



**AUDIT ST HELENA**  
External Auditors

# **MANAGEMENT LETTER**

**SHG FINANCIAL STATEMENTS 2019-20**

To the Legislative Council of St Helena Government

**22/06/2021**

## CONTENTS0

<b>Introduction</b> .....	1
<b>Audit objectives</b> .....	1
<b>Auditor independence</b> .....	2
<b>Independent Auditor’s Report</b> .....	2
<i>Unqualified opinion</i> .....	3
<i>Identified misstatements</i> .....	3
<b>Significant findings from the audit</b> .....	3
<i>Qualitative aspects of accounting practice</i> .....	3
<i>Difficulties encountered during the audit</i> .....	6
<i>Significant matters which remain unresolved</i> .....	9
<i>Significant matters resolved with management</i> .....	9
<i>Matters of regularity and statutory compliance</i> .....	11
<i>Written representations</i> .....	12
<b>Financial management and internal control</b> .....	12
<i>New issues raised this year</i> .....	13
<i>Follow-up of previous issues</i> .....	13
<b>Concluding remarks</b> .....	13
<b>Independent Auditor’s Report Appendix A</b> .....	14
<b>Schedule of material adjustments Appendix B</b> .....	18
<b>Schedule of uncorrected misstatements Appendix C</b> .....	25
<b>Recommendations to management Appendix D</b> .....	26
<b>Prior recommendations follow-up Appendix E</b> .....	27
<b>Related Parties &amp; Group reporting Appendix F</b> .....	31

## 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 2020 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 Finance Committee (FinCo) 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 2020 and of its financial performance and cash flows for the year then ended, confirm that expenditure and income has been applied to the purposes intended, and the Financial Statements are prepared in accordance with all relevant laws and policies.

As part of my audit I carry out the following work:

- Examine, on a test basis, evidence relevant to the amounts and disclosures in the Financial Statements.
- Assess any significant estimates and judgements made by SHG in the preparation of the Financial Statements.
- Assess whether the accounting policies are appropriate to SHGs circumstances, consistently applied and adequately disclosed.
- Evaluate the overall adequacy of the presentation of information in the Financial Statements to ensure compliance with International Public Sector Accounting Standards (IPSAS).
- Report my opinion under section 29(1)(b) that:
  - (A) The accounts properly present the financial position of the Government, as at the end of the financial year then ended; and
  - (B) In all material respects the expenditure and income have been applied to the purposes intended and conform to the authorities which govern them; and
  - (C) The accounts and financial statements have been prepared in accordance with all relevant laws and policies.
- Report such other information as I consider necessary or appropriate to assist you in your consideration of the Government's accounts for that financial year.
- Submit to LegCo an annual Management Letter on the audit.

My audit methodology is based on the UK Overseas Territories Financial Audit Manual, which has been developed by the National Audit Office (NAO) to be compliant with International Auditing Standards (ISAs).

Although I am required under ISAs to consider the risk of material misstatement arising from fraud, the purpose of my audit is not for the detection of fraud. Responsibility for the prevention and detection of fraud rests with SHG who should not rely on the external audit function to discharge these responsibilities.

## AUDITOR INDEPENDENCE

In performing my audit I confirm I have complied with relevant ethical requirements specifically the *International Code of Ethics for Professional Accountants* (IESBA Code) issued by the International Ethics Standards Board for Accountants.

The following circumstances may present a perceived threat to the independence of Audit St Helena:

- The audit of the SHG financial statements accounts for more than 25% of the annual fee income for Audit St Helena.
- I am appointed by HE the Governor, with the approval of the Secretary of State, and my staff are appointed on the same terms and conditions of service as other public servants of SHG.

The threats to independence in respect of the Financial Statements audit are reduced to an acceptable level through statutory protections enshrined in the Saint Helena Constitution, in which the Chief Auditor and his staff are not subject to the direction or control of the Governor, ExCo or any other person or authority.

All my staff have completed declarations of interest, and where there is an identified conflict, appropriate safeguards have been applied. Through these ethical policies and specific threat mitigation measures I am satisfied as to the independence and objectivity with which the audit is conducted.

## INDEPENDENT AUDITOR'S REPORT

At the conclusion of the audit I will issue my Independent Auditor's Report (my Report) on the Financial Statements – the auditor's report is the key output of the audit process. The form of my Report is prescribed by ISA 700 (Revised) – *Forming an Opinion and Reporting on Financial Statements*. This revised standard was applied to my reporting for the previous two years and is maintained in this form for 2019/20.

My Independent Auditor's Report therefore includes:

- Opinions followed by the basis for those opinions
- Enhanced reporting on going concern
- A section on other information presented with the Financial Statements
- An affirmative statement on independence and ethical compliance
- An enhanced description of auditor responsibilities

The structure of my Report clearly separates my reporting on the audit of the Financial Statements performed under the ISAs from my reporting on any other audit matters arising from my responsibilities under statute – specifically the Public Finance Ordinance.

## UNQUALIFIED 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 compliance with statutory authorities

For the financial year ended 31 March 2020 my Report contains an unqualified opinions on fair presentation, regularity of expenditure, and compliance with statutory authorities. 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.

This is the first time that the Chief Auditor's report has been unqualified since SHG adopted the IPSAS reporting standards in 2011/12 and therefore represents a major achievement in improving the quality of public financial reporting in St Helena.

The form of my Independent Auditor's Report containing these unqualified opinions and other reporting matters is included in Appendix A. A signed copy of my Report dated 21 June 2021 is published with the SHG Financial Statements for the 2019/20 financial year.

## IDENTIFIED MISSTATEMENTS

During my audit, I identified several misstatements. I requested the Financial Secretary to correct these misstatements and they were actioned where it was readily possible. In recognition of your governance responsibilities I have scheduled those material misstatements which have now been corrected in Appendix B.

The remaining unadjusted misstatements were considered to be tolerable with no impact on the audit report, these are detailed in Appendix C.

## SIGNIFICANT FINDINGS FROM THE AUDIT

### QUALITATIVE ASPECTS OF ACCOUNTING PRACTICE

#### FINANCIAL REPORTING FRAMEWORK

Section 10(1) of the Ordinance requires that the annual Financial Statements of Government are prepared in accordance with IPSAS. The Financial Statements for the year 2019/20 are the ninth year of reporting on an accruals basis using IPSAS. The matters reported in this Management Letter relate to the 2019/20 Financial Statements draft version 1 submitted for audit on 30 September 2020 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.

In overall terms, and significantly through clearance of prior year qualifications, these Financial Statements have maintained the trend of improvement in presentation and disclosure in accordance with the IPSAS financial reporting framework.

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## ASSETS UNDER CONSTRUCTION

Note 10.8.8 explains that SHG terminated the external contract to build the BFI and assumed responsibility for the project in October 2019. An independent review completed before 31 March 2020 recommended that not all components of the fuel system should be commissioned. Various proposals were put forward in the review which may result in certain components of the system being rendered obsolete. A further study to determine the optimal engineering solution and identify whether all components of the BFI and wider fuel system will be put into use has yet to report.

In these circumstances management are aware that the initial recognition of capital costs relating to the BFI on a construction cost basis carries significant estimation uncertainty. The extent of the uncertainty cannot currently be quantified but will depend upon the final configuration of the fuel system, including potential for write-down of any redundant components, and any measurement changes when the completed aid-funded infrastructure is fair valued on an optimized depreciated replacement cost basis.

Given significant estimation uncertainty associated with the BFI construction costs and related fuel system assets carried at £75.6m within assets under construction in Note 10.8.10, an emphasis of matter is raised within my Report without qualification.

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## ACTUARIAL ASSUMPTIONS

The Government has a Defined Benefit Pension Scheme (DBPS) which is explained in Note 10.14.2. The DBPS was closed to new members on 31 March 2010 with eligible employees joining after 1 April 2010 instead receiving employer contributions into an external Defined Contribution Pension Scheme (DCPS). A full actuarial review of the DBPS was performed at 31 March 2020, after three subsequent roll-forward reviews since the last full review performed at 31 March 2016.

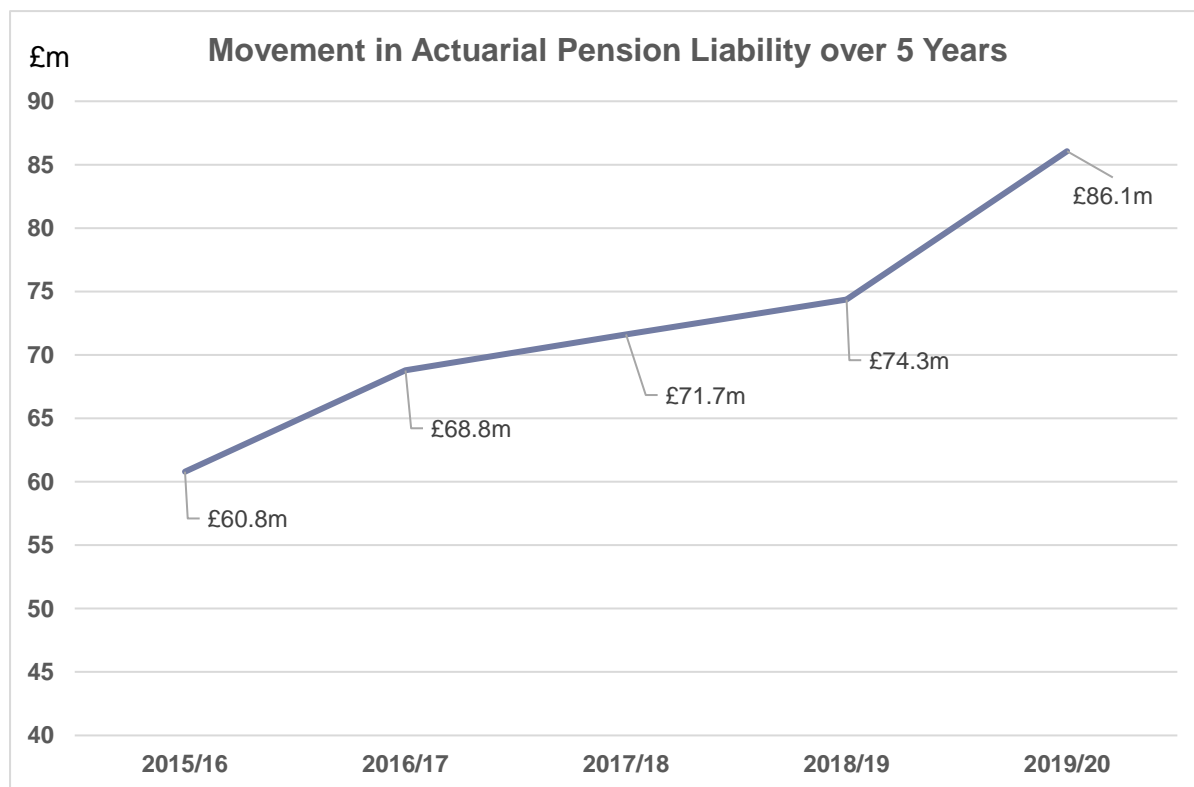
Note 14.2 sets out the significant assumptions used in preparing the Financial Statements and key sources of estimation uncertainty. The assessment of the pension liability and in-year expense prepared by the Government Actuary are based upon a number of key assumptions. I wish to draw members' attention to these actuarial assumptions which have a highly material impact on the preparation of the Financial Statements.

Section 17 of the Pensions Ordinance is a discretionary provision and therefore conveys no absolute legal right to pensions increases. A view could therefore be taken that no constructive obligation has arisen and that instead the pension liability should be valued without taking into account any potential pension increases in the future. However, IPSAS 25 *Employee Benefits* explains that a legal obligation to pay a pension benefit is not the only grounds for recognition of a liability.

The assumptions used by the actuary for future pension increases are represented as being based upon past behaviour (in terms of the historic award of pensions increases) and giving rise to a constructive obligation notwithstanding the discretionary nature of the provision. The forward rate of increase assumed by the actuary for pay and pensions is 3.5% per annum which is consistent with the rate of increase used in the last three years and indeed the last full review conducted. This rate is represented as being consistent with the historic average rate of pension's increases but also assumes that future pension increases will be at parity with public sector pay after considering the impact of incremental progression.

The unfunded pension's liability has increased by £11.7 million from the prior year primarily due to a change in assumptions (£4.0 million) and actuarial losses (£6.1 million). Actuarial losses are experience losses being a recognition that what was assumed in the last full review in 2016 has not actually transpired over the last four years. These include factors such as salary increases being higher than expected due to incremental progression and promotions and fewer deaths and withdrawals having occurred than anticipated. The change in actuarial assumptions includes a lower rate of discount being applied to future liabilities.

FIGURE 1 DBPS LIABILITY 2016 TO 2020



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## GOING CONCERN

The SHG recurrent budget for 2019/20 originally set at £45.8m was underpinned with up to £31.8m grant-in-aid from Department for International Development (DFID). I have therefore considered management's assessment that SHG, as an economic reporting entity is a going concern. In determining whether the going concern basis of preparation remains appropriate management are required to look at minimum 12 months from the date of approval of the Financial Statements.

The commitment of United Kingdom (UK) aid to St Helena through DFID in the form of financial support and technical cooperation is formalised in a bilateral agreement memorandum of understanding (MOU) covering the three-year period 2019/20 to 2021/22. For the financial year 2021/22 DFID have communicated continuing financial support of up to £31.8m in a formal Letter of Amendment. The Financial Secretary will present budget estimates for 2021/22 for Legislative Council to consider an Appropriation Bill during June 2021.

The economic conditions in St Helena are such that SHG is unable to function without continued bi-lateral support in the form of UK Aid funding. The existence of the three-year MOU giving commitment to continued bi-lateral aid underpins management's use of the going concern basis of accounting. Moreover management have asserted that adequate reserves exist for Government to continue to operate on a roll-over budget without significant curtailment of services through to June 2022 should a new forward agreement for bi-lateral support be delayed.

## DIFFICULTIES ENCOUNTERED DURING THE AUDIT

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### STRATEGIC ASSETS VALUATION

The audit report for prior years was modified in respect of audit funded infrastructure capitalised using earned income as the measurement basis being the cost of works completed under contract. IPSAS 17, Property Plant and Equipment and IPSAS 23, Non-Exchange Transactions required that such assets and associated non-exchange revenue be measured at replacement cost. An estimation uncertainty was previously disclosed around the valuation of the airport, wharf and roads infrastructure.

In addition management had previously recognised roads infrastructure at a value of nil.

To fairly state these assets in the 2019/20 accounts SHG appointed a professional valuer to measure these assets in accordance with the requirements of IPSAS. The COVID-19 travel restrictions however meant that the valuer could not visit the island to inspect the assets and meet with officials in person. In testing the assumptions used in preparing the valuation a number of issues were identified which had not been included in the valuer's report or did not reference data to support the assumptions. These included, amongst other issues:

- a lack of consideration on whether impairment should be applied to Rupert's wharf due to lighterage costs still being incurred;
- land being valued with respect to the selling price of one property less discount factors which could not be justified to benchmarks or other data points; and,



- an economic obsolescence factor which could not be referenced to data to support the obsolescence factor.

All of these issues were resolved in audit procedures by either referencing data from the Statistician's office or, in the case of land, using a more suitable valuation per acre and amending the valuation accordingly, or by enquiry of officials. This matter has been described as a Key Audit Matter in the audit report.

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#### PAYROLL TO EMPLOYEE COSTS RECONCILIATION

The payroll costs had not been reconciled from the underlying payroll system to Employee Costs disclosure of £21.725 million as disclosed in Note 9.2 Expenditure by Category. Whilst management prepares monthly reconciliations of the payroll suspense account showing payments processed on the nominal ledger to the computerised payroll system, it is important that the allocation of other amounts to the appropriate ledger accounts be done and checked at an overall level.

The evidence to prove the employee costs amount was eventually provided, albeit the lengthy and winding process involved for the information to be given could have been avoided. Having automated journals to process the monthly payroll does reduce the risk of errors in posting, nonetheless it does not eliminate nor reduce the risk of other invalid transactions being processed through the same payroll related accounts through non-standard journals.

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#### CONSOLIDATION OF BULK FUEL INSTALLATION ACCOUNTS

The Bulk Fuel installation's (BFI) trading account is included under the disclosure of Special Funds – Trading Accounts. Although it is a trading account, separate financial statements are prepared to assess the performance of the installation manager being Solomon & Company (St Helena) plc. The final results are then consolidated into the general ledger of SHG itself via general journal.

The loan payable to SHG in the separate accounts was comprised of customs duty payable of £0.438m and airport project fuel recorded into inventory of £0.210m. The sum of these payables was not recorded into the SHG general ledger and then eliminated via consolidation procedures. As a result receivables were overstated by customs duty effectively receivable from SHG itself.

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#### INTERFACE WITH LEGAL FUNCTION

Some particular areas proved difficult to secure sufficient appropriate and timely information for the audit. The interface between Corporate Finance and the Attorney General Chambers critical to the accounts production process still requires review and improvement. The need to demonstrate objectivity by AG Chambers servicing requests directly to Audit remains an area of improvement.

In my reporting on 2012/13, 2015/16 and 2018/19 I previously highlighted the need for improved collaboration between finance and legal functions in respect of litigation and claims. Whilst there has been some improvement, there remains a need for a more corporate approach to be established to improve the functional coordination on these complex cases and better facilitate the statutory audit process.

## TIMELINESS IN REPORTING

The timely production and audit of public accounts is essential for good financial governance and public accountability. SHG are in receipt of significant grant-in-aid and the audited accounts therefore serve to provide assurance to DFID and other international donors. The relevance of the public accounts to external stakeholders and parliamentary scrutiny processes are enhanced when public reporting occurs on a timely basis.

The financial statements for 2015/16 were reported for the first-time within nine-months of the financial year-end. That significant achievement was the culmination in an aid-funded programme to clear the backlog in the preparation and audit of public accounts in St Helena.

In the three subsequent years that reporting timeline has proven more difficult to achieve. Indeed my previous three Management Letters reported on the delay in the preparation of Financial Statements, the extent of the errors and adjustments required, and the continuing audit qualifications. In consequence the Financial Secretary has invested in building financial management capacity and capability and made efforts to improve the statutory accounts production process.

In light of the COVID-19 travel restrictions and its expected impact on resourcing a more pragmatic timetable was planned for 2019/20 with completion of the audit by 31 March 2021. This timeline required a complete set of financial statements with supporting working papers to be available by 30 June 2020. In practice the timetable slipped by around three months with the first version only being received on 30 September 2020.

TABLE 1 SUBMISSION OF DRAFT FINANCIAL STATEMENTS

Version	Date issued	Notes
1	30 September 2020	Submitted as draft financial statements with caveat that infrastructure assets would change as a result of the two valuation reports which had not been completed at this date. Definitive point for the purpose of auditable SHG financial statements in terms of section 109(1)(a).
2	01 December 2020	Draft including the Strategic Assets Valuation and Land and Building revaluation.
3	28 April 2021	Draft final statements with uncontested audit adjustments for validation.
4	17 May 2021	Draft final statements with uncontested audit adjustments for validation.
5	31 May 2021	Draft financial statements requiring decision on contested adjustments.
6	09 June 2021	Final draft statements for formal reporting to FinCo.
7	18 June 2021	Final financial statements after validation adjustments.

In these exceptional circumstances the Governor approved, under section 109(2) of the Constitution, a statutory extension to the audit timetable allowing 9-months to complete the audit and requiring reporting on or before 30 June 2021. Whilst this revised statutory reporting timetable will be met, the FCDO MOU requirement to report audited accounts by 31 December 2020 has not been achieved.

#### SIGNIFICANT MATTERS WHICH REMAIN UNRESOLVED

Each of the prior year issues that led to a modification of my Independent Auditor's Report in prior year have been resolved and cleared. There were no new significant matters that remain unresolved in current year.

#### 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.

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#### VALUATION OF LAND IN THE STRATEGIC ASSET VALUATION

Airport land totalling 256 acres was originally included at a market value of £2.9m in the valuation of strategic assets. This valuation was derived with reference to the advertised selling price of a property which was then discounted for various factors such as the quantum of land, island location and discount from South African prices.

Ultimately these assumptions could not be defended and a valuation per acre was substituted into this valuation from a separate valuation on SHG land and buildings. However discount rates were then applied to the per acre valuation which could not be validated by reference to data points or benchmarks. This resulted in a per acre rate of £11,300 being applied to the valuation of airport land as opposed to a market value, for comparable land, of £22,000 per acre. The land at the airport encompassing 256 acres land, as included in Service Concession Assets in Note 10.8.10, had been understated by £2.980m. Management subsequently agreed to make the necessary adjustments.

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#### STRATEGIC ASSETS - RESTATEMENT OF PRIOR PERIOD ERROR

The valuation of strategic assets classified as Service Concessions and Infrastructure had been incorrectly accounted for as a revaluation at 31 March 2020. The expert valuation of these strategic assets had however been made for the purposes of determining an appropriate fair value for assets acquired under a non-exchange transaction as required by IPSAS 23. This therefore represented the correction of a prior period error which had given rise to a qualification of the prior year audit report. The adjustments to correct the £15.960m overstatement of Property Plant and Equipment, were subsequently made retrospectively as at the beginning of the earliest comparative period i.e. 1 April 2018.

In addition to the above, the 2018/19 depreciation charge on Service Concessions was overstated by £1.801m due to a clerical error. An adjustment was passed to correct the error.

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## RECORDING OF NON-EXCHANGE RECEIVABLE

The March 2020 claim to the then Department for International Development in respect of the Airport Directorate was originally included in early draft versions of the account. The claim had originally been included in accrued income and was reversed in anticipation of an invoice being raised and thus to include this claim under Trade Debtors. The invoice was subsequently raised to correct the £0.625m understatement on Non-exchange receivables and revenue.

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## IMPAIRMENT OF GROUND BASED AUGMENTATION SYSTEM (GBAS)

The GBAS navigation aid was initially installed in 2015 at the airport but was never commissioned due to certification difficulties. In consequence the asset was reclassified in a prior period from Property, Plant and Equipment to Other Financial Assets as a refund asset amounting to £1.036m as disclosed in Note 10.6.1.

Management have since decided that GBAS will not be commissioned as a navigational aid and are pursuing recovery of the amount from the supplier under the contractual terms. Whilst the financial statements did not initially indicate that this receivable should be impaired, given the protracted arbitration proceedings involved, management agreed to provision for the full receivable of £1.036m.

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## UNSUPPORTED ACCRUED INCOME

Receivables of £0.513m had been raised in respect of aid funded expenditure in anticipation of raising a claim from the granters of this aid. These receivables were ultimately written down in the 2019/20 accounts as evidence could not be provided that these receivables were collectable in the absence of valid claims submitted to grant funders. Enquiries from officials indicated that the root cause of the non-submission of the claims related to capacity restraints within the Air Access directorate.

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## AUDIT FEES CHARGED TO EXTERNAL BODIES

The Special Fund Order to establish the Saint Helena Audit Service (SHAS) Trading Account, under the Public Finance Ordinance, required that only revenue charged to SHG could be included in the trading account of SHAS, and by omission external fees must therefore accrue to the Consolidated Fund.

The SHAS trading account was established in 2013 and the established practice of recognising all audit fee income in the trading account was in accordance with a common understanding of the intention of the trading account in the first instance. Nevertheless, the narrow interpretation of the Special Fund Order does not allow for the retention of external fees. Accordingly a prior and current period adjustment was passed to transfer this externally generated income from the Trading Account to the Consolidated Fund.

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***Recommendation 1** 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.*

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## RECLASSIFICATIONS

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

## MATTERS OF REGULARITY AND STATUTORY COMPLIANCE

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

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## 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:

- Health: recurrent expenditure £138,000
- Social Care: recurrent expenditure £45,000
- Corporate Finance: capital expenditure £41,000

Sessional Paper 36/20 was laid before Legislative Council in October 2020 in respect of excess recurrent expenditure on the Health and Children and Adults Social Care Heads which after due scrutiny by PAC and reporting in Sessional Paper 13/21 was allowed to stand charged to public funds by resolution under section 106(3).

Capital expenditure on surface preparation at Bradley's Camp, to the amount of £72,000, was found to be incorrectly included in recurrent expenditure. The required audit adjustment processed by management then caused the Corporate Finance capital head to exceed the £550,000 appropriated budget. Other unrelated adjustments also caused a change in the reported excess on the Health recurrent head.

In response the Financial Secretary laid an updated Statement of Expenditure in Excess as Sessional Paper 22/21 on 4 June 2021 for onward referral to PAC for scrutiny. The required section 106 procedure was applied and at the formal meeting held on 18 June 2021 Legislative Council resolved to allow the excess expenditure to stand charged to public funds.

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 proposed as unqualified.

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## STATUTORY COMPLIANCE

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

## 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.

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## GROUP CONSOLIDATION ENTRIES

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

As a result of this, normal group consolidation procedures are not followed such as the agreement of inter-entity loans. As this process was not followed, a number of entities loan accounts with SHG did not agree at year end resulting in either delays to those entities accounts or corrections in the accounts of SHG itself.

***Recommendation 2*** *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.*

## NEW ISSUES RAISED THIS YEAR

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

## FOLLOW-UP OF PREVIOUS ISSUES

Audit recommendations remaining open from previous Management Letters issued in 2011/12 through 2018/19 were followed-up with management. Only limited progress has been made in addressing recommended improvements from prior-periods. Inaction by any government administration in clearing audit recommendations on a timely basis is a cause for concern. 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
2013/14 & 2014/15	2	2	0
2016/17	4	0	4
2017/18	2	0	2
2018/19	6	0	6
<b>Total</b>	<b>16</b>	<b>2</b>	<b>14</b>

## CONCLUDING REMARKS

I acknowledge and thank the officers of St Helena Government, and in particular the Corporate Finance team, for their assistance and co-operation given to the Audit St Helena during the course of the statutory audit for 2019/20.



Phil Sharman CA CPFA  
Chief Auditor for St Helena  
Audit St Helena

22 June 2021

## 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****Opinion**

I have audited the financial statements of St Helena Government (SHG), which comprise the statement of financial position as at 31 March 2020, 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, the accompanying financial statements present fairly, in all material respects, the financial position of SHG as at 31 March 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

**Basis for Opinion**

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**

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 10.8.10. 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.

My audit report for prior years was modified in respect of aid funded infrastructure capitalised using earned income as the measurement basis being the cost of works completed under contract. IPSAS 17, Property Plant and Equipment and IPSAS 23, Non-Exchange Transactions required that such assets and associated non-exchange revenue be measured at replacement cost. An estimation uncertainty was previously disclosed around the valuation of the airport, wharf and roads infrastructure.

As explained in Note 10.8.6.1 management appointed a professional valuer to measure these assets in accordance with the requirements of IPSAS and provide a fair value basis for restatement of infrastructure assets in the Statement of Financial Performance. I applied specific audit procedures to review the professional valuation assumptions, methodology and resultant output to address the identified significant risk of material error in the £15.960m restatement adjustment as at 1 April 2018.

### **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.

#### **Opinion on Regularity**

In my opinion, in all material respects, the expenditure and income has been applied to the purposes intended, and conforms to the authorities which govern them.

#### **Opinion on Other Matters Required by Statute**

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

Phil Sharman  
Chief Auditor CA CPFA

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

21 June 2021

## **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.

**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 2019/20**

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
Receivables Revenue <i>Being recording of DFID debtor relating to SHAP claim submitted before year end</i>	626,520			626,520
Impairment/ Provision of GBAS Provision for doubtful Other Financial Assets <i>Being impairment/ provision of GBAS financial asset as asset is considered redundant</i>		1,036,000	1,036,000	
Capital Reserve General Reserve <i>Being reclassification of provision for doubtful debts expense from the General Reserve to the Capital Reserve</i>	1,036,000		1,036,000	
Audit Fees Adjustment 1 April 2018 - Audit Trading Account 2018/19 - Audit Trading Account General Reserve 2019/20 - Audit Trading Account General Reserve <i>Being the in-year and prior adjustment for external audit fees</i>	287,775 74,830 128,360	362,605 128,360		

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
BFI Adjustments				
Taxation Revenue - Customs Duty Diesel			42,735	
Accrued Income - Non-exchange Transactions		42,735		
<i>Being reversal of APRJV232</i>				
Taxation Revenue – Customs Duty Petrol			80,605	
Taxation Revenue – Customs Duty Diesel			314,902	
Accrued Income – Non-exchange Transactions		395,507		
<i>Being reversal of MARJV181</i>				
BFI Reserve	438,242			
General Reserve		438,242		
<i>Being presentational adjustment to balance up the reserves</i>				
Provision for doubtful debts (P/L)			513,477	
Provision for doubtful debts (SFP)		513,477		
<i>Being the provision for doubtful Air Access receivables as no supporting documentation was provided</i>				
<hr/>				
Share of profit/loss of investment	394,473			
Investment in SHHDL		394,473		
<i>Being a journal to correct the value of investment in SHHDL</i>				
<hr/>				
Property, Plant & Equipment	71,869			
Repairs & Maintenance				71,869
<i>Being capitalization of costs incurred to refurbish Bradley's Camp (qualitatively material)</i>				
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**Pertaining to prior year 2018/19**

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
18/19 Property, Plant & Equipment – Accumulated Depreciation	1,801,364			
18/19 Aid Funded Infrastructure Reserve			1,801,364	
<i>Being correction of previously overstated 2018/19 depreciation charge on Service Concession assets</i>				
<hr/>				
Land	2,980,000			
Revaluation Reserve			2,980,000	
<i>Being adjustment to correct the valuation for airport land as at 1 April 2018</i>				
<hr/>				
Depreciation				32,106
Property, Plant & Equipment - Cost	1,178,840			
Service Concession - Cost	2,191,202			
Property, Plant & Equipment - Accumulated Depreciation			1,210,946	
Service Concession - Accumulated Depreciation			2,191,202	
<i>Being correction of the valuation of strategic assets to show the prior period error at 1 April 2018</i>				
<hr/>				

**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 2019/20**

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
Non-current Investments – Subsidiaries	891,000			
Share of Profit of Subsidiaries				891,000
<i>Being recognition of share of profits from subsidiaries.</i>				
<hr/>				
Investment in BOSH	628,777			
Investment in Connect	265,345			
Investment in Solomons	3,048			
Investment in SHAL	231,203			
Share of P/L in investment		1,128,374		
<i>Being a journal to correct the value of investment in statement owned entities</i>				
<hr/>				
Depreciation expense				1,195,500
Devaluation of Non-Current Assets (Police)			4,323,584	
Infrastructure - Cost		28,389,248		
Infrastructure - Depreciation	25,648,542			
Land & Buildings - Cost	1,382,388			
Land & Buildings - Depreciation	3,523,779			
Profit on Disposal of Non-Current Assets			12,610	
Reserves - Consolidated Funds	12,753,765			

Name	Statement of Financial Position		Statement of Financial Performance	
	Debit £	Credit £	Debit £	Credit £
Reserves - Special Funds	418,800			
Service Concession Assets - Cost		31,650,726		
Service Concession Assets - Depreciation	13,172,004			
<i>Being revaluation of Land and Buildings and valuation of Service Concession assets and Infrastructure</i>				

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**Table 3: Material adjustments to financial note disclosures**

Description of correction	Note affected	Value of the error £'000
Rewording of the PPE note to remove irrelevant information copied directly from the expert valuation report as well as amending for key distinction between revaluation of Land and Buildings and fair valuation of strategic assets.	10.8 Property, Plant and Equipment	N/A
Presentational reclassification of valuation of assets acquired under non-exchange transactions from Revaluation reserve to Aid funded infrastructure reserve.	10.15 Funds and Reserves	3,100
Reclassification of fair valuation of other strategic assets from Revaluation reserve to the Capital reserve.		13,800
Amendments to the restated main statements and relevant notes to show the correction of the prior period errors as at the earliest date of the comparative period being 1 April 2018 rather than 31 March 2019 as required by IPSAS 3	5.0 – 7.0 Restatements of Main Statements 10.8.10 PPE 10.5 Funds and Reserves	16,598
The disclosure of the following post balance sheet events which had been previously omitted including the financial effect: <ul style="list-style-type: none"><li>- Announcement of major restructuring of SHG departments</li><li>- Adverse impact of the Covid-19 pandemic on flights leading to lower visitor numbers. The tourism industry was particularly affected including the following state owned entities St Helena Hotel Development Ltd, St Helena Airport Ltd and the Bank of St Helena</li><li>- Signing of the PASH Global Power Purchase Agreement</li><li>- Cessation of operations of Enterprise St Helena</li></ul>	11.9 Events after the reporting Date	N/A
Disclosure of significant estimation uncertainty relating to components of the Bulk Fuel Installation included in Assets Under Construction. The fact that the extent of the uncertainty cannot be quantified and the surrounding circumstances also had to be disclosed.	10.8.8 Bulk Fuel Installation	75,600

Description of correction	Note affected	Value of the error £'000
Removal of the disclosure of a contingent asset relating to GBAS financial asset as the criteria for disclosure had not been met per IPSAS	11.7 Contingent Assets and Liabilities	N/A
Material assumptions relating to the pensions valuation including the basis of the discount rate, splitting of actuarial gains/ losses between financial and demographic assumptions, methods and assumptions used in the sensitivity analysis and information about the maturity of the defined benefit obligation	10.14.1 Pensions	N/A
Disclosure of the facts surrounding the closure of SHFC under discontinued operations	10.7 Discontinued Operations	N/A
Disclosure of the financial effect of the guarantee if SHHDL defaults on the loan granted by BOSH	11.7 Contingent Assets and Liabilities	1,000
Disclosure of the aggregate remuneration of 2 omitted close family members of key management personnel	11.4.3 Related Party Transactions – Key Management Personnel	9
Disclosure of termination benefits paid to 3 ex-employees previously omitted from the financial statements	11.5 Termination benefits	29
Various amendments to the amounts disclosed in the Financial Secretary's report following adjustments	1.0 Financial Secretary's Report	Various

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 the following:

**Table 1: Uncorrected misstatements in the Financial Statements**

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

**Table 2: Uncorrected disclosure adjustments in the Financial Statements**

Description of uncorrected disclosure	Note affected	Value of the error £'000
The 2018/19 depreciation charge for the year was not split to show reconciliation of the amounts as previously recorded in the 2018/19 signed financial statements and the restated amounts after correction of prior period errors arising from strategic assets valuation and clerical error on depreciation charge	10.8.10	638,000 (1,801,000)

No	Observation	Recommendation	Priority
1	External audit fees, charged to bodies other than the Saint Helena Government, were included in the Saint Helena Audit Service trading account. This practice did not adhere to the letter of the Special Fund Order establishing the trading account which required that only audit fees charged to SHG be included in the trading account.	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.	High
2	Group consolidation procedures are not followed resulting in inter-company balances often not agreeing.	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.	Medium

## DEFINITION OF PRIORITIES

<b>HIGH</b>	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.
<b>MEDIUM</b>	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.

No	Recommendation	Follow-up	Status
<b>2011/12</b>			
1	Introduction of accruals budgeting.	I am advised management are to determine the legislative requirements for budgeting to consider the best method of budgeting that SHG should adopt; one that meets legislative requirements and the needs of decision makers. The review will consider the benefits and challenges of cash based, modified cash based and accruals based budgeting and make a recommendation to Executive Council. The review will also recommend the legislative and policy changes required to implement the recommended course of action.	In progress
<b>2012/13</b>			
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.	I am advised that management will attend to this recommendation in the 2021/22 financial year.	In progress
<b>2013/14</b>			
3	SHG should review all legacy applications in relation to eligibility of social benefit payments and obtain documentations from the applicants to maintain on their records to confirm eligibility.	I am advised all BIP have been checked and all necessary documents have been received and filed on individual records as evidence to support eligibility.	Closed
4	SHG should procure the services of an independent and qualified professional valuer to determine the replacement cost value of the Airport and Wharf Infrastructure	BDO were procured to provide a valuation for both the Airport and the Wharf. This was done and has been applied to the 2019/20 financial statements.	Closed

No	Recommendation	Follow-up	Status
<b>2016/17</b>			
5	The Financial Secretary should establish internal arrangements to ensure due compliance with statutory and regulatory requirements for the financial administration of St Helena.	I am advised that Corporate Finance is establishing a legislative compliance management process where senior managers within Corporate Finance across all work streams report on their compliance on a quarterly basis. The Deputy Financial Secretary will provide a report on compliance to the Financial Secretary on a quarterly basis.	In progress
6	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.	A review is being conducted as advised under recommendation 1 above. I am advised the review will also recommend the legislative and policy changes required to implement the recommended course of action.	In progress
7	The Financial Secretary should seek to improve efficiency and accuracy in the statutory accounts production process through automation and quality assurance protocols.	I am advised that the 2021/22 budget will be reviewed to determine if there are resources available to implement this in the same year.	In progress
8	The Financial Secretary should develop an action plan linked to identified resources to address outstanding Management Letter recommendations.	I am advised that an action plan to address all audit recommendations will be put in place in parallel to the PAC recommendations register. The Financial Secretary has advised he will not be able to address all recommendations immediately but that some recommendations will remain until such time as resources become available or circumstances change.	In progress
<b>2017/18</b>			
9	SHG should introduce an express reservation within the articles of association of all controlled entities to require that the appointed auditor of any entity is approved by Chief Auditor.	I am advised that the recommendation is in dispute despite equivalent provisions already included in the legislation for statutory bodies. Management has not communicated directly with the Chief Auditor in order to resolve this issue.	Pending

No	Recommendation	Follow-up	Status
10	SHG should amend the Companies Ordinance to permit the auditor of any group of companies a right of access to the financial records of any subsidiary within that group.	I am advised that the recommendation remains under consideration since equivalent provisions in the UK Companies Act appear equally applicable to St Helena. In the current arrangement auditor access to the subsidiary is made through the parent company on a permissive basis. Whilst such access would not normally be withheld but there is no right of access and accordingly this will need to be progressed through legislative reform.	Pending
<b>2018/19</b>			
11	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.	There were some issues encountered in the year under audit (2019/20) as some information was not released timeously by AG such as the payment compensation form and litigation claims register.	In progress
12	SHG should introduce regulations requiring the preparation and publication of an Annual Governance Statement as part of its annual accountability reporting to stakeholders.	Still open as no regulations are forthcoming and Annual Governance Statement was not made in the FS for the financial year 2019/20.	In progress
13	The Chief Secretary should develop policy and protocol on the use of special severance payments consistent with HM Treasury and Cabinet Office guidance to protect the public interest in cases of termination of employment with financial compensation. The use of non-disclosure agreements should be by exception and where these are applied then provision should be made for essential business need and audit scrutiny.	Still open. In the current year there were no employee termination benefits thus could not be examined in detail for regularity and value for money in the year under audit. It has been advised that this is still in progress.	In progress

No	Recommendation	Follow-up	Status
14	The Children and Adults Social Services management team should prioritize the conclusion of the reassessment of the BLA scheme to ensure consistent and fair application to all eligible claimants. The BLA Policy should be reviewed to reflect recent changes and the assessment should be tailored to the specific needs of the clients.	The internal control deficiencies led to similar instances and differences on amounts paid in the current year. This recommendation therefore still needs to be implemented.	In progress
15	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 this is matter remains in progress.	In progress
16	The Financial Secretary should review the Government's treasury management policies in respect to funds held at bank as distinct from authorised investments with an aim to mitigate the credit default risk arising from low credit risk ratings.	In progress. It is planned to conduct a review of the Treasury Management Strategy in 2021/22.	In progress



As explained Note 9.1, 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 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.