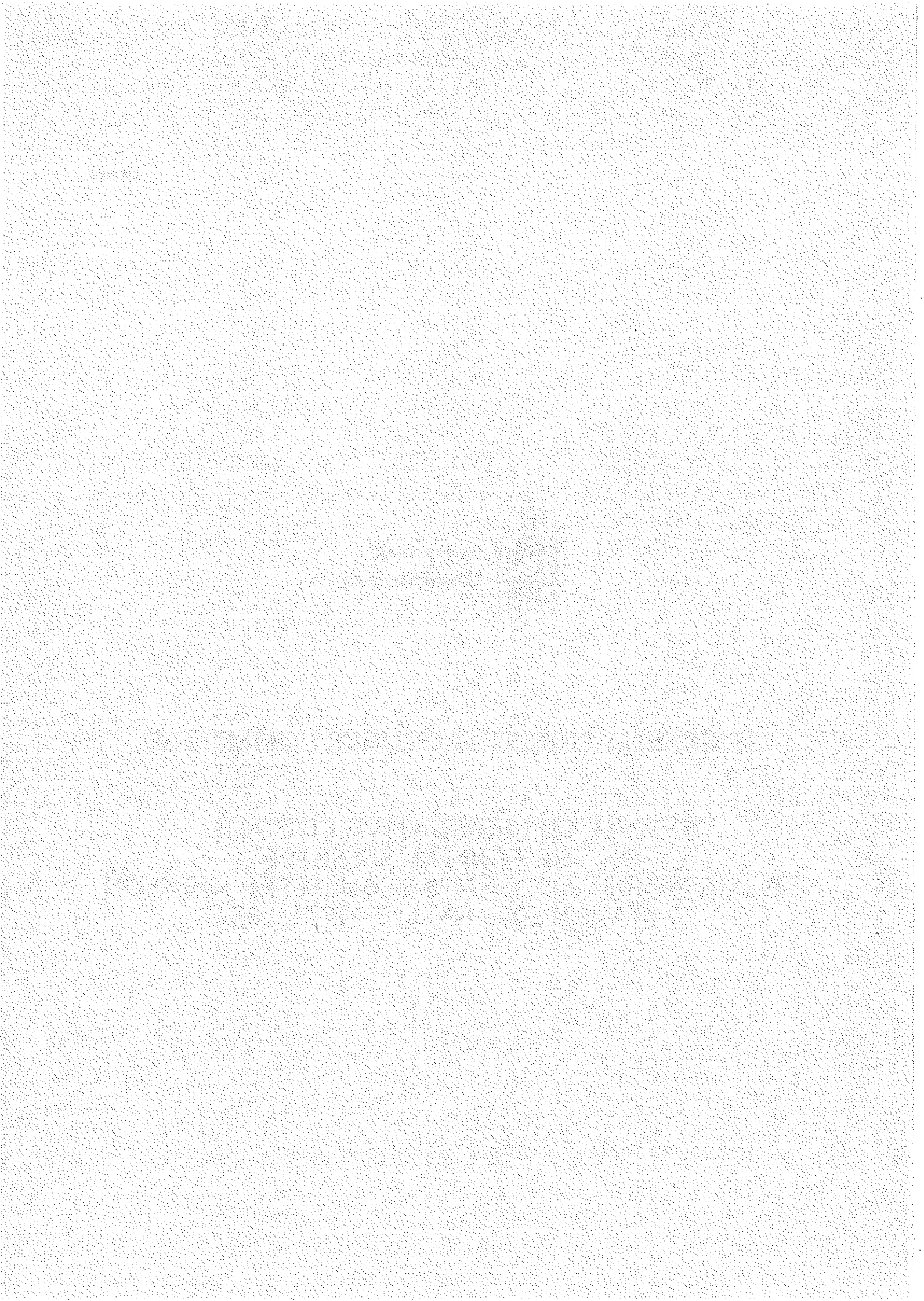




St Helena
Government

ST HELENA PUBLIC ACCOUNTS COMMITTEE

**REPORT TO LEGISLATIVE COUNCIL
ON THE FORMAL SESSIONS
OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON
2 MARCH 2022 AND 27 APRIL 2022**



St Helena Public Accounts Committee

Report to Legislative Council on the Formal Sessions of the Public Accounts Committee held on 2 March 2022 and 27 April 2022

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 2nd March and 27th April 2022.

Membership of the Committee comprises:

Chairman:	Mr Mark Yon
Vice Chairman:	Mr James Kellett
Members:	Hon Dr Corinda Essex
	Hon Gillian Brooks
	Hon Karl Thrower

PAC is advised professionally by the Chief Auditor, Mr Brendon Hunt.

A transcript of these proceedings will be made available on the SHG website and in the Public Library.

2. Order Paper – First and Second Sessions 2022

I. Chairman's Address

2 March 2022

- II. St Helena Government 2019/20 Audited Annual Financial Statements and Audit Management Letter

27 April 2022

- III. Continuation of St Helena Government 2019/20 Audited Annual Financial Statements and Audit Management Letter (IT Section Manager)
- IV. Government of St. Helena – Statement of Expenditure in Excess Financial Year 2020/21 (Sessional Paper 4/2022)
- V. St Helena Government Currency Fund Annual Financial Statements, 2019/2020 (Reported Separately)

I. Chairman's Address

The Chairman opened both meetings and welcomed all. Thanks were extended to South Atlantic Media Services (SAMS) for broadcasting the session live.

For the benefit of first-time listeners, the Chairman explained that PAC is established by section 69 of the Constitution and operates under Standing Order 23. The Committee's primary function is to objectively scrutinise the Government's stewardship of the public purse and has the power to call any government official to give evidence orally. PAC is protected to act independently and is not subject to the direction or control of the Governor, the Executive Council, or any other body or authority. Through these statutory provisions the scrutiny role of PAC serves as a mainstay of good governance, holding Government and other public bodies to account.

The composition of the Committee was highlighted with the following five permanent members:

Chairman	Mr Mark Yon
Vice Chairman	Mr James Kellett
Member	Hon Dr Corinda Essex
Member	Hon Gillian Brooks
Member	Hon Karl Thrower

Mr. James Kellett was unable to attend the first session due to being overseas.

Assisting in the business of the PAC were the Chief Auditor, Mr Brendon Hunt and the Clerk, Miss Anita Legg.

These were the first and second formal sessions of the new PAC, constituted following the General Election in October 2021 and the Chairman took the opportunity to thank former Committee Members for their exemplary work.

The first sitting focused upon the accounts of St Helena Government for 2019/20. This continued into the second sitting focusing on evidence given by the IT Manager. The second sitting also focused upon the Statement of Expenditure in Excess for 2020/21 and the St Helena Government Currency Fund Annual Financial Statements for 2019/20, the latter of which is being reported on separately.

ii. **St Helena Government (SHG) 2019/20 Audited Annual Financial Statements and Management Letter**

On 2nd March 2022, PAC examined the SHG Financial Statements for 2019/20 and the following persons attended to answer questions:

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

The SHG Financial Statements for the year ended 31 March 2020 were audited and finalised on 21st June 2021 and laid before Legislative Council on 16th July 2021 as Sessional Paper 34/21, under section 29 of the Constitution. The Chief Auditor’s Management Letter was also laid before Legislative Council on 16th July 2021 as Sessional Paper 35/21. These were then referred for PAC scrutiny under section 69 of the Constitution and Standing Order 23.

The financial statements were the first to be reported as unqualified by the Chief Auditor since SHG adopted the IPSAS reporting standards in 2011/12 and therefore represent a major achievement in improving the quality of public financial reporting in St Helena.

PAC enquired on the following issues from SHG management:

1. The composition of and actions taken to recover accounts receivables of £398k provided for as potentially bad;
2. The Ground Based Augmentation System (GBAS) refund of funding related to its non-certification;
3. Closure of the St Helena Fisheries Corporation and the progress made on commencement of full scale commercial operations;
4. The material uncertainty on the Bulk Fuel Installation (BFI) final valuation of ongoing construction costs amounting to £75.6m at 31 March 2020;
5. An update on the new fire appliance which would replace the Bremach Fire Tenders;
6. The increase of the Defined Benefit Pension Liability by £25.3m to £86m since its last comprehensive valuation in 2015/16;
7. The reasons for the increase in recurrent expenditure at the Health Directorate by 52% to £11m compared to £7.2m in 2018/19;
8. The overspend of £138k on the Health budget and the level of satisfaction with services provided by Medical Services Organisation in South Africa;

9. Investment in Subsidiaries Reserve – further investment in Saint Helena Hotel Development Limited of £500K;
10. Non-current investments of dividends of £25k received;
11. The reasons why the fair value of the Airport was substantially lower than the costs incurred;
12. The cause of the multi-year increase in value of litigation claims, totaling £1.295m and mitigation against future claims;
13. Progress on the Google Equiano Subsea Cable Project;
14. Progress made in negotiating a final settlement with Basil Read (Pty) Ltd upon termination of its contract with SHG;
15. The benefits realised from the Fit for the Future programme;
16. The progress, time and license costs associated with the implementation of the Power Purchase Agreement between Connect Saint Helena Limited and PASH;
17. The winding up arrangements and status of loans recoverability of Enterprise St Helena;
18. The arrangements to ensure that principles of probity were maintained during the procurement of goods and services for the refurbishment of Bradley's Camp;
19. The status of submission of unsupported claims in respect of accrued aid funded expenditure amounting to £0.5m;
20. The reasons for 14 of the Chief Auditor's recommendations remaining open from prior years;
21. The changes that would be required to the financial reporting approach to enable the DFID reporting deadline of 31 March to be met;
22. The current status on negotiating the MOU that will govern the next three-year aid funding cycle (2022/23 - 2024/25).

PAC received explanations and assurances for the above-mentioned enquiries from SHG management and these have been recorded in the 2nd March 2022 transcript which will be made available on SHG's website (<https://www.sainthelena.gov.sh/government/public-accounts-committee/>).

In addition to the verbal evidence given, SHG Management committed to provide written responses, details of which will be appended to the next PAC report to Legislative Council concerning the 2019/20 St Helena Currency Fund Financial Statements, which are being reported on separately.

Based on the responses provided by management the below main conclusions were drawn, with recommendations proposed following PAC deliberations.

Main Conclusions

- 1. The PAC took evidence that whilst some debts are recoverable the focus of Corporate Finance was being channeled towards preparing the 2020/21 financial statements and not towards debt recovery procedures.** The commercial debt of £174k relating to St Helena Fisheries Corporation will be written off after the administrative process has been completed.
- 2. The PAC was concerned to hear that commercial discussions on the recovery of the £1.036m spent on the GBAS are still ongoing.** PAC heard the attempt to recover these funds is being led by the Attorney General's Chambers with no amounts recovered to date and no definitive recovery timeline. Whilst the GBAS is reportedly still in a good condition and will not be commissioned, estimated maintenance costs of £60K per annum continue to be incurred.
- 3. PAC was also concerned to hear the Island was still to realise the benefits of the fish processing facility with refurbishments still not completed.** The refurbishment works being led by Saint Tuna Corporation have not been completed with a critical outstanding component being the blast freezer likely to arrive in May 2022. Full scale commercial operations are anticipated to commence when refurbishment works are completed, expected to be in less than 6 months from the date of this Formal Session; other refurbishment works are continuing in the interim period. PAC was reassured to hear that the Project Board was providing oversight of procurement processes on the facility's refurbishment project.
- 4. The PAC concluded that there does not appear to be a defined date upon which the Island will realise the benefits of the new BFI.** The Financial Secretary stated the expected commissioning date of the new BFI is estimated to be 2½ years from the date that a contract to determine the way forward for the new BFI is signed. The expected future costs, however could not be provided. PAC was concerned that a legal risk assessment had not been completed on the existing BFI and in a similar vein, there is currently no liability insurance on tank-tainers. Officials stated that it was SHG's recommendation for the Bayside Facility and Upper Rupert's Valley components of the new BFI to be commissioned whilst consideration was also being given to commissioning the Airport Fuel Facility (AFF).
- 5. The new fire tender still has not been commissioned,** as discussed in the PAC's scrutiny of SHG 2018/19 Accounts. PAC was however

reassured to hear SHG was not incurring any costs related to transporting the fire tender off Island to ensure that identified defects are resolved by the supplier.

6. **SHG have not yet been able to estimate the peak Defined Benefit Pension Liability for incorporation into the yearly budgeting process as it is dependent on future resignations and retirements.** Whilst PAC notes the basis for the 3.5% pay inflation assumption being an estimate based on history, PAC remains worried about the financial burden that the increase in the liability might pose in the future and SHG's ability to settle it. PAC was encouraged to hear the undertaking of SHG to prepare a long-term projection on the expected peak of the Defined Benefit Pension liability.
7. **PAC heard that the increase in the Health directorate expenditure was largely attributable to accounting entries related to the devaluation of assets classified under Health, in addition to overseas medical treatment and the cost of Health TC officers.** PAC heard that with the cessation of regular commercial flights, due to the COVID-19 travel restrictions, there was an increase in medical evacuation flights for patients requiring critical treatment who would have flown on the weekly commercial flight before the travel restrictions were imposed. However with regular commercial flights recommencing on the 26th of March 2022 the medical evacuation costs are likely to revert back to original levels.
8. **With officials stating that the medical support services contract and case management is nearing its completion with the current provider, PAC noted the importance of ensuring that concerns around service standards and supplier staffing will be addressed in the agreement with the new provider.** PAC also heard SHG believes South Africa provides the best value for money, with referrals to the United Kingdom being unsustainable due to significantly higher costs; however SHG acknowledged the different views from the users of the service regarding the serious current concerns with medical provision under the SA medical support services. PAC were not convinced by the completeness of capturing feedback from patients as some complaints were routed to the Health officials directly, whilst others were verbally given to Healthcare staff and not officially recorded.
9. **PAC was reassured to hear SHG officials believe there is a low risk that the £1million guarantee SHG has issued for BOSH loans to the Saint Helena Hotel Development Limited ("the Mantis"), will be called upon.** The PAC heard that the expected reopening of the Mantis

Hotel is likely to be October 2022 subject to factors such as future quarantine requirements. SHG provided an indicative timeline of 2022/23 for ceasing the operational subsidy to the Hotel. PAC noted the political difficulty to continue the use of the hotel whilst being closed to the public but acknowledged its use as a quarantine facility, primarily for flight crew.

10. PAC concluded that very little progress has been made in recovering funds from medical insurers in respect of medical litigation cases. SHG continue to review litigation cases in consultation with the Attorney General's Chambers with resultant adjustment to Human Resources policies where necessary. Whilst PAC acknowledge the time taken in attempting to recover funds from indemnity insurers, it remains a concern that none have materialised to date.

11. The works on the Google Equiano subsea cable are in progress with an expected go live date in the first quarter of 2023. The Committee heard evidence that although not yet commissioned, utilities costs, circa £10k per quarter are being realised at the Cable Landing Station and is currently funded from the project. These costs however will be incurred by the Public Communications Networks and Services provider on handover. PAC noted that an indicative expected cost saving for consumers could not be given whilst recognising pending costs for further IT related requirements, such as infrastructure and batteries. PAC was concerned with the seemingly missing expected modern cost saving measures such as solar panels and modern battery technologies. The Committee was encouraged to hear that SHG's current IT infrastructure is capable of taking advantage of the benefits of the new fibre network when it is available. The Committee heard that a current cybersecurity risk exists as legacy operating systems require updating in various Directorates when the new network goes live, with some of the systems housing sensitive confidential information. The Committee was encouraged to hear that resilience had been built into the Cable Landing Station via the provision of two backup generators, one backup transformer and Uninterrupted Power Supply (UPS) system. The Committee also heard that responsibility for resilience pertaining to the rest of the network will rest with the new Internet Service Provider (ISP).

12. The project to implement an Uninterrupted Power Supply (UPS) Solution at the SHG main Data Centre has been plagued by COVID-19 related delays, unexpected costs and unexpected project dependencies and is still not operating to its full potential. The decision to implement the UPS solution was taken in 2018 with the UPS

solution itself costing approximately £140,000. The project team was then advised, by Connect Saint Helena Ltd, that a transformer costing approximately £59,000, would need to be purchased for the solution to work in that location (Carnarvon Court). Thereafter the commissioning of the solution was delayed as off-Island engineers were not willing to self-isolate for 14 days as a result of the Island's COVID-19 travel restrictions. Their delayed arrival until March 2022 meant that some batteries had passed their safety window and the replacement of these batteries would cost an additional £71,000. Theoretically this solution can now keep the main data centre servers running, in the event of a power outage, for 10 hours but the absence of a generator to keep the air-conditioning running means that the servers must be shut down within 1½ hours to keep them from overheating. The IT Directorate is now in consultation with Corporate Finance to procure the generator needed to ensure that the full benefits of the UPS solution can be realized. Finally, the Committee heard that Lead Acid Batteries were selected over Lithium Ion Batteries due to cost implications.

13. **A final settlement has not yet been reached with Basil Read with ongoing meetings still being held.** PAC noted all settlement bonds of £7.2m have been redeemed to date and Basil Read assets on Island, such as vehicles, formed part of the claim against Basil Read. However, the value of the vehicles included in the claim was the value determined by the engineers as at the date that Basil Read's contract was terminated. Officials stated that SHG will dispose off the vehicles if there is no use for them.
14. **From the evidence given, PAC is interested in SHG's decision on the future use of Bradley's Camp.** Official's testimony led the PAC to be concerned with issues surrounding the project management of the construction of the facility. Official's conceded their belief that market prices of materials for the project had increased during procurement. PAC was reassured to hear that it is expected the refurbishments will extend the life span of the buildings at Bradley's Camp.
15. PAC heard that with the closure of Enterprise St Helena (ESH) there is potential for functions previously performed by ESH to be divested to the private sector.
16. PAC was reassured to hear that whilst benefits for the Fit for the Future programme have not yet been quantified, SHG has not incurred significant additional costs on phase 1 as a result of the change programme.

17. PAC noted with concern the anticipation of a recurring roll over budget for 2022/23 and the absence of a 3 year settlement agreement. PAC were also concerned with the need for SHG to secure new funding streams to lessen reliance on funding from the Foreign, Commonwealth and Development Office (FCDO).

Recommendations

In relation to its scrutiny of SHG Financial Statements for the year ended 31 March 2020, **PAC recommends that:**

1. SHG should prioritise the conclusion of the commercial discussions in its attempt to recover funds spent on the GBAS.
2. SHG should prioritise the conclusion of the independent assessment of the new BFI. SHG should also perform a legal risk assessment to identify and mitigate potential risks associated with the continued operations of the existing BFI.
3. SHG should improve its procurement policies and procedures to incorporate lessons learnt from lags/weaknesses identified from the Bremach trucks procurement and subsequent fire tender.
4. SHG should ensure that the Fit for the Future programme incorporates SMART Key Performance Indicators and outcomes to ensure that the benefits of the change initiative can be quantified and monitored.
5. SHG should ensure that the new contract for St Helena's Medical Services Organisation agreement includes adequate governance, management, monitoring, and evaluation arrangements, incorporating feedback and learning from the current Medical Services Organisation agreement.
6. SHG should improve its Digital Strategy policies in consultation with the broader St Helena Public service to incorporate green solutions.
7. In anticipation of the new fibre network SHG should, together with relevant stakeholders, develop an Island-wide Information Security strategy that incorporates the elements of cybersecurity risks and mitigation, public awareness campaigns and business support, and prescribe when a suitably qualified project manager should be incorporated to manage risk and project dependencies.

III. Government of St Helena Statement of Expenditure in Excess Financial Year 2020/21, Sessional Paper 4/2022

On 27th April 2022, PAC examined the SHG Statement of Expenditure in Excess for 2020/21 laid as Sessional Paper 4/2022 and the following persons attended to answer questions:

- Chief Secretary – Mrs Susan O’Bey
- Financial Secretary – Mr Dax Richards
- Portfolio Director, Environment, Natural Resources & Planning – Mr Darren Duncan
- Head of Infrastructure – Mr Derek Henry

This Statement reported the recurrent head of Expenditure in Excess, Head 29. Environment, Natural Resources & Planning (ENRP) in the amount of £23,949. 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, Sessional Paper 4/2022 was laid before the Legislative Council on 29 March 2022.

PAC enquired on the reasons for the incurrence of expenditure in excess of budgetary authority from SHG Management:

- The nature of the Expenditure in Excess arising in the year 2020/21 under Head 29 ENRP;
- The degree of budget variance that would be acceptable to the Financial Secretary and the point at which the Financial Secretary should be notified of a head being in excess;
- Progress made in moving towards preparing a budget that accrues for all expenditure as opposed to the current budget process which does not include certain non-cash items like depreciation;
- The reason why this expenditure was not eligible for funding on this OCTA (Overseas Countries and Territories Association) Innovation Project;

- How these amounts were incurred by the Directorate Accounting Officer without cover of an appropriation;
- The kind of controls that are in place to ensure Directorates do not overspend their authorised allocation;
- Whether the Financial Secretary had notified the Governor in writing of the breakdown of controls that resulted in Expenditure in Excess in the 2020/21 financial year, under the Public Finance Ordinance section 11(1)(h);
- Under the Public Finance Ordinance section 19(1)(a), whether the circumstances giving rise to these Excess Expenditures would warrant recovery through surcharge.

PAC received explanations and assurances for the above-mentioned enquiries from SHG management and these have been recorded in the 27th April 2022 transcript which will be made available on SHG's website (<https://www.sainthelena.gov.sh/government/public-accounts-committee/>).

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

Main Conclusions

1. The Financial Secretary gave the PAC context to the Expenditure in Excess for 2020/21, for Head 26: ENRP to the amount of £23,949 as follows:

The expenditure in excess in question was related to the OCTA Innovation Project funded from the European Union. The expenditure actually incurred during the 2019/20 financial year but was only identified during the audit of the project which was completed in December 2021. With the 2019/20 audit of the SHG accounts already having completed, this expenditure needed to be recognised in the 2020/21 financial year.

PAC was encouraged to hear that SHG monitors the budget outturn of Directorates closely during the year; however this excess expenditure was not discovered due to an oversight, as the reduced contribution from the EU was only discovered by SHG during the audit of this project.

The Committee also heard that SHG is still aspiring to implement a full accruals-based budgeting system in the near future after the Fit for the Future Change Programme has completed its scope of work. PAC concluded from the Financial Secretary that recovery through surcharge was not appropriate for this head.

2. The Portfolio Director, ENRP and the Head of Infrastructure gave context to the project as follows:

Enterprise St Helena coordinated an Innovation Project through OCTA which was passed onto SHG Waste Management to implement. The objective was to implement an innovative and sustainable waste management solution on the Island via investigating whether an anaerobic digestion plant was feasible. An expert visited the Island in December 2017 and recommended thereafter to implement several smaller biogas and composting projects as opposed to one larger project. A second expert visited the Island in 2019 and advised on a suitable solution being an organic digestion project at Piggeries. This project was however not deemed financially viable at the time and was therefore never implemented. The focus of the project then turned to composting initiatives which was implemented via an initiative at Horse Pasture Landfill site.

PAC was pleased to hear that revenue is being generated from the composting initiative with demand currently exceeding supply.

The Director for ENRP explained that as a result of a change in the scope of the project, expenditure in excess occurred as a result of EU funding which did not materialise. The EU had committed to contribute 40.2% of the costs of the project. As the project incurred less expenditure due to the change in scope of the project, the budgeted EU contribution also decreased accordingly.

The Financial Secretary advised the PAC that the Governor had not been formally informed of the expenditure in excess, under the provisions of Section 11(1)(h) of the Public Finance Ordinance, as he felt the expenditure in excess had not occurred as a material breakdown in controls.

PAC was concerned with the fundamental error in financial control and concluded that the projected decrease in the EU contribution was effectively overlooked when expenditure on the project reduced, which resulted in the expenditure in excess.

Recommendations

In relation to its scrutiny of SHG Statement of Expenditure in Excess for the year ended 31 March 2021, **PAC recommends that:**

1. The excess expenditure on Head 26, Environment, Natural Resources & Planning (ENRP) in the amount of £23,949 for the financial year 2020/21, be allowed to stand charged to public funds.
2. SHG implement a control to ensure that project managers confirm expected revenue with donor funders when the scope of a project is materially altered.

3. Concluding Remarks

The Public Accounts Committee would like to thank former Chairman, Mr Cyril Gunnell and all members of the outgoing PAC for their sterling service to the Committee during their tenure and wish them well in their future endeavours.

Furthermore, PAC acknowledges the work of the Chief Auditor and staff of Audit St Helena in assisting with this sessional report, also the attending officers of St Helena Government, in giving evidence in response to lines of enquiry.

This sessional report on PAC proceedings held on 2 March 2022 and 27 April 2022 is hereby authorised for issue to Legislative Council.



Mark Yon

Chairman

7th June 2022

