AUDIT ST HELENA
External Auditors

MANAGEMENT LETTER

FINANCIAL STATEMENTS 2018-19

To the Executive Council of St Helena Government

25/03/2020

CONTENTS

INTRODUCTION

As the external auditor of Saint Helena Government (SHG), I am required by section 29(1) of the Public Finance Ordinance (the Ordinance) to report to Legislative Council (LegCo) my findings from the audit of the Financial Statements of SHG.

The purpose of this report is to summarise for LegCo the key issues arising from my audit of the Financial Statements for the year ended 31 March 2019 and report any significant accounting matters or weaknesses in internal controls that have come to my attention during the audit.

An advance version of this Management Letter was reported to the Financial Secretary and Executive Council (ExCo) to discharge my responsibilities under ISA 260, *Communication with Those Charged with Governance,* prior to final submission to LegCo in accordance with section 29(1)(c) of the Ordinance.

AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the Financial Statements present fairly the financial position of St Helena Government at 31 March 2019 and of its financial performance and cash flows for the year then ended, confirm that expenditure and income has been applied to the purposes intended, and the Financial Statements are prepared in accordance with all relevant laws and policies.

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

- Examine, on a test basis, evidence relevant to the amounts and disclosures in the Financial Statements.
- Assess any significant estimates and judgements made by SHG in the preparation of the Financial Statements.
- Assess whether the accounting policies are appropriate to SHGs circumstances, consistently applied and adequately disclosed.
- Evaluate the overall adequacy of the presentation of information in the Financial Statements to ensure compliance with International Public Sector Accounting Standards (IPSAS).
- Report my opinion under section 29(1)(b) that:

  (A) The accounts properly present the financial position of the Government, as at the end of the financial year then ended; and

  (B) In all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and

  (C) The accounts and financial statements have been prepared in accordance with all relevant laws and policies.

- Report such other information as I consider necessary or appropriate to assist you in your consideration of the Government's accounts for that financial year.
- Submit to LegCo an annual Management Letter on the audit.

My audit methodology is based on the UK Overseas Territories Financial Audit Manual, which has been developed by the National Audit Office (NAO) to be compliant with 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 SHG who should not rely on the external audit function to discharge these responsibilities.

AUDITOR INDEPENDENCE

In performing my audit I confirm I have complied with relevant ethical requirements specifically the *International Code of Ethics for Professional Accountants* (IESBA Code) issued by the International Ethics Standards Board for Accountants.

The following circumstances may present a perceived threat to the independence of Audit St Helena:

- The audit of the SHG financial statements accounts for more than 25% of the annual fee income for Audit St Helena.
- I am appointed by HE the Governor, with the approval of the Secretary of State, and my staff are appointed on the same terms and conditions of service as other public servants of SHG.

The threats to independence in respect of the Financial Statements audit are reduced to an acceptable level through statutory protections enshrined in the Saint Helena Constitution, in which the Chief Auditor and his staff are not subject to the direction or control of the Governor, ExCo or any other person or authority.

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

INDEPENDENT AUDITOR'S REPORT

At the conclusion of the audit I issued my Independent Auditor's Report (my Report) on the Financial Statements – the auditor's report is the key output of the audit process. The form of my Report is prescribed by ISA 700 (Revised) – *Forming an Opinion and Reporting on Financial Statements.* This revised standard was applied to my reporting for the previous two years and is maintained in this form for 2018/19.

My Independent Auditor's Report therefore includes:

- Opinions followed by the basis for those opinions
- Enhanced reporting on going concern
- Key audit matters
- A section on other information presented with the Financial Statements
- An affirmative statement on independence and ethical compliance

- An enhanced description of auditor responsibilities

The structure of my Report clearly separates my reporting on the audit of the Financial Statements performed under the ISAs from my reporting on any other audit matters arising from my responsibilities under statute – specifically the Public Finance Ordinance.

As explained in the above section on audit objectives my Report contains three opinions as required by section 29 of the Ordinance:

- Opinion on fair presentation of the accounts
- Opinion on regularity of expenditure and revenue
- Opinion on compliance with statutory authorities

For the financial year ended 31 March 2019 my Report is qualified on fair presentation and regularity of expenditure. I have no matters to report on compliance with statutory authorities.

Without further qualifying my Report I also draw attention to a material uncertainty on going concern.

The form of my Independent Auditor's Report containing these opinions and other reporting matters is included in Appendix A. The signed copy of my Report [dated] is published with the SHG Financial Statements for the 2018/19 financial year.

CIRCUMSTANCES AFFECTING THE AUDITOR'S REPORT

LEGACY ISSUES

As explained more fully in the section below on significant issues which remain unresolved the following matter reported in the prior year, and causing modification of the 2017/18 Auditor's Report, also pertains to the current year 2018/19:

- Infrastructure valuation – recognition of aid-funded infrastructure assets at fair value

Consistent with prior year my Report is also modified without qualification on the going concern basis of preparation. Note 9.1.2 explains that the principles for bilateral financial support are described in a Memorandum of Understanding (MOU) for the three year period 2019/20 to 2021/22. However a material uncertainty arises in that financial aid for the forward period 2020/21 has yet to be formally confirmed in a Letter of Amendment from DFID.

However, the following three qualifications reported in prior year are now released as follows:

- Special Funds – assurance secured on the completeness and accuracy of the special fund balances for DFID and EDF including prior period adjustments in Note 11.15.2.1
- Non-current investments – assurance secured on the reported ownership interest in the Bank of St Helena Ltd in Note 11.2.2
- Customs revenues – assurance secured on the completeness and accuracy of revenues recognised in Note 10.1 by reconciliation with the ASYCUDA system

The clearance of these legacy qualifications is further detailed in the section below on significant accounting matters reported in prior years that were resolved by management.

NEW ISSUES

There is one new issue arising in 2018/19 concerning the regularity of expenditure causes qualification of the regularity opinion in my Report under section 29(1)(b)(B).

Section 17 of the Public Finance Ordinance requires that any write-off of assets exceeding £50,000 is required to be authorised by the Secretary of State. This authorisation had not been obtained and accordingly the impairment expense Note 11.8.2 in the amount £1.346m and charged to the Statement of Financial Performance does not conform to the statutory authority which governs it.

The fair presentation of the financial statements is not affected by this qualification which is further described in the section on other matters.

MISSTATEMENTS IDENTIFIED DURING THE AUDIT

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

However, I have identified risk of misstatement arising from limitation of scope, with potential for material effect, and which remain uncorrected. Further work would be required to quantify more precisely their impact on the Financial Statements. These unadjusted misstatements are described in the section on unresolved matters below and are detailed in Appendix C.

SIGNIFICANT FINDINGS FROM THE AUDIT

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICE

FINANCIAL REPORTING FRAMEWORK

Section 10(1) of the Ordinance requires that the annual Financial Statements of Government are prepared in accordance with IPSAS. The Financial Statements for the year 2018/19 are the eight year of reporting on an accruals basis using IPSAS. The matters reported in this Management Letter relate to the 2018/19 Financial Statements draft version 2 submitted for audit on 20 October 2019 with supporting schedules for audit.

Note 9.1 sets out the basis of preparation of the Financial Statements and explains that these separate Financial Statements comply with IPSAS. The preparation of separate Financial Statements of Government in accordance with IPSAS 34, *Separate Financial Statements,* and the disapplication of IPSAS 35 is lawful under section 10(2) of the Public Finance Ordinance.

In overall terms, and significantly through clearance of prior year qualifications, these Financial Statements have maintained the trend of improvement in presentation and disclosure in accordance with the IPSAS financial reporting framework.

GOING CONCERN

The SHG recurrent budget for 2018/19 originally set at £40.856m was underpinned with £27.1m grant-in-aid from Department for International Development (DFID). I have therefore considered management's assessment that SHG, as an economic reporting entity is a going concern. In determining whether the going concern basis of preparation remains appropriate management are required to look at minimum 12 months from the date of approval of the Financial Statements.

The commitment of United Kingdom (UK) aid to St Helena through DFID in the form of financial support and technical cooperation is formalised in a bilateral agreement memorandum of understanding (MOU) covering the three-year period 2019/20 to 2021/22. For the financial year 2020/21 DFID have communicated approval in principle to continuing financial support of £31.79m although these details remain to be formalised in a Letter of Amendment. The Financial Secretary will then present budget estimates for 2020/21 for Legislative Council to consider an Appropriation Bill.

The economic conditions in St Helena are such that SHG is unable to function without continued bi-lateral support in the form of UK Aid funding. The existence of the three-year MOU giving commitment to continued bi-lateral aid underpins management's use of the going concern basis of accounting. However the absence of the formal Letter of Amendment confirming the support for 2020/21, gives rise to a material uncertainty which is properly disclosed in Note 9.1.2 to the Financial Statements.

Where a material uncertainty related to going concern is adequately disclosed, ISA 570 *Going Concern* requires the auditor to express an unqualified opinion but with a separate section to emphasise the disclosure of the material uncertainty related to going concern.

DIFFICULTIES ENCOUNTERED DURING THE AUDIT

TIMELINESS OF REPORTING

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

The financial statements for 2015/16 were reported for the first-time within nine-months of the financial year-end. That significant achievement was the culmination in an aid-funded programme to clear the backlog in the preparation and audit of public accounts in St Helena.

In the two subsequent years 2016/17 and 2017/18 that reporting timeline has proven more difficult to achieve. Indeed my previous two Management Letters reported on the delay in the preparation of Financial Statements, the extent of the errors and adjustments required, and the continuing audit qualifications. In consequence the Financial Secretary has invested in building financial management capacity and capability and made efforts to improve the statutory accounts production process.

A more pragmatic timetable was planned for 2018/19 with substantial completion of the audit by 30 November 2019 and final reporting by 31 January 2020. This timeline required a complete set of financial statements with supporting working papers to be available by 31 July 2019. In practice the timetable slipped by around two-months which is remarkable in the context of unexpected absences in qualified staff resources impacting both Corporate Finance and Audit St Helena in the period.

Notwithstanding this managed slippage there is clear evidence of improvement in the quality of the financial statements as illustrated in Table 1 with the number of versions much reduced over prior year.

TABLE 1 SUBMISSION OF DRAFT FINANCIAL STATEMENTS

Version	Date issued	Notes
1	20 August 2019	Submitted as draft financial statements caveated that reserves remain subject to change
2	17 October 2019	Definitive point for the purpose of auditable SHG financial statements in terms of section 109(1)(a)
3	10 February 2020	Draft final statements with uncontested audit adjustments for validation
4	11 March 2020	Proposed final statements for ExCo approval subject to decision on unadjusted errors
5	23 March 2020	Final statements authorised for issue after adjustments for the final matters agreed at ExCo

In particular there has been continued motivation to resolve the qualifications on revenues and reserves and also address the underlying control issues which had hampered the prior year accounts production process. Better project management and timely servicing of audit requests for information (RFIs) has also improved the overall audit process.

Whilst the DFID requirement to report audited accounts by 31 December 2019 has not be met the statutory requirement in Section 109(2) of the Constitution, for the Chief Auditor to audit the accounts within six-months of receipt, was achieved. This is measured by reference to the auditable accounts in version 2 above and the official signing of the Financial Statements and Independent Auditor's Report upon reporting to ExCo on 31 March 2020.

INTERFACE WITH CORPORATE FUNCTIONS

Some particular areas proved difficult to secure sufficient appropriate information for the audit. The interface between Corporate Finance and other parts of the administration critical to the accounts production process requires review and improvement. In particular corporate HR and legal functions could have been more forthcoming to allow for the necessary disclosures to be considered and made in the financial statements.

Management's requirement for extensive justification for the provision of additional information on litigation claims and employee severance cases proved unduly onerous. The restrictions placed on supply of information adversely impacted our ability to obtain sufficient appropriate and timely audit evidence.

In my reporting on 2012/13 and 2015/16 I previously highlighted the need for improved collaboration between finance and legal functions in respect of litigation and claims. This three-year pattern is repeated in 2018/19 with a need for a more corporate approach to be established to improve the functional coordination on these complex cases and better facilitate the statutory audit process.

> ***Recommendation 1*** *The Financial Secretary coordinates arrangements with Attorney General and other corporate colleagues to improve the management of, and access to, information necessary for the production and audit of the financial statements.*

SIGNIFICANT MATTERS WHICH REMAIN UNRESOLVED

Each of the issues leading to a modification of my Independent Auditor's Report were discussed with management together with a range of other significant matters. These unresolved matters are summarised in this section.

VALUATION OF INFRASTRUCTURE

Aid funded infrastructure in respect of the airport, permanent wharf and roads amounting to £204.463m at 31 March 2019 (£202.565m at 31 March 2018) reported within Property Plant and Equipment in Note 11.7, is required to be measured at replacement cost in accordance with IPSAS 17, *Property Plant and Equipment* and IPSAS 23, *Revenue from Non-exchange transactions*. As explained in Note 9.3.5 to the Financial Statements, there is a high degree of estimation uncertainty in using depreciated replacement cost as a proxy for fair value. In the absence of a professional valuation I am unable to determine whether the stated value fairly reflects the replacement cost for the aid funded airport wharf and roads infrastructure. The revenues recognised as non-exchange infrastructure aid funding are equally affected.

As explained in Note 9.3.5.3 management made a deemed cost estimate for historic roads infrastructure resulting in a nil net book value being recorded. New roads are being held at cost and depreciated on a straight line basis. Since new roads are aid-funded in whole or in part their recognition should also be on replacement cost basis. I am unable to apply alternative audit procedures to confirm the carrying values, accordingly the asset class roads infrastructure is included in my scope limitation qualification.

The Financial Secretary previously advised an intention to commission a formal valuation of these infrastructure assets as at the date of operational readiness as a basis for future depreciation. An expert to undertake this specialist valuation exercise has been identified and terms and methodology are being agreed. However to obtain an assessment of replacement cost either by management or by the auditor before the required audit reporting deadline remains impractical. In these circumstances, there is a limitation of scope qualification of my audit opinion on fair presentation.

SIGNIFICANT MATTERS RESOLVED WITH MANAGEMENT

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

RESTATEMENT OF SPECIAL FUNDS

The class of Special Funds – Projects in Note 11.15.2.1 were established by Order to enable individual projects to be accounted for separately to the Consolidated Fund. Corporate Finance have invested significant effort in identifying and adjusting for errors, dating back many years, which had occurred in the recognition of capital expenditure and earmarked grant funding between these funds. In doing so the opening balances on these funds have been restated as described in Notes 9.4 and 11.15.2.1.

In prior years I had qualified the balances on the DFID Projects Fund DFID Infrastructure Fund and EDF Projects Fund as I had been unable to secure adequate appropriate evidence regarding the restatement of these Special Funds and their reported balances. I have reviewed the adjustments made and have obtained assurance as to the fair presentation of the restated fund balances and reported transactions and accordingly the previous qualification is now removed.

At the 29 March 2019 the DFID Infrastructure Fund was closed by Order and amalgamated with the DFID Projects Fund this will reduce the risk of misclassification between otherwise similar development aid funds which was the principal source of the previous errors.

NON-CURRENT INVESTMENTS

Non-current investments amounting to £28.650m at 31 March 2019 (£28.128m restated at 31 March 2018) and reported in Note 11.2.2 and related reserves Note 11.15.1.5 represent the carrying value of SHG's ownership interest in subsidiary entities. The equity interest in the Bank of St Helena Ltd carried on the basis of net assets of £6.248m at 31 March 2019 (£5.963m at 31 March 2018) forms part of these non-current investments.

In the prior year I was unable to obtain sufficient appropriate evidence about the carrying amount of SHG's investment in the Bank of St Helena Ltd due to restricted access to the financial information and underlying records held by the Bank. I have now obtained the required assurance over these balances through access to the financial records of the subsidiary such that the qualification can be removed. Notwithstanding I underline my previous recommendation for an amendment to the Companies Ordinance to permit the auditor of the group access to the records of any subsidiary within that group.

CUSTOMS REVENUES

Revenues from duties levied on imported goods are managed through the ASYCUDA customs system. To prove the customs revenues reported in the Statement of Financial Performance and forming part of Taxation in Note 10.1 management have now established an auditable reconciliation between the Financial Leger and the ASYCUDA system.

Accordingly I was able to obtain assurance regarding the completeness and accuracy of the reported revenues from customs duties such that the previous qualification has been removed.

RECOVERABLES FROM NON-EXCHANGE TRANSACTIONS

Transactions amounting to £5.158m in respect of continuing construction works on the airport infrastructure project and principally the new Bulk Fuel Installation had been expensed through the DFID Infrastructure Projects Fund. This amount was asserted by management as recoverable from DFID and therefore formed part of Recoverables from non-exchange transactions in Note 11.3.

However the amount could not be evidenced by way of properly completed claim signed by the Financial Secretary and supported by valid invoices. The absence of a pending claim combined with non-settlement of the related grant presented doubt over the validity of the total recoverable amount to the extent of £5.158m, the non-exchange revenue so recognised, and the transactions and balance on Special Funds in Note 11.15.2.1. Subsequent to year-end SHG have exchanged letters with DFID to apply the liquidated performance bond held in respect of the airport project in the amount of £7.2m to finance these additional capital works.

In these circumstances management reversed the £5.158m receivable and associated non-exchange revenue and applied the £7.2m liquidated bonds previously held as payable in Note 11.12.1 as non-exchange revenue to the credit of the DFID Projects Fund as an adjusting post-balance sheet event.

GBAS RECOGNITION

The DFID funded airport project included the installation of various navigational aids required for aircraft landing including the Ground Based Augmentation System (GBAS) purchased from Honeywell in 2014. Whilst GBAS is installed the system currently remains uncertified for use for use at St Helena airport and accordingly does not appear on the list of navigational aids in the Aerodrome Information Publication (AIP).

An amount of £1.035m relating to the GBAS system is held as a refund asset in Note 11.6.2 pending a decision whether to commission the system or return to the supplier as provided under the contract terms. Management were challenged as to the intended future use of the system and whether the amount was correctly classified and fairly valued after taking into account any impairment.

FUEL STOCKS

The inventory held in respect of BFI Fuel stocks held at the 31 March 2018 and reported in Note 11.5 required adjustment of £0.596m to accord with the audited financial statements for the BFI where a prior-year adjustment was required to a change in the valuation basis for fuel in transit. The required adjustment has been processed by management.

SERVICE CONCESSION

SHG granted to St Helena Airport Limited the right to use the airport and related assets (whose rights of ownership remained with the former) for the provision of public air services on St Helena Island. This arrangement which is yet to be formalized in an agreement met the definition of a service concession arrangement in accordance with IPSAS 32. The required adjustments to reclassify the related assets from other PPE asset categories to a new class 'Service Concessions' with a net book value of £126.445m have been subsequently processed by management and disclosed in note 11.8.

TERMINATION BENEFITS

IPSAS 39 Employee Benefits requires that termination benefits are recognised when an entity may no longer withdraw from the offer of those benefits. Note 9.5 to the financial statements discloses the aggregate termination benefits payable in terms of amount and number of cases – the note is material by nature and was identified to be significantly understated.

There are two main aspects which the auditor must consider in respect of these payments – whether the amounts and disclosures recorded in the financial statements are complete and accurate (section 29(1)) and whether the settlement represents value for money in the use of public funds (section 29(2)). In this section I deal with the accounting aspects and in the later section on financial management and internal control I develop the public interest aspect in terms of value for money in the use of public funds.

Whilst specific details were restricted by confidentiality clauses, I was able to obtain summary information on benefits paid to employees where termination of employment was facilitated by way of a compromise agreement. In consequence management have disclosed the £0.236m total termination benefits in Note 9.5.

PRIOR PERIOD RECLASSIFICATION OF CARERS AND HOME HELPERS

Casual workers consisting of carers and home helpers that do not receive employee benefits were reclassified from 'Payments to Contractors' to 'Payments to Other Agencies, Bodies or Persons' in Note 10.2. The prior year comparative of £0.314m was also subsequently adjusted by management.

RECLASSIFICATIONS

There have been various other material adjustments processed by management with audit agreement to correctly classify items of account in the Financial Statements as disclosed in Appendix B Table 2. Adjustments to material note disclosures to ensure IPSAS compliance and improve presentation and disclosure are recorded in Appendix B Table 3.

OTHER MATTERS RELEVANT TO THE OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

These other matters of significance arise from my audit responsibilities under the ISAs and local statute which are directly relevant to those charged with governance in overseeing the financial reporting process.

REGULARITY OF IMPAIRMENT LOSS

Note 11.8.2 details impairment in the value of 12 items of plant and equipment amounting to £1.346m which has been charged to the Statement of Financial Performance. The largest of these impairments are the leaking fire water pipes at the new BFI (£1.077m) and the corrosion to the Aircraft Maintenance Steps at the new airport (£0.052m). The increase in impairment in the current year is significant when compared to 1 asset in prior year in the amount of £0.016m.

The recording of impairments represents a loss in the economic value of assets and thus requires authorisation for write-off. Some impairment losses are avoidable if due care and diligence is exercised during construction and asset maintenance policies are adhered to.

Section 17 of the Public Finance Ordinance requires that any write-off of assets exceeding £50,000 is required to be authorised by the Secretary of State. This authorisation has not been obtained and accordingly the impairment expense in the amount £1.346m does not conform to the statutory authority which governs it. My opinion on regularity is therefore qualified in under section 29(b)(ii)(B).

EXPENDITURE IN EXCESS

The estimates for 2018/19 were varied by a Special Warrant in July 2018 and Supplementary Appropriation in March 2019 as detailed in Note 10.3. Appropriated recurrent and capital expenditure on all heads was within the final authorised budgetary limit and accordingly there was no expenditure in excess requiring to be reported or approved under section 106 procedures.

PAC had previously recommended a strengthening of controls over the financial planning and correct recording of capital expenditure in order to reduce the number and value of heads reporting Excess Expenditure. These reported results indicate improvements financial management of public expenditure are taking effect. The backstop is the Supplementary Appropriation process which enables Legislative Council to maintain control over any planned overspending.

However Supplementary Appropriation should be used cautiously and sparingly and approval exercised after proper scrutiny. In this respect the Financial Secretary has recognised that the budget review process for original and supplementary estimates can be improved through the introduction of a Finance & Resources Committee or similar – this proposed enhancement to financial governance is welcomed.

WRITTEN REPRESENTATIONS

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

ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement (AGS) is an accountability statement made by a public body reporting to stakeholders on how well it has delivered on governance over the course of the previous year. Whilst the publication of an AGS is a mandatory requirement for UK local government bodies there is currently no regulatory basis requiring such a statement by the Government of St Helena.

In previous years, in the absence of specific regulation, SHG has voluntarily published an AGS with the Financial Statements in a form consistent with the model framework published by Chartered Institute of Public Finance and Accountancy (CIPFA). I understand this will not be the case for 2018/19 and therefore I have not made arrangements for the examination of an AGS as part of my audit of the Financial Statements.

> ***Recommendation 2*** *SHG should introduce regulations requiring the preparation and publication of an Annual Governance Statement as part of its annual accountability reporting to stakeholders.*

FINANCIAL MANAGEMENT AND INTERNAL CONTROL

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

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

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

NEW ISSUES RAISED THIS YEAR

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

TERMINATION BENEFITS

In the UK guidance Managing Public Money the HM Treasury adopts a sceptical approach to proposals for severance payments on termination of employment and explains these will only be approved where they provide value for money for the Exchequer as a whole, rather than simply for the body concerned. In particular:

- Legal advice that a particular severance payment appears to offer good value for the employer may not be conclusive since such advice may not take account of the wider public interest.
- Even if the cost of defeating an apparently frivolous or vexatious appeal will exceed the likely cost of that particular settlement to the employer, it may still be desirable to take the case to formal proceeding.
- Winning such cases demonstrates that the government does not reward failure and should enhance the employer's reputation for prudent use of public funds.

The Treasury guidance is clear that departments and public bodies should not treat special severance as a soft option, e.g. to avoid management action, disciplinary processes, unwelcome publicity or reputational damage.

The Cabinet Office Guidance on Settlement Agreements published in July 2019 advises more specifically on use of confidentially clauses or non-disclosure agreements. These clauses should only be used when necessary and should not be included in settlement agreements as a matter of course. Confidentiality clauses must not override the obligation to disclose appropriate details in relation to the essential business needs of government. Particular care should be taken to ensure any undertakings about confidentiality leave severance transactions open to adequate public scrutiny, including by the public auditor and the PAC.

The standard deed of settlement used by SHG in concluding terminations of employment includes a confidentiality clause which precludes non-disclosure except by agreement or as required by law. The Attorney General has advised that even the specific statutory rights of access availed to the Chief Auditor are insufficient to require their disclosure.

Without access to the termination agreements I am unable to confirm the financial regularity due probity and proper accounting for these transactions. Moreover I am unable to determine whether the public interest has been served in the various employment cases settled by SHG with financial compensation drawn from taxpayer and UK Aid funds.

There is something seriously amiss with the accountability for public funds in St Helena when the Chief Auditor, with specific constitutional powers and statutory provisions for audit access, is denied access to evidence in support of payments amounting to thousands of pounds by virtue of a legal veil of secrecy. The proposed audit law reform can address the evident inadequacy in the current audit powers of access.

Moreover, given all but one case disclosed to me in outline was subject to a non-disclosure agreement, I must also conclude that the use of such clauses has become routine rather than by warranted exception.

Recommendation 3 *The Chief Secretary should develop policy and protocol on the use of special severance payments consistent with HM Treasury and Cabinet Office guidance to protect the public interest in cases of termination of employment with financial compensation. The use of non-disclosure agreements should be by exception and where these are applied then provision should be made for essential business need and audit scrutiny.*

BETTER LIFE ALLOWANCE POLICY

The review of the Better Life Allowance (BLA) policy in January 2017 was meant to lead to the reassessment of the scoring band for claimants on the scheme. Some discrepancies were however noted on comparison of the scoring band (e.g. assessed as high or severe) to the amounts paid to the claimants which had been based on the old policy. Although the net impact was assessed as quantitatively immaterial, this had led to under/overpayment to individuals.

Management has acknowledged that a review of the existing clients' assessment was not carried out before transferring to the new BLA scheme, albeit in the midst of another review of the policy currently ongoing which will extend the eligibility of the BLA scheme to new applicants aged 65+ years.

Management has made the decision to postpone reassessments for existing clients until the updated policy is rolled out which is expected to be implementation in April 2020.

Recommendation 4 *The Children and Adult Social Services management team should prioritize the conclusion of the reassessment of the BLA scheme to ensure consistent and fair application to all eligible claimants. The BLA Policy should be reviewed to reflect recent changes and the assessment should be tailored to the specific needs of the clients.*

FOLLOW-UP OF PREVIOUS ISSUES

Audit recommendations remaining open from previous Management Letters issued in 2011/12 through 2017/18 were followed-up with management. Tangible progress is being made in addressing recommended improvements from prior-periods. The current status of these open recommendations is summarised in the table below with details in Appendix E.

Management Letter	Recommendations brought forward	Recommendations cleared in year	Recommendations carried forward
2011/12	1	0	1
2012/13	1	0	1
2013/14 & 2014/15	2	0	2
2015/16	3	3	0
2016/17	5	1	4
2017/18	8	6	2
Total	**20**	**10**	**10**

CONCLUDING REMARKS

I acknowledge and thank the officers of St Helena Government, and in particular the Corporate Finance team, for their assistance and co-operation given to the Audit St Helena during the course of the statutory audit for 2018/19.

Phil Sharman CA CPFA
Chief Auditor for St Helena
Audit St Helena

[date] 2020

TO THE MEMBERS OF LEGISLATIVE COUNCIL

INDEPENDENT AUDITOR'S REPORT

To the Members of Legislative Council for the Government of St Helena

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the financial statements of St Helena Government (SHG), which comprise the statement of financial position as at 31 March 2019, and the statement of financial performance, statement of changes in net assets and reserves, statement of cash flows, and statement of comparison of budget and actual amounts, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matter described below, the accompanying financial statements present fairly, in all material respects, the financial position of SHG as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Qualified Opinion

Aid funded infrastructure amounting to £204.463m at 31 March 2019 (£202.565m at 31 March 2018) reported within Property Plant and Equipment in the Statement of Financial Position, and forming part of infrastructure, roads infrastructure and assets under construction in Note 11.7, is measured on an earned value basis – being the cost of works completed under the current contract. IPSAS 17, Property Plant and Equipment and IPSAS 23, Non-Exchange Transactions require that such aid funded assets and related revenues are measured at replacement cost. Note 9.3.5 explains there is a high degree of estimation uncertainty associated with the valuation of the airport, wharf and roads infrastructure.

As also explained in Note 9.3.5.4 management assessed the value of roads infrastructure, to be recognised at cessation of transitional provisions under IPSAS 17, at nil net book value, being cost less accumulated depreciation. Management were unable to confirm the basis for initial recognition of the roads infrastructure at nil value.

I was unable to obtain sufficient appropriate audit evidence regarding the asset valuation by the reporting date, either from management or by using alternative audit procedures. In these circumstances, I am unable to determine whether:

(i) the use of an estimate based on earned value; and,
(ii) the initial recognition of roads infrastructure at nil value

would give rise to a material misstatement, and whether any adjustment was necessary to the reported value of Property, Plant and Equipment in Note 11.7 and associated reserves in the Statement of Financial Position, and to the recognition of Non-Exchange Infrastructure Aid Funding in the Statement of Financial Performance.

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 SHG 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 I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material Uncertainty Related to Going Concern

I draw attention to Note 9.1.2 in the financial statements which indicates that SHG is reliant on recurrent funding through UK grant-in-aid for the continued operation of public services in St Helena. Whilst there is an agreement by DFID to provide financial support, the level of financial support for the final year to 31 March 2021 has yet to be formalised. In the absence of sufficient grant-in-aid and with limited usable reserves SHG would not be in a position to meet its liabilities as they fall due within the foreseeable future without significant curtailment of services. As stated in Note 9.1.2 these circumstances indicate that a material uncertainty exists which may cast doubt on SHG's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other Information

Management is responsible for other information. The other information includes the Financial Secretary's Report but does not include the financial statements and my audit report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

In connection with my audit of the financial statements my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed I conclude there is a material misstatement of this other information I am required to report the fact. I have nothing to report in this regard.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Except for the matters described in the above sections on Basis for Qualified Opinion, and Material Uncertainty Related to Going Concern, I have determined there are no other key audit matters to communicate in my report.

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 they determine 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 SHGs ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is 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.

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

A further description of the auditor's responsibilities for the audit of the financial statements is located in the Annex to my report. This description forms part of my auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditor's Other Responsibilities arising from Law and Regulation

Section 29(1)(b)(i) of the Public Finance Ordinance requires me to assess whether in all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and whether the accounts and financial statements have been prepared in accordance with all relevant laws and policies.

Qualified opinion on Regularity

In my opinion, except for the authorisation of impairment losses as described below, in all material respects the expenditure and income has been applied to the purposes intended, and conforms to the authorities which govern them.

Basis for qualified opinion on Regularity

Note 11.8.2 details an impairment loss to plant and equipment amounting to £1.346m which has been charged to the Statement of Financial Performance. Section 17 of the Public Finance Ordinance requires that any write-off of assets exceeding £50,000 is required to be authorised by the Secretary of State. This authorisation has not been obtained and accordingly the impairment expense in the amount £1.346m does not conform to the statutory authority which governs it.

Opinion on Other Matters Required by Statute

In my opinion, the financial statements have been prepared in accordance with all relevant laws or policies.

Phil Sharman
Chief Auditor CA CPFA

Audit St Helena
New Porteous House, Jamestown, St Helena, STHL 1ZZ

[date] March 2020

ANNEX 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 SHG'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 SHG'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 SHG 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.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Table 1: Material adjustments to the Financial Statements: Requested by audit

I identified the following misstatements during my audit and management have adjusted the Financial Statements to correct these errors.

Pertaining to current year 2018/19

Number	Date	Name	Debit £	Credit £
1	31/03/2019	Inventories – BFI Trade Creditors Being correction of understated BFI inventory to reflect the audited signed financial statements	690,262	690,262
2	31/03/2019	BFI Petrol & Diesel Expenditure Trade Creditors Being correction of BFI Trade Creditors from 1st Draft to Final Signed financial statements	432,482	432,482
3	31/03/2019	Payables – Income Received In Advance Receivables – Accrued Income Being netting-off Air Access expenditure incurred against £7.2m performance bond on termination of Basil Read contract based on agreement with DFID	5,301,321	5,301,321
4	31/03/2019	Cost: Service concession asset (SFP) Cost: Various asset categories (SFP) Being reclassification of the cost of airport related assets from various asset categories to Service concession asset category	141,588,000	141,588,000
5	31/03/2019	Accumulated Depreciation – various asset categories (SFP) Accumulated depreciation - Service concession asset (SFP) Being reclassification of the Accumulated Depreciation of airport related assets from various asset categories to Service concession asset category	15,143,000	15,143,000

Table 2: Material adjustments to the Financial Statements: Requested by audit

Pertaining to prior year 2017/18

Number	Date	Name	Debit £	Credit £
1	31/03/2018	Inventory – BFI Trade Creditors – BFI Being correction of prior period error arising from incorrect valuation of BFI inventory	596,000	596,000

Table 3: Material adjustments to the Financial Statements: requested by management

Management also identified a number of misstatements during the audit and have adjusted the Financial Statements to correct these errors. Adjustments we deem to be immaterial in value individually have not been reported here.

Pertaining to current year 2018/19

Number	Date	Name	Debit £	Credit £
1	31/03/2019	General Reserve Investments in Subsidiaries reserve Being transfer between Investment in Subsidiaries Reserve and General Reserve for hotel investment	350,000	350,000
2	31/03/2019	DFID Infrastructure DFID Funded Projects Being transfer to amalgamate two DFID Funded Projects special funds into one - 99903 and 99903 (winding-up order 29/03/19)	551,440	551,440

Number	Date	Name	Debit £	Credit £
3	31/03/2019	General Reserve	1,288,000	
		Pension Reserve		1,288,000
		Being transfer for pension benefits paid		
4	31/03/2019	Accrued income	330,215	
		Self-employed tax		330,215
		2018/19 accrual for self-employment tax (based on actuals in ledger in 2019/20)		
5	31/03/2019	Accrued income	720,790	
		Corporation tax		720,790
		2018/19 accrual for corporation tax (based on actuals in ledger in 2019/20)		
6	31/03/2019	Investments	563,429	
		Non-current investments		563,429
		Being adjustment to record the share of loss from SHHDL based on audited financial statements		

Table 3: Material adjustments to financial note disclosures

Description of correction	Note affected	Value of the error £'000
Disclosure of the BFI project in the Financial Secretary's report	FS report section 1.5	N/A
Update of the Going Concern disclosures to refer to the financial settlement for 2020/21 not been formalized as of the date of sign off	Note 9.1.2 Going Concern	31,790
Disclosure of the remuneration of close members of the family of key management personnel as required by IPSAS 20 (34.b)	Note 9.4.2.1 Key Management Personnel	49 (2018/19) 41 (2017/18)
Disclosure of prior period errors relating to the following: i) BFI inventory adjustment ii) SHHDL adjustments iii) Reclassification of amounts from Employee costs to Payments to Other Agencies, Bodies or Persons iv) Special Fund - Projects	Note 9.7 Restatement of Prior Period Figures	 690 89 314 81
Inclusion of disclosures pertaining to events after the reporting date pertaining to the closure of SHFC and Bertrand's Cottage Ltd and the signing of the EDF funded subsea cable contract	Note 9.8 Events after the reporting date	TBC
Disclosure of reclassification of airport infrastructure related assets to be separately disclosed under a separate class 'Service Concession' as a result of the use of assets by SHAL whilst SHG retained control of the assets	Note 11.8 Property, Plant & Equipment	126,445
Additional disclosures pertaining to capital commitments on the airport infrastructure project, EDF funded subsea cable project, and new Economic Development Investment Programme (EDIP)	Note 11.11 Capital Commitments	DFID 37,200 EDF €17,000

SCHEDULE OF UNCORRECTED MISTATEMENTS APPENDIX C

In accordance with ISA 450 I am required to communicate to management any uncorrected misstatements and request a written representation from those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, either individually or in aggregate.

Management have adjusted the Financial Statements for all misstatements identified at the audit other than the following:

Table 1: Uncorrected misstatements in the Financial Statements

Potential adjustments arising from the valuation of airport, wharf and roads infrastructure on a replacement cost basis – the financial effect cannot be quantified until a professional valuation report is secured.

Table 2: Uncorrected disclosure misstatements

Description of uncorrected disclosure	Note affected	Value of the error £'000
Disclosure for reported segments is needed for each segment reported by the entity: (a) The amount of impairment losses recognized in surplus or deficit during the period; and (b) The amount of reversals of impairment losses recognized in surplus or deficit during the period.	Note 10.4 Segment Reporting	1.346
A disclosure of the fair value of class of assets and liabilities in a way that permits it to be compared with its carrying amount. (IPSAS 30.29)	Note 11.6 Nature and Extent of Risks arising from Financial Instruments	Narrative

RECOMMENDATIONS TO MANAGEMENT — APPENDIX D

No	Observation	Recommendation	Priority
1	Some particular areas proved difficult to secure sufficient appropriate information for the audit. The interface between Corporate Finance and other parts of the administration critical to the accounts production process requires review and improvement.	The Financial Secretary coordinates arrangements with Attorney General and other corporate colleagues to improve the management of, and access to, information necessary for the production and audit of the financial statements.	M
2	The Annual Governance Statement (AGS) is an accountability statement made by a public body reporting to stakeholders on how well it has delivered on governance over the course of the previous year. There is currently no regulatory basis requiring such a statement by the Government of St Helena.	SHG should introduce regulations requiring the preparation and publication of an Annual Governance Statement as part of its annual accountability reporting to stakeholders.	M
3	Note 9.5 discloses employee termination benefits amounting to £0.236m where all but one were subject to confidentiality clauses and therefore could not be examined in detail for regularity and value for money.	The Chief Secretary should develop policy and protocol on the use of special severance payments consistent with HM Treasury and Cabinet Office guidance to protect the public interest in cases of termination of employment with financial compensation. The use of non-disclosure agreements should be by exception and where these are applied then provision should be made for essential business need and audit scrutiny.	H
4	The review of the Better Life Allowance (BLA) policy in January 2017 was meant to lead to the reassessment of the scoring band for claimants on the scheme. Some discrepancies were noted on comparison of the scoring band to the amounts paid to the claimants which had been based on the old policy.	The Children and Adults Social Services management team should prioritize the conclusion of the reassessment of the BLA scheme to ensure consistent and fair application to all eligible claimants. The BLA Policy should be reviewed to reflect recent changes and the assessment should be tailored to the specific needs of the clients.	M

DEFINITION OF PRIORITIES	
HIGH	Immediate risk of error, loss of cash or other assets or significant non-compliance with relevant Ordinances or regulations. Action should be taken on these within 2 months.
MEDIUM	Issues identified which would improve the quality of financial reporting and/or internal control systems. Action should be taken on these within 6 months, or by the end of the next financial reporting period, whichever is the earliest.

PRIOR RECOMMENDATIONS FOLLOW-UP APPENDIX E

No	Recommendation	Follow-up	Status
2011/12			
1	Introduction of accruals budgeting.	I am advised management are to determine the legislative requirements for budgeting to consider the best method of budgeting that SHG should adopt; one that meets legislative requirements and the needs of decision makers. The review will consider the benefits and challenges of cash based, modified cash based and accruals based budgeting and make a recommendation to Executive Council. The review will also recommend the legislative and policy changes required to implement the recommended course of action.	In progress
2012/13			
3	A Code of Governance should be developed with reference to the CIPFA/IFAC International Framework on Good Governance in the Public Sector and adopted as a standard against which compliance may be measured in the AGS.	I am advised that SHG adopted the CIPFA/IFAC International Framework for Good Governance in the Public Sector as its primary governance framework during 2018. Whilst this goes some way towards addressing the recommendation there are some further significant actions required before effective implementation is achieved.	In progress
2013/14			
4	SHG should review all legacy applications in relation to eligibility of social benefit payments and obtain documentations from the applicants to maintain on their records to confirm eligibility.	I am advised the exercise is substantially complete and all files have been reviewed for evidence supporting eligibility. Twelve files now remain to be updated and this exercise will be completed by end of September 2020.	In progress

No	Recommendation	Follow-up	Status
5	SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport and Wharf Infrastructure	I am advised SHG have are in the process of engaging a suitability qualified valuer in London to value the airport, wharf and roads infrastructure as at 31 March 2020. Discussions are ongoing to determine the feasibility of getting this done in time for the 2019/20 draft financial statements.	In progress
2015/16			
8	For future pension increases the Financial Secretary provides the Governor with information on the prudential impact on the unfunded pension liability in addition to the in-year budgetary requirement.	Advice provided to the Governor in relation to the July 2019 pensions increase took into account the potential impact on the Defined Benefit Pension Liability.	Closed
9	SHG should secure from DFID legal transfer of aid funded assets to the ownership of SHG and update the asset register accordingly.	I am advised this is an ongoing process and is being done as projects are completed and closed and assets are deemed to be transferred.	Closed
10	The Financial Secretary should perform a comprehensive review of special funds and reserves necessary for the effective financial management and accounting for the Government of St Helena.	Management completed a comprehensive review on Special Funds with particular focus on the project component balances within Special Funds. This has cleared a number of legacy issues and continuous process of review is now adopted as part of the production of the quarterly management accounts going forward.	Closed
2016/17			
11	The Financial Secretary should perform a technical accounting review of the Crown Forest to estimate the commercial value of the forest plantation for potential recognition of an agricultural asset under IPSAS 27.	Management performed a technical review which concluded that the cost of maintenance and extraction of the forest estate exceeds the estimated sale proceeds and therefore SHG has decided not to recognize an agricultural asset.	Closed
12	The Financial Secretary should establish internal arrangements to ensure due compliance with statutory and regulatory requirements for the financial administration of St Helena.	I am advised that Corporate Finance is establishing a legislative compliance management process where senior managers within Corporate Finance across all work streams report on their compliance on a quarterly basis. The Deputy Financial Secretary will provide a report on compliance to the Financial Secretary on a quarterly basis.	In progress

No	Recommendation	Follow-up	Status
13	The Financial Secretary should review the relevant statutory provisions for financial control and financial reporting purposes and propose legislative amendments in preparation for the implementation of accruals budgeting in 2019/20.	A review is being conducted as advised under recommendation 1 above. I am advised the review will also recommend the legislative and policy changes required to implement the recommended course of action.	In progress
15	The Financial Secretary should seek to improve efficiency and accuracy in the statutory accounts production process through automation and quality assurance protocols.	I am advised a substantial amount of work was done in 2019 to assess CaseWare as a suitable product but it was decided that the cost to buy and implement the system, outweighed the benefits of the system. Further work will be undertaken in 2020 to identify alternative products for automating the accounts production process.	In progress
16	The Financial Secretary should develop an action plan linked to identified resources to address outstanding Management Letter recommendations.	I am advised that an action plan to address all audit recommendations will be put in place in parallel to the PAC recommendations register. The Financial Secretary has advised he will not be able to address all recommendations immediately but that some recommendations will remain until such time as resources become available or circumstances change.	In progress
2017/18			
17	The Financial Secretary should improve the presentation and disclosure of Special Funds in Note 11.15.2 by reporting separately the funds received and funds applied for each Fund rather than a simple net surplus/(deficit) for the period.	This was implemented in the first draft of the 2018/19 financial statements submitted on 20 August 2019.	Closed
18	SHG should introduce an express reservation within the articles of association of all controlled entities to require that the appointed auditor of any entity is approved by Chief Auditor.	I am advised that SHG's policy for wholly owned state entities, endorsed by Executive Council in November 2019 is that the owner/ shareholder approves the appointment of the auditor at the Annual General Meeting. In my view this does not preclude the proposed auditor being approved by the Chief Auditor and therefore the recommendation holds good. This will be progressed through legislative reform.	In progress

No	Recommendation	Follow-up	Status
19	SHG should amend the Companies Ordinance to permit the auditor of any group of companies a right of access to the financial records of any subsidiary within that group.	I am advised that currently, in response to a request by the auditor to the parent company, for access to specific financial information held by the subsidiary, the shareholder can facilitate the request, in the first instance at senior management level, and where necessary, at board level. Such access would not normally be withheld but there is no right of access and accordingly this will need to be progressed through legislative reform.	In progress
20	The Financial Secretary should ensure that essential internal accounting controls including routine bank reconciliations are completed timeously.	I am advised the Business Support Team have worked to become up to date after last financial year where bank reconciliations were behind. This has now improved and reconciliations are prepared routinely and timeously.	Closed
21	The Financial Secretary should ensure that a routine reconciliation is performed between the customs revenues in ASYCUDA and the main accounting system.	I am advised a monthly reconciliation is now performed by Customs Officers to reconcile Asycuda to Access Dimensions. This was completed in full for 2018/19. Officers are on target to complete the 2019/20 reconciliation in time for the first draft of the 2019/20 financial statements.	Closed
22	The Financial Secretary should ensure that claims for aid-funded expenditure are made on time and accompanied with adequate supporting documentation. A claims register should be maintained so as to track submission and subsequent settlement of claims with appropriate follow-up with the donor organisation.	I am advised all claims are prepared and submitted to donor organisations in line with the funding agreements or alternative arrangements agreed with the funding providers. The debtor's ledger is used to record claims submitted and funds received. The Claims Register has been used in part for specific donor funding in 2019/20 but will be fully implemented for all other funding streams for 2020/21.	Closed
23	The Financial Secretary should take steps to assess and write-off the loss of income due to uncollected permits and ensure that procedures for the collection of income from all sources associated with the opening of the airport are reviewed to ensure that controls are adequate in design and effective in operation.	I am advised the write-off of the loss of income due to uncollected permits will be written off in 2019/20 financial year. The process and legal requirements have been clarified with the Immigration Service and the fees are now being collected at St Helena Airport as required by law.	Closed

No	Recommendation	Follow-up	Status
24	The Financial Secretary should ensure that SHG audit deadlines are clearly communicated to all controlled entities. Controlled entities should prepare monthly and quarterly management accounts to help improve efficiencies and identify bottle-necks before the year-end financial preparation.	I am advised an email was sent to all Controlled Entities on 30 April 2019 requesting details of when the first draft of the 2018/19 financial statements would be available and the expected audit completion date. This process now forms part of the Year End Procedures for SHG. I am also advised the boards of all state controlled entities receive monthly and quarterly management accounts, as part of the entities financial management processes. Further, the boards of all state owned entities are engaged in the review of timetables for the preparation and audit of their annual financial statements.	Closed

As explained Note 9.1, Basis of Preparation, the audited Financial Statements are the separate Financial Statements of St Helena Government prepared in accordance with IPSAS 34, *Separate Financial Statements*.

The requirements of IPSAS 35, *Consolidated Financial Statements* are disapplied in St Helena accordance with section 10 of the Public Finance Ordinance. The preparation of consolidated financial statements for the SHG economic group would require consolidation of the following entities along with the separate Financial Statements of SHG:

- Bank of St Helena Ltd
- Connect St Helena Ltd
- St Helena Hotel Development Ltd
- St Helena Airport Ltd
- Solomon & Company (St Helena) PLC
- St Helena Line Ltd
- St Helena Currency Fund
- St Helena Fisheries Corporation
- Enterprise St Helena

In the absence of such consolidation I am unable to report on the Financial Statements of the SHG economic group or the internal control arrangements of component entities.