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Memorandum for Executive Council

SUBJECT

Government of St Helena Financial Statements 2018/19

Memorandum by the Financial Secretary

ADVICE SOUGHT

1. **Executive Council is asked to consider the St Helena Government Entity Financial Statements for 2018/19 with the Chief Auditor's Management Letter covering those accounts, in order for the Statements to be signed by the Financial Secretary and for the Audit Opinion to be given.**
2. **Further, before an audit opinion can be given, Council is asked to make a determination about correcting or not correcting material misstatements (qualifications) such that Executive Council:**
 - a) **notes the request of the Chief Auditor in his Management Letter on the audit of the 2018/19 Financial Statements to correct the material misstatements; and**
 - b) **further notes the Financial Secretary's explanation for the misstatements and his intention to make no further amendments;**
 - c) **approves the Financial Secretary's decision not to correct the remaining misstatements and authorises them for issue;**
 - d) **authorises the Financial Secretary to give the required written representations to the Chief Auditor contained in the Letter of Representation; and**
 - e) **note that the Chief Auditor will issue a Qualified Opinion on the completed 2018/19 Financial Statements.**

BACKGROUND & CONSIDERATIONS

3. **The Financial Statements for the Government of St Helena (*Annex A*) are produced in accordance with the International Public Sector Accounting Standards (IPSAS) financial reporting framework (accruals basis) in compliance with statutory requirements under the Public Finance Ordinance, 2011.**

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4. These Financial Statements are the eighth to be produced since the adoption of IPSAS and shows the developmental process that has been adopted in the preparation of the Financial Statements. A tremendous amount of work has been done to prepare these financial statements and demonstrates the determination of SHG to continuously improve the level and quality of financial and non-financial information published in the public domain. The disclosures in these financial statements gives greater transparency on the activities of SHG and makes SHG accountable to the Legislative Council and the general public.
5. Executive Council will note the commitment given in the 2018/19 Engagement Letter that the SHG Financial Statements would be prepared, audited and signed off by the end of November 2019. Resource constraints with the Financial Reporting Team in Corporate Finance at the critical preparation time due to sickness absence meant that the first draft of the 2018/19 financial statements was submitted to Audit Saint Helena on 20 August 2019 instead of the original 31 July 2019 submission date. Audit St Helena also experienced key resources gaps with the Deputy Chief Auditor position being vacant since May 2019.
6. The Financial Aid 2016/17-2018/19 DFID MOU terms and conditions requires that SHG present audited financial statements within 9-months of year-end and due to this delay in completion this condition was not met for the financial year 2019/20. DFID have been kept informed throughout the process. At this stage, there is no indication that there are any financial implications for SHG with regard to financial aid from DFID.
7. The preparation of the SHG Financial Statements continues to be complex and technical in nature and the matters arising also continue to be complex and technical. Some have been addressed and some have been noted and require further work as we move forward. The more significant matters are summarised in the Chief Auditors Management Letter.
8. The reporting route for the SHG Financial Statements, Audit Opinion and Auditor's Management Letter (ML) (*Annex B*) is set out in The Constitution of St Helena, s109(2). The Audited Financial Statements and Management Letter are laid on the table at a formal sitting of the Legislative Council (LegCo) by the Financial Secretary. The Standing Orders of LegCo state that the Accounts laid are automatically deemed to have been referred to the Public Accounts Committee (PAC) for scrutiny on behalf of the Legislative Council.
9. Under International Standards on Auditing (ISA) 260 *Communication with those charged with governance*, the Chief Auditor is required to report on the audit to those charged with governance. Executive Council (ExCo) being the executive decision making body of the Government of St Helena is

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considered as those charged with governance. Accordingly the ML is presented to Executive Council as a necessary precursor in the Accounts approval process for the laying of the audited accounts before LegCo.

10. The ML fulfils the requirement of ISA 450 *Evaluation of Misstatements Identified during the Audit*, to request those charged with governance (ExCo) to consider and if necessary make any audit adjustments that management has chosen not to make. The process being followed here allows for Executive Council Members to exercise their governance duties; it aids transparency and allows the issues and recommendations raised by the Chief Auditor within the ML to be discussed and debated in an open forum. Executive Council is therefore asked to make a determination about correcting or not correcting outstanding errors reported in the Chief Auditor's ML.
11. Before the Chief Auditor is able to issue his Audit Report on the 2018/19 SHG Financial Statements he requires a Letter of Representation from the Financial Secretary (*Annex C*). This letter is a requirement under International Standards on Auditing and sets out specific representations on certain assumptions and estimations made by management as part of the preparation of the Financial Statements and compliance with standards, laws and regulations.

Auditor's Report

12. The Chief Auditor plans to give a qualified opinion due to the matters described in the basis of qualified opinion paragraphs in the Auditor's report (*Annex B*), which is to say except for the matters raised, the Financial Statements present fairly the financial position of SHG at 31 March 2019, and the financial performance and cash flows for the year ended 31 March 2019, in accordance with IPSAS.
13. In summary, the Chief Auditor has given a qualified opinion on the Financial Statements based on two qualifications.
14. The first qualification is a legacy issue on fair presentation which relates to the valuation of infrastructure assets namely the St Helena Airport, the Wharf and roads infrastructure. The second is a new qualification on regularity where the impairment loss on plant and equipment over £50,000 has not been authorised for write off in accordance with the requirements of the Public Finance Ordinance 2010.
15. In addition to the qualified opinion given, the Chief Auditor also gives an emphasis of matter on Material Uncertainty Related to Going Concern. He has highlighted to readers of the Accounts the uncertainty of the value of Financial Aid expected from DFID. Management has determined that the Financial Statements should

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be prepared using the Going Concern assumption. The Chief Auditor is not suggesting that the Going Concern assumption used to prepare the Financial Statement is wrong but that an uncertainty exists on the level of financial support for 2020/21 until DFID formerly informs SHG through a signed MOU Amendment Letter which is anticipated shortly.

16. The following three qualifications reported in prior year are now cleared as follows:
 - a) Special Funds – assurance secured on the completeness and accuracy of the special fund balances for DFID and EDF including prior period adjustments.
 - b) Non-current investments – assurance secured on the reported ownership interest in the Bank of St Helena Ltd.
 - c) Customs revenues – assurance secured on the completeness and accuracy of revenues recognised by reconciliation with the ASYCUDA system.
17. Out of the twenty recommendations carried over from last year, ten recommendations have now been implemented and are now considered closed. The Chief Auditor has also in his ML made four new recommendations to management. One is rated high priority and the other three are rated medium. These recommendations have been considered and a response to these recommendations will be provided by management in due course.
18. The four recommendations relate to improvements engagement between Corporate Finance and other corporate colleagues for certain elements of the financial statements preparation process, the introduction of regulations on the preparation and publication of an Annual Governance Statements, the development of a policy and protocol in 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 and the use of non-disclosure agreements, and conclusion of the reassessment of the BLA scheme to ensure consistent and fair application to all eligible claimants.

Detailed considerations

19. *Qualification relating infrastructure valuation.*

Assets disclosed under Infrastructure and as under construction in Note 11.8 *Property Plant and Equipment* for the Airport are measured on an earned value basis. IPSAS 17, *Property Plant and Equipment* and IPSAS 23, *Non-Exchange Transactions* require that such aid funded assets are measured at replacement cost. Corporate Finance has determined that the earned value basis is a suitable proxy for replacement cost as required by the standard.

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Note 9.3.3.1 explains that there is a high degree of estimation uncertainty associated with the valuation of the airport infrastructure.

20. In addition to this, the DFID element of assets reported as under construction in Note 11.8 *Property Plant and Equipment* for the Rupert's Wharf is measured on the same earned value basis, the remaining element funded by EDF grant funding is measured at cost. IPSAS requires that where the exchange and non exchange elements can be separately identified then the non-exchange element of such aid funded assets are to be measured at replacement cost. Similar to the issue with the valuation of Airport infrastructure SHG has determined that the earned value basis is a suitable proxy for replacement cost as required by the standard.
21. Roads Infrastructure also disclosed under Note 11.8 *Property Plant and Equipment* has been recognised this year following the expiration of the transitional provision. Roads Infrastructure has two elements, where the first element is existing roads which are upgraded and maintained through project funding and the other element being the new road added to the network as part of the DFID funded Airport Project on a non-exchange basis.
22. The valuation of the new road provided on a non-exchange basis follows the same methodology as the other assets recognised under the Airport Project where Corporate Finance has determined that the earned value basis is a suitable proxy for replacement cost as required by the standard. Historical roads have been recognised at management's estimation of deemed costs.
23. The Chief Auditor therefore, was unable to obtain sufficient appropriate audit evidence regarding the asset valuation by the reporting date either from management or by using alternative audit procedures. He is therefore unable to determine whether the earned value basis as stated fairly presents the replacement cost of these assets and whether any adjustment would be necessary to the reported value of Property Plant and Equipment.
24. As previously reported Corporate Finance approached the Valuation Office in the UK to carry out a professional valuation service to determine the value of the Airport Infrastructure and Rupert's Wharf Infrastructure for inclusion in the financial statements for 2016/17. However they were unable to provide this service. Corporate Finance is in discussion with another qualified valuer to undertake the work but it should be recognised that this is highly specialised and SHG will need to determine the cost benefit of procuring these services.
25. *Qualification relating to Impairment Loss*

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 recording of impairments represents

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a loss in the economic value of assets and thus requires authorisation for write-off. Note 11.8.2 details impairment in the value of 12 items of plant and equipment amounting to £1.346m which has been charged to the Statement of Financial Performance. The largest of these impairments are the leaking fire water pipes at the new BFI (£1.077m) and the corrosion to the Aircraft Maintenance Steps at the new airport (£0.052m). The increase in impairment in the current year is significant when compared to one asset in prior year in the amount of £0.016m. The authorisation as required by the PFO from the Secretary of State has not yet been received and therefore the Chief Auditor has concluded that the impairment expense does not conform to the statutory authority which governs it.

FINANCIAL IMPLICATIONS

26. There are no financial implications or risks relating to this paper.

ECONOMIC IMPLICATIONS

27. There are no economic implications resulting from this paper.

CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES

28. Not applicable.

PUBLIC/ SOCIAL IMPACT

29. No public or social impact.

ENVIRONMENTAL IMPACT

30. No environmental impact.

PREVIOUS CONSULTATION/ COMMITTEE INPUT

31. There has been no previous Council Committee input as this is not a policy issue. Executive Council has been deemed as ‘Those Charged with Governance’ in accordance with ISA 260.

32. A discussion was held with Chairperson’s Assembly regarding the details of the draft Audit ML and Audit Opinion.

PUBLIC REACTION

33. Public reaction is likely to be neutral. The public will likely be content with the fact that SHG is being accountable for public spending through completion of the audit and publication of the Financial Statements. There might be some comment on late signing of the financial statements.

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PUBLICITY

34. ExCo's decision will be relayed in the ExCo Report and associated radio broadcast. The signed Financial Statements and Management Letter will be laid on the table at Legislative Council and made public. Further publicity via the normal distribution channels (including uploading onto the SHG website) will follow thereafter.

SUPPORT TO STRATEGIC OBJECTIVES

35. This paper supports the Ten Year Plan as it is a key financial accountability process for SHG.

OPEN/CLOSED SESSION

36. It is recommended that this is held in open session.

DLR

Corporate Support
Corporate Services

25th March 2020

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