



**SAINT HELENA
AUDIT SERVICE**

**FAST
TRACK**

VALUE FOR MONEY

**FINANCE
MISCELLANEOUS**

V54

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FINAL

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The Audit Service would like to acknowledge with appreciation the assistance

1. Introduction

1.1 Fast Tracks 'are examinations conducted at the request of the Public Accounts Committee (PAC) relating to a specific element of the economy, efficiency and effectiveness of a government department or public body.

1.2 The PAC requested a 'Fast Track' audit in October 2008 to review the Finance Miscellaneous budget. The Audit Service was required to determine:

- What the different Finance Miscellaneous subheads consist of;
- The reason for them to be included under this section;
- Who produces these budgets; and
- What criteria are required for the budgets to be approved.

1.3 The Finance Miscellaneous budget is a section within the Finance Department's budget. Twenty active subheads are grouped here as the Finance Department administers their payments. Approved budget for the last three years for the Finance Miscellaneous budget is as follows:

YEAR	BUDGET
2008/09 (Current year)	£554,586
2007/08	£537,879
2006/07	£586,564
2005/06	£588,217

2. Summary

2.1 *What do the different Finance Miscellaneous subheads consist of?*

The subheads held under the Finance Miscellaneous budgets are categorised as:

- Subsidies
- Grants to Voluntary Organisations
- Management Contracts
- Replacement Accounts
- Accounts Expenses
- Housing Assistance
- Health and Safety
- Miscellaneous General Expenses

2.2 *What are the reasons for the subheads to be included under this section?*

The subsidies and grants to voluntary organisations subheads are the responsibility of the Financial Secretary. The Finance Committee monitors the budget and program of the transport replacement subhead. They would not be able to monitor this subhead in the level of detail required if it had remained under the Public Works and Services Department (PW&SD) budget. There are no other reasons for the remaining subheads to sit here other than the Finance Department to administer their payments.

2.3 It is the responsibility of the Finance Department to administer payments on behalf of St Helena Government (SHG) as a whole or where there are no specific department budgets to make payment from, hence the purpose of the Finance Miscellaneous budget. The Finance Department has its own budget for its activities such as

payroll, income tax etc (Finance General and Administration), but there are two subheads sitting under the Finance Miscellaneous budget (Audit Fees and Crown Agents Charges) that are specific to the Finance Department. There is also a Miscellaneous General Expenses subhead under the Finance Miscellaneous budget, and again payments are made from this account for the Finance Department's day-to-day activities such as stationery, computer consumables etc. This subhead is supposed to be used for SHG general payments. Other government departments are required to make payments from subheads that reflect the nature of the payment.

2.4 *Who produces the budgets for the subheads?*

Most of the subhead budgets are drafted by the entities and the Head of Departments managing the activities. The Chief Finance Officer and in some cases the Financial Secretary drafts the general SHG subhead budgets.

2.5 Subhead budgets that are drafted and managed by Head of Departments should be administered by the Head of Departments and not the Chief Finance Officer. Only goods and services being paid for the whole of SHG should be administered by the Chief Finance Officer.

2.6 *What criteria are required for the budgets to be approved?*

There are no set criteria for the budgets to be approved. Approval is based on how much money is available and what are the planned activities or programs for the year. Exceptional is the housing assistance budget, as this budget is solely based on how much money is available.

2.7 In conclusion the Finance Miscellaneous budget is used to administer payments for goods and services for SHG as a whole. There are some subhead budgets that sit here that are drafted and managed by Heads of Departments and their activities are not general SHG. There are two subheads that relates directly to the activities of the Finance Department and not general SHG. There are also some payments being made from the Miscellaneous General Expenses subhead that belongs to the Finance Department.

2.8 We have suggested three recommendations for management to consider:

1. The subheads – Audit Fees and Crown Agents Charges are transferred from the Finance Miscellaneous budget to the Finance General and Administration budget;
2. The current type of payments being made from the Miscellaneous General Expenses budget that relates to the activities of the Finance Department should be paid from the Finance General and Administration budget. The Miscellaneous General Expenses

budget can be then used for payments relating to SHG as a whole; and

3. The subheads that do not provide for goods and services for SHG but relates to specific departmental activities are transferred to the appropriate department.

3. Background

3.1 Our assessment of the Finance Miscellaneous budget is based upon:

- Interviews with the Chief Finance Officer and Finance Business Manager;
- Review of access accounts – Finance Miscellaneous; and
- Review of the Financial Regulations, Finance Committee paper and departmental business plans.

4. Findings

What are the different Finance Miscellaneous subheads and what is the reason for them to be included under this section?

4.1 In passing an Appropriation Bill, Legislative Council gives its approval for government to withdraw monies from the Consolidated fund to certain specified purposes (Financial Management Ordinance CAP 142 section 13.)

4.2 In practice the Heads of Expenditure contained in the Appropriation Bill

correspond in the main to the Government Departments that will control expenditure rather than to the purpose that expenditure will be aimed at. Often there is quite a good correspondence between departments and purposes, so expenditure controlled by the Education Department is spent for the purpose of education. In other cases the purposes that a department will pursue with the resources under its control will be less clear. For example when Legislative Council appropriate money under the Head 'OCS' it is not clear what purpose the money will be used for.

4.3 This situation is bad from the point of view of Legislative control of Government's resources although it has the advantage of being administratively convenient. The current system of classification can also make it difficult to manage or scrutinise performance as it is often difficult to bring together information on the achievement of objectives with information on the resources allocated to meeting those objectives.

4.4 We note that this issue has been raised by the PSMP (See section 3.3.7 of the inception report) and welcome SHG's intention to address the issue.

4.5 The Finance Miscellaneous budget comprises chiefly expenditure controlled by the Finance Department that does not further the particular aims of the Finance Department or even pay for activities

conducted within the Finance Department and so it provides an acute example of a more general problem described above.

4.6 For example the Finance Miscellaneous budget includes:

- A subsidy to the Fisheries Corporation which might be better grouped with the purpose of managing Natural Resources, if an analysis by purpose was being attempted.
- A budget to pay for the ferry service, which is ancillary to the operations of the wharf. The Wharf is managed by the Development and Economic Planning Department.
- A budget for replacing vehicles for the transport fleet, which is held by Finance in order to facilitate control of replacements by the Finance Committee. A result of this is that the Transport Trading account does not include, in the costs of providing motor transport, the cost of purchasing motor vehicles.
- Subsidies to the Public Transport system.
- Payments for the running of the swimming pool.

4.7 The Finance Miscellaneous budget also includes payments for activities managed within the Department but in support of other Departments. For example it includes the cost of replacing computers anywhere in SHG, but only up to the number of computers the department had in 2002. The replacement of computers is managed by the IT section. The IT section is part of the Finance Department.

4.8 The Finance Miscellaneous budget does include some expenditure that does seem best to group with other finance department expenditure such as Crown Agent Charges and "expenses" but these could equally be included in the 'General and Administration' section of the Finance Department Budget.

4.9 We recommend that SHG adopt and follow a consistent policy on the classification of expenditure in order to allow policy makers to understand and manage the allocation of resources across different objectives. We note that this issue has been raised by the PSMP team in their inception report. We believe that under any rational policy for the classification of expenditure, the Finance Miscellaneous section would cease to exist.

Who produces the budgets for the subheads?

4.10 The table below shows the different people that drafts the budgets for the subheads held under the Finance Miscellaneous budget.

Subhead Category	Persons drafting budget
Subsidies	The entities themselves (SHNMS, SHFC etc)
Management Contracts	The Private Sector Contractor and Head of Department on behalf of SHG.
Replacement Accounts	IT Section Manager and Senior Transport Manager

Subhead Category	Persons drafting budget
Accounts Expenses	Chief Finance Officer
Housing Assistance	Financial Secretary and Chief Finance Officer
Health and Safety	Chief Finance Officer
Miscellaneous General Expenses	Chief Finance Officer

4.11 Most of subheads budgets are drafted by people other than the Chief Finance Officer. They are drafted by those who are responsible for managing the activity or program.

4.12 Subhead budgets such as the Ferry Service, IT and Photocopier Replacements are drafted and managed by the Head of Department (Chief Development Officer in liaison with Private Sector Contractor) and Section Managers respectively. They are not goods and services for the whole of SHG, but are part of the activities of other departments or sections.

4.13 **In conclusion, subhead budgets managed by other departments are drafted by those departments. These subhead budgets do not provide for goods and services for SHG, but for the activities of specific departments. As a result the current classification within 'Finance Miscellaneous' makes as little sense in terms of an administrative classification as it would in terms of a classification of expenditure by purpose.**

What criteria are required for the budgets to be approved?

4.14 There are no set criteria for the budgets to be approved. Approval is based on how much money is available and what are the planned activities or programs for the year.

4.15 The Housing Assistance budget is an exception to the above. This budget is drafted and approved according to how much money is available. The Housing Assistance program is managed by the Employment and Social Security Department (ESSD) but the budget is drafted by the Chief Finance Officer and Financial Secretary.

4.16 The draft budgets are then scrutinised by the Finance Committee. The Finance Committee being the Executive Council, but their remit being an advisory body looking at all issues related to the finances of SHG. Once the Finance Committee agree the budgets, they are presented to the Legislative Council for final approval.

4.17 **In conclusion budget approval is based on how much money is available and the planned activities and programs. Budgets undergo a vigorous scrutiny exercise before their final approval by the Legislative Council.**

5. Recommendations Table

	RECOMMENDATION	Officer responsible for implementation	Implementation expected to be complete by: (Month, Year)	Management Comments
1.	We recommend that SHG adopt and follow a consistent policy on the classification of expenditure in order to allow Councillors and other policy makers to understand and direct the allocation of resources across different objectives. We note that this issue has been raised by the PSMP team in their inception report. We believe that under any rational policy for the classification of expenditure, the Finance Miscellaneous section would cease to exist.	Team to be decided early in PSMP process.	To be decided as part of PSMP timetable, but decisions in this area are expected in 2009/10.	Review of SHG's budgeting process will form part of the PSMP process.