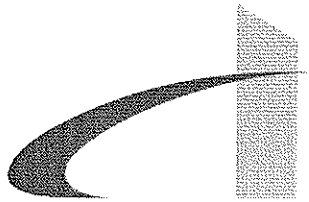




ST HELENA GOVERNMENT

MANAGEMENT LETTER

SHG FINANCIAL STATEMENTS 2021-2022



AUDIT ST HELENA
External Auditors

MANAGEMENT LETTER

SHG FINANCIAL STATEMENTS 2021-22

To the Legislative Council of St Helena Government

16/06/2023

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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 2022 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 2022 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 SHG's 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;
 - (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*.

My Independent Auditor's Report therefore includes:

- Opinions followed by the basis for those opinions
- 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 2022 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 (BFI).

My report has also been modified for matters of regularity pertaining to the authority to write off assets under Section 17 of the Public Finance Ordinance, authority to waive debt payable to SHG under Section 16 of the Public Finance Ordinance and expenditure in excess.

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 14 June 2023 is published with the SHG Financial Statements for the 2021/22 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 matters reported in this Management Letter relate to the 2021/22 Financial Statements draft version 1 submitted for audit on 07 November 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 this review which may result in certain components of the system being rendered obsolete. A second review has been performed but the effect of this report on the final configuration of the BFI is still to be determined at the date of reporting. The financial statement disclosures state that a further study is required to determine the optimal engineering solution and identify whether all components of the BFI and wider fuel system will be put into use.

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 10.8.12, 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). The full actuarial review and valuation of the DBPS performed at 31 March 2020 was rolled forward for the years ended 31 March 2021 and 31 March 2022.

Note 10.14.2.2 sets out the significant assumptions used in the determination of the Pensions Liability valuation. 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 the increase of pensions. A view could therefore be taken that no legal 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.

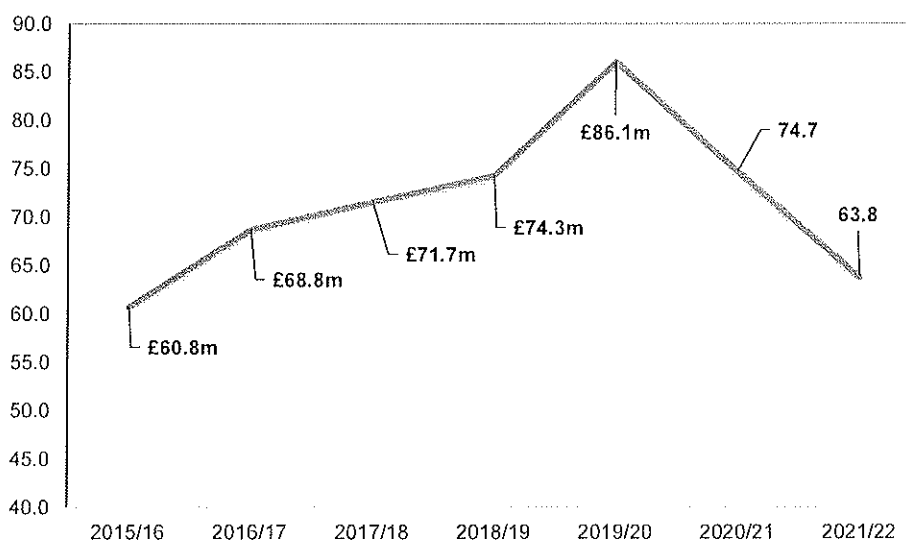
The assumptions used by the actuary for future pension increases are represented as being based upon past behaviour (in terms of the historic award of pensions increases) giving rise to a constructive obligation notwithstanding the discretionary nature of the provision.

The forward rate of increase assumed by the actuary for pay 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.

Following the recent historical trend the pension liability has decreased by £10.9 million from the year ended 31 March 2021. 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 1.4% in 2020/21 to 1.8% in 2021/22 and the rate of pension increases which has decreased to 2.75% in 2021/22 from 3.25% in 2020/21.

FIGURE 1 DBPS LIABILITY 2016 TO 2022

Movement in Actuarial Pension Liability over 7 Years



GOING CONCERN

In considering whether the preparation of the accounts on a going concern basis 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 financial aid settlement for the financial year 2023/24 was received from the Foreign, Commonwealth and Development Office (FCDO) in March 2023. This settlement indicates recurrent foreign aid to be received in the 2023/24 financial year at £33.06 million with £29.564 million budgeted to be received as grant-in-aid from the United Kingdom through the Foreign, Commonwealth & Development Office (FCDO).

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 Memorandum of Understanding (MOU) between SHG and FCDO previously gave support to management's use of the going concern basis of accounting whereas the new settlement agreement commits to a one year timeframe. A commitment to provide support in the form of foreign aid has been provided by FCDO for the 2023/24 financial year but has not been formalised for the 2024/25 financial year.

Management assert that SHG has been advised to plan on the basis that the financial aid package will be the same as for 2023/24 whilst the financial aid package for 2024/25 remains unconfirmed. In the absence of a confirmed financial aid settlement for the 2024/25 financial year management forecasts that expenditure for the first three months of this year be funded from the General Reserve. Accordingly, management has concluded that SHG can continue to operate without a significant curtailment of services through to June 2024.

DIFFICULTIES ENCOUNTERED DURING THE AUDIT

TIMELINESS IN REPORTING

FCDO amended the MOU with SHG to allow for reporting of SHG's audited accounts within 12 months after financial year end. Previously this requirement was set at 9 months after year end. In practice this means that the audits of State Controlled Entities, as disclosed in note 12.0 Controlled Entities to the annual financial statements, needs to be completed, or near completion, at the date at which the accounts are approved and the audit opinion issued for the SHG accounts.

The audits of several State Controlled Entities extended past the FCDO submission timeline. In addition SHG submitted the first draft of the 2021/22 financial statements on 07 November 2022 which, in the context of the audit reporting period allowed under Section 109 of the Constitution, meant that the audited accounts of SHG could not be produced by 31 March 2023.

The attainment of the FCDO targeted reporting date will require a holistic and co-ordinated response by SHG in tandem with State Controlled Entities. Reference is made to the open recommendation from 2019/20 (included in Appendix E) which addresses this requirement.

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. Currently, a redacted version of the minutes is given to the Chief Auditor to provide some level of assurance, albeit there are reservations on the auditor's reliance affecting the true and fair presentation of the financial statements as described under the section below 'Significant Matters Which Remain Unresolved'.

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.

INTERFACE WITH LEGAL FUNCTION

The status of legal claims against SHG, existing at 31 March 2022, is assessed by analysing the latest updates provided by the Attorney General's Chambers. This commentary provides context as to the likelihood of SHG incurring a judgement that results in a settlement to the plaintiff in a particular claim. This assessment will in turn drive the classification of a claim as either being a disclosure as a Contingent Liability (possible future judgement against SHG) or recognition of a Provision (there is a reasonable expectation of an obligation to settle the judgment but there is uncertainty of the timing or the amount). These disclosures are included in the annual financial statements as Note 10.13, Provisions and Note 11.7, Contingent Assets and Liabilities.

The compilation of this register is facilitated by the Treasury function. With the departure of a key staff member at Treasury ongoing maintenance of the register was performed less frequently with the last updates being in October 2022. Further updates were subsequently provided in May 2023. Management asserted that the cause of the less frequent updates was as a result of the turnover of staff at the AG Chambers. The open recommendation on this matter, first raised in 2018/19 and included in Appendix E, speaks to the persistent nature of this particular challenge in the audit process.

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.

ESH transferred the majority of its functions to SHG on 31 March 2021 and is now in the process of being wound up. Financial accounts for the 2020/21 and 2021/22 financial years, approved by those charged with governance, have not been presented for audit.

SUPPLY AND INSTALLATION OF THE EQUIANO CABLE SYSTEM

Accumulated project expenditure on the project to land a submarine internet cable branching off the Equiano Cable to St Helena Island and related construction works on the cable landing station at Rupert's Valley (the "internet cable project") at 31 March 2022 amounted to £11.303m. This expenditure, funded by the European Development Fund (EDF), is reported in assets under construction in Note 10.8, Property, Plant and Equipment.

Note 10.8.9 includes disclosures on the asset under construction being valued at cost as it is deemed to be acquired through an exchange transaction on the basis that SHG itself made direct payments to the contractor. I am however of the view that since the asset incorporates an element controlled by another party and this in turn represents a non-exchange transaction, the appropriate initial measurement of this component should be recognised at fair value in accordance with *IPSAS 17, Property, Plant and Equipment* and *IPSAS 23.10, Revenue from Non-Exchange Transactions*.

Note 10.8.9 *St Helena Fibre Optic Cable Project* explains that the costs of the Google Designated Fibre Pairs cannot be separately identified. Whilst the limitation described in the note refers to the cost basis of measurement there remains a significant uncertainty on the valuation of the non-exchange component included in expenditure on the submarine cable and cable landing station accumulated to 31 March 2022. In the absence of an appropriate valuation I am unable to determine whether the stated value fairly reflects the fair value for the internet cable and associated works project.

PHARMACY STOCK COUNT

The arrangements for the year end stock count of pharmacy stock amounting to £0.550m, as disclosed in note 10.5, were inadequate. Items in our samples of pharmacy stock selected in stores could not be traced to final valuation reports and in a similar fashion, items in the sample selected from the valuation report could not be verified by referencing pharmacy stock identified in stores.

Explanations for these variances could not be obtained from officials present. As the stock count arrangements were deemed insufficient, this represents a limitation of scope on the pharmacy stock balance of £0.550m. However as the maximum potential misstatement that could exist was seen as not being likely to be material, the audit opinion has not been modified for the issues noted on Pharmacy Stock.

Recommendation 1: SHG ensure that adequate internal control arrangements including appropriate resource allocation, are put in place to facilitate accurate, efficient and effective stock counts.

OBSOLETE PHARMACY STOCK

SHG did not assess pharmacy stock for obsolescence during the stock counts conducted in March 2022. The majority of medicines selected from the stores revealed that the medicines

were still held in stock past their expiry date. The projected over-statement across pharmacy stock amounting to £0.550m, as disclosed in note 10.5, amounts to £0.151m. The projected limitation has been assessed as individually immaterial.

EVENTS AFTER THE REPORTING DATE

As discussed under the section on 'Difficulties Encountered During the Audit', the Chief Auditor's access to EXCO meeting minutes has been restricted to a redacted version of the minutes. The summary of EXCO and Governor-In-Council Business and Decision log provided was compiled to list the subject title of the Memoranda forming part of the agenda for each meeting including the decision reached, as either Approved, Not Approved or Deferred.

Based on the information provided, we cannot ascertain whether there were other matters discussed during these meetings, whether arising from previous meetings or raised in any other business that might impact the fair presentation of the financial statements. Without access to the full set of minutes, I am unable to gather sufficient appropriate evidence to confirm whether the Events after the Reporting date were completely disclosed and or accounted for in accordance IPSAS 14 Events after the Reporting Date.

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.

MEDICAL FEES ACCRUALS

At year end, some of the medical fees invoices from largely the NHS, and a few from MSO, had not yet been received by SHG prompting the need to estimate the amounts owed for medical services provided. Note 10.12.1 *Amounts payable within one year* includes an amount of £0.213m which is not supported by supplier invoices nor could the basis for the estimate be reasonably supported.

Management agreed to reclassify these invoices from Accruals to Provisions to more accurately reflect the uncertainty associated with this expenditure. The narrative disclosure to Note 10.13, *Provisions* was also amended to include the circumstances giving rise to the provision for medical fees.

A related financial management and internal control issue has also been raised in the relevant section below.

RECLASSIFICATIONS

There have been various other material adjustments processed by management, with audit's 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 AND CAPITAL EXPENDITURE IN EXCESS

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

Note 8.0 and the supporting Note 9.3, comparison of budget and actual amounts, reports expenditure in excess of final adjusted appropriated amounts on:

- Head of Expenditure – Health: £298,000 recurrent expenditure in excess;
- Head of Expenditure – Children & Adults Social Care: £59,000 (£59,119 round down to £59,000) recurrent expenditure in excess;
- Head of Expenditure – Safety, Security & Home Affairs: £1,000 (actual of £524 which has been rounded up to £1,000 as the budget statement is presented in £'000) capital expenditure in excess; and
- Head of Expenditure – Education, Skills and Employment: £4,000 capital expenditure in excess.

After due scrutiny by the PAC of the statement of expenditure in excess, and reporting to LegCo via Sessional Paper 14/23, LegCo resolved to allow the excess expenditure to stand charged to public funds under the provisions of Section 106(3) of the Constitution.

The amount resolved to stand charged to public funds, under the provisions of Section 106(3) of the Constitution, for the Children & Adults Social Care expenditure head totalled £55,930. A financial statement adjustment was passed after this resolution had been passed with the result that final expenditure in excess for this Directorate exceeds the statutory authority which governs it by £3,190

It is also worth noting that the amount reflected on the Statement of Expenditure in Excess for Head of Expenditure: Health was £400,914 based on the unaudited estimate at the time. The final expenditure in excess was subsequently revised down to £298,000 in the final accounts.

Despite the draft financial statements being prepared and submitted for audit on the 7th of November 2022, the corresponding statement of expenditure in excess was only laid as sessional paper 06/23 at the March 2023 sitting of Legislative Council. Whilst the period by which the statement should be laid before Legislative Council is not stipulated in statute, delays in initiating the Section 106(1) process can impede the audit closure process.

Recommendation 2. SHG incorporate statutory compliance processes including section 106 procedures for expenditure in excess in its year-end financial reporting procedures.

REGULARITY OF LOSSES ON ASSETS AND INVENTORY

SHG wrote off pharmacy stock of £82,011 and Saint Helena Fisheries Corporation (SHFC) assets to the value of £65,000. The write-off of the SHFC assets is disclosed in note 10.8.11.

Section 17 of the Public Finance Ordinance requires that any write-off of assets exceeding £50,000 is required to be authorised by the Governor and Secretary of State. This authorisation has not been obtained and accordingly the write off of SHFC assets in the amount of £65,000 and the loss on pharmacy stock of £82,011 does not conform to the statutory authority which governs it. My opinion on regularity is therefore qualified under the provisions of section 29(b)(ii)(B) of the Public Finance Ordinance in respect of these matters.

REGULARITY OF WAIVER OF DEBT PAYABLE TO SHG

A receivable of £144,133 was recognised and claimable against the Fuel Management contractor (FMC) in respect of the excess insurance premiums covering the period in which no contract was in existence with the FMC. The write down to the recoverable amount of £50,000, agreed to in the final settlement and recognised in the financial statements to 31 March 2022, resulted in a waiver of debt payable to SHG of £94,133.

Section 16 of the Public Finance Ordinance requires that the Governor may, subject to obtaining prior approval from the Secretary of State, authorise the waiver of any debt payable to SHG which is in excess of £50,000. This authorisation has not been obtained and accordingly the waiver of the debt due to SHG in respect of the FMC of £94,133, does not conform to the statutory authority which governs it. The required approvals under Section 16 for the waiver of loans and receivables granted to SHFC of £82,938, as previously reported in the Chief Auditor's management letter and audit report for the year ended 31 March 2021, have not yet been obtained.

My opinion on regularity is therefore qualified under the provisions of section 29(b)(ii)(B) of the Public Finance Ordinance in respect of these matters.

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 Appendix D the audit recommendations made in this Letter.

BULK FUEL INSTALLATION (BFI) TRADING ACCOUNT

The existing BFI is managed on behalf of SHG by Solomon & Company. The separate accounts of the BFI are audited by the Chief Auditor in accordance with the management agreement entered into between Solomon & Company (St. Helena) PLC and SHG.

The Trading Account of the BFI is disclosed in *Note 10.15.2.2 Special Funds – Trading Accounts* as an overdrawn balance of £1.831m after accounting for a provision for decommissioning costs of £3.671m. The net operating loss of the BFI, as shown in the separate accounts of the BFI, amounted to £697,412 for the 2021/22 financial year. A large portion of this loss is attributable to elevated repairs and maintenance costs of £195,490 and penalty costs of £122,731 paid to the shipping agent to cancel a pre-arranged shipment. The cancellation of the shipment was made after the Fire Service had condemned fuel tanks resulting in available capacity falling below freight order levels. The responsibility to set fuel prices, and thereby recover the operating costs of the BFI, rests with SHG.

Recommendation 3: SHG investigate the reason for the BFI not recouping its operating costs in the 2021/22 financial year and document the necessary adjustments to the fuel pricing formula.

OVERSIGHT OF FINANCIAL REPORTING PROCESS

Although not provided for in statute on St. Helena Island, the broadly understood responsibilities allocated to those charged with governance includes overseeing the strategic direction of an entity and obligations related to the accountability of an entity which includes overseeing the financial reporting process¹. This financial reporting oversight responsibility includes, amongst other activities, reviewing the significant financial reporting issues and judgements made during the preparation of the financial statements.

In the absence of a delegated sub-committee, such as an audit committee, this responsibility is currently allocated to EXCO by default. Under the past committee system of governance this responsibility was delegated to the Finance Committee.

A review of the proceedings of EXCO indicated that the review of the financial statements is currently occurring at, or close to, the date of approval of the financial statements which is typically close to the end of the period allowed under Section 109 for the completion of the audit. Under this current arrangement if a material concern around the form and content of the financial statements was raised by EXCO sufficient time would not be available to address the matter by management.

Recommendation 4: EXCO consider the creation of a sub-committee to which oversight of the financial reporting responsibility could be delegated. Alternatively, the procedures of EXCO should be amended to include the review of the draft financial statements before submission to the Chief Auditor for audit under the provisions of Section 109(1) of the Constitution.

BRADLEY'S CAMP COVID-19 FACILITY

Cumulative capital expenditure on the Bradley's Camp COVID-19 hospital and quarantine facility at 31 March 2022 amounted to £1.035m. This comprises previously capitalised expenditure to 31 March 2021 of £637,066 and a further £397,771 included in assets under construction at 31 March 2022 in respect of the purchase and installation of the Oxygen Plant.

With the lifting of COVID-19 related travel restrictions in September 2022, and the abatement of the COVID-19 pandemic, the utility of the facility has possibly decreased, particularly with regards to medical infrastructure and equipment installed.

Recommendation 5: SHG prepare a business plan to ensure that medical facilities, equipment and infrastructure housed at Bradley's Camp is gainfully employed

¹ International Ethics Standards Board for Accountants

LONG OUTSTANDING MEDICAL FEES INVOICES

Patients under the SHG public health scheme requiring overseas treatment are referred to either South Africa (and services managed by the Medical Services Organization (MSO)) or the United Kingdom (and services managed under the UK National Health Services (NHS)).

The value of medical procedures to be performed on each referred patient is estimated for financial management and planning purposes. Upon the completion of medical treatment for each referred patient, the medical service providers are expected to submit the invoices that reflect the actual amounts owed for the procedures performed.

Invoices for approximately 40% of the referred patients remained outstanding for over a year since those patients were referred overseas. The significant adjustments that were passed based on the more appropriate supplier invoice amounts exposed the complexity and possible unreliability of the estimation process. Whilst management largely attributed the invoice delays to the Covid-19 pandemic slowing down the NHS in updating their records, SHG is still faced with negative financial management consequences.

The absence of reliable financial information in determining the governments' liabilities at a point in time compromises the integrity of the budgeting process, increases the difficulty of financial planning and increases the risk of management decisions being based on unreliable information. Furthermore, legislators also rely on crucial financial information, reported by the Health Directorate, in policy formulation and decisions affecting legislation such as the Appropriation Ordinance.

Recommendation 6: SHG prioritise reaching a conclusion on the amount owed for the referral of patients by liaising with the NHS.

COMPLEX AND UNUSUAL AGREEMENTS

Procurement processes regularly lead to SHG entering into various contracts/ agreements with different service providers. Less frequently, SHG will enter into binding agreements outside the ordinary procurement process albeit with the full knowledge and participation of the Attorney General (AG)'s office and a representative from Treasury amongst other relevant technical departments. The nature of such agreements would be outside the normal course of business or involve some complexity in some of the terms and conditions incorporated therein.

Often, such complex or unusual arrangements also prompt complex accounting, and financial reporting considerations to be made. Failure to do so comprehensively may lead to financial and regulatory risks not being identified in a timely fashion. In addition SHG may incur avoidable increased audit costs. It is therefore prudent that sufficient and appropriate resources are allocated for this purpose.

Recommendation 7: The Financial Secretary should update the financial management and reporting processes to incorporate the requirement to consider the financial reporting implications of all significant, complex or

unusual agreements entered into by SHG. The implementation of the internal control should be monitored on a regular basis.

HANDOVER ARRANGEMENTS ON COMPLETION OF PROJECTS, PROGRAMMES AND SERVICE PROVIDER'S CONTRACTS

During the normal course of business some contractors or project management functions acquire assets for use during operations. Upon termination or expiry of such contracts and MOU's or restructuring of project functions, it is best practice that ownership of each asset is mutually determined and appropriately transferred and taken over by the agreed party. Such a smooth transition is not always feasible especially when disputes arise between SHG and the service provider/ contract manager or if there are unforeseen circumstances leading to the abrupt termination of the contract.

From stock observations and asset verification procedures, we identified that aviation fuel stored in 6 tank-tainers which had been purchased by Penspen as well as some aviation assets purchased under the Saint Helena Airport Project (SHAP) had not been recorded in SHG's accounts. The aviation vehicles which had been purchased by Penspen in 2015/16 include 2 ground fuel vehicles, 2 aircraft refueller vehicles and a bridger vehicle for transporting aviation fuel from the new BFI to the Aviation Fuel Facility (AFF).

Whilst management could not provide the carrying amounts of these unrecorded assets, my calculations indicate this misstatement is not material. This however does not mitigate the risk of the possible existence of other assets that SHG is entitled to but not appropriately accounted for in SHG's books as the rightful owner. This risk is however mitigated by these unrecorded assets as all belonging to the conclusion of a supplier's contract. I have satisfied myself that management are unable to effectively monitor the use of such unrecorded assets, in the circumstances described above, due to weak internal controls over asset management process.

Recommendation 8: The Financial Secretary should develop a suitable framework that governs the transitional arrangements upon the termination, dissolution, expiry or cessation of contracts/ project management units. The framework should include procedures to be undertaken to ensure the smooth and complete transfer of all assets acquired under such arrangements to the appropriate body and the timely update of the relevant financial and project records.

OUTSTANDING GRANT CLAIMS

The MOU between FCDO and SHG indicates the submission of an appropriate claim from the Government as the condition for the disbursement of funds. All claims are required to be accompanied by relevant supporting documents and should include the necessary information

to allow FCDO to make payments whilst any outstanding claims are required to be submitted within 6 months of the project end date.

In the 2020/21 Management Letter, I reported that claims for expenditure amounting to £513,477 spanning from financial years 2016/17 to 2017/18 had not been submitted to the funders. SHG has provided for the recovery of these claims as being doubtful as disclosed in Note 10.3, Receivable from Non-exchange Transactions.

Given the significant delay in submitting this claim since the expenditure was first incurred over 5 years ago there is now strong evidence that these funds may not be recoverable. Whilst management have attributed the delay in submitting the claims to insufficient resources required to compile the required information, the risk of failing to recover these funds is high.

Recommendation 9: Management should prioritize ensuring that the appropriate supporting documentation for the outstanding claims is compiled and a conclusion reached on the outstanding claims.

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 below 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	3	1	2
2017/18	2	2	0
2018/19	5	1	4
2019/20	2	0	2
2020/21	1	0	1
Total	15	3	12

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 Audit St Helena during the course of the statutory audit for 2021/22.



Brendon Hunt CA(SA)
Chief Auditor for St Helena
Audit St Helena
16 June 2023

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 2022, 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 matters described below, the accompanying financial statements present fairly, in all material respects, the financial position of SHG as at 31 March 2022, 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

1. Internet cable and associated works infrastructure

Infrastructure expenditure on the internet cable and associated works project amounted to £11.303m at 31 March 2022 (2020/21: £2.602m) which is reported within Property, Plant and Equipment in the Statement of Financial Position, and also forms part of assets under construction in Note 10.8. Expenditure on this project is measured at the cost of works completed on the internet cable infrastructure and associated works under the current contract.

IPSAS 17, Property Plant and Equipment and IPSAS 23, Revenue from non-exchange transactions requires that consideration given which does not approximate the fair value of resources received is considered to contain a non-exchange element which should be measured at fair value. In this regards Note 10.8.9 details that there is a high degree of estimation uncertainty associated with capital expenditure outlaid on this project.

I was unable to obtain sufficient appropriate audit evidence regarding the valuation of the asset by the reporting date, even by alternative means. In these circumstances I am unable to determine whether any adjustments are necessary in respect of the accounting for the internet cable and associated works infrastructure.

2. Investment in Enterprise Saint Helena

SHG's investment in Enterprise Saint Helena (ESH) is equity accounted and shown at £0.827m (2020/21: £0.827m) as recognised in the Statement of Financial Position. With the financial statements of ESH not prepared for the year ended 31 March 2022, SHG has not recognised the entity's financial performance in its investment in ESH, as disclosed in note

10.2, and the statement of financial performance for the year ended 31 March 2022. Its share of the loss of ESH amounting to £0.231m for the year ended 31 March 2021 is fully recognised in the investment in ESH, included in the comparatives to note 10.2, and the Statement of Financial Performance. The accounts of ESH have not been audited for the current and prior reporting periods as required by Section 9(2) of the Enterprise Saint Helena Ordinance. I have thus 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 2022 including its comparatives.

3. Events after the reporting period

Note 11.8 discloses events after the reporting date which either provide evidence of conditions existing at the reporting date or material events after the reporting date. I was unable to obtain sufficient appropriate audit evidence, in the form of unrestricted access to the minutes of the Executive Committee, to support the completeness of the disclosure of events after the reporting date, even by alternative means.

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 10.8.12. 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.

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 Emphasis of Matter, 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 SHG's 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 matters 1, 2 and 3 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

1. Authorisation for write off of assets

Property, Plant and Equipment amounting to £65,000 and pharmacy inventory of £82,011 was written off during the 2021/22 financial year.

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 write off of these assets has not been obtained and accordingly the write-off of these assets does not conform to the statutory authority which governs it.

2. Authorisation for the waiver of debt payable to SHG

The expectation of the receipt of a debt amounting to £94,133 was waived by SHG during a contractual dispute process.

Additionally, loans and trade receivables due to SHG from the Saint Helena Fisheries Corporation (SHFC) amounting to £82,938 were written off during liquidation proceedings in the 2020/21 financial year.

Section 16 of the Public Finance Ordinance requires that the waiver of any debt payable to SHG, in excess of £50,000 be authorised by the Secretary of State. The authorisation for the loss on the debts payable to SHG of £94,133 and SHFC receivable of £82,938, first reported in the prior period, has not been obtained and accordingly this waiver of debt receivable by SHG does not conform to the statutory authority which governs it.

3. Expenditure in Excess

For the year ended 31 March 2022 expenditure in excess of the final appropriated budget of £59,120 has been incurred on Head of Expenditure: Children & Adults Social Care. The statutory authorisation, granted under the provisions of Section 106 of the Constitution, amounts to £55,930. Accordingly, expenditure in excess on this expenditure head of £3,190 does 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

14 June 2023

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

2021/22

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 2021/22

Reclassifications

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
Provisions	500,000			
Accruals		500,000		
<i>Being reclassification of amount owed to Basil read from Provisions to Accruals based on final settlement</i>				
Corporation Tax				261,413
Income Received in Advance (disclosed as Payables)	473,497			
Receivables – Accrued Income		212,083		
<i>Being reclassification of amount owed to Basil read from Provisions to Accruals based on final settlement</i>				

Pertaining to prior year

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit	Credit	Debit	Credit
None				

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 2021/22

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit	Credit	Debit	Credit
Expenses – Health & Social Care				115,730
Accruals	115,730			
<i>Being reduction of accruals balance at year end after receipt of actual invoices from Various Health Service providers</i>				
General Reserve	328,621			
BFI Trading account		328,621		
<i>Being transfer between reserves to reflect customs dues eliminations for 2021/22</i>				

Table 3: Material adjustments to financial note disclosures

Description of adjustment	Note affected	Value of the error £'000
Amendments to the Going Concern note to make reference to the availability of adequate reserves for at least 12 months from the anticipated sign off date.	11.2 Going Concern	N/A
Amendment to disclose the Basil Read settlement and subsequent write off of amounts previously owed. Disclosure of contract for consultancy services provided by American Manufactures Structures & Services (AMSS) signed in August 2022	11.8 Events after the reporting date	32
Presentational reclassification of Basil Read liability from Provisions to Accruals based on final settlement amount	10.13 Provisions and Note 10.12 Payables from Exchange Transactions	500
Amendments to include the re-opening of SHHDL (Controlled entity), resumption of weekly commercial flights and disclosure on updates on the fibre optic cable.	11.8 Events after the reporting date	N/A
Correction of the number of close family members of key management personnel	11.4.3.1 Remuneration	N/A
Amendment to correct date for the BFI independent review and updated developments on the further options study.	Note 10.8.8 Bulk Fuel Installation	N/A
Amendment to reflect correct amount withdrawn from Consolidated Fund and provide narratives on what Heads 17 and 21 refer to.	Note 9.3 Comparison of Budget and Actual Amounts	10
Amendment to disclose interest free overdraft facility with BOSH as the terms are not at arm's length.	Note 12 Payables from Exchange Transactions	N/A
Amendments to update prior year EDF capital spend which was incorrect; disclose correct phases of EDIP MOU, and details on further extension.	Note 11.6 Capital Commitments	£28
Amendments to update net assets and profit balances from subsidiaries and percentage ownership in one of the subsidiaries.	Note 12.1 Entities in which SHG holds an ownership interest	N/A
Amendment to disclose the amount of inventories recognised as an expense during the period.	Note 10.5 Inventories	4,546 and (2020/21 3,197)

Amendment to remove the reference to the litigation reserve as being a useable reserve.	Note 1.6.1 Financial Secretary's report	N/A
Amendment to update prior year figures for the following financial instruments which did not agree with signed financial statements: Receivables from exchange transactions and Payables from exchange transactions	Note 10.16 Nature and Extent of Risks arising from Financial Instruments	129 and £328 respectively
Amendment to include background and remaining works of the Cable, justification of initial measurement at fair value, assumptions made and limitations arising from the arrangement. Disclosure of the limitation on the fair valuation of the SHG controlled Fibre Pairs on the Cable	Note 10.8 Property, Plant & Equipment	N/A
Disclosure of a contingent liability arising from one of the litigation cases where an estimate was provided by the AG Chambers	11.7 Contingent assets and liabilities	1,000
Disclosure of contingent liabilities raised from litigation cases after year end	11.8.2.5 Subsequent financial periods	338

SCHEDULE OF UNCORRECTED MISSTATEMENTS

Appendix A

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 Statement	
	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>				

Pertaining to 2021/22

Name	Statement of Financial Position		Income Statement	
	Debit	Credit	Debit	Credit
Expenses			36,282	
Trade Creditors – Solomons		36,282		
<i>Being adjustment to account for supplier's invoices individually not exceeding £1,000</i>				

RECOMMENDATIONS TO MANAGEMENT

APPENDIX D

No	Observation	Recommendation	Priority
1	Inadequate stock count arrangements were in place for the Pharmacy stock count.	SHG ensure that adequate internal control arrangements including appropriate resource allocation, are put in place to facilitate an accurate, efficient and effective stock count.	M
2	The delays in initiating statutory compliance procedures to regulate expenditure in excess impedes the financial statement finalisation process.	SHG incorporate statutory compliance processes in its year-end financial reporting procedures. These should include section 106 procedures for expenditure in excess.	H
3	The wholesale fuel price set by SHG has resulted in the existing BFI not recouping its overheads and incurring an operating loss, in the separate operating accounts of the BFI, of £601,007.	SHG investigate the reason for the BFI not recouping its operating costs in the 2021/22 financial year and adjust the fuel pricing formula to recover all overheads at the BFI going forward.	M
4	The timing at which EXCO ordinarily exercises oversight of the financial reporting process does not allow for their concerns to be sufficiently addressed.	EXCO consider the creation of a sub-committee to which oversight of the financial reporting responsibility could be delegated. Alternatively, the procedures of EXCO should be amended to include the review of the draft financial statements before submission to the Chief Auditor for audit under the provisions of Section 109(1) of the Constitution.	M
5	There has been a significant investment at facilities at Bradley's Camp. With the abatement of the COVID-19 pandemic attention needs to be given as to how these assets can be used on Island.	SHG prepare a business plan to ensure that medical facilities, equipment and infrastructure housed at Bradley's Camp is gainfully employed.	M

No	Observation	Recommendation	Priority
6	Medical fees invoices particularly from the UK NHS have taken long to be provided whilst some remain outstanding to date.	SHG should actively seek the assistance of the SHG UK Representative to follow up on outstanding NHS invoices on a regular basis.	M
7	Complex or unusual agreements entered into by SHG are not being reviewed to appropriately consider all the accounting and reporting implications of such arrangements. Failure to do so comprehensively may lead to some financial and regulatory risks not being identified timely in addition to SHG incurring avoidable increased audit costs.	The Financial Secretary should update the financial management and reporting processes to incorporate the requirement to consider the financial reporting implications of all significant, complex or unusual agreements entered into by SHG. The implementation of the internal control should be monitored on a regular basis.	M
8	There are no orderly procedures to govern transitional arrangements upon the termination or expiry of contracts and MOU's or the restructuring of project functions.	The Financial Secretary should develop a suitable framework that governs the transitional arrangements upon the termination, dissolution, expiry or cessation of contracts/ project management units. The framework should include procedures to be undertaken to ensure the smooth and complete transfer of all assets acquired under such arrangements to the appropriate body and the timely update of the relevant financial and project records.	M
9	Long outstanding claims for some expenditure incurred in 2016/17 and 2017/18 financial years has not been claimed from the funders.	Management should prioritize ensuring that the appropriate supporting documentation for the outstanding claims is compiled and a conclusion reached on the outstanding claim.	H

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 2

No	Recommendation	Follow-up	Status
2011/12			
1	Introduction of accruals budgeting.	Commencement of this project is pending recruitment of a Financial Planning Manager.	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	Open
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.	The original recommendation was made as a result of concerns over budgetary control. Since then, internal arrangements have been revised. The Treasury has been restructured, creating a Financial Planning Section and the allocation of Finance Business Partners to Portfolios, to support Accounting Officers and Budget Holders with the management of budgets and promote compliance with governing legislation and financial procedures. During 2022/23 Budget Execution Reports were discussed at Senior Leadership Team meetings on a monthly basis and meetings were held by the Deputy Financial Secretary and Financial Secretary during 2022/23 to hold Accounting Officers to account for areas of concern.	Closed

No	Recommendation	Follow-up	Status
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.	The necessity to amend legislation for the implementation of accruals budget will be considered following the assessment referred to in recommendation 1.	On hold
5	The Financial Secretary should seek to improve efficiency and accuracy in the statutory accounts production process through automation and quality assurance protocols.	A review of the costs and benefits of automation is subject to the availability of funding	In progress
2017/18			
6	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.	Management has communicated to the Chief Auditor that this recommendation has not been accepted or agreed.	Closed
7	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 the SHG group.	Management do not agree with this recommendation, SHG will continue to ensure access is provided to the information required under the existing arrangement	Closed
2018/19			
8	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.	Management is not aware of any challenges in this regard other than delays caused by staff movements and vacancies. Audit Comment: A significant difficulty was noted in the transmission of information by the AG Chambers to Audit as reported under the 'Significant Matters which remain unresolved' section of the Management Letter	Open
10	SHG should introduce regulations requiring the preparation and publication of an Annual Governance Statement as part of its annual accountability reporting to stakeholders.	The implementation of this recommendation is linked with recommendation 2. Further consideration on the Code of Governance and resourcing is required before this recommendation can be implemented.	In progress

No	Recommendation	Follow-up	Status
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.	This policy is to be developed.	Open
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.	Funds at bank are held distinct from authorized investments. Funds at bank for operational payments overseas are held with Crown Agents Bank. Investments are held with Crown Agents Asset Investment Limited.	Closed
2019/20			
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.	Management has advised that there is no action required on their part.	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.	Management advised that Treasury will implement in 2023/24	In progress
2020/21			

ID	Recommendation	Action	Status
17	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	Due consideration will be given to the drafting of a project plan. Action is pending discussion between SHG and FCDO which is ongoing.	Open

*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 disappplied in St Helena in 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.

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