



**St Helena  
Government**

**PUBLIC ACCOUNTS COMMITTEE**

**REPORT TO LEGISLATIVE COUNCIL  
ON THE FORMAL SESSION OF THE  
PUBLIC ACCOUNTS COMMITTEE  
HELD ON 1<sup>ST</sup> FEBRUARY 2021**



# St Helena Public Accounts Committee

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## Report to Legislative Council on the Formal Session of the Public Accounts Committee held on 1<sup>st</sup> February 2021

### 1. Introduction

In accordance with section 69 (6) of the Constitution of St Helena, the Public Accounts Committee hereby reports to Legislative Council on the Formal Session of the Committee, held on the 1<sup>st</sup> February 2021.

Membership of the Committee comprised:

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

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

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

## **2. Order Paper**

- I. Chairman's Address
- II. Government of St. Helena – Statement of Expenditure in Excess, Financial Year 2019/20, Sessional Paper 36/20:
  - Children & Adults Social Care Directorate
  - Health Directorate
- III. Follow-up on Corporate Governance of the St Helena Government Group Entities

## **I. Chairman's Address**

The Chairman opened the meeting and welcomed all in attendance plus those listening over the radio, thanks were extended to South Atlantic Media Services (SAMS) for broadcasting the formal hearing.

For the benefit of first time listeners, the Chairman explained that PAC is a Select Committee of Legislative Council in accordance with section 69 of the Constitution and Standing Order 23, the PAC's function is statutory. Its primary function is to objectively scrutinise how the Government spends the public purse and has the power to call any Government official to give evidence orally. The PAC is protected to act independently and is not subject to the directions and control of the Governor, the Executive Council, or any other body or authority.

The Chairman added that the scrutiny role of PAC is seen as a mainstay of good governance in terms of holding government to account thus highlighted further training PAC had received. Under the second phase of the UK Overseas Territories Programme, funded by the Foreign Commonwealth and Development Office (FCDO), PAC received training on financial scrutiny during November and December 2020, being beneficial in future scrutiny. Due to the current pandemic, this training was for the first time delivered virtually, which the Chairman felt proved successful.

The composition of the committee was then specified, along with the key advisors and administrative support. The Chairman also informed of the absence of a member through illness. To ensure the Committee operated independently and free from any bias or conflict of interest, he also advised that arrangements had been made for temporary members to cover for PAC members conflicted by the items of business under scrutiny.

The Chairman stated this was the first formal session of PAC for 2021 and a report on the previous meeting held in 2020, would soon be presented to Legislative Council.

The Chairman then moved on to explain both items of business under scrutiny and concluded the session by stating that PAC would review the evidence heard and prepare a report to Legislative Council on its findings.

The evidence taken on 1<sup>st</sup> February 2021 is summarised below:

## **II. SHG Statement of Expenditure in Excess for 2019/20**

On 1<sup>st</sup> February 2021, PAC examined the SHG Statement of Expenditure in Excess for 2019/20 and the following persons attended to give evidence:

- Financial Secretary – Mr Dax Richards
- Deputy Financial Secretary – Mr Nicholas Yon
- Director of Children & Adults Social Care – Mrs Tracy Poole-Nandy
- Deputy Director of Health – Mrs Helen Lawrence

The applicable section, 106 of the Constitution, states “Where at the close of accounts for any financial year it is found that monies have been expended on any expenditure vote in excess of the amount appropriated for it or for a purpose for which no monies have been appropriated, the amount of the excess expended, or not appropriated, as the case may be, shall be included in a statement of expenditure in excess which shall be laid before the Legislative Council and referred to the Public Accounts Committee”.

Accordingly, the Financial Secretary laid Sessional Paper No 36/20, SHG Statement of Expenditure in Excess for 2019/20, before Legislative Council on 16<sup>th</sup> October 2020.

PAC enquired on the following issues from SHG management:

### **Corporate Finance**

- An understanding of the budgetary outturn for the year and the authorisation process to give awareness to the listening public;
- The nature of the Expenditure in Excess, arising in the year 2019/20 and the overall recurrent expenditure outturn for the same year, based upon the draft statement of comparison of budget and actual amounts;
- Why so many Heads are reporting large underspends against budgeted amounts and why some departments are unable to accurately forecast their outturn, noting the approved supplementary appropriation of £305,000 in January 2020;
- The acceptable degree of budget variance to actual at year end;
- An explanation on how these amounts were incurred without cover of an appropriation and the point at which the Financial Secretary was notified of an excess head;
- Whether the Governor had been notified in writing on the breakdown of controls that resulted in Expenditure in Excess in the 2019/20 financial year, in accordance with the Public Finance Ordinance;

- Whether consideration had been given to surcharge recovery under section 19 of the Public Finance Ordinance.

### **Children & Adults Social Care Directorate**

- The nature of and reason for incurring expenditure in excess, arising in the year 2019/20;
- The point at which expenditure in excess was identified and the Financial Secretary notified that services could not be delivered within the limit of the appropriation, as required by section 12(2) (i) of the Public Finance Ordinance;
- Why a further £42,000 was requested and not included with the earlier £41,000 supplementary bid, as approved in February 2020;
- Any underlying problems with financial forecasting and budgetary control;
- The type of controls in place to ensure the directorate does not overspend its authorised allocation.

### **Health Directorate**

- The nature of and reason for incurring expenditure in excess, arising in the year 2019/20;
- The point at which expenditure in excess was identified and the Financial Secretary notified that services could not be delivered within the limit of the appropriation, as required by section 12(2) (i) of the Public Finance Ordinance;
- Why a further £192,000 was requested and not included with the earlier £72,000 supplementary bid, as approved in February 2020;
- The type of controls in place to ensure the directorate does not overspend where the costs are demand led;
- Any parallels that could be drawn with overspend on medical referrals in 2016/17 and 2017/18;
- The current trend with medical referrals overseas in terms of numbers and cost per case;
- Whether overspend was in any way attributed to the pandemic.

PAC received explanations and assurances for these enquiries. In addition to the verbal evidence, SHG management committed to provide written responses on the following matter:

- The overall recurrent expenditure outturn for the year 2019/20 based upon the draft statement of comparison of budget and actual amounts.

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

## **Main conclusions**

### **Corporate Finance**

- The Financial Secretary provided PAC with the context to the Expenditure in Excess for 2019/20 for the following Heads:
  - Health: The original budget appropriation was £5.586 million with a supplementary appropriation resulting in a final budgeted amount of £5.658 million. Actual expenditure at 31 March 2020 amounted to £5.850 million resulting in expenditure in excess of £191,755.
  - Children and Adults Social Care: The original budget appropriation was £3.003 million which was increased to £3.044 million in the final budget via a supplementary appropriation. Actual expenditure of £3.089 million resulted in expenditure in excess of £45,215.
- PAC were also informed that underspending on other heads was largely related to Air Access and Technical Co-operation (TC) expenditure lines and the £1.5m risk contingency on the Finance Head being authorised but not vired. He added, ideally they would like to incur a budget variance of 5% or less however there were items they had no control over.
- The Financial Secretary explained that excess expenditure had been incurred in the last two months of the financial year and therefore only identified after 31 March 2020. It had not been forecast, as the nature of the expenditure was demand led. He further advised that the excess would be funded from the General Reserve.
- PAC concluded that the Financial Secretary had advised recovery through surcharge was not appropriate for these two heads. The Financial Secretary also confirmed he had notified the Governor of the expenditure in excess as per Section 11(1) (h) of the Public Finance Ordinance.

### **Children & Adults Social Care Directorate**

- The Director informed PAC that expenditure in excess of £45,215 was due to differences in the forecasted expenditure and actual invoices received. In context, at that point in time, the Directorate itself lacked



sufficient capacity as well as management accounting support, to give proper guidance to the complete forecasted expenditure for the year.

- The Director also provided context to the increase in expenditure, as the directorate had grown in the last two years, as a result of the demographics of the island and the need to respond to the increased demand for social services.
- In alignment to the above statement, PAC noted that excess expenditure was only identified after year end.

### **Health Directorate**

- The Deputy Director informed PAC that expenditure in excess was in relation to overseas medical referrals, which is an unpredictable expenditure line item. She explained there were 59 referrals in the 2018/19 financial year whereas in 2019/20, 112 patients were referred off shore. 12 cases left the island in March 2020 alone, which was also more than expected.
- With the arrival of the Covid-19 pandemic only 30 patients had been referred to date in 2020/21 due to South Africa only taking patients in the emergency evacuation category. Patients are now treated in the United Kingdom, with only category 1 higher risk patients being referred overseas. PAC was concerned to hear a backlog of category 2 and 3 patients were waiting to be treated as a result of the pandemic.
- The Deputy Director informed PAC that the average cost of a referral was about £18,000 but had on occasion gone as high as £163,000. PAC was concerned to hear the Health directorate does not receive interim statements, which would enable them to accurately forecast the cost per patient, until the final bill is invoiced by the medical supplier.
- PAC heard there is an overseas medical referral policy and a referral committee in place, to determine who is eligible for overseas medical treatment and undertake prioritisation.

### **Recommendations**

In relation to its scrutiny of the SHG Statement of Expenditure in Excess for 31 March 2020, **PAC recommends that:**

1. The excess recurrent expenditure be allowed to stand charged to public funds for the financial year 2019/20 as follows:
  - Head 23: Health in the amount of £191,755;
  - Head 29: Children and Adults Social Care in the amount of £45,215.
2. SHG amend their budget monitoring procedures, to require that overseas medical services suppliers provide monthly interim statements on unbilled services provided, to assist in effective budget monitoring. It is expected for this recommendation to be implemented once the Covid-19 pandemic has abated and overseas medical referrals are occurring as per the pre-pandemic procedure.

### **III. Follow-up on Corporate Governance of the St Helena Government Group Entities**

On 1<sup>st</sup> February 2021 PAC scheduled a follow-up session on the Corporate Governance of the St Helena Government Group Entities 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
- Finance Business Manager – Mr Brian Deadman (SHG Non-Executive Director on Board of SHG Entities)

Following the Chief Auditor’s report on the Corporate Governance of the St Helena Government Group Entities, Government had accepted the findings of the Chief Auditor in its entirety and were intent on addressing the recommendations made. Subsequently PAC held a hearing in August 2018 and a report was laid before Legislative Council, as Sessional Paper 05/19. To underpin their commitment the Chief Secretary furnished PAC with a detailed action plan in May 2019, in which all recommendations were due to be addressed by either June 2020 or December 2020.

PAC examined the progress made on the implementation of these recommendations and enquired on the following issues from SHG management:

- The SHG Action Plan on the Governance of the SHG Group Entities, dated March 2019, in response to the Chief Auditors report contained in Sessional Paper No 14/18;
- An update on the recommendations which have not been implemented;
- SHG’s Ownership Policy for Wholly Owned State Entities, approved by Executive Council in November 2019 and whether it was proving adequate in design and effective in operation;
- Follow-up of PAC recommendations, contained in Sessional Paper 05/19.

PAC received explanations and assurances for these enquiries. Based on the responses provided by SHG management the main conclusions are drawn below, with recommendations proposed after PAC deliberations.

#### **Main conclusions**

- **The adoption of the Ownership Policy was intended to address most of the recommendations in the Chief Auditor’s report *Corporate***

***Governance of the SHG Group Entities*** (herewith referred to as “**the report**”). The Chief Secretary stated SHG had undertaken significant work to firm up governance of the State Owned Entities (SOEs). She added that SHG’s finalisation and adoption of the Ownership Policy (the Policy) not only addresses the recommendations in the report but also marks a step change in the manner in which SHG interacts with the entities it owns. SHG made the point that the Policy only applies to entities wholly owned by government and not those partially owned, such as Solomon & Company. SHG has no intention of drafting a policy for partly owned entities however they may opt to voluntarily adopt the existing policy.

- **However out of 10 outstanding recommendations in the report, 7 still require work by SHG to implement.** Officials provided an update on all 10 outstanding recommendations.
- **The Policy in its current form will require updating due to changes in SHG’s governance structures and to sharpen up areas where permissive policy is allowing divergent arrangements to continue.** It emerged in several places throughout the hearing that the Policy, endorsed and published in November 2019, is now out of date. For example, section 1 of the Policy states that the annual performance report of the SOEs should be presented to the Chairperson’s Assembly. Officials explained that the performance report is now reviewed by the newly created Finance Committee.
- **Performance management of the group entities is still not formally set out in MOUs, although performance monitoring is starting to bed in.** The Finance Business Manager (FBM) outlined the way in which SHG can influence the strategic planning of the SOEs in order for the public interest and public policy objective to be incorporated into the long term plans. He explained that each entity has a strategic plan and the direction of travel in this document is steered by SHG’s 10 year plan. The owner requires that public policy is featured in this plan. Elected members are invited to participate and share their views during the strategic planning process and the relevant committees sign off the strategic plans of each entity.

The FBM explained his role in exercising ownership right as Non-Executive Director on the Boards of SOEs. The FBM represents the owners steer as prescribed by Governor in Council through the Financial Secretary. He then uses his negotiating position on the boards to ensure

decisions are made with the best interest of the island in mind and if he has sufficient concerns, escalation routes are in place.

Whilst PAC were somewhat satisfied this process is beginning to bed in, there remains concern that the ownership policy is overly permissive allowing each entity to develop their own arrangements bottom-up rather than applying a consistent framework top-down.

One example being the “horses for courses” nature of performance agreements which measure how well the entities are performing against their policy objectives. PAC were pleased to hear that quarterly dashboard reporting is taking place and the first annual report on SOEs has been produced thus would like to see these documents used as means of engaging with the entities. PAC disagrees however that there does not need to be formal agreements for all SOEs and the Policy on its own is too light on the requirements for performance management. Indeed, in the one area where the Policy prescribes the need for a formal agreement – the adoption of the policy itself by each Entity – this is not being done.

- **SHG’s policies on board appointments and remuneration are still weak, despite numerous recommendations by the PAC and the Chief Auditor.** PAC has recommended on a number of occasions, for an appointments authority and an open and transparent board appointment process to be established, to ensure consistent high quality board appointments are made.

It is SHG view that companies are best placed to decide who sit on their boards. The Non-Executive Director for SOEs offers sufficient representation for the owner on each board however PAC remain concerned that some statutory bodies may have better processes for board appointments than others and thus are able to recruit better talent.

Officials stated, the Policy recognises director’s remuneration should be commensurate with the role and therefore do not believe that a “one size fits all” approach would work – each entity has their own policies for remuneration. Officials did however agree this was work in progress and remuneration for various directors is often based on legacy contracts. The issue becomes even more sensitive when differentiating between entities with and without government subsidies. PAC believe remuneration should not be inconsistent with public service terms and conditions for senior managers and intervention is required where significant divergence is apparent.

PAC were concerned with the SHG policy for its own staff serving on the boards of SOEs. Management stated that only the FBM sit on the boards, meaning there is no need for a policy. However it later emerged that two members of SHG staff do, who were described as “middle management”. These individuals attend in their private capacity and are remunerated by the entities themselves, separate to their roles within SHG however this can still be monitored by the FBM’s role on the boards. PAC were also concerned about potential conflicts of interest arising particularly where senior officials sit on boards, even in their private capacity.

- **SHG has received a clear steer from Executive Council to divest all of its major investments.** Throughout the meeting, management stated they had had instructions from the Governor in Council to divest as much of SHG’s interests as possible therefore officials have been working to implement this policy of divestment. SHG claimed its trajectory is moving in this direction e.g. SHG no longer owns the St Helena Fisheries Corporation, Enterprise St Helena is coming to the end of its life and expressions of interest for SHG’s shares in Solomon & Company and St Helena Hotel Development Ltd have been publicised. In any major disposal it is important that best value is secured for the public purse through application of due process and expert professional advice. In addition suitable arrangements should be established to protect the public interest whether in the case of monopoly supply or from anti-competitive behaviour.
- **SHG is finding it challenging to implement dividend policies for the entities it owns.** There is a real concern that the group entities are not performing financially and are not delivering a reasonable return on the public capital investment made in the form of sustainable and predictable dividend yield as anticipated by the policy. In the 2018 report the Chief Auditor had recommended that an executive finance director be appointed to drive financial performance and efficiency within the management teams. PAC remain unconvinced by the counter arguments in the light of reported performance and do not see a barrier in a shared finance director being engaged by the entities. A clear expectation should be set by the owner on dividend policy and where boards are not aligned with this expectation then changes in director appointments should follow.
- **Formal accountability arrangements for the SOEs are weak, and must urgently be strengthened as a matter of public interest.** The Ownership Policy only requires accounts of the SOEs to be laid before the “relevant committee” rather than Legislative Council, which would

enable PAC scrutiny. There is also still no requirement for the auditors of the entities to be approved by the Chief Auditor, which leaves scrutiny of the accounts and assurance arrangements potentially at risk of low quality audits. There is a clear ethical conflict where directors are recommending an audit appointment, which is why formal shareholder approval is normally required – any such decision should be made with approval of the Chief Auditor as to the suitability of the auditor in the public interest.

## **Recommendations**

In relation to its scrutiny on progress of the Corporate Governance of the St Helena Government Group Entities, **PAC recommends that:**

1. SHG should update its time bound action plan, to address the remaining recommendations in the Chief Auditor's report and provide an update to PAC.
2. SHG should review and update the Policy based on new governance structures, other developments and the recommendations contained in this report. It should also review the Policy for any inaccuracies. The Policy should be reviewed in this manner on an annual basis.
3. Recognising the inherent conflict of interest presented, SHG should develop a policy for staff appointments to the boards of SOEs, which disallows senior management to be appointed to Boards in a personal capacity.
4. SHG should strengthen accountability arrangements by requiring, as a matter of Policy, SOE audited accounts to be laid before Legislative Council and for proposed auditors to be pre-approved by the Chief Auditor.

### 3. **Concluding Remarks**

PAC acknowledges the attending officers of St Helena Government, in giving evidence in response to lines of enquiry and the work of the Chief Auditor and staff in assisting with the production of this report to Legislative Council.

This report is hereby authorised for issue to Legislative Council pursuant to section 106(2) and section 69(8) of the Constitution of St Helena.



Cyril Gunnell  
Chairman

18 March 2021





