director of Health – Dr Akeem Ali
- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon

PAC enquired on the following issues from SHG management:

- The nature of the Expenditure in Excess arising in the year 2017/18 for the Health Directorate and why it incurred;
- The point at which the Health directorate had identified they had expenditure in excess and had notified the Financial Secretary that services could not be delivered within the limit of the appropriation, as required by section 12(2)(i);
- The kind of controls that are in place in the Health Directorate to ensure that the directorate does not overspend where the costs are demand led;
- Any parallels that could be drawn on Health overspend on medical referrals in the prior year 2016/17;
- The trend with medical referrals overseas in terms of numbers and cost per case;
- Whether the head was again subject to a withdrawal warrant, which was purportedly the cause of the overspend in 2016/17;
- Whether the review of the MSO Contract, as recommended, had been completed and the conclusions that were reached;
- The steps that had been taken to address the recommendations of the PAC on Health in respect of the prior year excess expenditure:
  - That Health Directorate develop an estimation model that will ensure that their budget is adequate for the entire financial year; and
  - That Health Directorate prepare due diligence papers to support withdrawal warrants in future so as to avoid the directorate having expenditure in excess.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 4<sup>th</sup> February 2019 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:

- The basis on which Health forecasts their budget, a breakdown of costs used to calculate projections of medical referrals.
- In terms of the trend with medical referrals, the exact numbers per year in comparison.

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

### **Main conclusions**

The original Health Directorate budget allocation of £6.141m on Health Head 23 was reduced to £5.449m through reallocating £0.342m recurrent to capital and removing £0.350m through withdrawal warrant. In the end the recurrent head was overspent by £10,404 and capital head underspent by £86,000.

The cause of the overspend on the recurrent head was in respect of overseas medical referrals. The Director explained that improved controls have been established to better plan and manage this demand led expenditure, given the overspends seen in prior years. However the withdrawal warrant issued on March 2018 removed £350,000 from the Health budget immediately before year-end.

The Director asserted that expenditure on overseas referrals is trending downward reflective of more treatment being performed on Island – including joint replacement and chemotherapy. However more complex cases are now being referred offshore so the average cost per case is increasing.

The Director advised he had taken heed of PAC recommendations made in prior years and has:

- Completed a review of the MSO contract and reported the results to the Public Health Committee;
- Established an estimation model for improved budget planning and forecasting;
- Supported the withdrawal warrant with a due diligence on sufficiency of residual budget.

In the final analysis PAC questioned whether the withdrawal warrant was appropriate when the medical referrals budget had again come under pressure at year-end.



## Recommendations

In relation to its scrutiny of the Health Directorate's Expenditure in Excess for the year ended 31 March 2018, **PAC recommends that:**

- The excess expenditure on Head 23, Health, for Recurrent Expenditure of £10,404 for the 2017/18 financial year is recommended to be allowed to stand charged to public funds

#### **IV. Education Directorate**

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

- Acting Director of Education – Mrs Wendy Benjamin
- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon

PAC enquired on the following issues from SHG management:

- The nature of the Expenditure in Excess arising in the year 2017/18 for the Education Directorate and why it incurred;
- The point at which the directorate determined these items of capital expenditure had been incorrectly treated as recurrent expenditure;
- An explanation on how this situation could have occurred;
- Why supplementary appropriation had not been sought in advance for these capital items;
- Whether the Education budget estimates for the 2017/18 year were incorrectly prepared by including capital expenditure within the recurrent estimates;
- Whether any provision had been allocated for capital expenditure to the Education directorate;
- The time at which the Financial Secretary was notified of this problem as required by section 12(2)(i);
- Whether any steps had been taken to avoid a recurrence of this situation during the current financial year.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 4<sup>th</sup> February 2019 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:

- Other costs associated with the purchase, as it was assumed this was a large scale project and whether they had been correctly classified.

- Costs associated with cabling the other two primary schools and whether the expenditure was also classified correctly and had occurred in the same Financial Year.

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

### **Main conclusions**

Head 22: Education had no capital budget allocation for 2017/18 financial year. At the year-end the head had incurred capital expenditure of £34,304 without budgetary authorisation. The recurrent budget was underspent by £65,000 at year-end.

The cause of the overspend on the capital head was in respect of IT servers and network installations to support the Primary Schools and Community College. Although this equipment and associated works was identified after year end to be of a capital nature, the Acting Director of Education explained that no capital budget allocation had been sought by the Directorate either in original or supplementary estimates.

It emerged in evidence that the expenditure reported in SP 46/18 related to network installation at Pilling Primary School, this being the third school to be networked. PAC enquired as to where the expenditure had been booked in respect of the other two primary schools being Harford and St Pauls.

The work had been awarded through a procurement and contracting process leading to an external contractor being appointed. This should have alerted the Directorate and the Financial Secretary to works involved being of a capital nature as opposed to a charge against recurrent budget.

### **Recommendations**

In relation to its scrutiny of the Education Directorate's Expenditure in Excess for the year ended 31 March 2018, **PAC recommends that:**

- The excess expenditure on Head 22, Education, for Capital Expenditure of £34,304 for the 2017/18 financial year is recommended to be allowed to stand charged to public funds.
- The Director of Education introduce measures to ensure the correct classification of capital and revenue expenditure when preparing the budget estimates and in the recording of transactions.

## **V. Environment and Natural Resources Directorate (ENRD)**

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

- Director of ENRD – Mr Derek Henry
- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon

PAC enquired on the following issues from SHG management:

- The nature of the Expenditure in Excess arising in the year 2017/18 for the ENR Directorate and why it incurred;
- The point at which the directorate determined these items of capital expenditure had been incorrectly treated as recurrent expenditure;
- An explanation on how this situation could have occurred;
- Why supplementary appropriation had not been sought in advance for these capital items;
- How this situation could have occurred across so many obvious items of capital expenditure;
- Whether the items listed were just the excess amounts, or the total amounts incurred on these contracts;
- Whether the excess expenditure was the result of waste, inefficiency, or works contracts spiralling out of control during the year;
- Whether the ENRD budget estimates for the 2017/18 year were incorrectly prepared, by including capital expenditure within the recurrent estimates;
- The time at which the Financial Secretary was notified of this problem as required by section 12(2)(i);
- Whether any steps had been taken to avoid a recurrence of this situation during the current financial year.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 4<sup>th</sup> February 2019 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

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

## Main conclusions

Through supplementary appropriation Head 26: ENRD had £49,000 capital budget for 2017/18. At the year-end the head had capital expenditure of £203,190 in excess of budgetary authorisation by £154,190. The ENRD recurrent budget was underspent by £253,000 at year-end.

The cause of the overspend on the capital head was in respect of a range of building and other works identified after year end to be of a capital nature. The Director of ENRD explained that the allocation sought by the Directorate either in original or supplementary estimates was insufficient to meet this expenditure.

From the enquiries of PAC it should have been evident that these works were either new installations or renewals rather than repairs and maintenance and therefore should have been accounted for as capital at the outset. These examples included:

- Refurbishment of Public Housing £49k
- Installation of electricity services at the Hydroponic Units at Longwood £16k
- Improvement in ambulance access at the hospital £24k
- Swimming Pool building works £54k

Some works would have been undertaken through a procurement and contracting process leading to an external contractor being appointed. This should have alerted the Directorate and the Financial Secretary to works involved being of a capital nature as opposed to a charge against recurrent budget.

In respect of the Swimming Pool the PAC heard the total expenditure on the works had been in excess of £200k being part financed from Corporate Finance and the remainder from ENRD. ENRD had accounted for £54k in this instance.

The Director advised he had taken heed of PAC recommendations made in prior years and in conjunction with the Financial Secretary is looking to establish trading accounts for ENRD services of a commercial nature.

## Recommendations

In relation to its scrutiny of the Environmental and Natural Resources Directorate's Expenditure in Excess for the year ended 31 March 2018, **PAC recommends that:**

- The excess expenditure on Head 26, Environmental and Natural Resources Directorate, for Capital Expenditure of £154,190 for the 2017/18 financial year is recommended to be allowed to stand charged to public funds.

- The Director of ENRD introduce measures to ensure the correct classification of capital and revenue expenditure when preparing the budget estimates and in the recording of transactions.

## **VI. Safeguarding Directorate**

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

- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon

PAC enquired on the following issues from SHG management:

- The nature of the Expenditure in Excess arising in the year 2017/18 for the Safeguarding Directorate and why it incurred;
- The point at which the directorate determined that capital expenditure on the particular item of equipment exceeded the authorised amount of £6000;
- Why the amount sought under supplementary appropriation was insufficient for the purchase;
- The time at which the Financial Secretary was notified of this problem as required by section 12(2)(i);
- Whether any steps had been taken to avoid a recurrence of this situation during the current financial year.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 4<sup>th</sup> February 2019 Transcript that can be found on SHG's website (<http://www.sainthelena.gov.sh/public-accounts-committee/>).

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

### **Main conclusions**

Through supplementary appropriation the Head 29: Safeguarding had £6,000 capital budget for 2017/18. At the year-end the head had capital expenditure of £6,399 in excess of budgetary authorisation by just £399.

The Deputy Financial Secretary explained the cause of the overspend on the capital head was because the supplementary appropriation was rounded down to £6,000 whereby the actual expenditure had exceeded this amount when measured to the pound.

From the enquiries of PAC the validity of the capital expenditure on a specialised mobility equipment was not in any doubt.

## Recommendations

In relation to its scrutiny of the Safeguarding Directorate's Expenditure in Excess for the year ended 31 March 2018, **PAC recommends that:**

- The excess expenditure on Head 29, Safeguarding Directorate, for Capital Expenditure of £399 for the 2017/18 financial year is recommended to be allowed to stand charged to public funds.



### **3. Concluding Remarks**

The PAC acknowledges the attending officers of SHG, in giving evidence in response to lines of enquiry, and the assistance of the Chief Auditor, the Clerk and the Head of Audit Services, in the production of this sessional report.

This report on PAC examination of Expenditure in Excess for 2017/18 is hereby authorised for issue to Legislative Council pursuant to section 106(2) of the Constitution of St Helena.

Cyril Gunnell  
Chairman

18 February 2019