



Dax Richards
Financial Secretary
Saint Helena Government
The Castle
Jamestown

10 June 2020

Dear Dax,

Engagement Letter for the Audit of the Saint Helena Government Financial Statements for the year ended 31 March 2020

The purpose of this letter is to outline and obtain agreement on the terms of the audit engagement, and to explain the respective responsibilities of the auditor and management, in accordance with International Standard on Auditing (ISA 210).

Objective and Scope

The Chief Auditor (CA) is obliged by section 109(2) of the Constitution and section 29(1) of the Public Finance Ordinance to undertake an audit of the financial statements of the Saint Helena Government for the financial year ending 31 March 2020. A complete set of financial statements comprises: a statement of financial position, a statement of financial performance, a statement of changes in net assets, a cash flow statement, a comparison of budget and actual amounts, notes including a summary of significant accounting policies and other explanatory information, together with comparative information in respect of the preceding reporting period.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with International Standards of Auditing (ISA's) 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.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.



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Our Responsibilities

As Chief Auditor (CA), I will undertake an audit of the financial statements described above. I will be assisted by Audit St Helena in the performance of the audit.

We will conduct our audit in accordance with International Standards on Auditing (ISAs) which require that we comply with ethical requirements, exercise professional judgement and maintain professional scepticism throughout the audit.

As part of our audit we 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 our 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 Government's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- 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 Government's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Government 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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.

In addition, an audit is not designed to detect immaterial errors, fraud, or other illegal acts or illegal acts that do not have a direct effect on the financial statements. Our engagement cannot, therefore, be relied upon to disclose errors, fraud, or other illegal acts that may exist. However, we will inform you of any material errors that come to our attention and any fraud that comes to our attention. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Management Responsibilities

We remind you that the audit of the financial statements does not relieve management (and specifically the Financial Secretary) and Executive Council (as the body charged with governance) of their responsibilities for the preparation of the financial statements. Our audit will be conducted on the basis that management and, where appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and this responsibility includes:
 - (i) Designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error;
 - (ii) Safeguarding the assets of Government;
 - (iii) Selecting and applying appropriate accounting policies; and
 - (iv) Making accounting estimates that are appropriate in the circumstances.

- (b) To provide us with:
 - (i) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) Additional information that we may request from management for the purpose of the audit; and
 - (iii) Unrestricted access to persons within Government from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit. To conclude the audit, we will also require a formal written response to our final management letter stating an acceptance, or otherwise, of the recommendations made within.

We look forward to full cooperation with you and your staff and trust that you will make available the records, documentation and other information that are requested in connection with the audit.

Financial Reporting Framework

The financial statements will be prepared in accordance with International Public Sector Accounting Standards consistent with section 10(1) of the Public Finance Ordinance.

Access to information held by a significant component

Since the responsibility for the audit of Government rests entirely with the CA, and that responsibility cannot be delegated or transferred, the CA is empowered by law to obtain whatever information is required to meet that statutory duty.

Section 111(3) gives the CA the independence to determine the direction of the audit and section 111(2) and section 30 give the CA rights of access to books documents and records of Government. However where that information relates to a significant component entity the CA will need to request to have access to the financial records of the component entity.

Our responsibilities under ISA600 *Special Considerations – Audit of Group Financial Statements (Including the work of Component Auditors)*, also requires that we consider whether audit evidence obtained by component auditors is appropriate and perform additional procedures if necessary.

In context, this letter serves as a formal request of the Financial Secretary to arrange CA access to the persons and information held by the Bank of St Helena for the purpose of concluding upon the Government's reported non-current interest in that component entity.

The work to be performed, does not represent an engagement with the component entity or infer any reporting responsibility to that entity.

Audit Output

In accordance with section 29(1)(b)(i) the CA will issue a report which will include an opinion as to whether:

- A. The financial statements present fairly the financial position of the Government for the financial year then ended.
- B. In all material respects the expenditure and income has been applied for the purposes intended and conforms to the authorities which govern them.
- C. The financial statements have been prepared in accordance with all relevant laws and policies.

This will either be an unqualified opinion expressing belief that the financial statements are presented fairly or a modified opinion expressing a concern that the CA is in disagreement with an accounting policy applied, an amount reported or disclosure made, or that the CAs work has been limited in some way.

The CA will also undertake to provide you with a separate Management Letter addressed to Legislative Council in accordance with International Standards on Auditing (ISA 260) and section 29(1)(c) of the Public Finance Ordinance. This forms part of the continuous dialogue that the CA will have with you over the course of the audit and will detail significant findings from the audit, significant discussions with management and any material weaknesses in accounting and internal control systems which come to our notice.

The CA will issue the Management Letter in draft at the end of the audit, immediately prior to the issuance of the opinion on the financial statements and request formal responses to any recommendations made. To satisfy the ISA 260 reporting requirement the CA will need to arrange to meet with Executive Council as the body charged with governance to formally communicate the significant matters arising from the audit prior to final approval of the financial statements. The CA will then issue an independent auditors report containing an opinion on the financial statements together with the finalised Management Letter and requesting formal response to any recommendations made. It is then your responsibility to include the audit opinion with your Financial Statements and together with the Management Letter lay before Legislative Council in accordance with section 109(3) of the Constitution.

The CA reporting remains solely on the reported results in the financial statements of the Government.

Timescale

You have planned to produce the financial statements and supporting schedules by 30 June 2020. Section 109(2) of the Constitution permits a period of 6-months from receipt of the statements to reporting the statutory audit, being 31 December 2020, thereby enabling reporting within 9-months of year end as required by DFID.

Notwithstanding these external deadlines, we anticipate the international travel restrictions will have a significant adverse impact on our ability to deploy qualified audit resources to deliver the required audit work. Accordingly the CA will seek advance authorisation of the Governor as provided under section 109(2) to permit exceptionally the audit to be concluded by 31 March 2021.

Any delay to the accounts submission (i.e. complete set of financial statements with supporting working paper file) may also cause a corresponding delay to our targeted completion date, as late arrival will conflict with our other scheduled work and there could be a considerably larger extension of completion date.

Should the island enter the Phase 2 “mitigation” phase of the COVID-19 response it will further impact the timing of the audit completion. We will assess the COVID-19 related impact on the timing of the audit, after assessing the COVID-19 measures implemented, and communicate this impact to you as soon as possible.

Audit Fees

Our fees, which will be billed on the completion of the audit, are based on the time required by the auditors engaged on the audit and individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

Consistent with the Audit Service Strategic Plan and Special Fund Estimates we propose fee at £93,500 to complete the audit of the separate financial statements of Government. The estimated fee includes those procedures to be performed on the financial results of component entities reported in the financial statements of Government as non-current investments. It also anticipates additional audit procedures will be required in respect of the proposed valuation of infrastructure. We will make arrangements to bill this fee in interim instalments as the audit progresses with the final account rendered upon completion.

It is possible that matters could arise during the course of the audit where, because of a need to seek technical advice, or undertake additional testing for good reason, or in the event of less than satisfactory record keeping resulting in increased demands on audit time, our budgeted costing will be exceeded. Should this become likely, we will inform you at the earliest possible time and quantify and agree the likely additional amount payable.

Contact Details

The Chief Auditor will take responsibility for the direction and overall leadership of the audit with the Head of Audit Services supported by the Audit Manager responsible for the operational delivery of the engagement. You will be aware that succession is planned in these engagement management roles but every effort will be made to ensure service continuity and performance of the audit in accordance with these stated terms.

Team member	Role	Contact details
Phil Sharman Chief Auditor	Engagement Director	phil.sharman@sainthelena.gov.sh
Brendon Hunt Deputy Chief Auditor	Engagement Manager	brendon.hunt@sainthelena.gov.sh

