



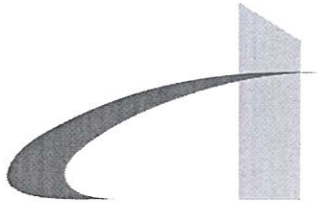
St Helena
Government

AUDIT SAINT HELENA

MANAGEMENT LETTER TO THE LEGISLATIVE COUNCIL
OF ST HELENA

SHG FINANCIAL STATEMENTS 2022-2023

Laid on the Table 5th Dec 2024.



AUDIT ST HELENA
External Auditors

MANAGEMENT LETTER

SHG FINANCIAL STATEMENTS 2022-23

To the Legislative Council of St Helena Government

03/09/2024

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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 2023 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 2023 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; 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*.

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 2023 my Report contains a qualified opinion on the fair presentation of the annual Financial Statements.

In addition, and without qualifying my Report, I raise two emphasis of matters relating to the significant estimation uncertainty associated with the new Bulk Fuel Installation and the construction of the on-island Fibre Optic Network. Without qualifying my opinion my Report also draws attention to the material uncertainty on the going concern basis of preparation of the annual financial statements.

My Report contains unqualified opinions on the regularity of expenditure and income together with compliance with statutory authorities governing the preparation of the financial statements.

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 22 August 2024 is published with the SHG Financial Statements for the 2022/23 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 2022/23 Financial Statements draft version 1 submitted for audit on 22 February 2024 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 – BULK FUEL INSTALLATION

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. Note 11.9.2.2 discloses the progress made towards the decision as to what components will be commissioned in the final installation.

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 comprehensive actuarial review and valuation of the DBPS was last performed at 31 March 2020 and rolled forward for the 2020/21, 2021/22 and 2022/23 financial years. The next comprehensive actuarial review and valuation will be performed for the financial year ended 31 March 2024. A knowledge of the prior experience gains or losses associated with the comprehensive actuarial review and calculation (2019/20: £6.090m, 2015/16: £3.145m) highlights that the DBPS liability at 31 March 2023, being at a point one year before the next comprehensive review, is subject to a high degree of estimation uncertainty.

Note 10.14.2.2 sets out the significant assumptions used in the determination of the DBPS 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 pensions increases. 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) and giving rise to a constructive obligation notwithstanding the discretionary nature of the provision.

The forward rate of pay inflation assumed by the actuary 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.

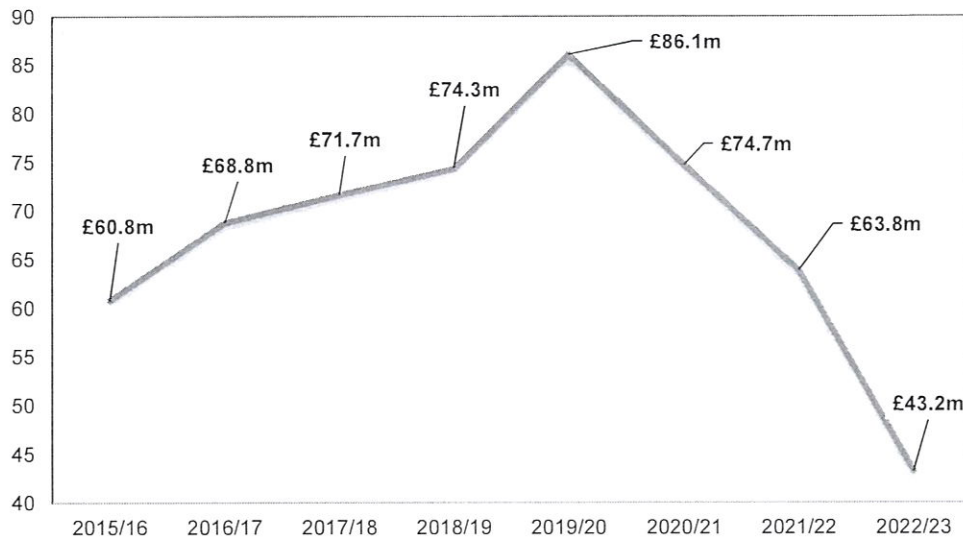
The pension liability has decreased by a further £20.599 million from the year ended 31 March 2022. Note 10.14.2.1 *Movements in the Actuarial Pension Liability* details that £19.792 million of the decrease in the liability can be attributed to changes in financial assumptions and a further decrease of £1.170m arises from changes in demographic 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 1.8% in 2021/22 to 3.9% in 2022/23. The discount rate has been referenced to the yields on UK Gilts at 31 March 2023.

Note 10.14.2.2.2 *Demographic Assumptions* discloses that the future mortality assumptions used in the valuation at 31 March 2023 had been updated to take into account the January 2022 update by the Office for National Statistics (ONS) which incorporated an allowance for the effects of COVID-19 on the future assumed improvements to mortality assumptions.

FIGURE 1 DBPS LIABILITY 2016 TO 2023

Movement in Actuarial Pension Liability over 8 Years



GOING CONCERN

In considering whether the going concern basis of preparation remains appropriate management are required to look at the financial sustainability of an entity for a minimum future 12-month period from the date of approval of the financial statements. The recurrent financial aid settlement for the financial year 2024/25 was received from the Foreign, Commonwealth and Development Office (FCDO) in March 2024 which governs the period from April 2024 to March 2025. This settlement indicates recurrent foreign aid to be received in the 2024/2 financial year at £34.060 million in total.

The economic conditions on St Helena are such that SHG is unable to function without continued foreign aid funding from the United Kingdom. The 12 month forecast to August 2025, provided by SHG to support the use of the going concern assumption in the preparation of the annual financial statements, included financial aid support for the period April 2025 to August 2025 amounting to £12.131m.

No agreement is in place to support the assumption that this aid will be received to the amount that is included in the forward looking 12-month forecast. This presents a departure from previous practice in that forecasts prepared by SHG, in prior years, to support the going concern assumption, assumed that the funds available in the General Reserve would be utilised to fund the operations of SHG until the financial aid settlement for the following year could be agreed and the budget appropriated for that year in Legislative Council.

There therefore exists a material uncertainty as to whether SHG can provide services without a significant curtailment of services for a forward looking 12-month period from the date of approval of the annual financial statements. This material uncertainty is further disclosed in note 11.2 to the financial statements.

DIFFICULTIES ENCOUNTERED DURING THE AUDIT

TIMELINESS IN REPORTING

The FCDO amended the foreign aid Memorandum of Understanding to allow for reporting of 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 the draft 2022/23 financial statements, together with its supporting schedules was received on 22 February 2024 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 2024.

The valuation of the defined benefit pension obligation was included in the third draft version of the financial statements submitted to audit on the 25th of May 2024 being just over three months after the submission of the first draft version to audit. Given the estimation uncertainty and complexity inherent in the calculation of this obligation it had been communicated to Executive Council that the valuation and disclosure of the pension liability was a significant audit risk which would require detailed specific procedures to assess whether the pension liability had been fairly presented in the annual financial statements.

In the context of the Section 109(2) constitutional requirement for the Chief Auditor to submit his audit report within 6 months of receiving the accounts submitted for audit, the delay in the submission of the valuation and recognition of the pension liability presented a quality risk to the audit process.

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.

VARIANCES BETWEEN FINANCIAL STATEMENT SCHEDULES

The first draft of the 2022/23 financial statements included Microsoft Word and Excel versions in addition to the supporting schedules. Some variances were identified between the 2 formats of the financial statements. While the variances were subsequently resolved, time was spent in attempting to resolve these which would otherwise have been avoided if SHG was using a financial reporting system for the drafting of financial statements.

An open recommendation from 2016/17 financial year speaks to the need for SHG to improve the efficiency and accuracy in statutory accounts production process through automation and quality assurance protocols.

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 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 two recurrent Heads and one capital Head as follows:

- Safety, Security and Home Affairs: recurrent expenditure £ 10,000
- Health: recurrent expenditure £ 200,000
- Environment, Natural Resources & Planning : capital expenditure £ 14,000

Sessional Paper 07/24 was laid before Legislative Council on 25 March 2024 in respect of excess expenditure incurred on these three heads which, after due scrutiny by PAC and reporting in Sessional Paper 25/2024, was allowed to stand charged to public funds by resolution under section 106(3).

With the reported excess amounts duly approved under section 106 my opinion on regularity of expenditure issued under section 29(1)(b)(i)(B) of the Public Finance Ordinance is unqualified.

STATUTORY COMPLIANCE

My opinion on statutory compliance issued under section 29(1)(b)(i)(C) of the Public Finance Ordinance is unqualified and I have no matters to report in this respect.

SIGNIFICANT MATTERS WHICH REMAIN UNRESOLVED

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 2023 amounted to £15.599m. 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 made payment 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 2023. 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 £0.842m, as disclosed in note 10.5, were inadequate. The final stock sheets provided the total quantities of pharmacy stock on hand but with multiple locations (Bradley's and the Jamestown Pharmacy) being physically used and the stock not being arranged in a manner that enabled an efficient count, it was not possible to select samples from the stores themselves and trace these counts to the final stock valuation sheets. As a result we were unable to obtain sufficient appropriate evidence that pharmacy stock, as recorded and disclosed in the annual financial statements, is complete.

SIGNIFICANT MATTERS RESOLVED WITH MANAGEMENT

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

RECOGNITION OF GRANT INCOME

Income recorded in respect of grant income for the EDIP programme is included under Other Development Aid in Non-Exchange Revenue as disclosed in note 9.1. A comparison of the income recorded in the 4th quarter of the 2022/23 financial year to the claim returned to the FCDO, being the funding source for the EDIP programme, indicated that this grant income had been overstated by £406,953 in the accounting records of SHG.

Management agreed to pass an audit adjustment to reduce both the non-exchange revenue in and claim receivable due from the FCDO by £406,953. This was correctly adjusted in the version 4 financial statements.

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 (ESH) transferred the majority of its functions to SHG on 31 March 2021 and is now in the process of being wound up. The results of its operations for the financial years ended 31 March 2021, 31 March 2022 and 31 March 2023 were recorded in Non-Current Investments after the submission of the first draft version for audit.

COMPLETENESS OF OVERSEAS MEDICAL REFERRALS ACCRUALS

Overseas medical referrals accruals balance of £672,921 is included in Other Accruals in Note 10.12 Payables from Exchange Transactions. The balance is largely represented by amounts owed to various medical service providers in South Africa for medical procedures performed on patients referred by the St Helena Government Hospital.

The administration of medical patients in South Africa, including the follow up and transmission of medical invoices of patients to SHG and the subsequent payment of the invoices was entirely handled by the Medical Services Organisation (MSO). While the overseas medical referral accruals were subsequently validated to invoices and payments, the time taken to clear the matter revealed some control deficiencies related to the non-reconciliation of supplier accounts.

Recommendation 1: SHG amend their financial reporting procedures to ensure that the trade payables on services providers, which carry a material balance at the financial reporting date, are reconciled to external sources at the financial reporting date such as suppliers' statements. Separately, the accruals for services rendered but not yet invoiced by suppliers at the financial reporting date will continue in accordance with the current accounting policy for such costs.

DEFINED BENEFIT PENSION FUND VALUATION

The detailed workings of the defined benefit pension liability of £42.330m was not provided to audit. The provision of this schedule was expected to provide details on the present value of the future pension liabilities associated with individual members of the retirement scheme. Without this level of detail I was initially unable to gain assurance that the overall valuation of the defined benefit pension liability was complete and accurate via re-performance audit procedures.

Future enquiries with the UK Government Actuary's Department assisted in providing insight into the actuary's roll forward methodology. Thereafter, I was able to assess the reasonableness of these workings via recalculation procedures.

DISCLOSURE OF CONTINGENT LIABILITIES

Contingent Liabilities are disclosed in Note 11.7 and currently represent cases brought against SHG where there is a possibility that there will be a future obligation which SHG will be expected to settle. The disclosure included in the first draft submitted for audit was understated by 14 ongoing cases where SHG was named as the defendant, or would be expected to settle a future liability in respect of these cases.

Management agreed and has subsequently disclosed the 14 cases in Note 11.7.

LITIGATION PROVISIONS

SHG raises a provision for litigation claims when there is a present obligation arising from past events where it is probable that SHG will be required to settle the obligation and a reliable estimate of this obligation can be made.

Note 10.13, *Provisions* discloses that SHG had provided for expenditure of this nature. The in-year reduction in the provision £407,000 could not be supported by documentation such as evidence that the claimant was now deceased or court judgements in favour of SHG. Some additional provisions amounting to £0.855m and £0.500m for legal fees arising from adjusting subsequent events had also not been updated to align with the litigation register.

Management agreed to pass an audit adjustment to increase the amount of provisions by £0.407m relating to previously released provisions, also by £0.885m to align with the litigation