



REPUBLIC OF SINGAPORE

**REPORT**  
OF THE  
**AUDITOR-GENERAL**  
FOR THE FINANCIAL YEAR  
**2016/17**



**AUDITOR-GENERAL'S OFFICE  
SINGAPORE**

4 July 2017

Dr Tony Tan Keng Yam  
President  
Republic of Singapore

Dear Mr President

In accordance with the provisions of the Audit Act (Cap. 17, 1999 Revised Edition), I am pleased to submit my Report on the audits carried out for the financial year 2016/17.

Yours sincerely

Tan Yoke Meng Willie  
Auditor-General

**REPORT**  
OF THE  
**AUDITOR-GENERAL**  
FOR THE FINANCIAL YEAR  
**2016/17**



**Auditor-General's Office**  
Singapore

## **MISSION**

To audit and report to the President and Parliament on the proper accounting and use of public resources to enhance public accountability.

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# OVERVIEW

## OVERVIEW

I am pleased to present my Report on the audits carried out by the Auditor-General's Office (AGO) for the financial year 2016/17.

The audits give assurance to the President and Parliament on the proper accounting, management and use of public resources. In the process, they strengthen financial governance and the accountability of public sector entities as custodians and stewards of public resources.

### **Audit Authority**

The Auditor-General's authority to audit and report is provided for in legislation. The key legislation that governs AGO's work are the Constitution of the Republic of Singapore (1999 Revised Edition) and the Audit Act (Cap. 17, 1999 Revised Edition). The details of AGO's audit authority are in Annex I.

AGO audits the accounts of all Government departments and offices. AGO also audits public authorities and bodies administering public funds as prescribed by law, or upon request and with the approval of the Minister for Finance. In general, AGO carries out two types of audits, namely:

- **Financial statements audits** which involve the checking of accounts with the objective of giving an audit opinion on the annual financial statements prepared by the entity.
- **Selective audits** which involve checking of selected activities and operations, carried out in relation to the accounts, for financial irregularity and ascertaining whether there has been excess, extravagance or gross inefficiency leading to waste, and whether measures to prevent them are in place.



## **Audit Approach**

AGO adopts a risk-based approach in determining the areas to be covered in an audit. In selecting areas for audit, one of the key factors AGO considers is the materiality of transactions. Dollar value is an important consideration in determining materiality but it is not the only consideration. AGO also considers other factors such as the potential impact an irregularity in a particular area may have on the entity or the public sector as a whole.

In carrying out the audit, AGO examines records, files, reports and other documents, conducts site visits and interviews relevant officers. AGO also considers internal controls that entities have put in place to safeguard resources against waste, loss and misuse in the selected areas of audit. The audit observations reported are based on the information and evidence so gathered. As audits are conducted on a test check basis, they do not reveal all irregularities and weaknesses. However, they should help to uncover some of the serious lapses.

## **Reporting of Audit Observations**

All audit observations are conveyed to the Permanent Secretaries of the respective Government ministries, Heads of the respective organs of state and the Chief Executive Officers of the respective statutory boards and other entities by way of AGO Management Letters, which also incorporate the entity's management comments. In the case of statutory boards, the Management Letters are also sent to the Permanent Secretaries of their respective supervising ministries.

The more significant audit observations are covered in this Report. These are typically observations which indicate malfeasance, lapses with significant financial impact, systemic or common lapses that may seriously weaken financial governance and controls if not corrected, or serve as useful learning points for improvements across the Whole-of-Government.

This Report is submitted to the President who shall, in accordance with section 3(3) of the Audit Act, present it to Parliament. The Public Accounts Committee deliberates on the Report and may call upon public sector entities to account for lapses, where it deems necessary.

The reporting of audit observations in the *Report of the Auditor-General* is an essential part of the system of public accountability.

### **Audits Carried Out for the Financial Year 2016/17**

For the financial year 2016/17, AGO audited the following:

- The Government Financial Statements (incorporating the accounts of all 16 Government ministries and 8 organs of state)
- 4 Government funds
- 12 statutory boards
- 5 Government-owned companies
- 3 other accounts

#### *Financial Statements Audits*

For the financial year 2016/17, I have issued an unmodified audit opinion on the Government Financial Statements. I have also audited and issued unmodified audit opinions on the financial statements of three statutory boards, a Government fund, five Government-owned companies and three other accounts.

#### *Selective Audits*

In the financial year 2016/17, AGO carried out selective audits of nine statutory boards and three Government funds whose financial statements were not audited by AGO. A selective audit involves test checks on selected areas for financial irregularity, excess, extravagance or gross inefficiency. It is not intended to draw any conclusion on the overall performance of the audited entity.

In addition to the above audits, AGO carried out checks on Government ministries, organs of state, and statutory boards arising from matters that come to AGO's attention through complaints, feedback or observations from past audits.

## Summary of Audit Observations

AGO's audit observations fall into eight main categories – procurement and payment, project management, financial controls, contract management, grant administration, Information Technology (IT) controls, revenue collection and asset management. The audit observations have been communicated to the public sector entities concerned through AGO Management Letters for follow-up. The more significant audit observations relating to two Government ministries, one Government fund and five statutory boards are covered in this Report. These could be summarised into the following types of lapses:

- Weaknesses in IT controls
- Laxity in financial controls
- Inadequate oversight of development projects

AGO found weaknesses in IT controls across several public sector entities. Some of these weaknesses were similar to those identified in AGO's previous audits of other public sector entities. The lack of attention to these areas observed in some entities is of concern in view of the public sector's high dependency on IT systems and data for Government operations, and the fast-evolving IT security threats.

Some weaknesses in financial controls were also found. These include lapses such as payments not certified and contracts not signed by authorised officers, late payments to vendors and poor management of assets.

Management of development projects remains an area of concern. Of particular concern are the inadequate oversight of agents appointed to manage projects on behalf of public sector entities, and the management of contract variations. Such lapses were found across different public sector entities over the last few years, indicating that more could be done to strengthen these areas.

## **(1) Weaknesses in IT Controls**

IT is extensively used in public sector entities to manage financial transactions, increase work productivity, better deliver services and enhance engagements with citizens, businesses and other agencies. Public sector entities also manage repositories of vast amounts of personal and other sensitive data. At the same time, IT security threats are growing. In this environment, public sector entities need effective measures to safeguard their IT systems and data. It is in this context that AGO is highlighting some of the lapses in IT controls in this Report.

AGO found weaknesses in IT controls in its audits of the Central Provident Fund Board (CPF Board), the Singapore Corporation of Rehabilitative Enterprises (SCORE), the National Parks Board (NParks) and the Ministry of Social and Family Development (MSF). The weaknesses include inadequate review of activities in IT systems, wrongful use of privileged accounts by officers or appointed vendors and lack of review of user access rights.

In the audit of CPF Board, AGO noted lapses in the management of the two IT security monitoring systems which tracked the activities of CPF Board's databases and systems. AGO found that for a period of time, CPF Board did not monitor the IT security monitoring systems for unauthorised changes. For one IT security monitoring system, AGO's test checks of the system logs for three months revealed that a significant percentage (about 88.7 per cent) of the changes made by the administrators were not supported by approved change requests. For the other IT security monitoring system, the alert reports generated for review of IT security violations were incomplete. These lapses could affect the effectiveness of the two IT security monitoring systems in detecting IT security violations.

AGO also carried out checks on 15 user accounts assigned by CPF Board to temporary staff for two other IT systems and noted that system access of 14 user accounts was not removed promptly after the staff had left CPF Board. Six of these accounts were used after the last working day of the temporary staff and CPF Board was unable to identify who had used the accounts. It is important that system access is given on a need basis and removed promptly when it is no longer needed to prevent unauthorised access to confidential information in these systems.

In the audit of SCORE, AGO found that two officers who were not the system administrators of the payroll processing system were given privileged access which allowed them to grant and amend the access rights of all users. Such access rights were beyond their job scope. In addition, there was a lack of proper system for review of logs, which captured the activities carried out by privileged users in the system. These lapses exposed SCORE to security risks, including leakage of and unauthorised changes to personnel and salary-related information.

For NParks, AGO found that it had not carried out review on 973 (or 93.1 per cent) of the 1,045 user accounts in its Human Resource, Finance and Procurement System, to ascertain if the access rights granted were appropriate and still required. NParks also did not remove the access rights of 104 suspended user accounts of staff who had left service, as far back as 10 years before. Such lapses could expose the IT system to risk of fraudulent or unauthorised transactions.

AGO noted that MSF did not review the logs on activities of its IT vendors and IT staff to identify possible unauthorised access to the IT systems supporting the Baby Bonus scheme and Child Care/Infant Care subsidy scheme. Over a period of 11 months, there were 4,920 instances of access by the MSF's IT vendor staff, of which AGO found that 595 instances were inappropriate and would warrant further investigation. For example, AGO found 560 instances where the IT vendor staff had used a privileged system user account which did not belong to them to access the systems. These violations of IT controls could compromise the confidentiality and integrity of the data in the systems, resulting in leakage of information or corruption of data used for computation of bonuses or subsidies under the schemes.

## **(2) *Laxity in Financial Controls***

The fundamental principles of proper management of public funds are that expenditure should be properly approved, accounted for, and made in accordance with the relevant laws and financial procedures. Assets should also be properly managed to prevent loss and to ensure that they are put to the intended use. Public sector entities are accountable for putting in place adequate financial controls to ensure proper monitoring and accounting of transactions and assets.

AGO found instances of inadequate financial controls over payments, management of assets and contracting in public sector entities such as the Singapore Sports Council (SSC) (also known as Sport Singapore), SCORE and the Economic Development Board (EDB). These lapses include late payments, payments not certified by authorised officers, contracts not signed by authorised signatories, poor management of assets and grant disbursements made based on inaccurate or incomplete information.

In the audit of SSC, AGO noted many instances of late payments by SSC to its vendors. AGO checked 417 payments (totalling \$970,700) made more than a year after the invoice date, and noted that 299 payments (totalling \$661,900) were made 1 to 3.6 years after the invoice date without valid reasons. Delaying payments to vendors after satisfactory delivery of goods and services is contrary to Government's instructions which require all invoices to be processed promptly. It is also an unfair business practice and SSC could be liable for late payment penalties.

In addition, AGO observed that SSC's management of sponsored electronic devices was weak. Based on test checks of records for 2,790 units of sponsored electronic devices (valued at \$557,200) for two major sporting events, AGO found that SSC was not able to produce adequate evidence to account for the whereabouts of 1,396 units (valued at \$224,700). There was hence no assurance that the sponsored devices were used for the intended purposes.

AGO's audit revealed laxity in SCORE's controls over payments and signing of contracts. AGO test-checked 80 invoices and found that 63 invoices were not certified by authorised officers before payments (totalling \$0.71 million) were made. The control put in place to ensure that payments made were valid had therefore been bypassed. In addition, AGO found that of the 16 contracts test-checked, 10 contracts with values ranging from \$1.04 million to \$15.88 million (totalling \$49.57 million) were signed by an officer who was authorised to sign contracts up to only \$1 million each. By not following its own financial regulations, SCORE had bypassed the control instituted to ensure that the terms and conditions were scrutinised by sufficiently senior officers before SCORE committed to the contracts.

AGO reviewed 64 grant projects administered by EDB and found eight projects where inaccurate and incomplete information was given to the approving authorities which subsequently approved grant disbursements totalling \$2.59 million. AGO noted that in six projects, EDB informed the approving authorities that the projects were on track although the grant recipients did not meet or faced difficulties in meeting certain project conditions. In the other two projects, EDB did not provide complete or up-to-date information of grant projects to the approving authorities for them to make informed decisions. The role of approving authorities must not be regarded as perfunctory.

### **(3) *Inadequate Oversight of Development Projects***

Every year, the Government spends significant amounts of public funds on development projects. The guiding principles in managing development projects are fiscal prudence, value for money and accountability. Where management of development projects are outsourced to agents, public sector entities should maintain adequate oversight of their agents and remain accountable for the projects.

AGO's audits revealed weaknesses in the management of development projects under the Ministry of Health (MOH). These include the lack of assessment of the need for and cost reasonableness of expenditure before payments were made to an agent, not ensuring that the agent adhered to the approving limits set by MOH for variations, and variation works carried out before proper approvals were obtained from the approving authorities.

AGO found irregularities in the contract management for the development of the Ng Teng Fong General Hospital. AGO observed that MOH incurred expenditure of about \$4.08 million for site supervisory staff engaged by its agent without verifying the need for and reasonableness of the expenditure. MOH also did not seek approval from its approving authority for MOH to bear the cost of the site supervisory staff engaged by its agent. In addition, MOH made payments to the agent for the site staff based solely on the agent's claims and without any contractual agreement. For contract variations, MOH did not ensure that the agent adhered to MOH's condition for variations to be approved by specific authorities before instructing the contractor to proceed with the variations. This condition was breached for the majority of the contract variations (93.4 per cent), which amounted to \$30.09 million.

AGO also noted irregularities in the management of 40 contract variations amounting to \$3.76 million in 10 other projects under MOH, based on test checks of 121 variations. For one project, approvals for four variations (total cost of \$1.26 million) were either not obtained or obtained from an incorrect approving authority which had lower approval limits. For 32 variations (total cost of \$2.17 million) relating to 10 projects, approvals were obtained after the variation works were completed or had commenced. In addition, the submissions to the approving authorities did not state that approvals for the variation works were being sought retrospectively. The role of the approving authority must not be regarded as perfunctory. It is important for approvals to be sought from the appropriate authorities on a timely basis and for pertinent facts to be disclosed for them to make informed decisions.

### **Concluding Remarks**

AGO's audits serve to enhance public accountability and help strengthen the financial governance of public sector entities. Hence, it is important that I highlight some of the more significant observations in this Report to give a sense of the areas that may need the attention of public sector entities. These also serve as learning points for the Whole-of-Government to help not just the entities audited but also the wider public sector in strengthening their management of public resources to achieve the intended objectives.

In this regard, I am pleased to note that the public sector entities audited by AGO take the audit observations seriously and have indicated that they are committed to rectify the lapses and put in place measures to prevent future occurrence. AGO will continue to work with the public sector entities to ascertain that these follow-up actions are taken.



## **Acknowledgements**

I would like to acknowledge the co-operation given to AGO by the Government ministries, organs of state, statutory boards, Government-owned companies and other entities audited.

I would also like to express my appreciation to all my officers for maintaining high professional standards and showing dedication and commitment in enhancing public accountability.

TAN YOKE MENG WILLIE  
Auditor-General  
Singapore

4 July 2017

**PART I**

**(A)**

**AUDIT OF GOVERNMENT FINANCIAL  
STATEMENTS**

**(B)**

**AUDIT OF GOVERNMENT MINISTRIES,  
ORGANS OF STATE AND  
GOVERNMENT FUNDS**

## **PART IA : AUDIT OF GOVERNMENT FINANCIAL STATEMENTS**

1. The Auditor-General has issued an unmodified audit opinion on the Financial Statements of the Government of Singapore for the financial year ended 31 March 2017, upon completion of the audit required under section 8(1) of the Audit Act (Cap. 17, 1999 Revised Edition).
2. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the audit report on the Financial Statements to the President on 29 June 2017.
3. The Financial Statements are prepared by the Minister for Finance in accordance with Article 147(5) of the Constitution of the Republic of Singapore (1999 Revised Edition) and section 18 of the Financial Procedure Act (Cap. 109, 2012 Revised Edition).
4. The Minister is required to submit the audited Financial Statements to the President under Article 147(5) of the Constitution of the Republic of Singapore and section 18 of the Financial Procedure Act.
5. In accordance with section 8(3) of the Audit Act, the President would present to Parliament the audited Financial Statements with the audit report thereon.

### **Acknowledgements**

6. AGO would like to thank the Accountant-General's Department for its co-operation in the audit.

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## **PART I B : AUDIT OF GOVERNMENT MINISTRIES, ORGANS OF STATE AND GOVERNMENT FUNDS**

### **Government Ministries and Organs of State**

1. In the course of the audit of the Government Financial Statements (GFS), AGO carries out test checks of internal controls of selected areas in Government ministries and organs of state. These include checks for financial irregularity, excess, extravagance or gross inefficiency leading to waste in the use of funds and resources, and on whether measures to prevent such lapses are in place. The authority for these audits is provided by section 5 of the Audit Act.

### **Government Funds**

2. The enabling Acts of certain Government funds within the GFS require separate accounts to be prepared and audited by the Auditor-General or another auditor. When the Auditor-General is not auditing the accounts, the Minister concerned will appoint an auditor in consultation with the Auditor-General. In advising on the appointment, the Auditor-General would take into account the criteria listed in Annex II.

3. The Auditor-General audited the financial statements of the Workers' Fund<sup>1</sup> for the financial year 2016/17 as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2). An unmodified audit opinion was issued on the financial statements.

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<sup>1</sup> The Workers' Fund is audited by AGO annually as its Act does not provide for any other auditor to audit its accounts.

4. For Government funds whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation, at least once every five to seven years. A selective audit is an examination of selected activities and operations, carried out in relation to the accounts, to check for financial irregularity (not for the purpose of rendering an opinion on the financial statements), and to ascertain whether there has been excess, extravagance or gross inefficiency leading to waste, and whether measures to prevent them are in place. In the financial year 2016/17, AGO carried out selective audits of the following three Government funds:

- a. ElderCare Fund<sup>2</sup>;
- b. Goods and Services Tax Voucher Fund<sup>3</sup>; and
- c. INVEST Fund<sup>4</sup>.

5. In addition, AGO carried out checks on Government ministries, organs of state and Government funds arising from matters that come to AGO's attention through complaints, feedback or observations from past audits.

### **Acknowledgements**

6. AGO would like to thank all the Government ministries and organs of state for their co-operation in the audits.

### **Selected Observations**

7. Selected observations arising from the audits of Government ministries, organs of state and Government funds are summarised in the paragraphs that follow.

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<sup>2</sup> The ElderCare Fund was established under the Medical and Elderly Care Endowment Schemes Act (Cap. 173A, 2001 Revised Edition).

<sup>3</sup> The Goods and Services Tax Voucher Fund was established under the Goods and Services Tax Voucher Fund Act (Cap. 117C, 2013 Revised Edition).

<sup>4</sup> The INVEST Fund was established under the Home Affairs Uniformed Services Superannuation Act (Cap. 126B, 2012 Revised Edition).

## MINISTRY OF HEALTH

### **Inadequate Oversight in Contract Management of Hospital Development Project**

8. AGO found that the Ministry of Health (MOH) incurred expenditure of about \$4.08 million for site supervisory staff engaged by its agent without verifying the need for and reasonableness of the expenditure. MOH also did not seek approval from its approving authority to incur this expenditure. In respect of contract variations, MOH did not ensure that the agent adhere to MOH's condition that contract variations had to be approved by specific authorities before instructing the contractor to proceed with the variations. This condition was breached for contract variations amounting to \$30.09 million.

9. There was hence no assurance that MOH had exercised financial prudence in the use of public funds for the expenditure on site supervisory staff. There was also no assurance that the need for these contract variations was scrutinised by the appropriate approving authorities before the expenditure was committed.

10. These irregularities were found in AGO's audit of the contract management of the development of the Ng Teng Fong General Hospital (NTFGH project). The NTFGH project was completed in October 2015 at a total contract value of \$797.24 million. It included, among other contracts, a main building contract and a site supervisory services contract. Details of the irregularities are presented in the paragraphs that follow.

#### *A. Irregularities in Expenditure for Site Supervisory Staff*

11. AGO's test checks revealed that MOH had not assessed the need for its agent to separately engage site supervisory staff for the project for which the cost would be borne by MOH. MOH also did not assess the cost reasonableness of the expenditure (amounting to about \$4.08 million as at 9 November 2016). AGO observed that MOH had already engaged a contractor to provide site supervisory services (at a contract value of \$8.16 million) for the duration of the project from January 2011 to October 2016.

12. AGO found that MOH had made payments (amounting to \$2.83 million) for its agent's site supervisory staff up to March 2015, based solely on the agent's claim and without having any contractual agreement with the agent for such site supervisory services. In addition, MOH did not seek approval from its approving authority for MOH to bear the cost of this expenditure. During the audit, AGO was informed by MOH that it was not aware that its agent had separately engaged site supervisory staff until sometime in 2011. AGO noted that even after MOH became aware of the engagement, it had not assessed the need for the engagement and the cost reasonableness of the expenditure before making payments to the agent. At the time of audit in March 2017, MOH was not able to update AGO on whether it was obligated to pay its agent for site supervisory services incurred after March 2015.

13. There was thus no assurance that the site supervisory services were not excessive when the agent proceeded to separately engage site supervisory staff. The irregularities, coupled with the lack of clarity over the amount which MOH would have to pay its agent for site supervisory staff, indicated a lack of controls and inadequate oversight by MOH in managing its financial transactions with its agent.

14. MOH subsequently updated AGO that there was no duplication of services as the number of staff engaged under the contract with its own site supervisory services contractor (hereafter referred to as the Contract) had been reduced by five, which corresponded with the five staff the agent subsequently hired. However, AGO noted the following evidence which did not corroborate with MOH's explanation and could indicate excessive site supervisory services for the NTFGH project:

- a. The number of staff under the Contract was reduced by three instead of five, and the agent hired six staff instead of five. There was thus a net increase of three staff. In addition, two of the three staff were hired for positions not provided for in the Contract. Hence, these two staff should not be considered as replacements for staff reduced under the Contract.
- b. For about two years, MOH had paid for services for one of the three staff that was supposedly reduced from the Contract as mentioned in (a) above.

15. MOH acknowledged that written approval should have been obtained from its approving authority for MOH to bear the cost of site supervisory staff separately engaged by the agent and that payment to the agent should only be made after approval had been obtained. MOH informed AGO that it would assess the validity and cost reasonableness of the expenditure claims by the agent, including those incurred after March 2015, and seek the necessary approval to rectify the matter. MOH also informed AGO that it had since put in place a more structured process for the engagement of site supervisory staff to ensure prudence in the use of public funds. It would ensure that all areas of concern surfaced by AGO on this matter are looked into.

*B. Inadequate Scrutiny of Variations under In-principle Approval Arrangement*

16. AGO's test checks revealed that MOH's agent had instituted an in-principle approval process for contract variations under the main building contract where such approval could be given by one staff. This was contrary to the Agency Agreement which required the agent to comply with MOH's more stringent approving authorities and limits: two signatories for variations up to \$80,000 and three signatories for those exceeding \$80,000. The majority of the contract variations (93.4 per cent) for the main building contract were processed through in-principle approval arrangement. These variations, ranging from \$95 to \$968,000, amounted to \$30.09 million.

17. There was hence no assurance that the need for variations had been scrutinised and the impact on overall project costs assessed by appropriate authorities before MOH committed to the expenditure. The lack of the required level of checks increased the risk of fraud. The fact that MOH was not aware of the agent's non-compliance indicated that it did not exercise adequate oversight on the agent.

18. MOH explained to AGO that the in-principle approval arrangement put in place by its agent was not intended to be an approval to start work, but for the consultants and contractors to carry out detailed pre-works to expedite the preparation before seeking formal approval for the variation. Nevertheless, MOH acknowledged that there were instances where works had proceeded prior to obtaining formal approval and that its agent should have formally obtained MOH's approval for the deviation from the variation approval process.



19. AGO noted that the detailed pre-works included design amendments carried out by contractors which in AGO's view would incur time and costs, and commit MOH to paying for such pre-works. Hence, the in-principle approval arrangement had in effect undermined the financial controls that MOH had put in place to ensure that proper approval was obtained before expenditure was committed.

20. MOH informed AGO that from April 2017, in-principle approval would only be allowed for urgent variations such as emergency cases involving safety issues and would require two signatories. MOH also said that it would follow up with its internal auditors to include checks on the variation approval process as part of internal audits.

### **Irregularities in Seeking Approvals for Contract Variations**

21. AGO found irregularities in the management of 40 contract variations amounting to \$3.76 million in 10 other projects under MOH. The irregularities included approvals for contract variations sought after the variation works had commenced and approvals not obtained or obtained from the incorrect authorities. These irregularities do not give the assurance that variation works for the projects were adequately monitored and MOH had complied with contract variation procedures to ensure that the variations were properly justified and approved before variation works commenced.

22. AGO's test checks of 121 contract variations amounting to \$26.10 million, implemented between July 2011 and July 2016 for 13 infrastructure projects<sup>5</sup> managed by MOH and its agents, revealed the following irregularities in 40 contract variations:

- a. For 32 variations (amounting to \$2.17 million) relating to 10 projects, the approvals for the variations were obtained after the variation works were completed or had commenced. In 29 cases (amounting to \$1.65 million), the approvals were only obtained 1 to 20 months after the variation works had been completed and for three cases (amounting to \$0.52 million), 1 to 16 months after variation works had commenced. In addition, the submission papers to the approving authorities for the 32 variations did not state that the approvals were being sought retrospectively.

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<sup>5</sup> These projects exclude the Ng Teng Fong General Hospital project.

- b. For four variations (amounting to \$1.26 million) relating to one project, requisite approvals were not obtained. For two of the variations (amounting to \$0.33 million), no approval was obtained to commence variation works. For the other two variations (amounting to \$0.93 million), the approvals for the variations were obtained from incorrect approving authorities which had lower approval limits.
- c. Anomalies in sequence of dates on supporting documents were noted in five variations (amounting to \$0.68 million) relating to two projects. These included one variation mentioned in paragraph 22a above amounting to \$0.35 million. The dates on the recommendation reports for the variations and the consultants' evaluation and assessment of the estimated costs were later than the dates of approval of variations. This implied that the approvals were either obtained before the relevant assessment and recommendations were made or backdated. Such anomalies cast doubts on whether the variations were properly assessed before approvals were sought.

23. Seeking approval for variations, especially those that would result in commitment of additional expenditure, serves to ensure financial prudence. The role of the approving authority must therefore not be regarded as perfunctory. It is important for proposed contract variations to be properly assessed and the approvals sought from the appropriate authorities on a timely basis with all relevant facts disclosed.

24. MOH informed AGO that since 2013, it has progressively tightened the approval process for variation orders for its public sector healthcare infrastructure projects. It would work with its agent to ensure that the agent's staff understand and comply with the approval process for variations. MOH also agreed that there is a need for greater monitoring of the contract variation process and would follow up with its internal auditors as well as that of its agent to include contract management as an area for audit.

## **ELDERCARE FUND**

25. For the audit of the ElderCare Fund, AGO covered the following areas in its test checks:

- a. Operating subvention;
- b. Output GST subvention;
- c. Rental subvention; and
- d. Funding for additional nursing care staff.

The more significant observations arising from the audit are presented in the paragraphs that follow.

### **Incorrect Subventions Due to Failure of Controls**

26. AGO found errors in 12 submissions by four voluntary welfare organisation nursing homes (service providers) to seek funding from MOH for hiring additional nursing care staff<sup>6</sup>. This was based on AGO's test checks on 26 quarterly submissions by 11 service providers. Furthermore, 8 (or 66.7 per cent) of the 12 submissions contained obvious errors. The errors had resulted in overpayment of \$48,600 to two service providers, and under-claim of \$12,300 by two other service providers.

27. AGO noted that the wrong application of the funding guidelines by some service providers was not detected by MOH's checks. Without an effective system of checks, such errors would remain undetected and would perpetuate.

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<sup>6</sup> Additional nursing care staff is the difference between the actual number of nursing care staff employed as at the last day of the month and the baseline. The baseline is the minimum number of nursing care staff required to ensure quality care for the patients based on the desired nursing care staff to patient ratio that is determined by MOH. The baseline would increase when the number of patients increases.

28. AGO's test checks of funding submissions between April 2015 and March 2016 revealed the following errors:

- a. Staff who were not providing nursing care and nursing care staff who were not employed as at the last day of the month were included in the headcount for funding, although funding should be based on the number of nursing care staff employed as at the end of the month. As a result, there was overpayment of \$47,000 to one service provider.
- b. Patients who had been discharged or had passed away during the month were wrongly included in the funding submissions, leading to one service provider under-claiming by \$9,600.
- c. The full-time equivalent (FTE) for part-time nursing care staff was included based on the actual part-time hours as a fraction of a full-time staff's working hours (such as 0.33 FTE or 0.83 FTE), instead of MOH's requirement to adopt 0.50 FTE for each part-time nursing care staff for funding purpose. Such obvious errors were not detected and led to an under-claim of \$2,700 by one service provider and overpayment of \$1,600 to another service provider.

29. MOH informed AGO that it would rectify the incorrect claims. MOH would also make adjustments to the claim submission process to prevent recurrence of similar lapses. These adjustments include the hard-coding of each part-time staff as 0.50 FTE in the submission spreadsheet, and strengthening the audits of funding submissions by providing a detailed checklist of items to be audited.

## **MINISTRY OF SOCIAL AND FAMILY DEVELOPMENT**

### **Poor Oversight of Activities Carried Out in IT Systems**

30. AGO noted that the Ministry of Social and Family Development (MSF) did not review logs containing records of activities carried out by its IT vendors and IT staff in the IT systems that support the Baby Bonus scheme and Child Care/Infant Care subsidy scheme<sup>7</sup>. AGO found that MSF's IT vendor staff had accessed the systems on 4,920 instances between April 2016 and February 2017, of which 595 instances were inappropriate and would warrant further investigation. These violations of IT controls could result in leakage of confidential information or corruption of data used for computation of bonuses or subsidies under the schemes.

31. AGO's checks on the 595 instances revealed the following:

- a. Three IT vendor staff, who were not administering databases, had each used a privileged database user account which did not belong to them. The use of the privileged database user account would enable these staff to make unauthorised changes to the data in the databases.
- b. Six IT vendor staff, including five database administrators, who were not administering the operating systems, had accessed the operating systems on 560 instances using a privileged system user account which did not belong to them. The use of such an account would enable these staff to make unauthorised changes to the operating system configurations which could adversely affect the availability or operation of the systems. Furthermore, the risk associated with the database administrators using the privileged system user account is of particular concern as this would enable them to delete entries in logs containing system and database activities to cover up any security violations which they committed.

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<sup>7</sup> The Baby Bonus scheme and Child Care/Infant Care subsidy scheme were implemented to help lighten the financial costs of raising children. The total disbursements for the schemes were \$560.40 million and \$407.79 million respectively in the financial year 2016/17.

- c. Four IT vendor staff had used each other's accounts to access the systems on 14 instances.
- d. Nine IT vendor staff had used the accounts of an MSF IT staff and another IT vendor staff on 18 instances. In particular, one of the IT vendor staff used the account of the MSF IT staff in February 2017 after the MSF IT staff had left MSF in March 2016.

32. Without reviewing the logs, MSF would not be able to detect unauthorised activities such as those mentioned above which could compromise the confidentiality and integrity of the data in the systems. Consequently, information in the systems could be leaked, or the baby bonuses and child care/infant care subsidies could be inaccurate due to unauthorised changes to the data in the systems. Furthermore, the sharing of accounts and use of accounts belonging to other staff would result in a lack of accountability and increase the difficulty in identifying the parties responsible in the event of security violations.

33. MSF informed AGO that it had begun investigating the 595 instances of inappropriate access to determine the impact on the confidentiality and integrity of information in the IT systems. It had since implemented monthly review of user access and activity (including privileged users) logs to detect any security violations. It had also tightened its controls over the creation, modification and deletion of IT vendor staff user accounts.

### **Incorrect Reimbursements for Government-Paid Paternity Leave**

34. AGO found that 717 incorrect reimbursements were made to employers in 2014 and 2015 under the Government-Paid Paternity Leave (GPPL) scheme<sup>8</sup>. The error was due to the application of an incorrect formula provided by MSF to the Central Provident Fund Board (CPF Board), which was appointed as MSF's agent to administer the scheme. The incorrect formula pertained to the category of reimbursements for male employees who took GPPL for a continuous period after 16 weeks of the birth of their children.

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<sup>8</sup> There were 21,679 GPPL reimbursements in 2014 and 2015. The error found relates to one category of GPPL reimbursements and affected all 717 reimbursements in 2014 and 2015 for that category (that is, 100 per cent of cases in the category).

35. At the time of audit, AGO was not able to determine the total amount of under- or over-reimbursement for these 717 cases as MSF did not capture information on the number of working days in a week for the employees concerned, which is required for such a computation. AGO estimated that the under-reimbursement could be up to \$716 (or 28.6 per cent of correct reimbursement)<sup>9</sup>, while the over-reimbursement could be up to \$350 (or 16.3 per cent of correct reimbursement) for each case. Instances of over-reimbursement would occur when male employees had a seven-day work week, which is uncommon. Each reimbursement had a cap of \$2,500.

36. Under the Child Development Co-Savings Act (Cap. 38A, 2002 Revised Edition), GPPL could be taken for a continuous period within 16 weeks of the birth of the child, or one or more periods within 12 months of the birth of the child upon mutual agreement between the male employee and his employer. Employers could claim reimbursement for the GPPL given. The Regulations<sup>10</sup> under the Act prescribed the formulae to compute reimbursements for GPPL. The formula for reimbursement would depend on when the GPPL was taken (that is, within or after 16 weeks of the birth of the child) and whether it was for a continuous period.

37. AGO observed that as a result of the incorrect formula provided by MSF, CPF B applied the formula for reimbursements of GPPL taken in a continuous period within 16 weeks of the birth of the child to reimbursements of GPPL taken for a continuous period after 16 weeks. A different formula should have been used for the latter.

38. MSF informed AGO that it would review all GPPL reimbursements to identify those that were incorrectly computed and take corrective actions to make good the under-reimbursements and recover the over-reimbursements. It had since applied the correct formula for manually-processed GPPL claims and would also correct the formula in the system for system-processed claims. MSF explained that as part of its compliance efforts, it had appointed auditors to audit GPPL reimbursements. It would remind its auditors to verify that reimbursements are computed in accordance with the formulae provided in the legislation.

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<sup>9</sup> The under-reimbursement was computed based on the assumption of a five-day work week.

<sup>10</sup> Child Development Co-Savings (Paid Maternity Leave, Maternity Benefit, Adoption Leave, Shared Parental Leave and Paternity Leave) Regulations (Cap. 38A, Rg 1).

## **PART II**

# **AUDIT OF STATUTORY BOARDS**



## **PART II : AUDIT OF STATUTORY BOARDS**

### **Financial Statements Audits**

1. The Auditor-General audited the financial statements of three statutory boards for the financial year 2016/17 and issued unmodified audit opinions. The three statutory boards are:

- a. Accounting and Corporate Regulatory Authority;
- b. Inland Revenue Authority of Singapore; and
- c. Monetary Authority of Singapore<sup>1</sup>.

2. In accordance with section 4(1)(a) of the Audit Act (Cap. 17, 1999 Revised Edition), the Auditor-General audits statutory boards whose Acts provide for the Auditor-General to audit their accounts.

3. The Acts of most statutory boards require their accounts to be audited by the Auditor-General or another auditor. When the Auditor-General is not auditing the accounts, the Minister concerned will appoint an auditor in consultation with the Auditor-General. In advising on the appointment, the Auditor-General takes into account the criteria listed in Annex II.

### **Selective Audits**

4. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation, at least once every five to seven years. The authority is provided for under a Ministry of Finance circular (first issued in 1972 and revised in 2011), read with section 4(4) of the Audit Act.

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<sup>1</sup> The Monetary Authority of Singapore is audited by AGO annually as its Act does not provide for any other auditor to audit its accounts.

5. A selective audit is an examination of selected activities and operations, carried out in relation to the accounts, to check for financial irregularity (not for the purpose of rendering an opinion on the financial statements), and to ascertain whether there has been excess, extravagance or gross inefficiency leading to waste, and whether measures to prevent them are in place.

6. In the financial year 2016/17, AGO carried out selective audits of the following nine statutory boards:

- a. Building and Construction Authority;
- b. Central Provident Fund Board;
- c. Council for Estate Agencies;
- d. Economic Development Board;
- e. International Enterprise Singapore Board;
- f. National Parks Board;
- g. Sentosa Development Corporation;
- h. Singapore Corporation of Rehabilitative Enterprises; and
- i. Singapore Sports Council (also known as Sport Singapore).

7. In addition, AGO carried out checks on other statutory boards arising from matters that come to AGO's attention through complaints, feedback or observations from past audits.

## **Acknowledgements**

8. AGO would like to thank the statutory boards for their co-operation in the audits.

## **Selected Observations**

9. Selected observations arising from the audits of statutory boards are summarised and reflected under their respective supervising ministries in the paragraphs that follow.

### **MINISTRY OF CULTURE, COMMUNITY AND YOUTH**

#### **SINGAPORE SPORTS COUNCIL (ALSO KNOWN AS SPORT SINGAPORE)**

10. For the audit of the Singapore Sports Council (SSC), AGO covered the following areas in its test checks:

- a. Procurement and payment;
- b. Asset management;
- c. Travel and entertainment expenditure;
- d. Selected grants;
- e. Selected revenue and receipts;
- f. Sponsorship; and
- g. Related party transactions.

The more significant observations arising from the audit are presented in the paragraphs that follow.

## **Late Payments**

11. AGO checked 417 payments totalling \$970,700 which SSC made more than one year from the invoice date, and noted that 299 payments totalling \$661,900 (or 68.2 per cent) were made 1 to 3.6 years after the invoice date without valid reasons. The payments checked were made from January 2014 to June 2016. Delaying payments to vendors after satisfactory delivery of goods and services is contrary to Government's instructions which require all invoices received to be processed promptly. It is also an unfair business practice and SSC could be liable for late payment penalties.

12. SSC informed AGO that it is committed to paying suppliers on time and would review its payment processes. Besides sending a creditor aging analysis report to its Chief Executive Officer and Chief Financial Officer regularly, SSC senior management had since instituted weekly payment meetings to prevent recurrences.

## **Inadequate Controls over Sponsored Electronic Devices**

13. AGO's test checks of records for 2,790 units of sponsored electronic devices, valued at \$557,200, for two major sporting events in 2015 found that SSC was not able to produce adequate evidence to account for the whereabouts of 1,396 units valued at \$224,700 (or 40.3 per cent of the value of devices checked). There was no assurance that the sponsored devices were properly accounted for and used for the intended purposes.

14. A total of 3,946 units of sponsored mobile phones, tablets, digital cameras and smartwatches valued at \$835,500 was received by SSC for operations and marketing activities for two major sporting events in 2015. SSC's procedures required sponsored items to be tracked and accounted for, and recipients to acknowledge receipt of items. However, AGO's test checks of records for 2,790 devices found that the procedures were not followed for 1,396 devices with values ranging from \$148 to \$948 per unit. SSC could not produce adequate evidence or records to account for the whereabouts of these devices which AGO had enquired about in October 2016.

15. SSC explained that the lack of records was due mainly to the fast-paced nature of events (that is, carnivals and stage games) in which the devices were given out, staff turnover, staff oversight, and staff hired by its vendors for the events not being aware of the need to maintain and keep proper records.

16. Following the audit, SSC informed AGO that it was tracing available documentation to ascertain the whereabouts of the 1,396 units and would take disciplinary actions against those found responsible for any lapses. Going forward, SSC would remind its staff to ensure that proper documentation is maintained for the devices.

## **MINISTRY OF HOME AFFAIRS**

### **SINGAPORE CORPORATION OF REHABILITATIVE ENTERPRISES**

17. For the audit of the Singapore Corporation of Rehabilitative Enterprises (SCORE), AGO covered the following areas:

- a. Procurement and payment;
- b. Payroll;
- c. Revenue contracting; and
- d. Financial regulations and reporting.

18. AGO's audit revealed a number of lapses in SCORE which indicated weaknesses in SCORE's financial controls and administration across the areas audited. The lapses included weaknesses in the management of access rights and inadequate controls to detect unauthorised activities performed in the payroll system; and lapses in procurement and payment such as contracts signed by unauthorised signatories, payments made although invoices were not certified by authorised officers, overpayment due to use of wrong contractual rates and poor management of security deposits.

19. Although some of the individual lapses may not be significant on their own, taken together with the other lapses, they reflect a general lack of attention to the importance of good financial administration of public funds and resources. The more significant observations arising from the audit are presented in the paragraphs that follow.

## Weak Controls over Payroll Processing System

20. AGO's audit of SCORE's payroll processing revealed significant weaknesses in the management of access rights and inadequate controls to detect unauthorised activities in the Human Resource Information System (HRIS). The HRIS contained personnel and salary-related information on SCORE's employees and was used to process payroll. As a result, SCORE was exposed to the risks of leakage of and unauthorised changes to personnel and salary-related information.

### A. Weaknesses in Management of Access Rights and Review of Activities of Privileged Users

21. AGO noted that two Human Resource (HR) officers, who were not system administrators, were given privileged user accounts which allowed them to grant and amend the access rights of all HRIS users. Such rights were beyond the job scope of the two officers. Assigning officers with rights beyond their job scope, especially privileged access rights, would expose SCORE to security risks, including leakage of and unauthorised changes to personnel and salary-related information.

22. Furthermore, SCORE did not have a proper system in place to review logs which captured the activities carried out by privileged users in HRIS. As a result, SCORE would not be able to promptly detect unauthorised activities carried out by the privileged users and to carry out prompt investigations of any such incidents.

23. Although SCORE explained that its internal auditors had reviewed one of the logs on a half-yearly basis as part of their checks, AGO is of the view that the check was not effective because it was conducted on extracts of logs provided by the privileged users themselves. These privileged users could edit the logs to suppress information on any unauthorised activities which they had carried out. In addition, the review of the logs on a half-yearly basis was contrary to Government's best practices which recommend that such checks be carried out on a monthly basis.

24. AGO further noted that SCORE was not familiar with the logs available in the HRIS including the purposes of the logs, which would undermine its ability to design an effective system of controls to prevent and detect security violations and unauthorised activities.

25. SCORE informed AGO that it had since taken action to remove the privileged access rights from the two HR officers and had performed a holistic review of the access rights granted to all officers to ensure that access rights were granted based on job needs and that there was a robust segregation of duties. SCORE also added that it had since been working with its vendor to document the logs available and update its manuals, targeted to be completed by September 2017. SCORE would also conduct monthly reviews of access rights granted to users and logs capturing the activities of privileged users to mitigate the risk of unauthorised access and to detect unauthorised amendments to personnel and payroll information. SCORE's internal auditors would also conduct annual reviews to ensure that its processes are in accordance with Government's instructions.

*B. Inadequate Controls to Detect Unauthorised Changes to Payroll Records*

26. AGO's review of SCORE's procedures for processing monthly salary payment revealed that there were inadequate controls to detect unauthorised changes made to payroll records and the softcopy file sent to the bank for salary payment. As a result, the integrity of payroll records could be compromised.

27. AGO noted that the HR officer who prepared payroll could single-handedly make changes to payroll records in HRIS. While such changes were checked by the reviewers, the checks were only on the changes manually highlighted by the HR officer himself. The review would not be effective as the HR officer could suppress any unauthorised changes which he made by not highlighting them. Although there was a reconciling check on the total number of employees and amounts, such a check was carried out at the overall level and would not be effective in detecting unauthorised changes made at the individual record level.

28. AGO also noted that since April 2014, the softcopy salary payment file sent to the bank for payment was an unencrypted and editable text file, and hence not protected from unauthorised changes. AGO observed that while the bank signatories performed checks on the total number of employees and amounts before approving the payment, the checks (which were carried out at the overall level) would not be effective in detecting changes to the individual payroll records. As a result, the integrity of payroll records could be compromised and wrong payment could be made.

29. SCORE informed AGO that it had started to encrypt the salary payment file sent to the bank with effect from February 2017. To ensure that no unauthorised changes were made to staff salaries prior to February 2017, SCORE would verify all salary payments made during the period from April 2014 to January 2017. This exercise would be completed by July 2017. SCORE also indicated that it would enhance the HRIS to prevent and detect tampering of payroll records.

30. SCORE acknowledged that substantial improvements are required to strengthen the governance and controls over HRIS. SCORE informed AGO that it would work with its supervising ministry to create a comprehensive checklist of controls for HRIS, provide training to familiarise its HR officers with the system functionalities and build up the skills and competency of the HR officers. SCORE would also be migrating to a robust mainstream public service HR and payroll system, which comprised processes that adhered to best practices in controls, by the end of 2018.

### **Lapses in Procurement and Payment**

31. AGO's test checks of nine tenders with a total contract value of \$56.32 million revealed various lapses. AGO found that of the 16 contracts (awarded under the nine tenders), 10 contracts, totalling \$49.57 million, were not signed by authorised signatories. In addition, payments totalling \$0.71 million had been made even though the 63 invoices for these payments were not certified by authorised officers. There were also lapses in the procurement and contract management process, which included not using an installed system for more than two years, overpayments due to use of wrong contractual rates and the administration of security deposits.

32. These lapses, taken together, point to lax administration and lack of due care in handling procurement and payment matters. As a result, the controls put in place to safeguard SCORE's interests had been bypassed, and public funds had been wasted on unnecessary services and overpayments.



A. Contracts Not Signed by Authorised Signatories

33. AGO's test checks of 16 contracts signed from 2014 to 2016 revealed that 10 contracts with values ranging from \$1.04 million to \$15.88 million (totalling \$49.57 million) were signed by an officer who was not authorised to sign contracts of these values. He was delegated the authority to sign contracts up to only \$1 million each. It is important that contracts are signed by the appropriate authorities appointed by SCORE's Board. Not doing so bypasses the controls instituted to safeguard SCORE's interest of having sufficiently senior officers scrutinise the terms and conditions of the contracts before executing them.

34. SCORE explained that the staff involved in managing the contracting documentation was not familiar with the requirements in SCORE's Financial Regulations and had erroneously sent the contracts to the officer (mentioned in paragraph 33) for his signature.

35. SCORE informed AGO that it had ratified the 10 contracts and conducted checks to ensure that all existing contracts were signed by the correct contract signatories. SCORE had also implemented measures to ensure that contract signatories were made aware of their financial approval limits and for its internal auditors to conduct checks to ensure compliance with SCORE's Financial Regulations. SCORE also informed AGO that it had conducted procurement courses in April 2017 to familiarise its officers with procurement guidelines.

B. Payments Made on Invoices Not Certified by Authorised Officers

36. AGO's test checks of 80 invoices revealed that payments totalling \$0.71 million were made for 63 invoices although they were not certified by authorised officers. SCORE explained that the authorised certifying officers had informally delegated the certifying functions to other officers. This indicated that SCORE's officers had taken the certifying functions lightly. For proper accountability, delegations of the certifying functions should be done formally with proper documentation, taking into account the amounts involved and the seniority of officers required to scrutinise the invoices before payments.

37. SCORE acknowledged that certifying officers play an important internal control function in the payment process. SCORE informed AGO that it had since conducted a thorough review of its payment process, and had sought its Board's approval to revise its Financial Regulations on 18 May 2017. Under the revised Financial Regulations, payments would only be made against duly certified original documents. SCORE also indicated that warrants had been issued to the certifying officers in June 2017 to inform them of their responsibilities and financial approval limits.

C. Lapses in Procurement and Contract Management Process

38. AGO's test checks of nine tenders (total contract value of \$56.32 million) revealed lapses in one tender with a contract value of \$15.88 million. The lapses included over-specifying requirements, using wrong contractual rates resulting in overpayment to contractors, and not using a system that had been installed for more than two years. As a result, public funds had been wasted on unnecessary services and overpayments.

39. SCORE called the tender in July 2014 for the provision of logistical expertise to manage distribution and warehouse operations for a period of two years commencing in April 2015, with an option to extend for another two years.

*Over-specifying Requirements*

40. SCORE had over-specified its requirements for the tender. The tender had included the requirement of managing a new warehouse in addition to two existing warehouses, even though the new warehouse was still in the planning stage. The tender was awarded and the contract commenced in April 2015. At the time of AGO's audit in November 2016, the new warehouse had yet to be built. This was about a year after the expected completion date of the new warehouse stated in the tender. The tenderers would have factored the cost of managing the new warehouse in their tender prices which were submitted as a lump sum amount. AGO noted that the monthly warehouse management fee quoted by the contractor amounted to \$35,000 per month for all three warehouses or \$840,000 for the contract period of two years.

41. SCORE acknowledged that the services for the new warehouse should have been stated as an optional requirement in the tender. SCORE also informed AGO that its intent was to use the proposed warehouse as a collection point. It had verbally informed potential tenderers that no additional manpower was required for the new warehouse and that the tenderers would only be required to transfer goods from the collection point to other warehouses, when necessary. Although SCORE acknowledged that no tender briefing notes were recorded (which should have been done), SCORE was of the view that the manpower submissions by all the tenderers who had attended the briefing clearly showed that the tenderers were fully aware that no manpower was required for the new warehouse. SCORE added that it should have issued a corrigendum to clarify its intent on the use for the new warehouse.

42. AGO noted that the contract had included the new warehouse without stating that the new warehouse would serve only as a collection point. There was hence no assurance that the tenderers had not factored in the cost of manpower for the new warehouse. SCORE could thus end up paying for services not provided. The uncertainty over whether SCORE was charged for services at the new warehouse could have been avoided if SCORE had been more diligent in administering the procurement process.

#### *Overpayment for Additional Manpower*

43. SCORE had overpaid the contractor for the provision of additional manpower for the period from January to June 2016 due to the use of a wrong contractual rate. SCORE had incorrectly used the rate for overtime work instead of the rate for the provision of additional manpower stipulated in the contract. This had resulted in overpayments totalling \$28,500.

#### *Attendance Recording System Not Used*

44. An electronic attendance recording system installed in April 2015 by the contractor, as required under the contract, was left unused. SCORE explained that it had encountered implementation issues. There was no evidence that SCORE had carried out a proper analysis before including this item in the tender. As the contractor would have factored in its tender price the cost of installing the system, SCORE had wasted public funds on a system which was not used for a large part of the contract period.

45. SCORE subsequently looked into the implementation issues after AGO's queries and informed AGO that it would start using the system from June 2017.

46. SCORE acknowledged the above lapses and indicated that actions had been taken to rectify them. It had also recovered the overpayment (mentioned in paragraph 43) in June 2017. SCORE also informed AGO that it would work closely with its supervising ministry to put in place a comprehensive procurement and contract management framework and step up training of its procurement officers to ensure that they are competent at their procurement functions.

*D. Lapses in Administration of Security Deposits*

47. AGO's test checks of the nine tenders revealed lapses in the administration of security deposits. The nature of the various lapses, when taken together, points to a lax attitude in administering security deposits:

- a. There was no consistent basis for setting the quantum of security deposit for the nine tenders. For example, for two tenders called for the same type of goods and with the same payment terms, security deposit was collected for one tender but not for the other. Further checks revealed that decisions on security deposits were made without a proper risk assessment to determine whether there was a need to collect the security deposits and the quantum to collect. As the cost of providing security deposits would inevitably be passed back to SCORE in the form of higher tender prices, decisions on security deposits should not be taken lightly. A proper risk assessment should be carried out, taking into account the need to protect the agency's interests and the cost that tenderers might factor into their tender prices.
- b. The decisions made by the Tender Approving Authorities on the collection of security deposits for two tenders were not correctly implemented. For one tender, security deposit was collected even though the decision was not to collect, and vice versa for the other tender.

48. SCORE informed AGO that it would make a proper assessment and adopt a risk-based approach regarding the imposition of security deposits and the quantum to collect. SCORE would also review its processes on the collection and management of security deposits.

## **MINISTRY OF MANPOWER**

### **CENTRAL PROVIDENT FUND BOARD**

49. For the audit of the Central Provident Fund Board (CPF Board), AGO covered the following areas in its test checks:

- a. IT security and governance;
- b. Enforcement of CPF contributions;
- c. Administration of selected CPF schemes;
- d. Administration of selected agency projects;
- e. Investments; and
- f. Procurement (direct contracting and contract variations).

The more significant observations arising from the audit are presented in the paragraphs that follow.

#### **Lapses in Management of IT Security Monitoring Systems**

50. AGO noted lapses in CPF Board's management of two IT security monitoring systems which tracked the activities of its databases and systems. The lapses included not reviewing changes made to the IT security monitoring systems and incomplete reports generated for review of potential IT security violations. There was also no policy to identify IT systems that should be tracked by one of the IT security monitoring systems. These lapses could affect the effectiveness of the two IT security monitoring systems in detecting IT security violations.

51. For the IT security monitoring system that tracked IT activities on CPF B's databases, AGO noted the following lapses:

- a. CPF B did not review changes made to the IT security monitoring system for 1.5 years after the system was implemented in March 2015, and had only done so in September 2016 after AGO commenced its audit. As a result, it would not be possible to ascertain if unauthorised changes had been made to the system prior to September 2016. Unauthorised changes to the system increase the risk of IT security violations not being detected and consequently, mitigated or prevented in a timely manner.
- b. After CPF B commenced reviewing changes made to this IT security monitoring system, AGO's checks on all three instances of changes carried out found that for one instance, a system administrator did not make three approved changes but instead made six changes which had not been approved. The administrator's supervisors who had reviewed the changes also failed to detect the discrepancies.
- c. The IT security monitoring system was not configured properly to provide complete alert reports on IT security violations detected. AGO noted that the reports generated for CPF B's review did not capture the activities on a particular day of each week. Consequently, CPF B would not be alerted to IT security violations which took place on those days.

52. For the other IT security monitoring system that tracked IT activities on CPF B's systems, AGO noted the following lapses:

- a. CPF B did not enforce the proper change management process before changes were allowed to be made to the IT security monitoring system, for two years after the system was implemented in November 2014. It had only done so after AGO commenced the audit. AGO's test checks of the logs of the IT security monitoring system from July to September 2016 revealed that a significant percentage (about 88.7 per cent) of the changes by the administrators were not supported by approved change requests. As a result, AGO was not able to determine if the changes made during that period were authorised.

- b. CPFEB did not have a policy to identify IT systems that should be monitored for IT security violations. If a key system is left out, IT security violations for that system would not be monitored and brought to CPFEB's attention.
- c. Since its implementation in November 2014, the IT security monitoring system had not been configured to flag out certain key IT activities (for example, creation of user accounts and assignment of privileges to user accounts) in the systems being monitored. Hence, any unauthorised activities in these areas would not be detected. AGO noted that CPFEB also did not have a process to periodically review and update the IT security monitoring system's configurations.

53. CPFEB acknowledged the gaps in its management of the two IT security monitoring systems, and informed AGO of the following actions taken to address the lapses highlighted:

- a. Implemented a change management process since January 2017;
- b. Placed all key CPFEB systems under monitoring in December 2016;
- c. Generated daily alert reports since January 2017 for review;
- d. Confirmed that there were no unauthorised activities after reviewing available log data not captured in previous alert reports; and
- e. Put in place a system to periodically review the configurations of the IT security monitoring system that tracks IT activities on CPFEB's systems.

54. CPFEB further explained that it has a multi-layered IT defence system to protect against unauthorised access and changes at all times. According to CPFEB, while there are gaps in the management of the IT security monitoring systems, there are separate and tight controls to ensure that its systems and databases continue to be protected against possible threats.

55. AGO appreciates that there are many components involved in an IT defence system. The two IT security monitoring systems would enhance the overall IT defence system. In this regard, AGO was informed by CPFEB that it had taken remedial actions to address the gaps identified for the two IT security monitoring systems.

## **Lapses in Controls over Access to IT Systems for Temporary Staff**

56. AGO's checks of 15 user accounts for two IT systems assigned to temporary staff revealed that system access of 14 accounts was not removed promptly after the temporary staff had left CPFEB. In addition, six of these accounts were used after the last working day of the temporary staff and CPFEB was unable to identify who had used the accounts. Such laxity in managing user accounts exposes the two IT systems to unauthorised use.

57. System access should be given on a need basis and removed promptly when it is no longer needed to prevent unauthorised access to confidential information in the IT systems.

58. A department which administered the Goods and Services Tax Voucher scheme engaged 15 temporary staff in 2014 and 2015, and gave them primarily enquiry access to the two IT systems. AGO observed that 14 of the 15 user accounts were not set to expire on the last working day of the temporary staff even though CPFEB had such a requirement. Of the 14 accounts, nine were deleted 8 to 66 working days after the staff's last working day even though CPFEB's procedures required the accounts to be deleted within seven working days. AGO observed that six of the nine accounts had been used to access the IT systems after the staff's last working day. Of the six accounts, one had the additional access rights to initiate changes to information in one of the IT systems even though such rights were not required by temporary staff.

59. CPFEB explained that some of the new temporary staff were allowed to use the user accounts of ex-temporary staff so that they could start work immediately while waiting for the new accounts to be created. However, CPFEB could not provide evidence such as written authorisation specifying the new users who were allowed to use these accounts, to show that the accounts were indeed re-assigned to new temporary staff. AGO also noted that such sharing of accounts was a breach of the CPFEB IT Security Policy.



60. CPFEB acknowledged the process gap in the department's management of access to IT systems for temporary staff. CPFEB informed AGO that the practice of sharing user accounts had been discontinued. For the one temporary staff who was wrongly given the rights to initiate changes, CPFEB said that any changes initiated by the temporary staff could only be effected after approval by another CPFEB staff and that its checks revealed that the account had not been used to initiate changes. CPFEB further informed AGO that it has since instituted a three-level check for all IT system access granted to staff to ensure that such access is granted on a need basis and promptly deleted when it is no longer required.

## **MINISTRY OF NATIONAL DEVELOPMENT**

### **NATIONAL PARKS BOARD**

61. For the audit of the National Parks Board (NParks), AGO covered the following areas in its test checks:

- a. Governance practices of internal audit function and audit committee;
- b. Management of system access rights to two IT systems;
- c. Contract management (including payments and season car park collections);
- d. Procurement; and
- e. Management of tenancy agreements.

The more significant observations arising from the audit are presented in the paragraphs that follow.

## **Lapses in Management of User Accounts in IT System**

62. AGO found lapses in NParks' management of user accounts in its Human Resource, Finance and Procurement System. These included inadequate review of access rights, non-removal of access rights of accounts belonging to staff who had left NParks and non-suspension of accounts of staff who went on long no-pay leave. Such lapses could expose the IT system to risk of fraudulent or unauthorised transactions.

63. AGO reviewed NParks' management of user accounts in the Human Resource, Finance and Procurement System as at August 2016 and noted the following lapses:

- a. No reviews were conducted on 973 (or 93.1 per cent) of the 1,045 user accounts to ascertain if the access rights assigned were appropriate and still required. Such reviews would include inactive or suspended user accounts and accounts of staff who have left NParks, changed their roles or been redeployed. NParks had only carried out such reviews on 72 accounts belonging to staff in the Human Resource, Finance and Procurement Departments but not those accounts belonging to staff in other departments.
- b. Access rights assigned to 104 suspended user accounts of staff who had left NParks from 2007 to 2014 were not removed.
- c. User accounts of eight staff who went on no-pay leave for more than six months were only suspended six months after commencement of no-pay leave.

64. NParks informed AGO that it had since completed a review of the 973 user accounts in April 2017 and removed 251 access rights relating to 101 accounts. It would henceforth conduct an annual review of all user accounts in the IT system. NParks added that since February 2017, it had initiated a monthly review of inactive user accounts and accounts of staff who have left NParks, changed their roles or been redeployed.

65. With regard to the access rights of the 104 suspended user accounts that were not removed, NParks explained that the system was enhanced in 2014 to automatically remove staff's access rights on the last day of their service. However, NParks had omitted to retrospectively remove the access rights of staff who had left prior to the enhancement of the system. NParks explained that the risk of unauthorised access by resigned staff was mitigated as these staff had already returned their computer devices which were previously used to access the system. NParks had since removed the access rights of these 104 accounts.

66. NParks further informed AGO that for staff on no-pay leave for more than six months, the system was enhanced in November 2016 to automatically suspend the user accounts and remove their access rights on the first day of their no-pay leave period.

## **MINISTRY OF TRADE AND INDUSTRY**

### **ECONOMIC DEVELOPMENT BOARD**

67. For the audit of the Economic Development Board (EDB), AGO covered the following areas in its test checks:

- a. Procurement and payment;
- b. Administration of grants;
- c. Revenue contracting;
- d. Management of scholarships and trust fund;
- e. Administration of Global Investor Programme;
- f. Administration of loans under Capital Assistance Scheme; and
- g. HR matters relating to compliance with Public Service Division circular.

The more significant observations arising from the audit are presented in the paragraphs that follow.

## Lapses in Procurement

68. AGO's test checks of 14 tenders (totalling \$32.03 million) for the period from 1 April 2014 to 30 June 2016 revealed lapses in the evaluation process of three tenders (totalling \$19.24 million). There was thus no assurance that the evaluation process for the three tenders had adhered to the procurement principles of fairness and transparency.

69. The three tenders were evaluated using a scoring methodology where price and quality criteria would be assigned weightings and scores, and the combined score would determine the best offer to be selected for award. Details of the lapses pertaining to the three tenders are in the following paragraphs.

### *A. Lapses in Tender Evaluation for Provision of IT Personnel*

70. AGO found lapses in the scoring process which cast doubts on the scores given under the scoring methodology for a tender for provision of IT personnel (contract value of \$17.65 million) called in April 2014.

#### *Scores on Quality Criteria*

71. For the scores on quality criteria, AGO noted the following lapses:

- a. EDB interviewed a personnel proposed by a tenderer for the role of developer although the interview was meant to assess the quality and experience for the role of system analyst and to assign scores for this purpose.
- b. EDB only interviewed one system analyst from each tenderer although tenderers were required to propose three system analysts. The interview was meant to assess the quality and experience of the proposed system analysts.
- c. There were inconsistencies in the scoring for 19 out of 23 interviews conducted to assess the quality and experience of personnel proposed by the tenderers. In the 19 interviews, some interviewers did not assess the responses or award scores to the personnel who were interviewed. In one interview, the interviewers used different interview scoring sheets with different interview questions for the same interview.

- d. EDB did not award scores to certain tenderers on some aspects relating to quality of proposals on grounds of lack of details in the proposals. However, AGO noted that the tenderers did provide the required information in their proposals.

72. EDB acknowledged that the scoring process could be improved. A review would be conducted to determine best practices for future tenders.

*Scores on Price Criterion*

73. AGO found that there was a lack of clarity in the format of the forms for pricing submission, which resulted in a tenderer receiving a lower score for the price criterion.

74. EDB had required tenderers to indicate their proposed pricings using two forms – one to show the pricing of personnel for Year One based on specific roles and technology platforms (“*Table 2 : Total Cost for Year 1 for a project team of 13 base personnel*”) and another to show the pricing for Year One based on roles, with some roles grouped by technology platforms (“*Table 1 : Schedule of Rate for Year 1*”). EDB had used the proposed pricings in those forms to assess the price competitiveness of the bids.

75. In determining the cost of services to be provided for the contract period for this tenderer, EDB had used Table 2 for costing the first year of service and the higher rates pertaining to the same personnel in Table 1 for subsequent years of service, although the tenderer had indicated in its tender submission that its rates in Table 1 were for “*Additional Adhoc Resources*”. As a result, the tenderer was given a lower score for the price criterion.

76. EDB acknowledged that the format of the pricing submission could be improved.

*B. Wrong Score Given to Successful Tenderer*

77. In a tender for printing services (contract value of \$0.10 million), AGO found that EDB had given the successful tenderer a wrong score for the financial solvency criterion. Had the score been correctly given, the tender would have been awarded to a different tenderer.

78. EDB acknowledged the wrong score given and would enhance its process to prevent such occurrences.

*C. Different Arrangement Given to One Tenderer over Another*

79. In a tender for the supply and implementation of a records management system (contract value of \$1.49 million), AGO observed that EDB had not provided the same arrangement to the two tenderers shortlisted to carry out a Proof-of-Concept (POC) exercise. The POC exercise included two activities – data extraction, and presentation of results and methodology of data extraction. EDB had specified that each tenderer would be given a four-hour time slot for the POC exercise.

80. AGO noted that one of the shortlisted tenderers (the successful tenderer) was allowed to complete the POC exercise over a period of three days while the other shortlisted tenderer had to complete the exercise within the four-hour time slot. The difference in arrangement could subject EDB to allegations of unfairness and lack of transparency. AGO noted that EDB had received a complaint on alleged bias by EDB towards the successful tenderer.

81. EDB explained that both tenderers were given the same amount of time and access to the IT system for data extraction. AGO noted that while EDB's original intent was for the exercise to be completed within a four-hour time slot, EDB had accepted the successful tenderer's proposal to reschedule its data extraction to an earlier date (that is, two days before the presentation of results and methodology of data extraction). The outcome was that EDB had allowed a different arrangement for the successful tenderer.

82. EDB could have avoided the risk of being perceived to be favouring a certain tenderer by adopting a consistent approach of requiring tenderers to carry out the POC exercise within a four-hour time slot on the same day as specified in EDB's email invitation.

## Lapses in Administration of Grants

83. AGO test-checked 157 grant projects with cumulative disbursements amounting to \$182.65 million as at 31 July 2016 under nine EDB's grant schemes, and found a number of lapses in EDB's administration of grants. These included lapses in monitoring the submission of progress reports, lack of checks on declarations on project conditions and milestones, as well as inaccurate and incomplete information provided to approving authorities for decisions on grant disbursements. Consequently, there was no assurance that the objectives of the grant schemes had been achieved, which could lead to wastage of public funds.

### A. Lapses in Monitoring Submission of Progress Reports

84. Of the 157 grant projects test-checked, AGO found that the progress reports of 47 projects were submitted late or not submitted, contrary to EDB's requirements in the Letters of Offer and its guidelines<sup>2</sup>. EDB did not monitor and follow up on the submissions of these reports. Specifically:

- a. 47 progress reports were not submitted on time. These reports were submitted to EDB 6 to 30 months after the stipulated reporting period, thus indicating that EDB did not review the reports in a timely manner.
- b. 8 progress reports had not been submitted to EDB as at December 2016, more than one year after the stipulated reporting period.

85. Of these 47 grant projects, AGO noted that there were seven projects where there was no evidence that EDB had followed up with the grant recipients to determine that the project conditions and milestones had been met by the stipulated due dates.

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<sup>2</sup> According to the Letters of Offer and EDB's guidelines, progress reports shall be submitted by the grant recipients at quarterly, half-yearly or yearly intervals, over the qualifying period of the grant projects.

*B. Lack of Checks on Declarations on Project Conditions and Milestones*

86. AGO's test checks of 76 grant projects with project conditions and milestones due on or before 1 October 2016 revealed that for 28 projects, there was a lack of checks on grant recipients' declarations on the conditions and milestones achieved as stated in the progress reports. Of these 28 projects, AGO found inaccuracies and incomplete information in the declarations for six projects. In another five projects, AGO also found that the project conditions and milestones were not included in the progress reports and EDB did not follow up with the grant recipients to obtain the information.

87. Progress reports are important documents that detail the progress and achievement of project conditions and milestones by grant recipients. Monitoring the timely submission of these reports would enable EDB to promptly follow up with grant recipients who did not meet project conditions or milestones, or whose projects were not on track. It is also important to carry out checks on project conditions and milestones declared by grant recipients to ensure that these had been met.

*C. Inaccurate and Incomplete Information Provided to Approving Authorities*

88. AGO reviewed 64 grant projects with disbursements as at 31 July 2016 and noted eight projects where inaccurate and incomplete information was given to the approving authorities for decisions on grant disbursements. AGO observed that a total of \$2.59 million was disbursed for these eight projects, although the grant recipients had indicated that they had not met or had difficulty in meeting the project conditions. Details of the eight projects are as follows:

- a. In four projects, the grant recipients had already informed the EDB officers-in-charge that they had faced difficulties in meeting the conditions. However, the information was not communicated to the approving authorities and the memoranda submitted for approval wrongly indicated that the projects were on track.
- b. In another project, there was a breach of a condition that required the project to be carried out entirely in Singapore. The breach of this condition was not indicated in the memorandum submitted for approval.



- c. For another project, AGO noted that the amount of investment by the grant recipient as stated in the memorandum was outdated. This information may affect the approving authority's decision on grant disbursements.
- d. For the last two projects, AGO noted that the grant recipients did not meet project conditions. However, the information was not communicated to the approving authorities and the memoranda submitted for approval wrongly indicated that the conditions were met.

89. It is important that complete and accurate information is provided to approving authorities for them to make informed decisions. The role of approving authorities must not be regarded as perfunctory.

90. Pertaining to the lack of checks on declarations by grant recipients, EDB explained that there were specific controls in place to ensure that grant recipients take ownership for accurate and credible reporting. These included sample checks with onsite visits by its Internal Audit, and conduct of site visits by its Cluster Groups for those incentive schemes involving support for equipment or materials. AGO noted that the site visits by EDB's Cluster Groups would apply to five of the nine schemes audited by AGO.

91. With regard to the lapses in monitoring the submission of progress reports, EDB informed AGO that in line with its risk-based, disbursement-driven approach, it would obtain progress reports and verify that milestones are met, before allowing any disbursement for all projects. EDB acknowledged that more robust measures could be put in place to ensure the timeliness of progress report monitoring and to enhance its project monitoring processes and systems. EDB is aiming to implement an upgraded system for monitoring progress reports, and documenting milestones reporting and review by December 2018. These milestones reporting features would also serve to provide complete, accurate and updated information to the approving authorities prior to approval of disbursements to grant recipients. In addition, EDB would also step up its training efforts for new officers.

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## **PART III**

# **AUDIT OF GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS**

## **PART III : AUDIT OF GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS**

### **Government-owned Companies**

1. The Auditor-General audited the financial statements of five Government-owned companies for the financial year 2016/17 and issued unmodified audit opinions. The five Government-owned companies are:

- a. GIC Asset Management Private Limited;
- b. GIC Private Limited;
- c. GIC Real Estate Private Limited;
- d. GIC Special Investments Private Limited; and
- e. MND Holdings (Private) Limited.

2. The audits of the accounts of the above Government-owned companies were carried out in accordance with section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition).

### **Other Accounts**

3. The Auditor-General audited the following accounts and issued unmodified audit opinions:

- a. President's Challenge 2015;
- b. Financial Sector Development Fund for the financial year 2016/17; and
- c. ASEAN Cultural Fund (Singapore) for the financial year 2016.

4. At the request of the President, the Auditor-General audits the accounts of the President's Challenge under section 4(1)(b) of the Audit Act.

5. The Auditor-General audits the accounts of the Financial Sector Development Fund in accordance with the Monetary Authority of Singapore Act (Cap. 186, 1999 Revised Edition).

6. The Auditor-General audits the accounts of the ASEAN Cultural Fund (Singapore) as required under an ASEAN agreement.

### **Acknowledgements**

7. AGO would like to thank the Government-owned companies and the administrators of the other accounts for their co-operation in the audits.

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# **ANNEXES**

## **ANNEX I : AGO'S AUDIT AUTHORITY**

### **Audit of Government Ministries, Organs of State and Government Funds**

1. Under Article 148F(3) of the Constitution of the Republic of Singapore (1999 Revised Edition), it is the duty of the Auditor-General to audit and report on the accounts of all departments and offices of the Government, the Public Service Commission, the Legal Service Commission, the Supreme Court, the State Courts and Parliament. Under Article 148F(4), he shall perform such other duties and exercise such other powers in relation to the accounts of the Government and accounts of other public authorities and other bodies administering public funds as may be prescribed by or under any written law.

2. The Auditor-General is given the duty under Article 148G(1) to inform the President of any proposed transaction by the Government which, to his knowledge, is likely to draw on the reserves of the Government which were not accumulated by the Government during its current term of office.

3. Under section 3(1) of the Audit Act (Cap. 17, 1999 Revised Edition)<sup>1</sup>, the Auditor-General shall carry out an audit and report on the accounts of all departments and offices of the Government (including the office of the Public Service Commission), the Supreme Court, the State Courts and Parliament. He shall perform such other duties and exercise such other powers in relation to the accounts of the Government and the accounts of other public authorities and other bodies administering public funds as may be prescribed by or under any written law as provided for under section 3(4) of the Audit Act<sup>2</sup>.

4. The Auditor-General is authorised under section 8(7) of the Audit Act<sup>3</sup> to make recommendations and generally comment on all matters relating to public accounts, public moneys and public stores.

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<sup>1</sup> Similar to Article 148F(3) of the Constitution.

<sup>2</sup> Similar to Article 148F(4) of the Constitution.

<sup>3</sup> Section 8(7) of the Audit Act states that “The Auditor-General may, in any report submitted in accordance with the provisions of this Act or otherwise, make recommendations and may generally comment upon all matters relating to public accounts, public moneys and public stores.”

*Financial Statements Audit*

5. The Auditor-General is required to audit and report (that is, express an opinion) on the annual Government Financial Statements as provided for under section 8(1) of the Audit Act which is read with section 18 of the Financial Procedure Act (Cap. 109, 2012 Revised Edition).

6. Section 8(3) of the Audit Act states that “Subject to subsection (4), every report relating to the statement prepared in accordance with subsection (1) shall be submitted by the Auditor-General to the President who shall present the report and statement to Parliament within 30 days of their receipt by him, or if Parliament is not in session, within 14 days after the commencement of its next sitting.”<sup>4</sup>

7. In discharging his duties, the Auditor-General shall, under section 5 of the Audit Act, make such examination as he may consider necessary to ascertain whether all reasonable steps have been taken:

- a. To safeguard the collection and custody of public moneys or other moneys subject to his audit;
- b. To ensure that issues and payments of moneys subject to his audit were made in accordance with proper authority and payments were properly chargeable and are supported by sufficient vouchers or proof of payment; and
- c. To ensure that the provisions of the Constitution and of the Financial Procedure Act and any other written law relating to moneys or stores subject to his audit have been in all respects complied with.

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<sup>4</sup> Section 8(4) of the Audit Act states that “Nothing in subsection (3) shall require the presentation to Parliament of any report or statement containing any matter which the Prime Minister and the Minister responsible for defence, on the recommendations of the Permanent Secretary to the Ministry of Defence and the Chief of Defence Force, certify to be necessary for the defence and security of Singapore.”

8. Specifically, an audit under section 5(c) of the Audit Act would require checks to ensure compliance with, inter alia, provisions of the Financial Procedure Act including the Financial Regulations (Cap. 109, Rg 1). In assessing compliance with the Financial Regulations, AGO would check whether Government ministries and organs of state have in place precautions against, inter alia, negligence<sup>5</sup> and measures to detect apparent extravagance<sup>6</sup>. In other words, AGO would also check whether there has been excess, extravagance or gross inefficiency leading to waste.

## **Audit of Statutory Boards**

### *Financial Statements Audit*

9. Under section 4(1)(a) of the Audit Act, the Auditor-General shall audit the accounts of any public authority<sup>7</sup> if it is so provided for by any written law.

10. The Acts of most statutory boards provide for audits of their financial statements to be carried out either by the Auditor-General or another auditor appointed by the Minister responsible in consultation with the Auditor-General.

11. A standard provision in the Acts of statutory boards requires the auditor to state in his report:

- a. Whether the financial statements show fairly the financial transactions and the state of affairs of the Authority;
- b. Whether proper accounting and other records have been kept including records of all assets of the Authority whether purchased, donated or otherwise;

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<sup>5</sup> Regulation 3(e) of the Financial Regulations.

<sup>6</sup> Regulation 3(f) of the Financial Regulations.

<sup>7</sup> The definition of “public authority” includes statutory boards.



- c. Whether the receipts, expenditure and investment of moneys and the acquisition and disposal of assets by the Authority during the year have been in accordance with the Act; and
- d. Such other matters arising from the audit as he considers should be reported.

### Selective Audit

12. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation. The authority for selective audits of statutory boards is provided for under Finance Circular Minute No. M3/2011, read with section 4(4) of the Audit Act<sup>8</sup>.

13. The Finance Circular Minute stipulates that the Auditor-General may, separately from and in addition to audits of financial statements, carry out on a selective basis, audits in relation to the accounts of statutory boards “to check for financial regularity and to ascertain whether there has been excess, extravagance or gross inefficiency tantamount to waste, and whether measures to prevent them are in place”.

### **Audit of Other Entities**

14. Under section 4(1)(b) of the Audit Act, if it is not so provided by any written law, the Auditor-General may, with the consent of the Minister for Finance if so requested by a public authority or body administering public funds, audit the accounts of such public authority or body.

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<sup>8</sup> Section 4(4) of the Audit Act states that “Notwithstanding the provisions of any written law relating to the accounts and audit of any public authority, the Minister may, if he is satisfied that the public interest so requires, direct that the accounts of such authority shall be audited by the Auditor-General.”

## **Powers of Auditor-General**

15. Section 6 of the Audit Act provides powers to the Auditor-General for him to carry out his audits. The Auditor-General's powers include having access to all records and documents subject to his audit, calling upon any person to provide explanation or information, and authorising any person to conduct any inquiry, examination or audit on his behalf.

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## **ANNEX II : CRITERIA FOR APPOINTMENT OF AUDITORS**

1. The Acts of a number of public agencies (that is, most statutory boards, all town councils and certain funds) require their accounts to be “audited by the Auditor-General or by an auditor appointed annually by the Minister in consultation with the Auditor-General”. The Government Instruction Manuals also require statutory boards to seek the Auditor-General’s concurrence when appointing an auditor.
2. When the Auditor-General is not the auditor and he is consulted on the appointment of an auditor, he will give his advice based on the five criteria below:
  - (i) The proposed person, accounting corporation, accounting firm or accounting limited liability partnership (LLP) is not precluded by the Companies Act (Cap. 50, 2006 Revised Edition) from acting as auditor of a company;
  - (ii) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not been suspended from practice or have not been de-registered, during the last five years, under section 38, 52 or 53 of the Accountants Act (Cap. 2, 2005 Revised Edition);
  - (iii) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not been inflicted with a penalty, fine or censure, during the last three years, under section 52 or 53 of the Accountants Act;
  - (iv) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not, in the past five years, been found by a Court to have been professionally negligent or to have failed to exercise due care in an audit; and

- (v) The proposed person, accounting corporation, accounting firm or accounting LLP has been the auditor of the public agency for fewer than five years, or has had a break of at least two consecutive years since or during the period covering its last five appointments.

In addition, the proposed audit engagement partner has been the partner in charge of the public agency's audit for fewer than five years or has had a break of at least two consecutive years since or during the period covering his last five appointments as the engagement partner.

Application Notes:

- (a) Where, on the same matter, the person, accounting corporation, accounting firm or accounting LLP is disciplined under section 38, 52 or 53 of the Accountants Act [criteria (ii) and (iii)] and also found by a Court to have been professionally negligent or to have failed to exercise due care in an audit [criterion (iv)], the five-year debarment period will take effect from the date of disciplinary action imposed under the Act or the date of the Court verdict, whichever is earlier.
- (b) Where an accounting corporation, accounting firm or accounting LLP does not meet criterion (ii), (iii) or (iv), the accounting corporation, accounting firm or accounting LLP will not be debarred if the director or partner concerned will not be involved in the proposed audit engagement.

3. Criteria (i) to (iv) give the assurance that the person, the accounting corporation, accounting firm or accounting LLP and its directors/partners, are suitably qualified and have a clean record for a sustained period, with regard to disciplinary action meted out by the Public Accountants Oversight Committee<sup>1</sup> or adverse judgment by a Court. Criterion (v) provides for the rotation of auditors and audit engagement partners. The two application notes (a) and (b) ensure that there will be no double penalty for the same case of professional misconduct and that only the directors/partners concerned are debarred, not the whole corporation, firm or LLP.

4. On an exceptional basis, the Auditor-General, in the public interest, may also take into account (over and above the five criteria) matters coming to his attention relating to the past performance of the proposed auditor.

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<sup>1</sup> Under the Accountants Act, the Public Accountants Oversight Committee assists the Accounting and Corporate Regulatory Authority in the control and regulation of professional conduct of public accountants, accounting corporations, accounting firms and accounting LLPs. In doing so, the Committee shall inquire into any complaint against any public accountant, accounting corporation, accounting firm or accounting LLP and, if necessary, institute disciplinary actions.

