

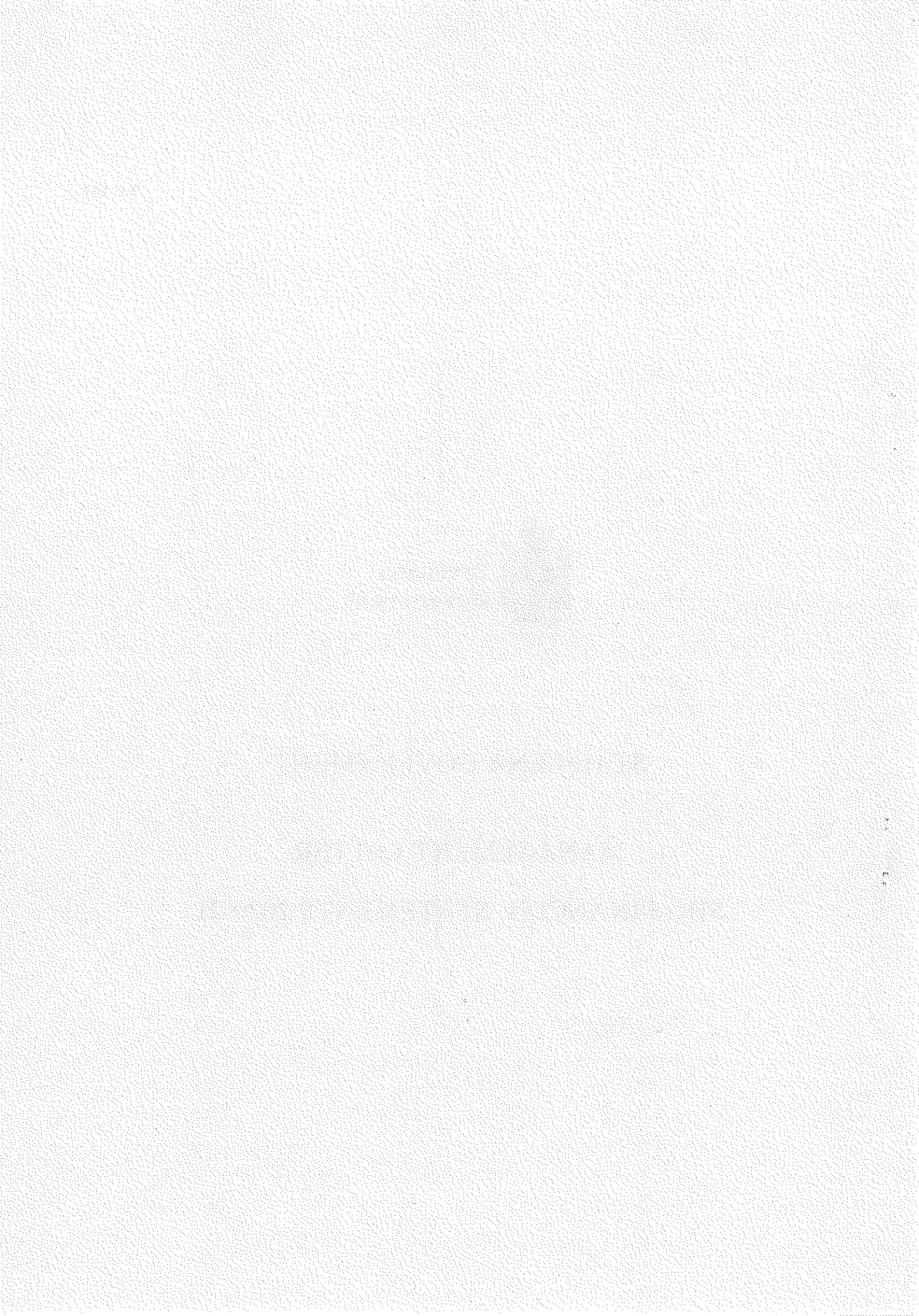


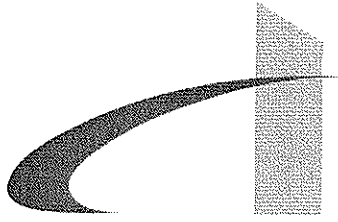
St Helena  
Government

ST HELENA GOVERNMENT

MANAGEMENT LETTER

SHG FINANCIAL STATEMENTS 2020-21





**AUDIT ST HELENA**  
External Auditors

# **MANAGEMENT LETTER**

**SHG FINANCIAL STATEMENTS 2020-21**

**To the Legislative Council of St Helena Government**

**11/10/2022**

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## INTRODUCTION

As the external auditor of Saint Helena Government (SHG), I am required by section 29(1) of the Public Finance Ordinance (the Ordinance) to report to Legislative Council (LegCo) my findings from the audit of the Financial Statements of SHG.

The purpose of this report is to summarise for LegCo the key issues arising from my audit of the Financial Statements for the year ended 31 March 2021 and report any significant accounting matters or weaknesses in internal controls that have come to my attention during the audit.

An advance version of this Management Letter was reported to the Financial Secretary and the Executive Committee (Exco) to discharge my responsibilities under ISA 260, *Communication with Those Charged with Governance*, prior to final submission to LegCo in accordance with section 29(1)(c) of the Ordinance.

## AUDIT OBJECTIVES

The main objective of the audit is to form an opinion as to whether the Financial Statements present fairly the financial position of St Helena Government at 31 March 2021 and of its financial performance and cash flows for the year then ended, confirm that expenditure and income has been applied to the purposes intended, and the Financial Statements are prepared in accordance with all relevant laws and policies.

As part of my audit I carry out the following work:

- Examine, on a test basis, evidence relevant to the amounts and disclosures in the Financial Statements.
- Assess any significant estimates and judgements made by SHG in the preparation of the Financial Statements.
- Assess whether the accounting policies are appropriate to SHGs circumstances, consistently applied and adequately disclosed.
- Evaluate the overall adequacy of the presentation of information in the Financial Statements to ensure compliance with International Public Sector Accounting Standards (IPSAS).
- Report my opinion under section 29(1)(b) that:
  - (A) The accounts properly present the financial position of the Government, as at the end of the financial year then ended; and
  - (B) In all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and
  - (C) The accounts and financial statements have been prepared in accordance with all relevant laws and policies.
- Report such other information as I consider necessary or appropriate to assist you in your consideration of the Government's accounts for that financial year.
- Submit to LegCo an annual Management Letter on the audit.

My audit methodology is based on the UK Overseas Territories Financial Audit Manual, which has been developed by the National Audit Office (NAO) to be compliant with International Auditing Standards (ISAs).

Although I am required under ISAs to consider the risk of material misstatement arising from fraud, the purpose of my audit is not for the detection of fraud. Responsibility for the prevention and detection of fraud rests with SHG who should not rely on the external audit function to discharge these responsibilities.

## AUDITOR INDEPENDENCE

In performing my audit I confirm I have complied with relevant ethical requirements specifically the *International Code of Ethics for Professional Accountants* (IESBA Code) issued by the International Ethics Standards Board for Accountants.

The following circumstances may present a perceived threat to the independence of Audit St Helena:

- The audit of the SHG financial statements accounts for more than 25% of the annual fee income for Audit St Helena.
- I am appointed by HE the Governor, with the approval of the Secretary of State, and my staff are appointed on the same terms and conditions of service as other public servants of SHG.

The threats to independence in respect of the Financial Statements audit are reduced to an acceptable level through statutory protections enshrined in the Saint Helena Constitution, in which the Chief Auditor and his staff are not subject to the direction or control of the Governor, ExCo or any other person or authority.

All my staff have completed declarations of interest, and where there is an identified conflict, appropriate safeguards have been applied. Through these ethical policies and specific threat mitigation measures I am satisfied as to the independence and objectivity with which the audit is conducted.

## INDEPENDENT AUDITOR'S REPORT

At the conclusion of the audit I will issue my Independent Auditor's Report (my Report) on the Financial Statements – the auditor's report is the key output of the audit process. The form of my Report is prescribed by ISA 700 (Revised) – *Forming an Opinion and Reporting on Financial Statements*. This revised standard was applied to my reporting for the previous three years and is maintained in this form for 2020/21.

My Independent Auditor's Report therefore includes:

- Opinions followed by the basis for those opinions
- Enhanced reporting on going concern
- A section on other information presented with the Financial Statements
- An affirmative statement on independence and ethical compliance
- An enhanced description of auditor responsibilities

The structure of my Report clearly separates my reporting on the audit of the Financial Statements performed under the ISAs from my reporting on any other audit matters arising from my responsibilities under statute – specifically the Public Finance Ordinance.

## QUALIFIED OPINION

As explained in the above section on audit objectives my Report contains three opinions as required by section 29 of the Ordinance:

- Opinion on fair presentation of the accounts
- Opinion on regularity of expenditure and revenue
- Opinion on whether the financial statements have been prepared in accordance with all relevant laws and policies

For the financial year ended 31 March 2021 my Report contains qualified opinions on fair presentation and regularity of expenditure and revenue. My report is not modified in respect of whether the financial statements have been prepared in accordance with all relevant laws and policies.

In addition, and without qualifying my report, I raise an emphasis of matter relating to the significant estimation uncertainty associated with the new bulk fuel installation and draw attention to a material uncertainty on going concern.

My opinion on regularity of expenditure and revenue is modified in respect of compliance with Section 17 of the Public Finance Ordinance which requires that the write off of assets exceeding £50,000 be authorised by the Secretary of State. This authorisation had not been obtained for the write off of loans and receivables at Saint Helena Fisheries Corporation (SHFC) amounting to £82,938, after accounting for assets received from SHFC of £126,421.

The form of my Independent Auditor's Report containing these opinions and other reporting matters is included in Appendix A. A signed copy of my Report dated 04 October 2022 is published with the SHG Financial Statements for the 2020/21 financial year.

## IDENTIFIED MISSTATEMENTS

During my audit, I identified several misstatements. I requested the Financial Secretary to correct these misstatements and they were actioned where it was readily possible. In recognition of your governance responsibilities I have scheduled those material misstatements which have now been corrected in Appendix B.

The remaining unadjusted misstatements were considered to be tolerable with no impact on the audit report, these are detailed in Appendix C.

## SIGNIFICANT FINDINGS FROM THE AUDIT

### QUALITATIVE ASPECTS OF ACCOUNTING PRACTICE

#### FINANCIAL REPORTING FRAMEWORK

Section 10(1) of the Ordinance requires that the annual Financial Statements of Government are prepared in accordance with IPSAS. The Financial Statements for the year 2020/21 are the tenth year of reporting on an accruals basis using IPSAS. The matters reported in this Management Letter relate to the 2020/21 Financial Statements draft version 1 submitted for audit on 12 January 2022 together with supporting schedules for audit.

Note 11.1 sets out the basis of preparation of the Financial Statements and explains that these separate Financial Statements comply with IPSAS. The preparation of separate Financial Statements of Government in accordance with IPSAS 34, *Separate Financial Statements*, and the disapplication of IPSAS 35 is lawful under section 10(2) of the Public Finance Ordinance.

#### ASSETS UNDER CONSTRUCTION

Note 10.8.8 explains that SHG terminated the external contract to build the BFI and assumed responsibility for the project in October 2019. An independent review completed before 31 March 2020 recommended that not all components of the fuel system should be commissioned. Various proposals were put forward in the review which may result in certain components of the system being rendered obsolete. A further study to determine the optimal engineering solution and identify whether all components of the BFI and wider fuel system will be put into use has yet to report.

In these circumstances management are aware that the initial recognition of capital costs relating to the BFI on a construction cost basis carries significant estimation uncertainty. The extent of the uncertainty cannot currently be quantified but will depend upon the final configuration of the fuel system, including potential for write-down of any redundant components, and any measurement changes when the completed aid-funded infrastructure is fair valued on an optimized depreciated replacement cost basis.

Given significant estimation uncertainty associated with the BFI construction costs and related fuel system assets carried at £75.6m within assets under construction in Note 10.8.10, an emphasis of matter is raised within my Report without qualification.

#### ACTUARIAL ASSUMPTIONS

The Government has a Defined Benefit Pension Scheme (DBPS) which is explained in Note 10.14.2. The DBPS was closed to new members on 31 March 2010 with eligible employees joining after 1 April 2010 instead receiving employer contributions into an external Defined Contribution Pension Scheme (DCPS). A full actuarial review of the DBPS was performed at 31 March 2020 with this valuation being rolled forward for the year ended 31 March 2021.

Note 14.2 sets out the significant assumptions used in preparing the Financial Statements and key sources of estimation uncertainty. The assessment of the pension liability and in-year



expense prepared by the Government Actuary are based upon a number of key assumptions. I wish to draw members' attention to these actuarial assumptions which have a highly material impact on the preparation of the Financial Statements.

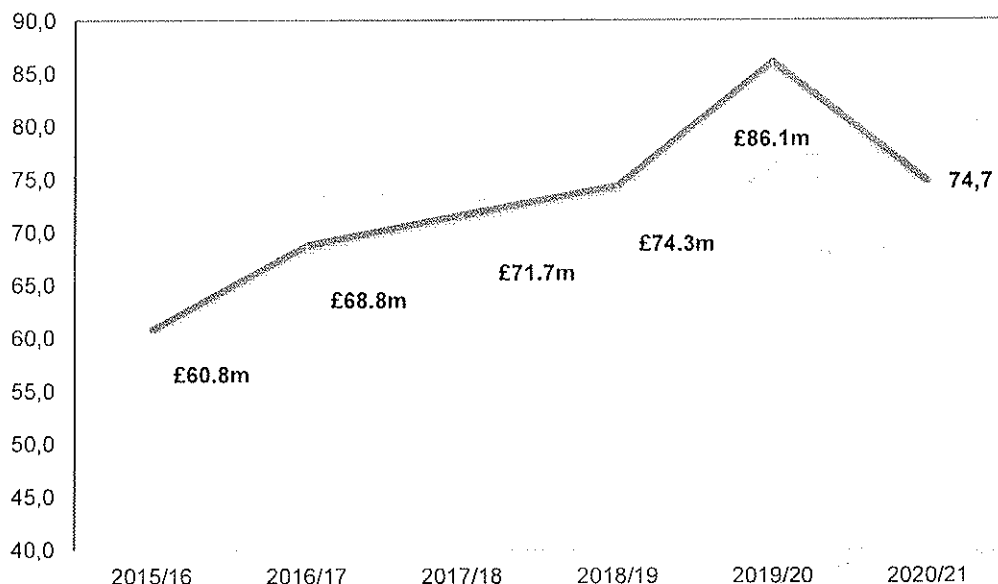
Section 17 of the Pensions Ordinance is a discretionary provision and therefore conveys no absolute legal right to pensions increases. A view could therefore be taken that no constructive obligation has arisen and that instead the pension liability should be valued without taking into account any potential pension increases in the future. However, IPSAS 25 *Employee Benefits* explains that a legal obligation to pay a pension benefit is not the only grounds for recognition of a liability.

The assumptions used by the actuary for future pension increases are represented as being based upon past behaviour (in terms of the historic award of pensions increases) and giving rise to a constructive obligation notwithstanding the discretionary nature of the provision. The forward rate of increase assumed by the actuary for pay and pensions is 3.5% per annum which is consistent with the rate of increase used in the last three years and indeed the last full review conducted. This rate is represented as being consistent with the historic average rate of pension's increases but also assumes that future pension increases will be at parity with public sector pay after considering the impact of incremental progression.

Diverging from trends in prior years the pension liability has decreased by £11.3 million from the year ended 31 March 2020. Note 10.14.2.1 *Movements in the Actuarial Pension Liability* details that £10.8 million of the decrease in the liability can be attributed to changes in financial assumptions. Note 10.14.2.2.1 *Financial Assumptions* details that the financial assumption unto which the majority of the decrease can be attributed is the change in the rate of return (discount rate) which has increased from 0.8% in 2019/20 to 1.4% in 2020/21. The discount rate is used to calculate the present value of expected future pension payments.

FIGURE 1 DBPS LIABILITY 2016 TO 2021

### Movement in Actuarial Pension Liability over 6 Years



#### GOING CONCERN

In considering whether the going concern basis of preparation remains appropriate management are required to look at a minimum future 12 month period from the date of approval of the financial statements. The recurrent budget of SHG for the 2022/23 financial year was set at £43.5 million with £29.7 million budgeted to be received as grant-in-aid from the United Kingdom through the Foreign, Commonwealth & Development Office (FCDO).

In prior years the commitment of foreign grant-in-aid from FCDO (then DFID) was formalised in a bilateral memorandum of understanding (MOU) which laid out the commitment for a three year period with the last MOU ending on 31 March 2022. In the current economic environment a similar three year commitment could not be provided by FCDO with a one year foreign aid settlement being agreed which covers the financial year ending 31 March 2023.

The economic conditions on St Helena are such that SHG is unable to function without continued foreign aid funding from the United Kingdom. The existence of the three year MOU commitment previously gave support to management's use of the going concern basis of accounting. Despite projected future available funds in the General Reserve, and the commitment to provide foreign aid by the FCDO, the absence of an overarching three year MOU creates uncertainty as to the appropriateness of management's use of the going concern basis of accounting. This material uncertainty is disclosed in note 11.2 to the financial statements and I have drawn attention to this disclosure via an emphasis of matter paragraph in my audit report.