



Internal Audit Office

St Helena Government

GOVERNANCE REVIEW ECONOMIC DEVELOPMENT COMMITTEE

FINAL Internal Audit Report

NOVEMBER 2019

This report contains 24 pages



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Deputy Chief Secretary
The Castle
Jamestown
St Helena
STHL 1ZZ

Dear Gillian Francis

INTERNAL AUDIT REPORT: GOVERNANCE REVIEW – ECONOMIC DEVELOPMENT COMMITTEE (EDC).

I attach your report on the Governance Review of the Economic Development Committee of the Legislative Committee (LegCo) of St Helena. The audit was completed as per the engagement/scope letter in accordance with the approved annual internal audit plan.

It must be appreciated that the matters included in the attached report came to internal audit's attention during the conduct of our audit procedures. The nature and scope of the procedures are as per our internal audit engagement/scope letter and did not constitute an audit of the financial records in accordance with International Standards on Auditing.

The attached report details the results of internal audit's findings on the scope of audit work undertaken. I recommend ways in which action plans can be implemented to overcome the identified issues and improve controls and operations.

This report has been prepared for your information and accordingly I do not accept responsibility to any other party to whom the contents may be disclosed or who on their accord may decide to rely on it.

Please do not hesitate to contact internal audit with any queries that you may have.

Regards

Anesu Happyman Makamure CA CPFA

Head of Internal Audit & Risk



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1 Introduction

1.1 Mandate

In accordance with the Internal Audit Plan for the year ending 31 March 2020, as approved by the Audit & Risk Committee, we conducted a Governance review of the EDC.

1.2 Purpose, restriction of distribution and use of report

The purpose of the report is to communicate the results of the review to senior management.

The scope of this review is set out in section 2 of the report. The overall objective is to provide management with independent, objective feedback regarding internal controls used to mitigate identified risks. The internal audit work and related reports should not be used for any purposes other than for which it was specifically scoped or designed. Therefore, it should not be relied upon as evidence in any disciplinary proceedings involving employees, whether conducted internally or externally.

1.3 Conformance with the standards

SHG's internal audit activity conforms to International Standards for the Professional Practice of Internal Auditing.



2 Scope

Our audit consisted of an evaluation of the adequacy and effectiveness of the current controls implemented within the control environment relating to the EDC processes, and to effectively manage the risks identified in conjunction with management down to acceptable levels.

2.1 Review Objectives

The objective of the review was to evaluate whether there is reasonable assurance that controls in place are adequate by design and working as intended, to mitigate the risks identified during the EDC audit.

2.2 Project scope

The following was agreed as the scope for this review:

- i) **Terms of Reference** – the Committees purpose, authority and responsibilities have been clearly documented on to provide sufficient guidance to members in executing their duties. Terms of reference are reviewed periodically to ensure that they remain relevant to current Committee practices.
- ii) **Composition** – the Committee composition is as per the agreed terms of reference or legislative requirements. Each meeting is sufficiently composed in line with the agreed quorum.
- iii) **Roles and Responsibility** – the Committee’s roles and responsibilities have been clearly defined, communicated and are adhered to by Committee members. The committee conducts self-evaluation at the end of the financial year to assess their performance.
- iv) **Reporting** – There are clear reporting lines (including public engagement) for the Committee to give an account of their performance. Frequency of reporting has been defined and is complied with consistently. This includes an annual report to the Legislative Council to provide a summary of Committees activities undertaken during the year.
- v) **Record Keeping** – Resolutions made during meetings are recorded and followed up during subsequent meetings. Minutes and timely prepared, approved and published for public inspection. A record is maintained for members meeting attendance.
- vi) **Training** – Members have been provided with training opportunities to effectively contribute to the Committee and hold officers to account.
- vii) **Sub-Committees** – Sub-committees established have documented guidelines which stipulate things like duration of existence, frequency of meetings required



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quorum, roles and responsibilities, membership and reporting mechanism to the main committee.

SHG has adopted the CIPFA/IFAC International Framework on Good Governance in the Public Sector and this was applied in the audit areas of interest for conformance to ensure that principles of good governance are being applied.

The period covered by the review was: 1 April 2018 to 31 March 2019.

3 Management's Responsibilities

Management is responsible for the establishment and maintenance of an effective system of governance to:

- Establish and communicate organisational goals and values;
- Monitor the accomplishment of goals; and
- Ensure accountability and values are preserved.

Management is further responsible for the establishment and maintenance of an effective system of internal control. The objectives of the system of internal control are, inter alia, to provide management with reasonable, but not absolute, assurance that:

- Effectiveness and efficiency of operation;
- Reliability of reporting;
- Compliance with applicable laws and regulations.

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control. It must, however, be recognised that there are inherent limitations in any system of internal control – including management override, human error and circumventions through collusion. The prevention and detection of fraud is therefore management's responsibility.

4 Process followed by Internal Audit

Internal Audit had an opening meeting with the EDC Chairperson to discuss the scope of the audit, and to ascertain if management had any other areas of concern.

Audit test procedures were developed and drafted based on the committee guidelines provided.

Weaknesses and process improvements identified were discussed with EDC Chairperson and Secretary as well as the Deputy Chief Secretary. A draft report was issued to Management for commentary, prior to issuing the final report.

Internal Audit accepts no responsibility for information which we may not be aware of or for which was not provided to us. The responsibility of ensuring the accuracy of the EDC processes rests with management.



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5 Limitation of Scope

The scope of this review is also subject to the following general limitations: -

- The work was undertaken using a risk based approach and testing was on a sample basis to verify compliance;
- Management representations made during the audit were considered to form part of our audit evidence;
- The review did not constitute a detailed review of the financial records;
- Internal audit work is planned with a reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However internal audit procedures alone, even when carried out with due professional care does not provide absolute assurance that material error, loss or fraud does not exist.

6 Recommendations Tracker

A recommendation tracker is maintained for all fundamental and significant findings. Updates for these findings will be sought for future meetings of the Audit and Risk Committee and evidence will be reviewed to substantiate the reported progress. Updates will also be sought for findings classified as Desirable but no evidence will be sought unless a full follow-up audit is being carried out.

7 Distribution

This report has been prepared for your information and accordingly we do not accept responsibility to any other party to whom the contents may be disclosed or who on their accord may decide to rely on it.

The final report will be distributed as per the table below:

Responsible person/s	Responsible to act on report	Information purposes
HE Governor		✓
Chief Secretary		✓
Financial Secretary		✓
Deputy Chief Secretary	✓	
Economic Development Committee	✓	
Attorney General		✓
Chief Auditor		✓

8 Executive Summary

The Executive Summary should be read in conjunction with the detailed report where more detail is/may be required. We summarise herewith the results of the internal audit review.



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Summary of findings

Finding	Action Priority	Agreed Action plans	Target dates	Reference to detailed finding:
No approved Terms of References for the EDC	Fundamental	Deputy Chief Secretary to chase the AG’s Chambers for advice, on receipt of which the Terms of Reference will be finalised.	30/04/20	A1
Committee meeting minutes and papers not made available to the public on the internet and in hard copy.	Fundamental	Deputy Chief Secretary to arrange meeting with the EDC Chairperson with view to agreeing that Secretary to EDC should publish open agenda, minutes and documents on SHG website and publish the availability of hard copies of the same which will be provided on request	31/03/20	A2
Self-assessments not being conducted by the Committee.	Significant	Deputy Chief Secretary to discuss recommendation with EDC Chairperson and Chairpersons’ Assembly	30/04/20	A3
Insufficient support resources available for the Committee	Significant	Deputy Chief Secretary to draft Terms of Reference for the review in liaison with relevant stakeholders; arrange for review	31/03/21	A4



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Finding	Action Priority	Agreed Action plans	Target dates	Reference to detailed finding:
		to be undertaken and report on findings		
Inadequate sub-committee terms of references. No appointment letters issued to Committee members.	Fundamental	Deputy Chief Secretary to arrange a meeting with the EDC Chairperson to discuss the matter with a view rectifying the issues raised in this report.	31/03/20	A5
Committee responsibilities not updated on the Council Committees (Constitution) Order.	Significant	Deputy Chief Secretary to discuss recommendation with Chairpersons' Assembly and AG with a view to making recommendations to the Governor as to how the Council Committees (Constitution) Order might be amended	30/04/20	A6



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Finding & Action priorities

All audit findings are given a classification according to the degree of significance of the finding that Internal Audit attaches to them. These classifications are defined as follows:

Fundamental: Findings and Actions that arise from fundamental weaknesses in the control system which expose the Accounting Officer to a significant risk of material loss or a failure to meet SHG objectives.

Significant: Findings and Actions that arise from other control weaknesses which expose SHG to some degree of risk of loss or failure to meet objectives.

Desirable: Findings and Actions concerning control weaknesses which, while unlikely to affect SHG corporately, could impact adversely at individual office level. The responsible manager is therefore exposed in terms of potential loss or failure to meet objectives.

Merits Attention: Findings and Actions that could help secure value for money or other improvements in the system under review.

Audit Opinion and Level of Assurance

On the basis of the agreed scope and the work undertaken, I can allocate a **No Assurance** rating on the adequacy and effectiveness of the control framework relating to this system. A number of **Fundamental** and **Significant** findings have arisen from the audits which provides clear evidence that controls are not operating effectively and that risks are not being effectively managed. SHG is exposed to an unacceptable degree of risk. We have identified 8 areas for improvement to strengthen the effectiveness in management and control within SHG. Definitions of assurance levels and action priorities can be found in the table below.

Level of Assurance

There are five levels of assurance used to conclude on the effectiveness of the governance, risk management and internal control in the area reviewed. They are:

Full assurance: The audit has found no evidence of any concerns and there are no reservations from the Head of Internal Audit & Risk about the scope of the review. It is concluded that systems in this area are operating effectively and the underlying risks are being properly managed.

Substantial assurance: Some issues have been found, or the scope of the audit work has been restricted to the extent that a full opinion cannot be given. Despite this, the overall opinion is positive and any identified control gaps are minor.



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Moderate Assurance: The audit has found that main systems and processes are operating adequately, but the number or nature of findings suggests that controls are not always fully effective. As a consequence SHG is exposed to some degree of risk.

Partial assurance: A number of significant findings have arisen from the audit which provides clear evidence that controls are not operating effectively and that risks are not being managed. SHG is exposed to an unacceptable degree of risk.

No assurance: Audit evidence suggests a significant breakdown in controls. Risks may already have crystallised or there is a high probability of such an occurrence in the future.

9 Root cause analysis

Internal audit is of the opinion that the main root cause for the weaknesses detected during the review is management oversight over the need to ensure effective controls are in place over the operations of the Committee.

10 Effective operation of controls identified during the audit

Section	Effective controls identified
Composition	<ul style="list-style-type: none"> At each meeting reviewed there were the required amount of Committee members (minimum of 3) needed to form a quorum.
Record Keeping	<ul style="list-style-type: none"> Meetings took place monthly for the period tested. Minutes were taken by the secretary. Minutes were signed off by the Chairperson. A summary of the items discussed is issued as a press release prior to the publication of the meeting minutes. Actions assigned to those in attendance at meetings were effectively followed up at subsequent meetings held. Declaration of interests is a standing agenda item at meetings.
Conflict of Interest	<ul style="list-style-type: none"> Declaration of personal interests is a standing agenda item for all Committee meetings.



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Sign Off

Draft report issued: 31 October 2019	Responsible Authority: Senior Internal Auditor
Final report released: 18 November 2019	Responsible Authority: Head of Internal Audit & Risk

Comments on report

Approve report for factual correctness and responsibility for corrective action:	Responsible Authority: Deputy Chief Secretary 12 November 2019
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This report has been issued to the persons mentioned above, on the dates indicated in paragraph 8 above. Management comments on our finding and process improvement recommendation (as listed in Section A), corrective actions and target dates have been included in the report.

The impact and recommendations contained in this report should not be considered as an exhaustive list, but should serve to highlight potential effects of issues identified and possible remedial actions to improve the current control environment.

Extracts from the executive summary and the management comments per section 7 of the final report will be included in the quarterly report to the Audit and Risk Committee.



11 Detailed Findings

A.1

No approved Terms of References for the EDC	
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Criteria

CIPFA/IFAC International Framework of Good Governance in the Public Sector (Principle E2) states:

Good governance requires clarity about the various organizational roles and responsibilities and how they are allocated between the governing body, management at all levels, and employees. Their respective responsibilities also need to be communicated to stakeholders. Clarity about roles helps stakeholders understand how the governance system works and who is accountable for what and to whom. The governing body should, therefore, publish a formal statement that specifies the types of decisions delegated to the executive and those reserved for the governing body.

Condition

The Terms of Reference in use by the EDC had not been finalised. At the time of the audit, the Committee Chairperson was liaising with the other Legislative Committee Chairpersons to agree on the allocation of Ordinances to be provided oversight by each of the Committees as well as on how to best address cross cutting issues.

Cause

The terms of references for all Legislative Committees were submitted to the Attorney General's (AG) office for a legal opinion regarding the allocation of Ordinances among the 5 Legislative Committees. This has been outstanding for over 2 years pending the AG's opinion.

Effect

In the absence of finalised and adopted terms of references, the Committee's roles and responsibilities will remain unclear. This may result in the non-achievement of the Committee's objectives.

Recommendation

We recommend that the finalisation of the terms of references should be prioritised in liaison with the AG's office. In future, Committee terms of references should be agreed and finalised once elected members have been sworn into office to ensure that there is clarity on their mandate from the onset of their term of office.

Management comment

As stated in this report, TORs for Council Committees were drafted a long time ago and advice is currently awaited from the AG's Chambers as to allocation of St Helena



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Ordinances to each of the Committees as per the Committee responsibilities set out in the Council Committees (Constitution) (No. 2) Order, 2013. There has been a high staff turnover in the AGs Chambers which has, no doubt, contributed to the delay in receiving legal advice. The Council Committee (Rules of Procedure) Order provides prescriptive guidelines on how Committee business should be conducted, so it could be argued that the lack of agreed Terms of Reference should not overly hinder the work of the Committee

Management action plans

#	Action	Responsible official	Implementation start date	Implementation completion date
	Deputy Chief Secretary to chase the AG's Chambers for advice, on receipt of which the Terms of Reference will be finalised.	Deputy Chief Secretary	November 2019	This depends on AG's Chambers providing advice. Will therefore work on assumption that advice will be forthcoming by March 2020, thus enabling this action to be completed by 30 April 2020.



A.2

Committee meeting minutes and papers not made available to the public on the internet and in hard copy.

Criteria

The Council Committees (Rules of Procedure) Order, 2010 states that:

“(3) Meetings shall be held in public except where, in respect of any item of business, the Chairperson directs or the Committee resolves that the public should be excluded because the nature of that business is such that it ought to be treated as confidential. (4) A direction or resolution under paragraph (3) may be made about the business of a future meeting, and the Chairperson shall make arrangements for the public to be made aware in advance of time and place of any meeting which includes items of business to be considered in public”.

Condition

Current meeting agendas and proceedings of EDC (recorded on meeting minutes) are not made available on the SHG website or in hard copy for public inspection. Members of the public may be unaware of the issues discussed at Committee meetings as well as resolutions made. The most recent minutes on the SHG website for the Committee were for the April 2019 meeting at the time of the audit.

Cause

Management oversight over the need to provide Committee documentation in hard copy for members of the public who cannot access them on the SHG website.

Effect

The Committee may be regarded as not acting transparently by the public who may be unaware of the Committees activities.

Recommendation

Meeting minutes and other publicly available Committee papers should be made available both on the internet and in hardcopy form at publicly accessible places such as the public library, community centres, clinics, shops etc.

Management comment

Will need to discuss with the Chairperson as to why current open meeting agendas and proceedings of EDC (recorded on meeting minutes) are not made available on the SHG website. We will need to consider the costs of printing and transport to deliver



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hard copies to the suggested venues. An alternative option is to ensure advance notice of meetings and open agenda items is published on radio and in newspapers, advising interested persons to contact the Secretary of the Committee if they require a hard copy of open agenda minutes and papers.

Management action plans

#	Action	Responsible official	Implementation start date	Implementation completion date
	Deputy Chief Secretary to arrange meeting with the EDC Chairperson with view to agreeing that Secretary to EDC should publish open agenda, minutes and documents on SHG website and publish the availability of hard copies of the same which will be provided on request	Deputy Chief Secretary	November 2019	31 March 2020



A.3

Self-assessments not being conducted by the Committee.

Criteria

CIPFA/IFAC International Framework of Good Governance in the Public Sector (Principle E2) states:

A governing body can improve its collective performance by periodically (at least annually) taking the time to step back and consider its own effectiveness.

Condition

The Committee does not conduct a self-evaluation to assess how well they are performing in achieving their mandate.

Cause

Management oversight over the need to periodically assess committee performance.

Effect

The Committee may fail to identify and rectify any underperformance by the Committee in the absence of self-assessment exercises.

Recommendation

Self-assessments should be performed annually. Any rectification actions identified from the review should then be implemented and tracked by the Committee.

Management comment

This recommendation will be discussed with EDC Chairperson with a view to amending the draft terms of reference to include requirement for Committee to undertake annual self-assessment.

Management action plans

#	Action	Responsible official	Implementation start date	Implementation completion date



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	Deputy Chief Secretary to discuss recommendation with EDC Chairperson and Chairpersons' Assembly	Deputy Chief Secretary	December 2019	30 April 2020
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A.4

Insufficient support resources available for the Committee

Criteria

CIPFA/IFAC International Framework of Good Governance in the Public Sector

Principle E3 states:

All members of the governing body should have the appropriate skills and knowledge to exercise leadership and to fulfil their roles and responsibilities. Non-executive members of the governing body should also be independent of management and free from any other relationships that would materially interfere with their role. All members of the governing body should receive appropriate introductory training tailored to their role. They also need opportunities to develop their skills further, such as improving their ability to challenge and scrutinize the entity's plans and actions and update their knowledge on a continuing basis. Their competency and attendance record are critical success factors for the effective functioning of the entities that depend on them. This is also the case for people who occupy these positions but are not, or only notionally, remunerated (volunteers). Individual members of the governing body should be held to account for their contribution through regular performance reviews, which should include an assessment of any training or development.

Principle E3 states:

The governing body and management team need to create an environment where staff can perform well and deliver effective services by fostering a positive culture that, for example, welcomes ideas and suggestions, responds to staff views, and explains decisions. It is important that staff members have realistic job descriptions to ensure that their core responsibilities can be effectively carried out. For example, a senior manager's core responsibilities should not be compromised by creating too wide a portfolio of duties. It is important that the senior managers responsible for performance have the authority to make the necessary decisions, are able to delegate tasks as appropriate, and have sufficient team support to assist them in their roles.

Condition

The Committee's secretariat is provided by a staff member of SHG Corporate Services. This is a shared resource who may fail to provide effective support to the Committee as a result of other competing priorities. There is also no resource in place to provide support to the Committee in researching any topical issues that may arise.

No budget has been allocated for the Committee for the purposes of training members to address any skill shortages that may have been identified.



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Cause

Committee secretariat has been historically performed by SHG staff members who have other full time roles. The effectiveness of the current arrangement has never been assessed as well as the need to provide elected members with a resource for research and a funding stream for training.

Effect

Insufficient resources may lead to failure by the Committee to achieve its objectives.

Recommendation

Management should review the current secretariat provision to the Committee as well as the need to provide resources for research and training.

Management comment

A review of the current secretariat provision will be undertaken but will be done in conjunction with the ongoing political reform work that is being led by Professor Jeremy Sarkin.

Management action plans

#	Action	Responsible official	Implementation start date	Implementation completion date
	Deputy Chief Secretary to draft Terms of Reference for the review in liaison with relevant stakeholders; arrange for review to be undertaken and report on findings	Deputy Chief Secretary	January 2020	31 March 2021



A.5

Inadequate sub-committee terms of references. No appointment letters issued to Committee members.

Criteria

Section 8 of the Council Committees (Rules of Procedure) Order, 2010 states that:

The Chairperson may appoint sub-committees, for such purposes as may from time to time conveniently be addressed or managed by a sub-committee.

CIPFA/IFAC International Framework of Good Governance in the Public Sector (Principle E2) states:

Good governance requires clarity about the various organizational roles and responsibilities and how they are allocated between the governing body, management at all levels, and employees. Their respective responsibilities also need to be communicated to stakeholders. Clarity about roles helps stakeholders understand how the governance system works and who is accountable for what and to whom. The governing body should, therefore, publish a formal statement that specifies the types of decisions delegated to the executive and those reserved for the governing body.

Condition

The Fisheries Legislation Committee terms of reference are not signed and dated. We therefore could not confirm whether the version provided was approved.

The terms of reference provided do not include the reporting mechanism to the EDC. Furthermore, they do not include the required meeting quorum or voting procedures.

No appointment letters were issued to members of the Committee when they were appointed.

Cause

Management oversight over the need to have detailed and approved terms or references and to provide sub-committee members with formal appointment letters.

Effect

Terms of references that are not approved can be regarded as null and void. In the case were committee members have not been provided with appointment letters, there



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may be lack of clarity on their expected roles and responsibilities. Decisions made by the sub-committee may be invalid.

Recommendation

The Committee should approve the sub-committee terms of references after making the necessary amendments to the current version. Appointment letters should be issued when sub-committee members are appointed and kept on file by the secretary.

Management comment

It is unfortunate that working groups/sub committees have been established without following proper procedure set out in the Council Committees (Rules of Procedure Order), 2010. Will need to understand how this sub-committee was established.

Management action plans

#	Action	Responsible official	Implementation start date	Implementation completion date
	Deputy Chief Secretary to arrange a meeting with the EDC Chairperson to discuss the matter with a view rectifying the issues raised in this report.	Deputy Chief Secretary	December 2019	31 March 2020



A.6

Committee responsibilities not updated on Council Committees (Constitution) Order



Criteria

Council Committees (Constitution) Order, 2013 states:

Economic Development Committee

Subject to relevant laws, and to policies of the Governor in Council, the Committee has policy responsibility for Government business concerning economic development, investment, tourism, agriculture, fisheries, labour market, communications (including media, telecommunications, postal services); shipping and port management; and for policy relating to any legislation relevant to those subjects.

Condition

The EDC responsibilities on Council Committees (Constitution) Order do not include air access and the digital strategy which fall under the Committee.

Cause

Air access and the digital strategy were not in place when the Council Committees (Constitution) Order was issued in 2013 and has not been updated.

Effect

Undefined responsibilities may lead to insufficient oversight being provided by the Committee which results in non-achievement of objectives.

Recommendation

Management should relook all Legislative Committee’s responsibilities to ensure that they are accurately allocated and any new responsibilities have been communicated and documented.

Management comment

Internal audit finding and recommendation has been noted.

Management action plans

#	Action	Responsible official	Implementation start date	Implementation completion date



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	Deputy Chief Secretary to discuss recommendation with Chairpersons' Assembly and AG with a view to making recommendations to the Governor as to how the Council Committees (Constitution) Order might be amended	Deputy Chief Secretary	December 2019	30 April 2020
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