

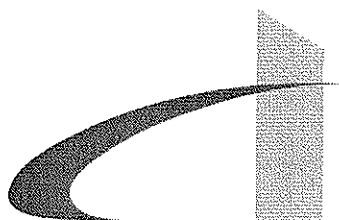


St Helena
Government

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

CONTENTS

Introduction	1
Audit objectives	1
Auditor independence	2
Independent Auditor's Report	2
<i>Qualified Opinion</i>	3
<i>Identified Misstatements</i>	3
Significant findings from the audit	4
<i>Qualitative aspects of accounting practice</i>	4
<i>Difficulties encountered during the audit</i>	7
<i>Significant matters which remain unresolved</i>	9
<i>Significant matters resolved with management</i>	9
<i>Matters of Regularity and Statutory Compliance</i>	10
<i>Written representations</i>	11
Financial management and internal control	11
<i>New issues raised this year</i>	11
<i>Follow-up of previous issues</i>	12
Concluding remarks	13
Independent Auditor's Report Appendix A	14
<i>to the Members of Legislative Council</i>	14
Schedule of material adjustments Appendix B	19
Schedule of uncorrected misstatements Appendix C	23
Recommendations to management Appendix D	24
Prior recommendations follow-up Appendix E	25
Related Parties & Group reporting Appendix F	29

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.

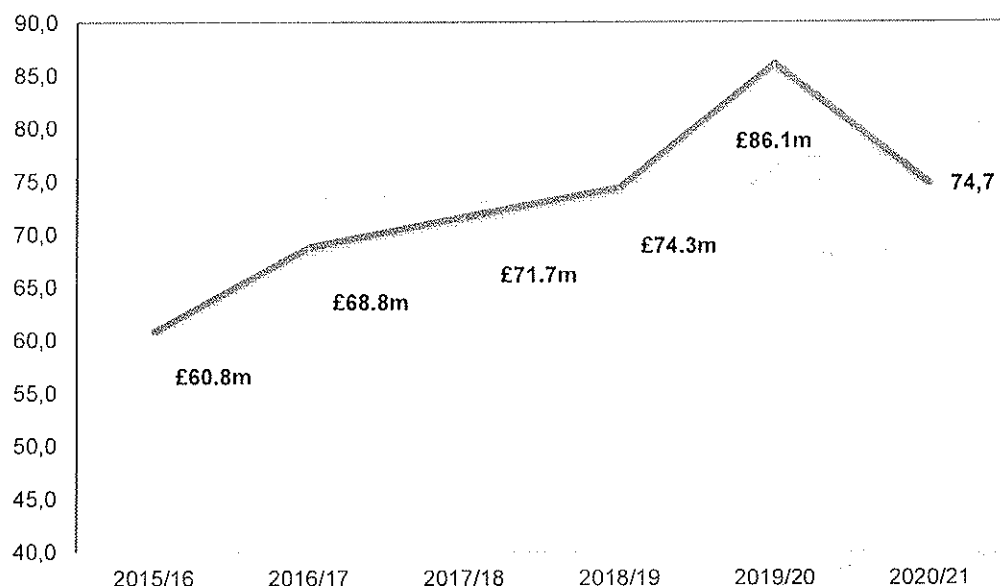
Section 17 of the Pensions Ordinance is a discretionary provision and therefore conveys no absolute legal right to pensions increases. A view could therefore be taken that no constructive obligation has arisen and that instead the pension liability should be valued without taking into account any potential 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.

DIFFICULTIES ENCOUNTERED DURING THE AUDIT

INTERFACE WITH LEGAL FUNCTION

Obtaining sufficient appropriate and timely information for matters related to the Attorney General's Chambers has improved since it was first reported and highlighted in the Chief Auditor's management letters for 2012/13, 2015/16, 2018/19 and 2019/20.

There remains the need for continued improvement in the transmission of information directly to the Auditors by the Attorney General's Chambers as required by the International Standards on Auditing.

TIMELINESS IN REPORTING

The timely production and audit of public accounts is essential for good financial governance and public accountability. The Foreign, Commonwealth & Development Office (FCDO) amended the foreign aid Memorandum of Understanding to allow for reporting of audited accounts within 12 months after financial year end. Previously the requirement had been set at SHG reporting its audited financial statements within 9 months of year end. The 2015/16 annual financial statements represented the last period that reported audited financial statements within the 9 month period.

The first draft of the 2020/21 financial statements was presented for audit on the 12th of January 2022. With Section 109(2) of the Constitution allowing the Chief Auditor 6 months to complete the audit the expected reporting would have been 12th of July 2022. A three month extension to this timeframe was granted by the Acting Governor under the provisions of Section 109(2) to allow for the preparation of the separate financial statements of two subsidiaries, Enterprise Saint Helena and Saint Helena Fisheries Corporation, to 31 March 2021.

ACCESS TO INFORMATION AT CONTROLLED ENTITIES

Aspects of the International Standard on Auditing (ISA) 600, *Special Consideration – Audits of Group Financial Statements (Including the Work of Component Auditors)* are applicable even if SHG does not prepare group accounts as the component auditors express opinions on the financial statements of controlled entities which in turn affects the disclosures included in Non-Current Investments and the Investment in Subsidiaries reserve. This ISA standard also allows the group auditor to perform procedures, at a group level, on entities within the group as the group auditor sees fit in order to reduce the risk of expressing an incorrect audit opinion at group level.

Obtaining information from the Bank of St Helena was frustrated by the absence of statutory provisions granting the auditor of a group a right of access to the records of any subsidiary within the group. This issue highlights the importance of implementing the Chief Auditor's recommendations issued in 2017/18 being recommendations 7 and 8 as listed in Appendix E.

ACCESS TO EXECUTIVE COUNCIL (EXCO) MINUTES

As the highest policy making body on St Helena, decisions taken by EXCO can have an impact on the disclosures required by IPSAS in the financial statements, even if they occur after the end of the current financial reporting period. A thorough understanding of matters brought before EXCO and decisions taken by it is therefore needed to ensure that financial reporting is complete for the period under review.

Historically the Chief Auditor, or a designated senior official in his office, has had unfettered access to the minutes of EXCO meetings. With the adoption of the new ministerial system of government, concerns were raised by EXCO over the extent of this access. After an attempt at reviewing a redacted version of the minutes, the information provided did not give the necessary audit assurance. As a means of obtaining this assurance a decision was taken to provide the memoranda of all issues that appeared before EXCO up to the date of signing the audit report. A specific representation has been sought from EXCO that decisions were not taken outside of the documents provided to us.

Amongst the functions conferred on the Chief Auditor, section 111(1) of The Constitution requires the Chief Auditor to promote public accountability in the public administration of St Helena and to do anything incidental or conducive to any of the Chief Auditor's functions. The scope of these Constitutional functions extends beyond the audit of the government accounts. These functions are supported by Section 110(2) of the Constitution which enshrines the Chief Auditor's right of access to documentation relating to the financial operations of SHG. Without unhindered access to the minutes of EXCO, my ability to perform these Constitutional functions is restrained.

GROUP FINANCIAL STATEMENTS

The requirements of IPSAS 35, *Consolidated Financial Statements* are dis-applied in St Helena in accordance with section 10 of the Public Finance Ordinance. The results of entities which are either wholly owned or where SHG has a controlling interest are equity accounted and disclosed in Non-current Investments as per note 10.2.2 to the financial statements.

The second and third draft versions of the financial statements were submitted without the recognition and disclosure in note 10.2.1 of three subsidiaries controlled by SHG being Enterprise Saint Helena, Saint Helena Fisheries Corporation and the Currency Fund. These first two subsidiaries were in the process of being wound up and annual financial statements prepared. As a result delays were encountered in finalising the SHG audit itself. Following technical consultation the results and position of the entities listed in Note 12.2 *Other Entities controlled by SHG* were recognised as Non-Current Investments as disclosed in Note 12.2.2 and the Investment in Subsidiaries Reserve as disclosed in Note 10.15.1.5.

This issue highlights that in order to meet the FCDO reporting timeframe of 12 months from the financial year end, consideration needs to be given to when the audited financial statements of the subsidiaries of SHG, will be received by SHG.

Recommendation 16, raised in the Chief Auditor's management letter for 2019/20 and included in Appendix E, highlights the need to consider the group reporting and auditing timetable holistically.

SIGNIFICANT MATTERS WHICH REMAIN UNRESOLVED

ENTERPRISE SAINT HELENA (ESH)

The results of entities which are either wholly owned or where SHG has a controlling interest are equity accounted and disclosed in Non-current Investments as per note 10.2.2 and as per *Note 12.0 Controlled Entities* to the financial statements.

Enterprise Saint Helena transferred the majority of its functions to SHG on 31 March 2021 and is now in the process of being wound up. The unaudited 2020/21 financial statements of ESH were received on the 26th of August 2022. Ultimately sufficient time was not available to perform group audit procedures to obtain assurance, from a group perspective, that these accounts were fairly presented.

SIGNIFICANT MATTERS RESOLVED WITH MANAGEMENT

Each of the issues highlighted below were identified during the audit and satisfactorily resolved with management and appropriate adjustments made to the final Financial Statements. The material adjustments arising are disclosed in Appendix B.

ST HELENA FISHERIES CORPORATION

SHG's interest in St Helena Fisheries Corporation (SHFC) would ordinarily have been equity accounted and disclosed in note 10.2.2 Non-current investments and Note 12.0 Controlled Entities had it not been for the fact that the audited financial statements, of SHFC, recorded a negative net asset value. Accordingly, the entry to initially record the negative interest in the Corporation was reversed and assets with a value of £126,421 were transferred by SHFC to SHG and accounted for under Property, Plant & Equipment (PPE) as disclosed in note 10.8.8.

GROUND BASED AUGMENTATION SYSTEM

The DFID (now FCDO) funded airport project included the installation of the Ground Based Augmentation System (GBAS) navigational aid. The system was never certified, commissioned and put into use. Accordingly the system was previously classified, in the 2019/20 financial year, as a refund asset under Note 10.6 Other Financial Assets at a gross carrying value of £1.036m the recovery of which had been deemed doubtful resulting in an associated impairment of £1.036m against the gross carrying value, as also previously disclosed in note 10.6.

Management made a decision to return the system and enter into arbitration proceedings to recover historical expenditure on the GBAS from the supplier. These proceedings were abandoned in August 2022 after it became clear that no funds would be recovered from the supplier. Management have since taken a decision to find a potential buyer for the GBAS which is now more than 7 years old. Whether amounts are recoverable, and the extent of such amounts, in respect of the sale of the GBAS could not be determined with reasonable certainty. The derecognition of the financial asset and disclosure of the system as a contingent asset, is now made in note 11.7 to correctly disclose the uncertainty around the future economic benefits that will accrue to SHG in respect of the sale of the GBAS.

RECLASSIFICATIONS

There have been various other material adjustments processed by management with audit agreement to correctly classify items of account in the Financial Statements as disclosed in Appendix B Table 2. Adjustments to material note disclosures to ensure IPSAS compliance and improve presentation and disclosure are recorded in Appendix B Table 3.

MATTERS OF REGULARITY AND STATUTORY COMPLIANCE

These other matters of significance arise from my audit responsibilities under law and regulation which are relevant to those charged with governance in overseeing the financial reporting process.

RECURRENT EXPENDITURE IN EXCESS

Section 106(1) of the Constitution of St Helena, Ascension and Tristan du Cunha requires that where any expenditure head has expended moneys in excess of that appropriated for it that expenditure 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.

Note 8.0 and the supporting Note 9.3, comparison of budget and actual amounts, reports expenditure in excess of appropriated amounts on Head of expenditure: Environment, Natural Resources & Planning (ENR&P).

Sessional Paper 4/22 was laid before Legislative Council in March 2022 in respect of excess recurrent expenditure of £23,949 on the ENR&P Head which, after due scrutiny by PAC and reporting in Sessional Paper 20/22, was allowed to stand charged to public funds by resolution under section 106(3).

REGULARITY OF LOSSES

The final 2020/21 audited accounts received for the Saint Helena Fisheries Corporation (SHFC) were prepared on the liquidation basis following the cessation of trading activities on 31 January 2020 and it currently being wound up. These accounts indicate that SHG has relinquished any expectation of recovering their long term loan of £174,000 and trade receivables from the Corporation of £35,359 and had in return received assets from the Corporation amounting to a carrying value of £126,421.

Section 17 of the Public Finance Ordinance requires that any write-off of assets exceeding £50,000 is required to be authorised by the Secretary of State. This authorisation has not been obtained and accordingly the net write down of SHFC loans receivable, in the amount £82,938 does not conform to the statutory authority which governs it. My opinion on regularity is therefore qualified under the requirements of section 29(b)(ii)(B) of the Public Finance Ordinance.

WRITTEN REPRESENTATIONS

Written representations were requested and received from the Financial Secretary in line with those required by the International Standards on Auditing.

FINANCIAL MANAGEMENT AND INTERNAL CONTROL

In accordance with International Standards on Auditing I have included a summary of matters of financial management and internal control which arose during my audit and which I consider should be brought to the attention of Government.

The matters described in this section came to my attention during the normal course of my audit, the purpose of which was to express an opinion on the Financial Statements. The audit included consideration of internal control relevant to the preparation of the Financial Statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Overall responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with the Financial Secretary and the Accounting Officers.

NEW ISSUES RAISED THIS YEAR

The new matters reported in this Letter are limited to those deficiencies that I consider to be of sufficient importance to merit being reported to Council. Less significant matters will be reported to the Financial Secretary in a separate Financial Accounts Memorandum. I have summarised in the Appendix D the audit recommendations made in this Letter.

DELAY IN DECOMMISSIONING THE EXISTING BULK FUEL INSTALLATION (BFI)

The delay in decommissioning the BFI is resulting in a material increase in repairs and maintenance expenditure at the existing BFI. Repairs and maintenance at the BFI has increased by 111% from the prior year to £219,325 in financial year 2020/21. This expenditure is included in *Funds Applied* against the Bulk Fuel Installation Trading Account as disclosed in note 10.15.2.2 *Trading Accounts*. In addition to this capital additions at the BFI contain expenditure of £111,800 which was incurred to link failing pipelines to the new BFI pipeline.

The decommissioning of the existing BFI is dependent on the commissioning of the new BFI which was originally targeted for commissioning in June 2015. Ultimately the increased costs, such as increased repairs and maintenance expenditure, arising from the delay in the commissioning of the new BFI, may be borne by the residents of St Helena.

Recommendation 1: SHG prepare a project plan, detailing critical milestones with associated due dates, to ensure that the new BFI will be commissioned in time for the planned decommissioning of the old BFI being 31 December 2024.

ACCRUED INCOME

Accrued income relating to prior expenditure to be claimed from donor funders is disclosed under Note 10.3 Receivables from Non-exchange Transactions. A sample of accrued income transactions indicated that claims amounting to £246,242 had not been submitted to funders for transactions spanning from financial years 2016/17 to 2017/18. In the 2019/20 financial statements £513,477 was provided against accrued grant income as it was determined that these funds were potentially not recoverable.

FOLLOW-UP OF PREVIOUS ISSUES

Audit recommendations remaining open from previous Management Letters issued in 2011/12 through 2019/20 were followed-up with management. The current status of these open recommendations is summarised in the table above with details in Appendix E.

Management Letter	Recommendations brought forward	Recommendations cleared in year	Recommendations carried forward
2011/12	1	0	1
2012/13	1	0	1
2016/17	4	2	2
2017/18	2	0	2
2018/19	6	1	5
2019/20	2	0	2
Total	16	3	13

Whilst the clearance of audit recommendations on a timely basis remains an issue for management to address there has been some limited progress with two recommendations closed in the current period.

CONCLUDING REMARKS

I acknowledge and thank the officers of St Helena Government, and in particular the Corporate Finance team, for their assistance and co-operation given to the Audit St Helena during the course of the statutory audit for 2020/21.



Brendon Hunt CA(SA) Chief Auditor for St Helena
Audit St Helena
11 October 2022

TO THE MEMBERS OF LEGISLATIVE COUNCIL

INDEPENDENT AUDITOR'S REPORT

To the Members of Legislative Council for the Government of St Helena

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the financial statements of St Helena Government (SHG), which comprise the statement of financial position as at 31 March 2021, and the statement of financial performance, statement of changes in net assets and reserves, statement of cash flows, and statement of comparison of budget and actual amounts, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matter described below, the accompanying financial statements present fairly, in all material respects, the financial position of SHG as at 31 March 2021, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Qualified Opinion

SHG's investment in Enterprise Saint Helena (ESH) is equity accounted and at £827,000 as recognised in the Statement of Financial Position, and its share of loss of £230,550 is fully recognised in the Statement of Financial Performance for the year ended 31 March 2021. These accounts have not been audited as envisaged in Section 9(2) of the Enterprise Saint Helena Ordinance, and I have been unable to determine, even by alternative means, whether any adjustments are necessary in respect of the accounting for the Investment in ESH, as disclosed in note 10.2.2, and the results of its operations in the Statement of Financial Performance for the year ended 31 March 2021.

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the Financial Statements section of my report. I am independent of SHG in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and I have fulfilled my other ethical responsibilities in accordance with the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Material Uncertainty Related to the Bulk Fuel Installation

I draw attention to Note 10.8.8 in the financial statements which highlights the significant estimation uncertainty associated with the new Bulk Fuel Installation which is carried at a cost of £75.5m within assets under construction in Note 10.8.11. The note explains there is uncertainty as to the final configuration of this major installation with associated potential for material write-down in asset value before completion of works and commissioning of the facility. My opinion is not modified in respect of this matter.

Material Uncertainty Related to Going Concern

I draw attention to Note 11.2 in the financial statements which indicates that SHG is reliant on recurrent funding through UK grant-in-aid for the continued operation of public services in St Helena. Whilst the Government of the United Kingdom, through the Foreign, Commonwealth & Development Office (FCDO) has a responsibility to meet the reasonable assistance needs of St Helena the level of financial support for the final year to 31 March 2024 has yet to be formalised. In the absence of sufficient grant-in-aid and with limited usable reserves SHG would not be in a position to meet its liabilities as they fall due within the foreseeable future without significant curtailment of services. As stated in Note 11.2 these circumstances indicate that a material uncertainty exists which may cast doubt on SHG's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other Information

Management is responsible for other information. The other information includes the Financial Secretary's Report but does not include the financial statements and my audit report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

In connection with my audit of the financial statements my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed I conclude there is a material misstatement of this other information I am required to report the fact. I have nothing to report in this regard.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Except for the matters described in the above sections on Basis for Qualified Opinion, and Material Uncertainty Related to Going Concern, I have determined there are no other key audit matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing SHGs ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing SHG's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I also read all the financial and non-financial information published with the financial statements to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

A further description of the auditor's responsibilities for the audit of the financial statements is located in the Annex to my report. This description forms part of my auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditor's Other Responsibilities arising from Law and Regulation

Section 29(1)(b)(i) of the Public Finance Ordinance requires me to assess whether in all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and whether the accounts and financial statements have been prepared in accordance with all relevant laws and policies.

Qualified Opinion on Regularity

In my opinion, except for the authorisation of the write off of loans recoverable and trade receivables as described below, in all material respects, the expenditure and income has been applied to the purposes intended, and conforms to the authorities which govern them.

Basis for qualified opinion on Regularity

Loans and trade receivables due from a controlled entity, Saint Helena Fisheries Corporation (SHFC), amounting to £209,359 were written off during the Corporation's liquidation proceedings. This loss was reduced by the transfer to SHG of SHFC assets with a carrying value of £126,421.

Section 17 of the Public Finance Ordinance requires that any write-off of assets exceeding £50,000 is required to be authorised by the Secretary of State. The authorisation for the loss on the SHFC loans and trade receivables of £82,938 has not been obtained and accordingly these losses do not conform to the statutory authority which governs it.

Opinion on Other Matters Required by Statute

In my opinion, the financial statements have been prepared in accordance with all relevant laws or policies.

Brendon Hunt
Chief Auditor CA(SA)

Audit St Helena
New Porteous House, Jamestown, St Helena, STHL 1ZZ

11 October 2022

ANNEX TO THE INDEPENDENT AUDITORS REPORT

Further description of the auditor's responsibilities for the audit of the financial statements

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SHG's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SHG's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause SHG to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

SCHEDULE OF MATERIAL ADJUSTMENTS

Appendix 4

Table 1: Material adjustments to the Financial Statements: Requested by audit

I identified the following misstatements during my audit and management have adjusted the Financial Statements to correct these errors.

Pertaining to current year 2020/21

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
Financial Asset Debt Provision	1,035,860			
Other Financial Assets - GBAS		1,035,860		
<i>Derecognition of the GBAS Refund Asset</i>				

Pertaining to prior year

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
Investment in Currency fund	1,008,766			
Investment in ESH	1,032,666			
Investment in SHFC		343,770		
Consolidated fund Investment in subsidiaries		1,697,662		
<i>Being correction of Investments in subsidiaries as at 1 April 2019 to record other controlled entities.</i>				
Investment in SHFC	343,770			
Investments in Subsidiaries Reserve		343,770		
<i>Being recognition of share of losses limited to the investment</i>				

Table 2: Material adjustments to the Financial Statements: requested by management

Management also identified a number of misstatements during the audit and have adjusted the Financial Statements to correct these errors. Adjustments we deem to be immaterial in value individually have not been reported here.

Pertaining to current year 2020/21

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit P	Credit P	Debit I	Credit I
Assets under the cause of Construction - Cost	502,614			
Environmental, Natural Resources and Planning				502,614
<i>Being capitalisation of cable expenses</i>				
Reserves - Special Funds	502,614			
Reserves - Consolidated fund		502,614		
<i>Being capital financing iro Fibre Optic Cable Project</i>				
Reserves - Special Funds	438,803			
Receivables		1,984		
Reserves - Consolidated Fund		436,819		
<i>Being correction of BFI and General reserve opening balances</i>				
Reserves-Special funds	499,006			
Inventories		499,006		
<i>Being correction of BFI Inventory valuation</i>				

Table 3: Material adjustments to financial note disclosures

Description of correction	Note affected	Value of the error £'000
Amendments to the Provisions note updating with current year figures and rewording to remove irrelevant information.	10.13 Provisions	N/A
Rewording of Intangible Assets note to make reference to IPSAS 31 instead of IPSAS 17 and the accounting policy to state the use of amortisation.	10.9 Intangible Assets	N/A
Amendments to depreciation note to disclose fully depreciated assets which had been omitted and correcting the amounts disclosed for Other class.	10.8.3 Depreciation	56
Reclassification of receivables with credit balances to payables	10.4 Receivables from Exchange Transactions 10.2 Payables from Exchange Transactions	42
Rewording and updating the accounting policy for PPE to show infrastructure and infrastructure roads are carried at revalued amounts.	10.8 Property, Plant and Equipment	N/A
Disclosure of material uncertainty relating to going concern.	11.2 Going Concern	N/A
Amendment of the number of cases considered to be contingent liabilities from 9 to 13	11.7 Contingent Assets and Liabilities	N/A
Disclosure of properties leased to ESH and the SHHDL subsidy which had been omitted from the financial Statements.	12.0 Controlled Entities	400
Amendments to the restatement note to include previously omitted amounts and restatement of Investments in Subsidiaries as at 1 April 2019 to include Other Controlled Entities.	11.8 Restatements of prior period figures	1,791
Amendments to include explanations for the expenditure in excess for Environment, Natural Resources & Planning.	9.3.2 Recurrent Expenditure	N/A
Disclosure of the possible impact of the initial application of IPSAS 41 Financial Instruments as required by IPSAS 3.35.	11.3 Standards, amendments and	N/A

	interpretations in issue but not yet effective	
Various amendments to disclosures in the Financial Secretary's report	1.0 Financial Secretary's report	Various
Amendment to reflect that negotiations are on-going to extend the validity for SHG's letter of guarantee underpinning the loan agreement between St Helena Hotel Development Ltd and Bank of St Helena. The outcome of the negotiations may have an impact on the liquidity risk that SHG is exposed to.	10.16.5 Liquidity Risk	N/A

SCHEDULE OF UNCORRECTED MISSTATEMENTS

APPENDIX C

In accordance with ISA 450 I am required to communicate to management any uncorrected misstatements and request a written representation from those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, either individually or in aggregate.

Management have adjusted the Financial Statements for all misstatements identified at the audit other than those reported on Appendix B, Table 2.

Pertaining to prior year 2019/20

Table 1: Uncorrected misstatements in the Financial Statements

Name	Statement of Financial Position		Income & Expenditure	
	Debit	Credit	Debit	Credit
Land and Buildings	157,114			
Revaluation reserve		157,114		
<i>Being correction of revalued Property additions to reflect transaction cost deemed to be more appropriate</i>				

RECOMMENDATIONS TO MANAGEMENT

APPENDIX D

No	Observation	Recommendation	Priority
1	The delay in commissioning the new Bulk Fuel Installation (BFI) is resulting in increased repairs and maintenance expenditure at the existing BFI.	SHG prepare a project plan, detailing critical milestones with associated due dates, to ensure that the new BFI will be commissioned in time for the revised planned decommissioning of the old BFI being 31 December 2024.	Medium

DEFINITION OF PRIORITIES

HIGH	Immediate risk of error, loss of cash or other assets or significant non-compliance with relevant Ordinances or regulations. Action should be taken on these within 2 months.
MEDIUM	Issues identified which would improve the quality of financial reporting and/or internal control systems. Action should be taken on these within 6 months, or by the end of the next financial reporting period, whichever is the earliest.

PRIOR RECOMMENDATIONS FOLLOW-UP

APPENDIX E

No	Recommendation	Follow-up	Status
2011/12			
1	Introduction of accruals budgeting.	Management are considering whether priority should be given to the introduction of accruals budgeting. This will be subject to an assessment by the Financial Planning Manager in 2022/23.	On hold
2012/13			
2	A Code of Governance should be developed with reference to the CIPFA/IFAC International Framework on Good Governance in the Public Sector and adopted as a standard against which compliance may be measured in the AGS.	We have not yet developed a code of Governance in line with the CIPFA/IFAC International Framework on Good Governance	In progress
2016/17			
3	The Financial Secretary should establish internal arrangements to ensure due compliance with statutory and regulatory requirements for the financial administration of St Helena.	Controls and processes governing expenditure in excess and withdrawal warrants have improved to the point that there are no longer instances of non – compliance.	Closed
4	The Financial Secretary should review the relevant statutory provisions for financial control and financial reporting purposes and propose legislative amendments in preparation for the implementation of accruals budgeting in 2019/20.	Arrangements are being made to establish the legislative compliance management process.	On hold

No	Recommendation	Follow up	Status
5	The Financial Secretary should seek to improve efficiency and accuracy in the statutory accounts production process through automation and quality assurance protocols.	Funding is yet to be secured for this purpose. The costs and benefits of automation will be subject to continuous review.	In progress
6	The Financial Secretary should develop an action plan linked to identified resources to address outstanding Management Letter recommendations.	Treasury response and action plan to address the audit recommendations was put in place in May 2022.	Closed
2017/18			
7	SHG should introduce an express reservation within the articles of association of all wholly owned controlled entities to require that the appointed auditor of any entity is approved by Chief Auditor.	I am advised that the recommendation is in dispute despite equivalent provisions already included in the legislation for statutory bodies. Management has not communicated directly with the Chief Auditor in order to resolve this issue.	Pending
8	SHG should amend the Companies Ordinance to permit the auditor of any group of companies a right of access to the financial records of any subsidiary within that group.	I am advised that the recommendation remains under consideration since equivalent provisions in the UK Companies Act appear equally applicable to St Helena. In the current arrangement auditor access to the subsidiary is made through the parent company on a permissive basis. Whilst such access would not normally be withheld but there is no right of access and accordingly this will need to be progressed through legislative reform.	Open
2018/19			
9	The Financial Secretary coordinates arrangements with Attorney General and other corporate colleagues to improve the management of, and access to, information necessary for the production and audit of the financial statements.	<p>We are not aware of any recurring issues in this regard for the 2020/21 annual accounts audit. Information was received as and when requested for by SHG.</p> <p>Audit Comment: A significant difficulty was noted in the direct transmission of information by the AG Chambers to Audit as reported under the 'Difficulties Encountered during Audit' section of the Management Letter</p>	Open

No	Recommendation	Follow-up	Status
10	SHG should introduce regulations requiring the preparation and publication of an Annual Governance Statement as part of its annual accountability reporting to stakeholders.	Still open as no regulations are forthcoming and Annual Governance Statement was not made in the Financial statements for the financial year 2020/21. Further consideration on the Code of Governance and resourcing is required before this recommendation can be implemented.	In progress
11	The Chief Secretary should develop policy and protocol on the use of special severance payments consistent with HM Treasury and Cabinet Office guidance to protect the public interest in cases of termination of employment with financial compensation. The use of non-disclosure agreements should be by exception and where these are applied then provision should be made for essential business need and audit scrutiny.	Still open. In the current year there were no employee termination benefits that could not be examined in detail for regularity and value for money in the year under audit. It has been advised that this is still in progress.	In progress
12	The Children and Adults Social Services management team should prioritize the conclusion of the reassessment of the BLA scheme to ensure consistent and fair application to all eligible claimants. The BLA Policy should be reviewed to reflect recent changes and the assessment should be tailored to the specific needs of the clients.	The BLA policy was reviewed and the new policy adopted on 15/01/21.	Closed
13	Management should review current and settled medical negligence cases and where appropriate render claims upon malpractice insurance policies required to be held by clinicians.	Management has advised that this matter remains in progress.	In progress
14	The Financial Secretary should review the Government's treasury management policies in respect of funds held at bank as distinct from authorised investments with an aim to mitigate the credit default risk arising from low credit risk ratings.	In progress. It is planned to conduct a review of the Treasury Management Strategy in 2022/23.	In progress
2019/20			

No	Recommendation	Follow-up	Status
15	SHG should expedite the proposed audit law reform amending Part VII of the Public Finance Ordinance to establish Audit St Helena as the independent office of the Chief Auditor and eliminate the need for the Special Fund Trading Account.	It is suggested that the legislative changes be progressed by the Chief Auditor, noting that the matter in relation to external revenues can be addressed by amending section 2(2) of the SPECIAL FUND (ST HELENA AUDIT SERVICE TRADING ACCOUNT) ORDER, 2013 to include revenues generated from services provided to other entities. The Chief Auditor prepared an Exco Memorandum to be presented to the Executive Council.	In progress
16	The Financial Secretary should develop a group account reporting framework whereby reporting responsibilities of subsidiary entities should be documented. This should include the requirement for entities to disclose their receivable/payable position with SHG on a scheduled basis. These intra-group positions should be reconciled quarterly.	To be included as a specific action under the next PFM Reform program (commencing 1 April 2022).	In progress

*As explained Note 11.1, Basis of Preparation, the audited Financial Statements are the separate Financial Statements of St Helena Government prepared in accordance with IPSAS 34, *Separate Financial Statements*.

The requirements of IPSAS 35, *Consolidated Financial Statements* are disapplied in St Helena accordance with section 10 of the Public Finance Ordinance. The preparation of consolidated financial statements for the SHG economic group would require consolidation of the following entities along with the separate Financial Statements of SHG:

- Bank of St Helena Ltd
- Connect St Helena Ltd
- St Helena Hotel Development Ltd
- St Helena Airport Ltd
- Solomon & Company (St Helena) PLC
- St Helena Line Ltd
- St Helena Currency Fund
- St Helena Fisheries Corporation
- Enterprise St Helena

In the absence of such consolidation I am unable to report on the Financial Statements of the SHG economic group or the internal control arrangements of component entities.

