



**AUDIT ST HELENA**  
External Auditors

# **Follow-up on Previously Issued Performance Audit Recommendations**

June 2020

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## INTRODUCTION

### BACKGROUND

Audit St Helena is the body that carries out financial and performance audits on behalf of the Chief Auditor.

The Chief Auditor is a statutory position required by the Constitution (Section 110). The Chief Auditor's responsibilities are set out in the Constitution and the Public Finance Ordinance.

Performance auditing as defined in the International Standards for Supreme Audit Institutions (ISSAI) is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance audits are conducted as part of our Strategic Performance Audit Plan.

A follow-up audit is an independent activity that is designed to validate improvement actions proposed by management. It increases the value of the audit process by strengthening the impact of the audit and encourages St Helena Government (SHG) as executive management to follow-through their stated intentions. It also provides Audit St Helena with valuable performance information and provides a basis for improvements to future audit work. Follow-ups are not restricted to the implementation of recommendations but focus on whether SHG has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

International Standards for Supreme Audit Institutions (ISSAI) 300, paragraph 51 states that:

*“Auditors should follow-up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant Corrective action. A follow-up of an audit report, must practically focus on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach.”*

This report reviews progress on the implementation of recommendations from the following performance audits:

- Vehicles Customs Revenue – June 2012
- VFM Review of the New Customs Buildings – August 2012
- Delivering Government Objectives – August 2014
- St Helena Airport Project Overview Audit – June 2015
- Managing Grants and Subsidies – March 2016
- Corporate Governance of the St Helena Government Group Entities – February 2018

## OBJECTIVE

The objective of this follow-up audit is to determine whether the Saint Helena Government (SHG) has implemented the agreed upon recommendations from performance audits issued since and including our last follow-up report issued in November 2016 and published before Legislative Council as Sessional Paper 12/2017.

## METHODOLOGY

Audit St Helena undertook the following work to validate that agreed upon recommendations have been implemented:

- Compile a consolidated recommendations register for relevant published reports and enquire on the status of previously agreed upon recommendations based on the timelines provided;
- Remove all recommendations that have been identified as implemented during previous follow-up work performed in a report issued November 2016;
- Where SHG believes recommendations have been implemented, validate the responses;
- Where recommendations have not been implemented, obtain a new target date for the implementation of the recommendations or re-evaluate the validity of the recommendation;
- For instances where circumstances have changed significantly since the report was published, consider whether the recommendation remains relevant.

## RESULTS

This section summarises the number of recommendations outstanding, brings out the highest priority issues and suggests a way forward for each report. A full list of outstanding recommendations is included in the appendix to this report.

### Vehicles Customs Revenue – June 2012

Total outstanding recommendations	Recommendations implemented and superseded	Recommendations not implemented
1	0	1

At the beginning of our follow-up, there was one recommendation outstanding from this report: "Evidence detailing the follow-up of late payment needs to be held and recorded on file". We received no response from SHG on the matter, but we are still not satisfied that this process occurs based on testing performed during our annual audit of financial statements.

### VFM Review of the New Customs Buildings – August 2012

Total outstanding recommendations	Recommendations implemented and superseded	Recommendations not implemented
12	6	6

The recommendations included and outstanding from the Review of Customs Buildings make some sensible suggestions both in relation to the use of the building and more generally for construction projects undertaken by SHG. In the absence of a response from SHG regarding whether or not the outstanding recommendations have been implemented, we have used evidence from more recent audits (specifically the hospital refurbishment, hotel construction, review of the capital programme and procurement of sea freight and FMC) to establish whether it has made progress on the recommendations.

Four of the 11 outstanding recommendations have been implemented. These have all been addressed through the creation of SHG’s project management unit and Project Delivery Group through the Capital Programme and concern the regular recording of project board meetings and better governance of projects through appropriate decision making structures.

Six recommendations have not been implemented. These concern proper stakeholder engagement for projects, employing experienced and appropriate project management, effective project planning, proper certification and handover, and retention of procurement documents.

Too much time has now passed and the situation at the wharf has changed significantly to keep the project-specific recommendations open so we therefore will close them without being completed. These are recommendation 7, for management to review outstanding works required for the customs building, and recommendation 10, for the size of the project working group to be made smaller.

#### **Delivering Government Objectives – August 2014**

<b>Total Outstanding recommendations</b>	<b>Recommendations implemented and superseded</b>	<b>Recommendations not implemented</b>
<b>19</b>	<b>4</b>	<b>15</b>

Four recommendations have been implemented since our last follow-up, leaving 15 open. SHG has successfully:

- Ensured appropriate allocation of resources through council committee approval;
- Ensured directors are held to account for late reporting of indicators, and;
- Prepare a new SDP with a “Post Airport” vision for St Helena

While there has been some improvement by SHG in strategic planning, objective setting, and performance monitoring, there remain some outstanding issues:

- Air Access, ENRD and Safeguarding have not documented responsibilities for objectives in their strategic plans
- Corporate services, Corporate Support, air access and education need to develop KPIs that are easy to monitor
- ENRD and Air Access need to design KPIs which reflect their day to day activities
- Performance reports are not published monthly, and the performance team are not held accountable for late reporting.

Audit St Helena has a programme of work planned under our 2019/20 to 2021/22 operational plan assessing and benchmarking performance indicators across all directorates. The recommendations will be taken into account during these audits.

## St Helena Airport Project Overview Audit – June 2015

Total outstanding recommendations	Recommendations implemented and superseded	Recommendations not implemented
6	0	6

None of the outstanding recommendations from our last follow-up have been implemented.

This is a missed opportunity as PAC examined this audit in 2015 and concluded the audit recommendations should be used by management to develop control mechanisms for phase-2 operations so as to transfer the learning from phase-1 construction.

While some of these may no longer be relevant as the airport is now operational and is managed by a new company, there remain some outstanding issues:

- Risk management for the airport and all capital projects needs improving, including regular monitoring of risk registers and designing a risk management strategy for all projects
- SHG's financial statements have continued to be qualified due to valuation of aid-funded infrastructure and the associated non-exchange revenues
- The airport project management team did use the conclusions of the report as guidance for securing specific audit work, although Audit St Helena now audits the annual accounts of the airport company and
- There is no audit or assurance plan for the airport company (phase 2 of airport operations)

Audit St Helena intend to perform an independent examination of the airport contract management arrangements given the recent changes to the situation at the airport, including the handover of the project from Basil Read to SHG. We will use that as an opportunity to review the outstanding and superseded recommendations. We are also currently examining the Bulk Fuel Installation and will consider these recommendations in the scoping of that audit.

## Managing Grants and Subsidies – March 2016

Total outstanding recommendations	Recommendations implemented and superseded	Recommendations not implemented
11	0	11

We received limited responses from SHG regarding the progress of the implementation of these recommendations. We attempted to establish using available information whether or not the recommendations have been implemented. We conclude that none of the recommendations have been implemented and must all remain open.

## Corporate Governance of the Saint Helena Government Group Entities – February 2018

Total outstanding recommendations	Recommendations implemented and superseded	Recommendations not implemented
16	6	10

We received limited responses from SHG regarding the progress of the implementation of the recommendations, however it prepared a management action plan in March 2019 which provided an update on progress. We further attempted to establish using available information whether or not the recommendations have been implemented. Off the back of this, we conclude that six recommendations have been implemented or superseded:

- Held the Annual General Meetings for the 2014/15 and 2015/16 financial years for the St Helena Line
- Established the role of Government Director who sits on each SCE board to provide strategic oversight and financial leadership on behalf of SHG
- This director also acts as SHG’s “ownership entity”
- SHG has developed an ownership policy for SCEs
- This ownership policy develops the code of governance for SCEs
- The St Helena Line has been liquidated therefore the agreement with Crown Agents no longer requires updating

The following issues still remain:

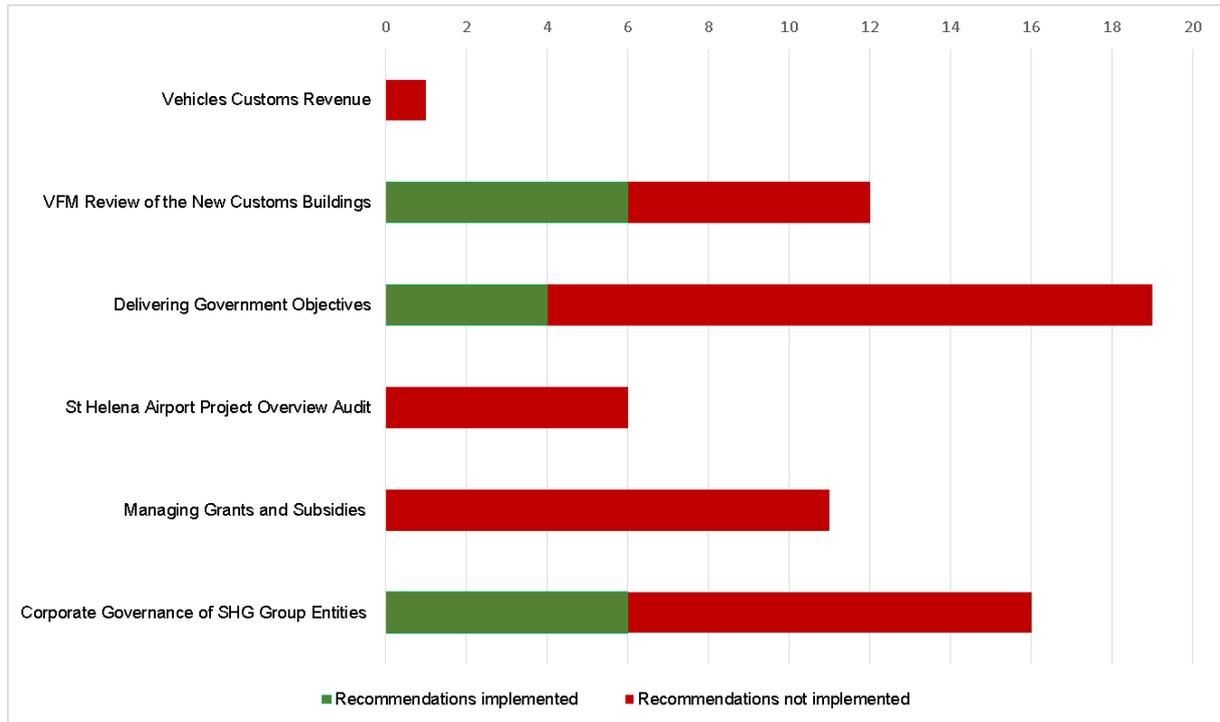
- The legislative amendment, requiring all State Controlled Entities’ (SCE) audited Annual Financial Statements, and any other accompanying reports be laid in LegCo has yet to be tabled
- Council committees do not yet have legislative oversight over the performance of SCEs
- SHG still needs to legislate to introduce regulatory authorities for all sectors SCEs operate
- SHG still needs to better align SCE objectives with government policy
- SHG needs to improve its board nomination processes
- SHG still needs to develop and implement a process of setting and monitoring performance targets for SCEs
- SHG still needs to develop a disclosure policy for SCEs
- SHG still needs to develop a remuneration policy for SCE boards

We note that SHG has hired a finance business manager to complete many of the report’s recommendations, so we welcome an update from him as to progress since March 2019.

**Summary Total – all reports followed-up**

<b>Total outstanding recommendations</b>	<b>Recommendations implemented and superseded</b>	<b>Recommendations not implemented</b>
<b>65</b>	<b>16</b>	<b>49</b>
<b>Percentage</b>	<b>25%</b>	<b>75%</b>

**Figure 1 Summary of recommendations implemented and outstanding**



## CONCLUSIONS

At our last follow-up, published November 2016 and tabled at Legislative Council in 2017, we found 60% of recommendations were closed with 40% remaining outstanding.

This new follow-up has revealed a marked reduction in the percentage of recommendations implemented. SHG has significant work to do to ensure management drive through the implementation of the recommendations from our performance audit reports, with 75% outstanding from the six audit reports examined.

This is particularly important for the more recent VFM reports on Delivering Government Objectives, Managing Grants and Subsidies, and the Governance of SHG Group Entities as they relate to live issues SHG are currently tackling, and we continue to come across these problem areas in our current audits in-progress.

The outstanding recommendations together with the responsible directorate are detailed in the Appendix for ease of reference.

Phil Sharman  
Chief Auditor

15 June 2020

## APPENDIX – OPEN RECOMMENDATIONS

No.	Recommendation	Directorate	Management Comment per the original report
<b>Vehicles Customs Revenue – June 2012</b>			
1	Evidence detailing the follow-up of late payment needs to be held and recorded on file. <b>(Recommendation 6)</b>	Finance	Agreed new debt management procedures were established and this recommendation is incorporated.
<b>VFM Review of the New Customs Buildings – August 2012</b>			
2	The needs of the main end user must be taken into consideration at all times. <b>(Recommendation 1)</b>	CS/Finance/ Procurement	Recommendation agreed. The known needs of all end users were taken into consideration, but some were beyond the authority of project management, (e.g., removal of the tree)
3	For future projects an appropriate level of funding should be used to employ an experienced Project Manager. <b>(Recommendation 2)</b>	CS/Finance/ Procurement	Provision equivalent to 10% of the value of implementation of the original design was set aside, but competitive tendering resulted in only one Tender being received at a substantially lower figure from a person involved in project management since 1984.

No.	Recommendation	Directorate	Management Comment per the original report
4	SHG review the project management process to ensure that delays do not occur in future projects. The review should look at planning, ensuring that the needs of the end user are taken into account, and management arrangements. <b>(Recommendation 5)</b>	CS/Finance/ Procurement	It is accepted that some improvements could have been made in the areas identified, but not that all delays were attributable to project management, For example, the interior design changes made necessary when the unexpected decision was taken to combine Income Tax and Customs; the non-arrival of roofing nails with the roof sheets (although both were ordered together) and of the urinals and associated fittings despite early placement of the order.
5	Future project groups do not lose sight of the purpose of the project and the needs of the key end user. <b>(Recommendation 7 (Part 2))</b>	CS/Finance/ Procurement	Some items on the raft of 'additional' works were planned from the outset, such as installation of urinals, or were identified by PM as defects to be addressed, such as the pooling of surface water from the ramp.
6	SHG clarifies why a building with known Health and Safety issues has been allowed to be used by SHG staff and the general public and ensures procedures are put in place to ensure that this does not happen again in the future. <b>(Recommendation 12 Part 2)</b>	CS/Finance/ Procurement	Before the upper floor was occupied, inspections of the whole building were carried out by Fire, Environmental Health and the Building Inspector. All recommendations flowing from these visits were implemented before the building was occupied and permission for occupation was received prior to this taking place.

No.	Recommendation	Directorate	Management Comment per the original report
7	All information regarding quotations to support the procurement process is filed and retained. File notes should be kept to document the process when three quotations are not obtained, or in the event that items can only be procured from a certain supplier. <b>(Recommendation 14)</b>	Project Manager	Recommendation agreed
<b>Delivering Government Objectives – August 2014</b>			
8	Assess the benefit that all new or revised plans might provide against the opportunity <b>(Recommendation 1.5)</b>	CS	Agreed, this has commenced with a more focussed approach to delivery against plan preparation. This is evidenced by the SDP refresh and other associated documents.
9	Document responsibility for each objective in Directorate Strategic Plans. <b>(Recommendation 1.8)</b>	ENRD Safeguarding	Agreed. The BDG as well as elected members will work together to ensure who is responsible for each action – this is further supported by the development of a new template for operational plans
10	Councillors should ensure that within budgets adequate resources are allocated for all strategic objectives to be implemented. <b>(Recommendation 2.6)</b>	Elected members with Financial Secretary	Agreed. However within the parameters there is only a finite amount of resources available

No.	Recommendation	Directorate	Management Comment per the original report
11	A preliminary 3 year budget should be produced. <b>(Recommendation 2.7)</b>	Financial Secretary	Agreed. SHG is committed to producing a 3 year budget for 2015/16 to 2017/18; however there is such uncertainty at this time about a number of key factors relating to the opening of the Airport and the related requirements that it is difficult to prepare realistic budgets at this stage for years 2 and 3. Directors have been issued with indicative budget ceilings for the outer years and further work is needed over the coming months on revenue forecasts through the macroeconomic framework for outer years and as information relating to air access becomes available.
12	KPIs should be designed that are easy to monitor. <b>(Recommendation 3.2)</b>	Corporate Services Air Access Education ENRD Safeguarding	Agreed
13	KPIs should be useful as part of directorates day to day activities. <b>(Recommendation 3.3)</b>	Air Access ENRD	Agreed
14	Directors should be held to account for the late reporting of indicators. <b>(Recommendation 3.4)</b>	CS	Agreed

No.	Recommendation	Directorate	Management Comment per the original report
15	Council committees should schedule reporting of performance reports at appropriate frequency. <b>(Recommendation 3.5)</b>	SHG	Agreed SHG support elected members in this process.
16	All strategic plans should be monitored by appropriate committees <b>(Recommendation 3.6)</b>	SHG	Agreed where there are direct links to a Council Committee.
17	Performance should be reported within four weeks of the period to which they relate. <b>(Recommendation 3.6)</b>	FS	Agreed. Will improve on the timely delivery of the SHG Performance Report.
<b>St Helena Airport Project Overview Audit – June 2015</b>			
18	The Airport Project management team may wish to use the conclusions of this report to use as guidance for securing specific assurances or targeting specific audit work. <b>(Recommendation 1)</b>	Air Access	Noted. This will be taken forward in discussions on project assurance with the Programme Board
19	Management should ensure that those persistent 'RED' risk areas are collectively managed and investigated or otherwise make plans for specific targeted assurance work. <b>(recommendation 2)</b>	Air Access	Agreed

No.	Recommendation	Directorate	Management Comment per the original report
20	All future capital projects as well as Phase 2 for this project should have a defined risk management strategy drafted in accordance with ERM or equivalent standard e.g. AS/NZS ISO 31000: 2009. <b>(Recommendation 3)</b>	Air Access	This is helpful and reinforces discussions within the Airport Project in terms of Phase 2 of the Project. This will be taken forward with the Airport Contract Manager in managing the transition between Phase 1 and Phase 2 of the Airport Project
21	Management should design a detailed integrated assurance and audit programme for Phase 2 of the project. <b>(Recommendation 5)</b>	Air Access	This is helpful and reinforces discussions within the Airport Project in terms of Phase 2 of the Project. This will be taken forward with the Airport Contract Manager in managing the transition between Phase 1 and Phase 2 of the Airport Project
22	Technical accounting treatment for aid flows & assets under construction are considered as a significant audit risk within the SHG audit of financial statements 2012/13. SHG should continue to improve its accounting policies in order to account for airport construction to the recognised international standards. <b>(Recommendation 6)</b>	FS	Discussion on the accounting treatment is ongoing with the SHAS and forms part of the 2012/13 SHG audit discussions.
23	Transparency and the timeliness of the publication of public information should improve so as to improve public stakeholder assurance. <b>(Recommendation 8)</b>	Air Access	Agreed. We recognise that there is room for improvement in project communications and are working with SHG PR Office on our communications strategy for the remainder of Phase

No.	Recommendation	Directorate	Management Comment per the original report
<b>Managing Grants and Subsidies – March 2016</b>			
24	Develop and approve a policy framework which properly differentiates the intended public benefit objective between commissioning, subsidies and grants and the associated decision process. The quantitative thresholds in terms of scale of funding should be defined within the policy framework. <b>(Recommendation 1)</b>	FS – Head of Accounting Services	Agreed – to be implemented as part of the next round of budget discussions. October 2016
25	Develop approve and implement procedures for the administration and management of service commissioning, subsidies and grants which are proportionate to the assessed risk and defined quantitative thresholds. <b>(Recommendation 2)</b>	FS – Head of Accounting Services	Agreed – to be implemented as part of the next round of budget discussions. October 2016
26	Objectives defined in the SDP should align with respective laws/ordinance set by LegCo and be applicable to the subsidies delivered by SHG to ensure consistent monitoring of the subsidy at all levels. This is not only in the case for Connect as above, but for all subsidy recipients. <b>(Recommendation 3)</b>	CS – Assistant Chief Secretary	Agreed – to be implemented in next round of budget discussions in relation to subsidies October 2016
27	The policy framework should set out the criteria for awarding subsidies and be supported by management procedures. The development of a template award letters will ensure consistency of the conditions that are used in award process. <b>(Recommendation 4)</b>	FS – Head of Accounting Services	Agreed – to be implemented as part of the next round of budget discussions. October 2016

No.	Recommendation	Directorate	Management Comment per the original report
28	<p>For the larger grants and subsidies we recommend the policy framework and associated administrative procedures should include the following specifics  <b>(Recommendation 5):</b>  <b>a)</b> Objectives defined in the SDP should align with respective statute set by Legislative Council to ensure consistent monitoring of performance.</p>	CS – Assistant Chief Secretary	Agreed – to be implemented at part of next SDP and to be picked up as ongoing Policy role October 2016
29	<p><b>b)</b> The policy should deal with instances where subsidy receiving bodies make a profit/ surplus and the resulting treatment of those funds.</p>	FS – Head of Accounting Services	Agreed – to be implemented as part of the next round of budget discussions. October 2016
30	<p><b>c)</b> Key performance indicators should be established at the outset which will provide a basis for monitoring and performance evaluation. These KPIs must be set through a consultative process.</p>	CS – Assistant Chief Secretary	Agreed – to be implemented before new subsidies or grants are approved. October 2016
31	<p><b>d)</b> SHG should put in place a mid-year assessment process to evaluate performance and determine if variations or other interventions are required including corrective actions required of the entity management.</p>	FS – Head of Accounting Services	Agreed – to be implemented as part of the next round of budget discussions. October 2016
32	<p><b>e)</b> A close-out report should be a condition so that a reporting or feedback mechanism is in place after utilisation of the grant or subsidy and this report must include the necessary supporting information to allow evaluation of the reporting entity/organisation's performance against the predetermined KPIs.</p>	FS – Head of Accounting Services	Agreed – to be implemented as part of the next round of budget discussions. April 2017

No.	Recommendation	Directorate	Management Comment per the original report
33	SHG Corporate Services should develop a data quality policy and apply this to the performance management framework to ensure the information collected from departments and reported by SHG is verified as complete, accurate and valid and complies with definitions for specified indicators. <b>(Recommendation 6)</b>	CS – Assistant Chief Secretary / Head of Internal Audit	Agreed – will be taken forward in conjunction with internal audit October 2016
34	SHG secures assurance, on the annual/ mid-term performance reports, from Internal Audit as an independent and objective assurance provider to ensure that the reported performance is reliable and the controls in the system are adequate and effective. <b>(Recommendation 7)</b>	CS – Assistant Chief Secretary / Head of Internal Audit	Agreed – to be implemented as part of ongoing performance management improvements
<b>Corporate Governance of the Saint Helena Government Group Entities – February 2018</b>			
35	Legislation should be amended to ensure that all SCEs' audited Annual Financial Statements, Management Letters and any other accompanying reports be laid in LegCo so that they are scrutinised by the PAC rather than brought to PAC attention by the Chief Auditor as a matter of importance. <b>(Recommendation 1)</b>	Attorney General	This will be considered by the AG in consultation with Legislative Council and will be prioritised in line with other priorities of the Council. From 1/4/18
36	Legislation or otherwise terms of reference should be amended to ensure that Council Committees are able to exercise their oversight over the service delivery performance of SCEs by reviewing the non-financial information contained in the Annual Reports of SCEs <b>(Recommendation 2)</b>	Attorney General	This will be considered by Legislative Council and will be prioritised in line with the priorities of the Council. From 1/4/18
37	SHG should develop and implement legislation that will enable the establishment of regulatory authorities in those service sectors where it has an interest through its SCE so as to achieve its regulatory objectives. <b>(Recommendation 3)</b>	Attorney General	This will be considered by Legislative Council and will be prioritised in line with the priorities of the Council. From 1/4/18

No.	Recommendation	Directorate	Management Comment per the original report
38	SHG should develop a system of corporate governance whereby SCEs objectives are properly aligned with Government policy as determined by ExCo on advice of the relevant member and Council Committee. The system should include a formal performance agreement between the SCE and Government in the form of a Statement of Intent (SOI) or Memorandum of Understanding (MOU). <b>(Recommendation 6)</b>	Financial Secretary	As above (4). Agreed subject to the provision of resources From 1/4/18
39	SHG should develop and implement a board nomination processes for SCEs so as achieve well-structured, merit-based and transparent boards, and ensure that SHG interest is represented through making direct appointment to each SCE board either as Chairman or Director as appropriate. <b>(Recommendation 9)</b>	Assistant Chief Secretary	Policy to be developed From 1/4/18
40	SHG should develop and implement a process of setting and monitoring of broad mandates and objectives for SCEs, including the financial targets, capital structure objectives and risk tolerance levels. <b>(Recommendation 10)</b>	Financial Secretary	As above (4). Agreed subject to the provision of resources From 1/4/18
41	SHG should develop and implement reporting systems that allow SHG to regularly monitor, audit and assess SCE performance, and oversee and monitor their compliance with applicable corporate governance codes. <b>(Recommendation 11)</b>	Financial Secretary	As above (4). Agreed subject to the provision of resources From 1/4/18
42	SHG should develop a disclosure policy for SCEs that identifies what information should be publicly disclosed, the appropriate channels for disclosure, and mechanisms for ensuring quality of information. <b>(Recommendation 12)</b>	Financial Secretary	As above (4). Agreed subject to the provision of resources From 1/4/18

No.	Recommendation	Directorate	Management Comment per the original report
43	SHG should develop remuneration policy guidelines for SCE boards that fosters the long- and medium-term interest of the entity and can attract and motivate qualified professionals. <b>(Recommendation 13)</b>	Financial Secretary	As above (4). Agreed subject to the provision of resources From 1/4/18
44	SHG should set clear policy on the attendance and remuneration of public officers serving on public boards in an ex-officio capacity and that any directors' fees should accrue to the revenues of St Helena Government <b>(Recommendation 14)</b>	Assistant Chief Secretary	Agreed From 1/4/18