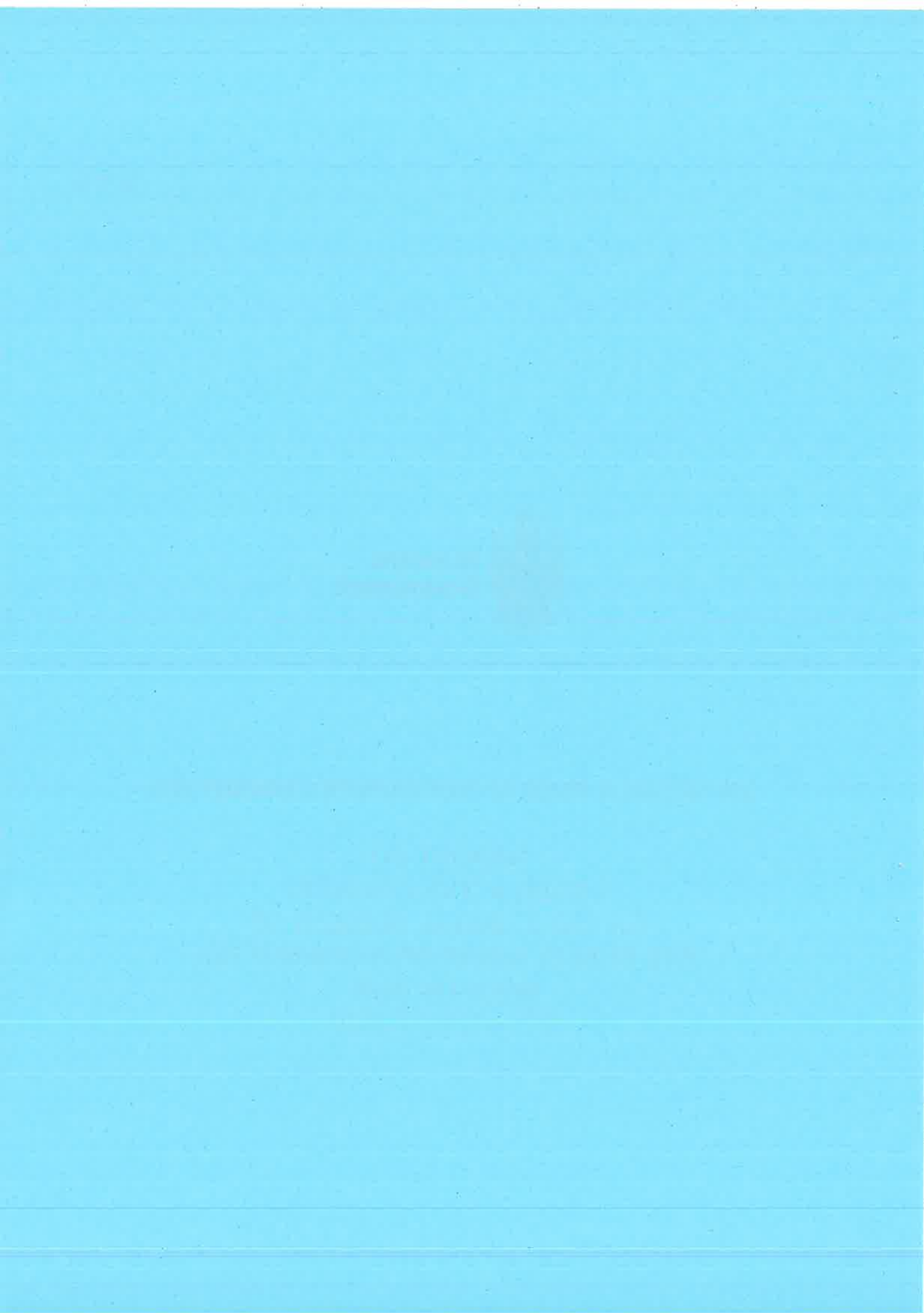




**St Helena
Government**

ST HELENA PUBLIC ACCOUNTS COMMITTEE

**REPORT TO
LEGISLATIVE COUNCIL
ON THE FORMAL SESSION OF
THE PUBLIC ACCOUNTS COMMITTEE
HELD ON THE
3RD AUGUST 2020**



St Helena Public Accounts Committee

Report to Legislative Council on the Formal Session of the Public Accounts Committee held on the 3rd August 2020

1. Introduction

In accordance with section 69 (6) of the Constitution of St Helena the Public Accounts Committee (PAC) hereby reports to Legislative Council on the Formal Session of the Committee, held on the 3rd August 2020.

Membership of the Committee comprises:

Chairman:	Mr Cyril Gunnell
Vice Chairman:	Mr Mark Yon
Members:	Hon Dr Corinda Essex
	Hon Brian Isaac
	Hon Jeffrey Ellick

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

A recorded copy of these proceedings can be found on the SHG website <http://www.sainthelena.gov.sh/public-accounts-committee/> and in the Public Library.

II. **St Helena Government (SHG) Financial Statements for 2018/19 and Audit Management Letter**

On 3rd August 2020, PAC examined the SHG Financial Statements for 2018/19 and the following persons attended to give evidence:

- Chief Secretary – Mrs Susan O’Bey
- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon
- Head of Finance – Miss Connie Stevens

The SHG Financial Statements for the year ended 31st March 2019 was prepared by the Financial Secretary in accordance with section 109(1) of the Constitution and section 10 of the Public Finance Ordinance. The SHG audited Financial Statements and Management Letter were then laid at Legislative Council on 26th June 2020, as Sessional Paper 24/20 and Sessional Paper 25/20 respectively, under section 29 of the Constitution and subsequently referred for PAC scrutiny under section 69 of the Constitution and Standing Order 23.

PAC enquired on the following issues from SHG management:

- Measures that were taken by management to obtain a valuation of the airport wharf and road infrastructure, such that the qualification could be resolved;
- How any impairment would be treated in the accounts;
- The process by which the valuer was appointed and any specific procurement specifications used, to ensure the expert had the necessary skills and qualifications;
- The amount of £7.2m received from the redemption of bonds held for Basil Read (Pty) Ltd – whether it was sufficient to cover the remaining scope of work left incomplete and the value of this work;
- The situation regarding the ownership of ex-Basil Read plant and vehicles and whether these vehicles should be used by SHG considering the ongoing negotiations;
- Reasons for the impairment to assets in the year amounting to £1.346m;
- The uncertainty over the financial support for 2020/21 received from DFID;
- Total recurrent expenditure amounting to £34.5m against a final appropriated budget of £36.5m, resulting in an overall underspend of over £2m;
- The reason a special warrant was approved on 17 July 2018, in the amount of £350,000, to provide working capital to the St Helena Hotel

Development Limited;

- Whether the termination payments of £236,000, payable to 4 employees represented value for money;
- How the Better Life Allowance works and was the £191,000 previously shown under benefit payments, now superseded by the BLA;
- The £564,000 losses on subsidiaries with a comparative loss of £712,000 in the prior year;
- The nature of the payments to Contractors of £8.7 million;
- The level of risk exposure on cash balance at bank of £4.9m and investments of £15.3m;
- Measures that were taken by management on loans receivable for housing and house purchase of almost £200,000;
- Whether SHG is receiving value for money for investment in Computer Hardware and Software at a cost of £1.2 million;
- The outcome of the review of the Airport Ground Based Augmentation System (GBAS) and an update on the Bremach Fire tenders;
- Property, Plant & Equipment for £118,000 in completed assets and £14,000 in capital additions, provision for litigation in the amount of £2.6m including new claims amounting to £857,000, and the Government Landlord Housing closing balance of £479,000;
- The General Reserve of the Consolidated Fund, which reported a balance of almost £6.2m;
- The Pension Reserve, which reported an unfunded liability of £74m and the Litigation Reserve, which reported an unfunded liability of £3.0m;
- Arrangements that were in place for the 2019/20 accounts preparation;
- Progress on 10 recommendations remaining from prior years and six new recommendations made by the Chief Auditor in the Management Letter;
- SHG responses to PAC recommendations.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these will be recorded in the 3rd August 2020 transcript.

In addition to the verbal evidence, SHG management committed to provide written responses on the following matters:

- An explanation on what caused the impairment to each individual asset in the year, amounting to £1.346m.
- A summary of inspections that was undertaken on the new Fire Tender to confirm that it would be fit for purpose.
- The cost of sending officers overseas to procure the new Fire Tender and the final cost of the procurement.

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

Main conclusions

- 1. PAC is pleased to hear the 2019/20 annual financial statements will incorporate the valuer's report for the valuation of the airport, wharf and roads infrastructure.** PAC remains optimistic this will clear the Chief Auditor's qualification from 2018/19, regarding infrastructure, amounting to £204 million in those accounts. SHG was not in a position to commit to indicating what effect this would have on the financial statements, as they had not received the final or draft reports yet however they did mention that should there be a fair value impairment it would be funded from the Consolidated Fund reserves. The consultant fees, to complete the valuation, was estimated to be between £50k – £60k. BDO had been appointed directly as the valuer after there was no uptake on the two previous open procurement processes.
- 2. PAC is concerned the current process with regards to asset impairments, will result in repeat audit findings around the regulatory requirement, to have asset write-offs exceeding £50,000 approved by the Secretary of State.** PAC noted that Corporate Finance is responsible for impairments, some of the impairments were only identified at year end and that it takes time to get approval from the Secretary of State. With SHG currently approaching the Secretary of State near year end, the risk will remain that asset write offs, which are above £50,000, will continue to remain unauthorised by the Secretary of State and there will be continued non-compliance with Section 17 of the Public Finance Ordinance, as a result.
- 3. PAC was concerned to hear the redemption of the bonds held with Basil Read (Pty) Ltd did not cover the scope of the remaining work at the Bulk Fuel Installation (BFI).** SHG stated, an independent review had been undertaken on the future use of the BFI. The remaining amount of costs to be incurred on the BFI could not be determined in the hearing. The review to determine whether to continue with the ship to shore option or go forward with the tank-tainer option would be completed at the end of the financial year. PAC notes that the ongoing legal dispute with Basil Read has not been resolved.
- 4. The majority of underspend on the general reserve, versus budget, was due to a reduced demand for variable services.** SHG indicated some of the underspend was related to call down contingency expenditure, or were

variable in nature such as overseas aero-medical referrals. However it was noted that a supplementary appropriation had been made for expenses related to TC posts and legal expenses related to the Basil Read litigation but ultimately these expenses were not incurred resulting in an associated withdrawal warrant.

PAC was concerned to hear the assumptions underlying occupancy rates of 37% - 45% at the Mantis Hotel might not have been realistic resulting in a Special Warrant of £350,000 being issued to support the hotel.

5. SHG stated, termination benefits paid were subject to non-disclosure agreements, as a standard practice in the year under review. **PAC is pleased to hear assurance from SHG in that it has amended the termination agreements going forward.** This will allow the Chief Auditor access to information and contracts, which serve as a support for these payments.
6. **PAC notes the Better Life Allowance is provided to individuals who have disabilities in the community.** SHG committed that the Directorate is currently reviewing the Better Life Allowance under the Social and Community Development Committee and it is understood, out of that process there is expected to come reassessments of existing client's benefits.
7. **Losses on subsidiaries of £564,000 in the financial statements relate to the Mantis Hotel.** SHG stated it was always expected the hotel would make losses in the first years of its existence but referenced previous hearings, which detailed the steps being taken to reduce the extent of the losses against the Covid-19 backdrop.
8. **Low returns from subsidiaries need to be considered against the socio economic objectives of these entities.** SHG stated, one needs to take into account the reason those entities were established in the first place and their wider role in the socio economic environment. SHG further commented on the development of a dividend policy by the Bank of St Helena and a review of dividends from other entities, such as Solomon & Company Plc. SHG committed to the consideration of receiving dividends from entities currently receiving subsidies, if they do become profitable. PAC noted there is no intention of appointing a Finance Director to each subsidiary, as SHG is of the opinion sufficient governance and oversight is being provided by the SHG Representative, appointed as non-executive director to each of the boards.

9. **The SHG State Owned Entity (SOE) policy has been implemented which looks at how SHG intends to deal with SOE's going forward.** PAC noted the intention of this policy is to dispose of holdings in the most efficient way going forward, bearing in mind the wider implications for the economy of the island as a whole. The Mantis Hotel and the SHG shareholding in Solomon & Company Plc have already been included in the ESH investor prospectus, as assets to be sold.
10. **SHG has entered into contracts with all Contractors but not all have Service Level Agreements.** SHG is of the view that contracts will contain the necessary specifications to enable monitoring of the performance of contractors. Furthermore performance management on contracts, has been identified as an area of weakness and it is hopeful a Contracts Manager role will be recruited shortly, as this function is currently being performed by officials who have other unrelated duties.
11. **Provisions for impairments for housing loans relate to loans which the Bank of St Helena was not prepared to take on, upon the bank's creation, due to their risk rating at the time.** SHG stated that non performing housing loans, against which £138,000 is provided, classed as bad, are subject to the debt collection process as per the Financial Regulations. SHG is of the view that repossessing properties is seen as the last resort, as SHG would have to provide housing for people affected in this process. The number of impaired loans amounted to twelve, out of an entire loan portfolio of thirty-two. SHG further confirmed that the debt collection process had been communicated to debtors in writing however difficulties were encountered with those debtors that reside off island. SHG however believes that the number of these debtors is less than five.
12. **The Ground Based Augmentation System (GBAS) review has been completed and the GBAS will not be put into use.** SHG stated they are in discussions with the supplier around the terms and conditions, which were included in the original contract and the intention is to return the asset to the supplier.
13. **The new fire appliance is on St Helena and is in use.** SHG stated the new fire appliance (which replaced the two Bremach fire engines, previously found not to be fit for purpose) had a technical issue when it first arrived on St. Helena however was rectified by the supplier as part of the original price of the contract.

The opportunity to combine the Airport and Ladder Hill fire teams had not been explored in the latest Medium Term Expenditure Framework process

however PAC considered this comment in the context of the current “Fit for the Future” functional alignment project, which is being undertaken to increase efficiencies and possibly decrease costs in the public service.

SHG further stated that the construction of a new fire station is not included in the EDIP programme for years one and two. Although the project would meet the criteria of the EDIP, priority would need be considered going forward. PAC however expressed concern that the definition, governing projects to be included in this programme, did not appear to be clearly defined.

14. **SHG have carried out an initial cost benefits analysis of moving to the cloud.** SHG was of the opinion there was a reluctance to do so after considering the sensitive information that would be placed in the cloud. Arrival of the terrestrial internet cable will further the interests of government. SHG also confirmed a cost benefit analysis was carried out before the decision was made to move to the terrestrial internet cable. SHG could not express an opinion on the future cost structure, for end users, at this point in time but confirmed the strategic objective is a decrease in cost and an improved experience to consumers.
15. **PAC was encouraged to hear SHG is taking lessons learnt from litigation against directorates as a means to decrease the number of cases in future years.** SHG is hoping that lessons learnt and the practices and procedures put in place following these cases, will result in a reduction of the provision for litigation in the accounts of SHG. SHG is exploring the means of recovering against medical malpractice insurances, to recover funds in cases, related to the provision of public health services.
16. **SHG does not intend to fund the unfunded liabilities for the Pension Reserve and the Litigation Reserve.** The expenditure associated with these provisions is included in the year’s expenditure budget.
17. **PAC is encouraged to hear, a significant proportion of the Government Landlord Housing Fund has been committed during the current financial year, as a means to provide social housing on the island.** SHG confirmed the Bottom Woods development is the beneficiary of this expenditure in terms of the relevant Comprehensive Development Area (CDA). The Half Tree Hollow CDA site is under discussion regarding a commercial arrangement with a potential investor. SHG also confirmed that the policy for selling Government Landlord Housing is still in operation.

18. PAC noted a number of prior year qualifications had been cleared in the 2018/19 years but was concerned to hear that the planned four-month account preparation period, for the 2019/20 financial year, had been exceeded. SHG stated that a challenge for the 2019/20 accounts preparation had been the valuation of the strategic assets. In addition, the pension valuation report had not been delivered on time as is normally the case, due to Covid-19 related challenges. SHG confirmed the 31st of December DfiD reporting deadline would not be met but had communicated this fact to DfiD, with a view to reporting at the end of March 2021.

19. PAC noted the new Finance Committee will have oversight of the financial statements. This will include responses to the Chief Auditor's recommendations, which will be laid as a Sessional Paper.

Recommendations

In relation to its scrutiny of the SHG Financial Statements for 2018/19 and Audit Management Letter, **PAC recommends that:**

1. SHG review the process around impairing and writing off assets to ensure sufficient time is allowed for the necessary approval from the Secretary of State, as prescribed by the Public Finance Ordinance.
2. SHG conclude the process on investigating and identifying those cases where funds can be recovered from medical malpractice insurance policies, in those cases where settled litigation expenditure related to medical malpractice suits.
3. SHG conclude their negotiations with the supplier of the GBAS navigation system to enable the recovery of such funds as are due in terms of the original contract.
4. SHG review their debtors and record the last communication with debtors around non-performing loans, following which the SHG debt collection procedures should be applied to these loans, which may include further communication in writing, clearly stating the risk that debtors properties may be dispossessed.
5. SHG prepare an asset management plan, for all directorates, that address the strategic assets replacement and maintenance scheduling needs of the island.

III. St Helena Currency Fund Financial Statements for 2018/19

On 3rd August 2020, PAC examined the St Helena Currency Fund Financial Statements for 2018/19 and the following persons attended to give evidence:

- Commissioner of Currency (Chairperson): Chief Secretary, Mrs Susan O'Bey
- Commissioner of Currency: Financial Secretary, Mr Dax Richards
- Commissioner of Currency: Deputy Chief Secretary, Mrs Gillian Francis
- Commissioner of Currency: Deputy Financial Secretary, Mr Nicholas Yon
- Currency Officer: Head of Finance, Miss Connie Stevens

The Currency Fund Financial Statements for the year ended 31st March 2019 was prepared in accordance with International Public Sector Accounting Standards (IPSAS) and audited by the Chief Auditor. The audited accounts were laid at Legislative Council on 6th December 2019, as Sessional Paper 40/19 and was referred for PAC scrutiny, under section 69 of the Constitution and Standing Order 23.

PAC enquired on the following issues from Currency Commissioners:

- The interpretation of section 18 of the Ordinance regarding the ambiguity in the determination of the surplus and the action SHG proposed to take in response to the recommendation raised by the Chief Auditor;
- The extent to which Commissioners review the performance of investment funds in comparison with benchmarks for an equivalent mixed maturity Gilt fund;
- Consideration of the appointment of an Investment Custodian to hold the investments separately from the Investment Manager;
- Previous PAC recommendations, Nos 35, 126 and 199, regarding the assessment of the comparison of the St Helena currency versus pound Sterling;
- The reason for £101,000 of soiled notes held in the vault to be destroyed, when cash destruction procedures indicate that soiled notes should be considered for destruction when the amount reaches £100,000;
- How Commissioners in practice manage their conflicting ex-officio interests with respect to SHG Treasury and the Currency Fund.

PAC received explanations and assurances for the above mentioned enquiries from the Currency Commissioners and these have been recorded in the 3rd August 2020 transcript.

In addition to the verbal evidence the Currency Commissioners committed to provide written responses for the following matters:

- To check on background inflation rates in the UK.
- To check if the report on the St Helena pound versus the pound Sterling, is able to be issued to the PAC.

Based on the responses provided by the Currency Commissioners the below main conclusions are drawn, with recommendations proposed after PAC deliberations.

Main conclusions

- 1. The Commissioners of the Fund are of the view that Section 18(1) is not ambiguous when it comes to the determination of the statutory surplus and the meaning of ‘moneys’ and ‘employed’.** The Commissioners however did state they would take this issue under review again.
- 2. The Commissioners confirmed they review the quarterly fund performance statements in their quarterly meetings and PAC were pleased to hear the Fund Commissioners include qualified professionals who have the skills to interpret these reports.** The Commissioners confirmed that Investments during the 2018/19 year made losses in all spheres and losses in the Fund were consistent with this investment climate. The objective of the investment is stability which means that lower returns are obtained on investments.
- 3. The Commissioners are of the view that it is not necessary to separate the functions of Investment Custodian and Investment Manager with respect to its investment held with Crown Agents Investment Management Limited (“Crown Agents”).** The Commissioners stated they foresaw this reducing returns or increase costs but could not quantify these effects. The investment management agreement, with Crown Agents, was last market tested in 2016 to see whether fees and charges were competitive. The fee structure, past relationship and regulatory environment with Crown Agents was stated as the reason for the Fund continuing the management agreement.
- 4. The technical assessment, whether to implement pound Sterling or keep the St Helena pound, has been completed.** The outcome of the report however did not make any recommendations in respect of the currency itself but rather dealt with the underlying banking issues. The Commissioners are of the view that they have sufficient notes and coins in inventory, and that commission costs to purchase Sterling on St. Helena should be seen against the costs to import Sterling to the island.

5. **When considering whether or not to institute soiled notes destruction procedures, the Commissioners consider factors such as the remaining space to store soiled notes and the cost of implementing the cash destruction procedure.** PAC were reassured by the Commissioners assertion that these soiled notes are securely stored. The cash destruction process has a Police escort to ensure that no notes are not destroyed, along with the attendance of Internal Audit to provide further external assurance.

Recommendations

In relation to its scrutiny of the St Helena Currency Fund Financial Statements for 2018/19, **PAC recommends that:**

1. The Commissioners review Section 18(1) of the Currency Fund Ordinance with regards its definition of “moneys” and “employed” against the backdrop of the Chief Auditor’s emphasis of matter in his latest audit report.
2. The report on the review on whether Pound Sterling is implemented be published. Although SHG stated the report has been completed it is yet to be published. PAC recommendations 126 and 72 refers.

IV. **Performance Audit Report: Procurement of the Fuel Management Contractor (Recall)**

On 3rd August 2020, PAC recalled the Procurement of the Fuel Management Contractor and the following persons attended to give evidence:

- Financial Secretary – Mr Dax Richards
- Airport Director – Miss Janet Lawrence
- Project Manager, Ruperts – Miss Tracey Williams

The Performance Audit Report on Procurement of the Fuel Management Contractor, numbered sessional paper 34/19, was laid at Legislative Council on 6th December 2019 and referred for PAC scrutiny, under Standing Order 23. Evidence on this report had been taken at the PAC session held on 27th April.

SHG had previously explained the substantive contract envisaged for managing the BFI had never become operative. PAC had since learned that SHG had given formal notice to terminate the fuel management contract with Penspen Ltd, this latest development being subsequent to the PAC hearing held on 27th April.

PAC enquired on the following issues from SHG management:

- The decision to terminate the current arrangement with Penspen Ltd and the date this would take effect;
- Who would be engaged to manage the aviation fuel supplies from that date;
- The procurement processes applied to engage this new contractor;
- The processes that would be used to appoint a substantive contractor, should this be an interim arrangement, for the new fuel system when the BFI is eventually completed.

PAC received explanations and assurances for the above mentioned enquiries from SHG management and these have been recorded in the 3rd August 2020 transcript.

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

Main conclusions

1. **SHG attempted to draw up a new scope of works for the Fuel Management Contractor (Penspen Limited) which more closely resembled the current reality of activities that need to be performed under the contingency arrangements that are currently in place.** SHG also

tested the market with this scope of work not as a retendering assurance exercise but rather as a means to provide quality assurance over the Penspen Ltd bid on the newly defined scope of work. Penspen Ltd provided a proposal that did not conform to the newly defined scope of work and after a period of consultation with them, it was concluded there was not a “meeting of minds”. One of the proposals that was submitted, via the market comparison exercise, was more aligned to SHG’s scope of work and a proposal was put to the Procurement Board to appoint that contractor.

The definition of the new scope of work started in September 2019 and is focused on aviation fuels with Solomon & Company Plc, maintaining ground fuels at the existing BFI, until the new BFI is completed whereupon a new contract will be entered into with the FMC to handle both ground and aviation fuels.

2. **With regards the future use of the new BFI, SHG is considering the two options in the Arup report being the “ship to shore” and “tank-tainer” options.** The result of this consideration will impact whether all or only some of the new BFI will ultimately be utilised.
3. **The planned start date for the new FMC is 1st October 2020 with a planned interim contract of two years.** It is the intention to enter a competitive procurement process when the new BFI is completed and the full scope of works (ground and aviation fuels) is entered into.

3. Concluding Remarks

PAC acknowledges the work of the Chief Auditor and staff, and attending officers of St Helena Government, in assisting with this sessional report.

This sessional report on PAC proceedings held on 3rd August 2020 is hereby authorised for issue to Legislative Council in accordance with section 69(8) of the Constitution of St Helena.



Cyril Gunnell
Chairman

28 September 2020

