



REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2017/18



**AUDITOR-GENERAL'S OFFICE
SINGAPORE**

3 July 2018

Madam Halimah Yacob
President
Republic of Singapore

Dear Madam 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 2017/18.

Yours sincerely

Tan Yoke Meng Willie
Auditor-General

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2017/18



Auditor-General's Office
Singapore

MISSION

To audit and report to the President and Parliament on the proper accounting and use of public resources so as to enhance public accountability and help strengthen the financial governance of the public service.

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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 2017/18.

The audits give assurance to the President and Parliament on the proper accounting, management and use of public resources. In the process, they help strengthen financial governance of the public service and enhance 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 the following types of audits:

- **Financial statements audit** which involves the checking of accounts with the objective of giving an audit opinion on the annual financial statements prepared by the entity.
- **Selective audit** which involves the checking of selected activities and operations, carried out in relation to the accounts, for financial irregularity, and to ascertain whether there has been excess, extravagance or gross inefficiency leading to waste, and whether measures to prevent them are in place. Such an audit is not intended to render an opinion on the financial statements or draw any conclusion on the overall performance of the audited entity.
- **Thematic audit** which is an in-depth examination of a selected area and may involve more than one public sector entity. The in-depth examination enables AGO to report on good practices in financial governance and controls that it may come across in the course of the audit, in addition to lapses.

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 Executives 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 2017/18

AGO audited the following:

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

Financial Statements Audits

For the financial year 2017/18, 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, four Government-owned companies and three other accounts.

Selective Audits

AGO carried out selective audits of five statutory boards and three Government funds whose financial statements were not audited by AGO.

Thematic Audit

AGO conducted a thematic audit on selected Research and Development (R&D) grant programmes managed by the Agency for Science, Technology and Research (A*STAR) and the National Research Foundation (NRF).

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 seven main categories – contract management, Information Technology (IT) controls, financial controls, grant management, procurement and payment, revenue contracting and project 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 3 out of 16 Government ministries, 3 out of 5 Government funds and 4 out of 9 statutory boards audited are covered in this Report. These could be summarised into the following types of lapses:

- Lapses in contract management
- Weaknesses in IT controls
- Laxity in financial controls
- Gaps in management of R&D grants

AGO found lapses in contract management such as paying for services not rendered and not obtaining proper approvals for award of contracts. AGO's audits also revealed lapses in the management of contract variations. A number of these observations were recurring lapses found across different public sector entities which AGO had audited over the last few years.

Another group of lapses pertained to weaknesses in IT controls found across several public sector entities audited. The common weaknesses included no monitoring of privileged users' activities in IT systems, and lapses in managing user accounts and access rights. Similar lapses were also found across different public sector entities audited by AGO last year.

In the area of financial controls, AGO found instances of laxity in the management of cash and assistance in-kind under welfare assistance schemes, weaknesses in overseas purchases and payments, and lapses in revenue contracting.

For the management of R&D grants, AGO noted that generally there were established processes for grant application, evaluation and award in the two public sector entities which AGO conducted a thematic audit on. Nevertheless, AGO observed that there is a need to strengthen controls in areas such as the monitoring and review of progress/final reports and audit reports, and recovery of unutilised funds.

(1) Lapses in Contract Management

Every year, the Government spends a significant amount of public funds on contracts for goods and services, and development projects. It is important that public sector entities exercise due diligence in managing these contracts.

AGO found lapses in contract management in the Singapore Civil Defence Force (SCDF), the People's Association (PA), and the Ministry of Education (MOE). These lapses included poor management of maintenance contracts, failure to obtain proper approvals for award of contracts and weak management of contract variations.

In the audit of SCDF's management of its vehicle maintenance contracts, AGO noted that there were inadequate procedures to ensure that the contractors had provided the required services (totalling \$1.80 million a year), and that payments were made only for services that had been satisfactorily provided. As a result, funds could have been wasted to pay for services not performed. In this regard, AGO's test checks revealed that SCDF had paid the contractors \$0.12 million even though they did not provide the services billed.

For PA, AGO's test checks of 189 purchases (amounting to \$6.03 million) made by 18 Grassroots Organisations (GROs) revealed that 13 GROs did not obtain proper approvals for award of contracts and variation for 25 purchases (amounting to \$0.62 million). These included purchases made without approval, approvals obtained only after the goods and services had been delivered, and approvals obtained from the wrong parties. Not obtaining proper approvals before awarding the contracts would undermine the role of the approving authorities. The award of the contracts would also not be subjected to the scrutiny of the relevant authorities. AGO had raised a similar observation in its last audit of PA in the financial year 2014/15.

In the case of MOE, AGO's test checks of 58 contract variations under two construction contracts revealed 38 instances (amounting to \$0.78 million) where works were carried out before approvals from the relevant authorities were obtained. For 15 contract variations, approvals were obtained three months to three years after works had commenced. For the remaining 23 cases, approvals were not obtained as at March 2018 although the works had commenced 5 months to 2.3 years earlier. AGO had raised a similar observation to MOE in its previous audit of MOE in the financial year 2013/14. In addition, AGO's test checks of 29 contract variations under another two construction contracts revealed 26 cases where MOE could not provide documentary evidence on the assessment of reasonableness of rates used to price contract variations (amounting to \$1.23 million). Failure to properly assess contract variations could result in MOE not obtaining full value for the public funds spent.

(2) Weaknesses in IT Controls

As technology continues to play an important role in the delivery of public services to citizens and businesses, there would be an increasing use of IT to automate processes and manage vast amounts of confidential data. While leveraging on IT to increase productivity, it is critical that public sector entities put in place proper controls to prevent unauthorised access and safeguard the integrity and confidentiality of data in the IT systems.

AGO found weaknesses in IT controls in its audits of the Accounting and Corporate Regulatory Authority (ACRA), MOE and the Ministry of Defence (MINDEF). These included no monitoring of privileged users' activities, and lapses in the management of user accounts and access rights.

In the audit of ACRA, AGO found that ACRA did not activate a critical feature to log activities carried out under two privileged user accounts in the server of its new business filing system. The privileged users had unrestricted access and modification rights to business information in the system. AGO had raised a similar observation to ACRA on its previous business filing system in the financial year 2012/13.

Lapses in the monitoring of IT administrators' activities were also noted for MOE's two IT systems that support the management of financial transactions of students' Edusave and Post-Secondary Education (PSE) accounts. MOE had engaged vendors to administer the systems. AGO noted that MOE did not log and review the activities of seven IT administrators who were responsible for scheduling and executing computer scripts to perform financial transactions on students' Edusave or PSE accounts. In addition, the activity logs of 16 servers for the two systems did not capture details of administrators' activities.

In the audit of MINDEF's electronic procurement system, AGO found that the required periodic reviews on user access rights were not carried out. AGO's test checks of 219 user roles further revealed that 41 (or 18.7 per cent) roles and the associated access rights that were no longer needed were not removed. The delay in removing the unneeded roles ranged from 53 days to 10.7 years. In addition, AGO's checks revealed 197 instances (procurement value totalling \$2.83 million) where 33 authorised users with rights to perform procurement activities might have shared their accounts with unauthorised persons. AGO's further checks revealed that in 19 of these instances, the user accounts had indeed been used by unauthorised persons to perform procurement activities.

All these lapses in IT controls exposed the entities to the risk of unauthorised operation of the IT systems and of compromising the integrity and confidentiality of the data in the IT systems.

(3) *Laxity in Financial Controls*

Public sector entities are accountable for the management of public funds. They are responsible for putting in place adequate financial controls to ensure proper management of payments, revenue and disbursements of cash or assistance in-kind.

AGO found instances of inadequate controls over payments, management of cash and assistance in-kind in PA, and lapses in revenue contracting in the Immigration and Checkpoints Authority (ICA).

For PA, AGO's test checks on overseas purchases and payments amounting to \$142,200 revealed serious weaknesses which could be exploited. AGO found that PA had allowed an officer to make overseas purchases and pay for them in cash or through a remittance agent, and to claim reimbursements from PA using cash sales receipts. AGO noted that some of the cash sales receipts submitted had tell-tale signs which cast doubts on their authenticity. Thus, there was no assurance that the reimbursements claimed were the same as the actual amounts of cash paid to the overseas vendors.

AGO's test checks of welfare assistance schemes administered by nine Grassroots Organisations (GROs) revealed that cash gifts and assistance in-kind, which included supermarket vouchers and food vouchers given to needy residents, were not properly managed. Three GROs did not have documentary evidence of assessment on the eligibility of recipients for assistance in-kind and cash gifts (totalling \$128,100). In addition, based on test checks of food vouchers totalling \$762,400, it was found that four GROs did not invalidate used food vouchers after they were submitted for reimbursement claims to prevent them from being re-submitted. Consequently, there was no assurance that welfare assistance was given only to eligible applicants and that vouchers were properly accounted for.

AGO found that ICA had given the right to use its premises to operate photo booths to a recreation club without any competitive process and without charging any rental. ICA's direct allocation of premises to the club had deprived other potential operators of a fair chance to bid for the right to use the premises, and this had subjected ICA to allegation of lack of transparency and mismanagement of Government premises. Not charging the club market rental was also contrary to Government's instructions that Government premises be rented out at market rates. Based on the Ministry of Home Affairs' estimate, the rental forgone was \$6.10 million.

(4) Gaps in Management of R&D Grants

R&D is an important part of Singapore's economic strategy. Total R&D expenditure has increased significantly over the years. Under the Research and Innovation Enterprise 2015 plan set up to boost research, innovation and enterprise, A*STAR and NRF are two of the key public sector entities responsible for managing R&D grant programmes. The five-year R&D grant budget (for the financial years 2011/12 to 2015/16) managed by A*STAR and NRF totalled \$5.26 billion and \$3.65 billion respectively.

In the thematic audit, AGO examined selected R&D grant programmes managed by A*STAR and NRF, covering the four key stages of (i) application, evaluation and award of grants, (ii) disbursement of grants, (iii) monitoring and review, and (iv) completion of funding initiatives (FIs)¹/projects. AGO test-checked 286 out of 1,016 FIs/projects covering an award value of \$1.48 billion (or 61.2 per cent) out of \$2.42 billion.

A*STAR

For A*STAR, AGO test-checked 188 projects covering an award value of \$645.95 million out of \$1.25 billion. AGO observed that A*STAR had in place adequate processes for inviting, receiving, evaluating and approving grant proposals. A*STAR generally had in place adequate controls for disbursement of grants and monitoring of grant utilisation and project deliverables. AGO also noted that A*STAR had an integrated electronic grants management system, which increased the efficiency of A*STAR's grant management process. Nevertheless, in the course of audit, AGO noted some gaps in the processes and areas for improvement.

AGO's test checks revealed that for 99 out of 342 cases, A*STAR had delayed processing the fund requests and final statements of accounts by periods of between three months and two years. This led to delays in disbursing grants totalling \$54.99 million and recovering unutilised grants totalling \$0.63 million. For 31 out of 57 projects test-checked, A*STAR did not obtain the audit reports for grant expenditure totalling \$18.48 million. In addition, for 21 out of 182 progress/final reports (relating to 125 projects), A*STAR did not take adequate follow-up action to obtain the reports by the stipulated timelines. These reports were submitted late or not yet submitted as at the time of audit, with delays of between 3 months and 1.8 years.

NRF

For NRF, AGO test-checked 98 FIs/projects covering an award value of \$833.85 million out of \$1.17 billion. AGO observed that NRF had in place adequate processes for the grant application, evaluation and award stage.

¹ An FI is a subset of a programme. Each FI comprises one or more projects managed collectively and evaluated based on a common set of criteria and processes.

For the stages – disbursement of grants, and monitoring and review, AGO found significant control weaknesses. NRF did not have a common framework among its Directorates for grant management, resulting in inconsistent practices across the Directorates. Most of the Directorates had relied on the annual declarations by the grant recipients on compliance with NRF’s requirements as the primary form of control over grant management for these stages. As a result, they did not institute adequate measures to verify fund requests against supporting documents prior to grant disbursements, or to monitor the progress/final reports and audit reports due. Without a proper framework that is consistently applied, NRF would not have sufficient assurance that FIs/projects were managed in accordance with NRF’s terms and conditions, and that the deliverables were achieved.

AGO’s test checks revealed 61 out of 115 cases where NRF was lax in verifying the fund requests prior to grant disbursements totalling \$52.20 million. In some cases, disbursements were made for items not allowed under the grant terms and conditions. For 39 out of 139 audit reports test-checked, AGO found that NRF did not monitor to ensure that the required audits were properly carried out; these 39 reports pertained to 25 FIs/projects with an award value of \$250.17 million. In addition, for 50 out of 140 reports test-checked, NRF was lax in its review of progress/final reports – reports were not reviewed or discrepancies in the project deliverables were not detected for follow up.

Creating and Backdating Documents Furnished for Audit

During the audit of SCDF’s management of vehicle maintenance contracts, AGO noted that out of the records furnished to AGO for 926 servicing jobs, there were indications that the records for 104 jobs were not authentic. Following AGO’s queries, SCDF investigated and found that these 104 servicing records had indeed been created and backdated. This cast doubts on whether the 926 servicing jobs (totalling \$1.35 million), which had been paid for, had indeed been properly performed. SCDF informed AGO that the parties involved had been taken to task and staff had been reminded that creating and backdating records is strictly prohibited.

AGO had highlighted a similar incident in another entity in the *Report of the Auditor-General* for the financial year 2013/14.

AGO takes a serious view of officers creating and backdating records furnished for audit. It weakens the system of public accountability and impedes the work of AGO.

Concluding Remarks

AGO's audits serve to enhance public accountability and help strengthen the financial governance of public sector entities. Hence, I have highlighted 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.

In particular, a number of observations reported this year are on similar lapses which I have highlighted in the last few years although the lapses involved different entities. Hence, more should be done to address these concerns so that the financial governance and controls of the public sector as a whole would be strengthened. To achieve this, every public sector entity needs to play its part in implementing effective controls to address the gaps.

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 rectifying the lapses and putting 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

3 July 2018

PART I

(A)

**AUDIT OF GOVERNMENT FINANCIAL
STATEMENTS**

(B)

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

PART 1A : 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 2018, 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 26 June 2018.
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.

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' Fund¹ for the financial year 2017/18 as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2, 2010 Revised Edition). An unmodified audit opinion was issued on the financial statements.

¹ 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 2017/18, AGO carried out selective audits of the following three Government funds²:

- a. Edusave Endowment Fund;
- b. Edusave Pupils Fund; and
- c. Post-Secondary Education Fund.

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.

² The Edusave Endowment Fund, Edusave Pupils Fund and Post-Secondary Education Fund were established under the Education Endowment and Savings Scheme Act (Cap. 87A, 2009 Revised Edition).

MINISTRY OF DEFENCE

Weaknesses in Management of Access Rights

8. AGO's audit of controls over access rights for the Ministry of Defence (MINDEF)'s Electronic Procurement System (ePS) revealed significant weaknesses in the management of rights granted to the ePS users as shown below:

- a. The system owner and all the five units audited did not carry out the periodic reviews on user access rights as required by the Government Instruction Manuals and MINDEF's internal instructions.
- b. MINDEF delayed removing unneeded access rights for 41 (or 18.7 per cent) of 219 user roles checked.

9. Such weaknesses would expose the system to unauthorised access, thereby increasing the risk of unauthorised procurement activities and risk of the integrity and confidentiality of the data in ePS being compromised.

A. No Review Performed to Ensure Timely Removal of Unneeded Access Rights

10. AGO's audit revealed that since April 2013, the system owner of ePS did not perform the required six-monthly reviews of accounts and associated access rights. In addition, all the five units audited did not carry out the required quarterly reviews of accounts and associated access rights. Such regular reviews of accounts and access rights in the systems were needed to ensure that the accounts were valid and that all unused or obsolete accounts and access rights were removed in a timely manner.

B. Delay in Removing Unneeded Access Rights

11. AGO's test checks of 219 user roles in ePS revealed 41 (or 18.7 per cent) roles and the associated access rights that were no longer needed but were not removed. After AGO's queries, MINDEF removed the unneeded roles and associated access rights during the period from September 2017 to January 2018, when they should have been removed 53 days to 10.7 years earlier. Of the 41 unneeded roles, 14 roles were with access rights to perform procurement activities, which included raising purchase requisitions, approving fund commitments and performing goods receipts functions. The remaining 27 roles were with access rights to view information on transactions, which included cost and quantity of goods ordered.

12. AGO noted from MINDEF's explanations that for the 14 roles with access rights to perform procurement activities, the officers performing the reviews either did not have the requisite knowledge to perform proper reviews or did not take due care when identifying unneeded roles for timely removal. For the 27 roles with rights to view information, these roles were automatically assigned by the system when the users were appointed as Unit Resource Officers (UROs) to approve fund commitments and payments. These roles would not be needed once the users relinquished their URO appointments. Prior to AGO's queries on the unneeded roles, MINDEF was unaware that the system was not designed to automatically remove such roles when the users relinquished their URO appointments. The 27 roles therefore remained in the system until AGO alerted MINDEF.

13. Following the audit, MINDEF informed AGO that it would stress to the units the importance of conducting regular reviews and maintaining proper documentation of the reviews conducted. It would also enhance the system to improve the robustness of the review process. In addition, MINDEF has since enhanced the system to automatically remove the roles with viewing rights when the users relinquish their URO appointments.

Sharing of User Accounts to Perform Procurement Activities

14. AGO's test checks on procurement activities performed in the ePS covering the period from 1 April 2015 to 31 July 2017 revealed 197 instances (involving procurement value totalling \$2.83 million), where 33 authorised users might have shared their accounts with other persons resulting in these activities being performed by unauthorised persons. These users were assigned the rights to perform procurement activities which included approving and amending purchase requisitions, and acknowledging goods receipts.

15. Upon further checks, AGO found that for 19 of these instances involving four users who were on overseas leave, the user accounts had indeed been used by unauthorised persons to perform the procurement activities. As a result, they had violated MINDEF's IT Security policy which prohibits the sharing of accounts. For the remaining 178 instances, MINDEF explained that the authorised users who were on local leave might have gone back to office to perform the activities. MINDEF was, however, unable to provide conclusive evidence to substantiate its explanation. Hence, the possibility that the accounts had been used by unauthorised persons to perform these activities could not be ruled out.

16. With sharing of accounts, it would be difficult to pinpoint who had performed a particular activity, and hence render it difficult to hold the person accountable for the activities which he had performed. In addition, sharing of accounts could circumvent the controls put in place in the system to ensure proper segregation of roles, for example, between the requestor and approver of purchase, and between the approver of purchase and approver of goods receipts.

17. Following the audit, MINDEF informed AGO that disciplinary actions had been taken against three of the four users who had shared their user accounts with others, and the remaining user had left the Service. MINDEF also indicated that it would continue to educate and emphasise to the users the importance of safeguarding their IT accounts, and that appropriate disciplinary actions would be taken for non-compliance. In addition, MINDEF would enhance the system to prevent the sharing of accounts.

Overpayment to Contractor

18. AGO's audit of management of an integrated buildings and infrastructure maintenance contract for a camp revealed overpayments of grass-cutting fees over the period of six years covered by AGO's checks. The total overpayment was approximately \$0.2 million or about 27 per cent of the total payment of \$0.7 million for grass-cutting services.

19. The overpayments, which arose due to overstatements of the grass-cutting areas, were repeated monthly over the six-year period covered by AGO's checks. The errors were not detected by MINDEF's facilities management agent (FMA) and MINDEF's contract manager, the Defence Science and Technology Agency (DSTA). The FMA was responsible for checking and certifying that the services had been duly performed and the amounts claimed were correctly computed. DSTA was to check the certified reports submitted by the FMA before paying the contractor. The repeated failures to detect the errors made by the contractor cast doubts on whether the FMA and DSTA had carried out their duties diligently.

20. AGO's further checks revealed that DSTA would not check the accuracy of land areas declared by the contractor unless it was alerted by the FMA to disparities which the FMA was unable to resolve with the contractor or when there were changes in land use. For the six-year period from 1 October 2011 to 30 September 2017, DSTA did not carry out any checks as it had never been alerted to such issues by the FMA and there was no change in land use. DSTA was therefore unaware of the overstatements of land areas until AGO's query.

21. Although the role of monitoring services rendered by the contractor had been outsourced to the FMA, DSTA was still responsible for proper contract management and payments. Hence, DSTA ought to provide proper oversight, including carrying out independent sample checks, to ensure that payments were in order. In addition, MINDEF, which paid for the services, remained accountable for the proper use of Government funds and hence should have measures in place to ensure that DSTA performed its roles effectively.

22. Following the audit observation, MINDEF informed AGO that DSTA and the contractor had conducted an on-site verification to ascertain the grass-cutting areas, and found that the contractor had indeed overstated the areas in the past. DSTA would recover the overpayment from the contractor after the amount has been determined. DSTA would also impose contractual penalties on the contractor for over-claiming and on the FMA for failing to properly check the contractor's claims. In addition, MINDEF indicated that besides grass-cutting, the contractor also used area as the basis for its charges for cleaning services and shrub trimming. Verification of areas used for computing such charges has been initiated and is expected to be completed by July 2018.

23. MINDEF also stated that to prevent the recurrence of such overpayments, DSTA would put in place various enhancements to its contract management processes. These would include looking into adopting technological solutions to eliminate manual computational errors and for more effective and efficient measurement of the areas, and leveraging on technologies to streamline the management and maintenance of camps and facilities and eliminate manual process gaps.

MINISTRY OF EDUCATION

Inadequate Oversight in Contract Management of School Development Projects

24. AGO found lapses in the contract management of school development projects under the Ministry of Education (MOE). MOE engaged consultants to manage its school development projects. The lapses found included:

- a. Long delays in issuance of final accounts (FAs) for all 30 school construction contracts (final payments totalling \$13.61 million) test-checked.

- b. Lapses in management of contract variations such as approval not obtained before contract variation works were carried out for 65.5 per cent of variations test-checked (amounting to \$0.78 million). There was also no documentation on the assessment of reasonableness of star rates³ used to price variation items (amounting to \$1.23 million) and on how the star rates were derived. In addition, MOE failed to properly account for variation works which had resulted in an estimated overpayment of \$154,900.

25. Given these lapses, there was no assurance that MOE had exercised adequate oversight of its consultants on issuance of FAs and management of contract variations as well as financial prudence in the use of public funds in these development projects.

A. Long Delays in Issuance of Final Accounts

26. AGO's test checks on finalisation of accounts of 30 construction contracts by consultants engaged by MOE revealed that the FAs for all 30 contracts were not issued within the contractual time frame of 13 months from the date of completion of the works. The delays ranged from 3 months to 3.7 years as at January 2018. Of these, 14 FAs had yet to be issued as at January 2018 even though it had been 9 months to 3.7 years after the contractual time frame. For the 30 contracts, the contractors did not receive the outstanding payments (amounts due ranged from \$0.04 million to \$1.7 million) for 4 months to 4.7 years after the last interim payments. The final amounts due to the contractors totalled \$13.61 million.

B. Lapses in Management of Contract Variations

27. AGO found lapses in the management of contract variations by MOE and its consultants which included approvals for variations obtained after the works had commenced and lapses in the valuation of variations. These were contrary to the requirements in the Government Instruction Manuals and MOE's procedures which required contract variations to be approved by the appropriate authority before works were executed and valuations of contract variations to be properly assessed.

³ Star rates refer to rates used for valuation of variations that are not listed in the contract.

28. AGO's test checks of 58 contract variations (amounting to \$1.19 million) under two construction contracts revealed that works under 38 variations (or 65.5 per cent) amounting to approximately \$0.78 million were carried out before approval was obtained. The details are shown below:

- a. For 15 contract variations (amounting to \$0.32 million), approvals were obtained three months to three years after works had commenced. In fact, for 13 of these cases, approvals were only obtained 2 months to 2.8 years after the variation works were completed. Furthermore, it was not highlighted in the submissions to the approving authorities that works for the 15 variations had already commenced or were already completed and that covering approvals were being sought.
- b. For 23 contract variations (amounting to \$0.46 million), requisite approvals were not obtained as at March 2018 although the variation works had commenced 5 months to 2.3 years ago.

29. AGO's test checks of 29 contract variations (amounting to \$1.82 million) under another two construction contracts revealed the following lapses in the valuation of 27⁴ contract variations:

- a. 26 contract variations where MOE could not provide documentary evidence on the assessment of reasonableness of star rates used to price variation items (amounting to \$1.23 million) and on how the star rates were derived.
- b. 3 contract variations where works were not properly accounted for, resulting in an estimated overpayment of \$49,300. The overpayment was due to failure to deduct costs for works not done, use of inappropriate contract rate and inclusion of items as variations even though they were already provided for in the contract.

30. For two other construction contracts, AGO found eight instances where the contracts were not adjusted to account for contract variations. These involved works that were either excluded or not done in accordance with contract provisions (such as change of material). The estimated overpayments amounted to \$105,600.

⁴ 2 of the 27 contract variations were in both categories of lapses.

31. The delays in issuing FAs had delayed final payments to contractors. This might be seen as an unfair business practice as it could affect the cash flows of the contractors. The role of the approving authority for contract variations must not be regarded as perfunctory. To ensure that financial prudence and discipline are maintained, it is important for proposed contract variations to be properly assessed and approvals sought from appropriate approving authorities on a timely basis with all relevant facts disclosed. Failure to properly account for contract variations could result in MOE not obtaining full value for the public funds spent.

32. AGO had raised similar observations to MOE on long delays in finalisation of accounts and approval not obtained before carrying out variation works in its previous audit in the financial year 2013/14. The current audit revealed that the instances of lapse and periods of delay had increased.

33. MOE acknowledged that the FAs should be issued in accordance with contract requirements and informed AGO that it would step up efforts to monitor more closely the finalisation of accounts by its consultants. To facilitate monitoring of approvals for contract variations, MOE would require its consultants to submit regular status reports attested by the consultants' senior management. MOE would also establish a standard practice for documentation of star rate items, work out a risk-based approach to decide on the level of checks on its consultants' assessment of star rate items, and conduct sample on-site checks for variation works. In addition, MOE would ascertain the amounts overpaid and recover the overpayments where possible.

Lapses in Evaluation of Construction and Consultancy Services Tenders

34. AGO test-checked five construction and four consultancy services tenders (contract value totalling \$221.90 million) relating to school development projects and found lapses in the evaluation of all nine tenders. As a result, there was no assurance that the contracts were awarded in accordance with the Government procurement principles of transparency, fairness and value for money.

35. The tenders were evaluated using a scoring methodology where price and quality criteria were assigned weightings. In some instances, the quality criteria were further broken down into sub-criteria with points assigned to each sub-criterion. The lapses found are presented in the following paragraphs.

A. Evaluation Criteria Changed After Close of Tender

36. For one construction tender (contract value of \$102.89 million), MOE made various changes to the sub-criteria of a quality criterion after the close of tender. The points for this quality criterion amounted to 25 per cent of total quality points which was significant. Changes made by MOE included replacing the sub-criterion “Compliance with specification” with one that required only checking for the completeness of documents submitted by tenderers such as listing of subcontractors and suppliers. The points for scoring this sub-criterion was also increased.

37. For one consultancy services tender (contract value of \$4.14 million), a criterion was changed after the close of tender and the revised criterion was used for evaluating the bids. MOE changed the criterion in the Invitation to Tender (ITT) from “construction timeline and phasing” to “design buildability, constructability and maintainability”.

38. Amending evaluation criteria after the close of tenders compromises fairness and transparency of the tender process. MOE could be challenged that the tender evaluation process had been deliberately manipulated and the changes were made to favour certain tenderers after the details of the bids were known.

B. Contracts Awarded to Non-compliant Offers

39. MOE accepted alternative offers⁵ which did not meet the criteria for acceptance stipulated in the tender documents for two construction tenders (contract value totalling \$78 million). The criteria expressly disallowed changes to architectural and engineering intent and use of materials of lower quality than those stated in the tender specifications. However, AGO found that the architectural and engineering intent was changed and materials of lower quality were proposed in the alternative offers which were accepted. There was also no assessment done on the reasonableness of the cost reduction accepted by MOE for the substitution to lower quality materials in the alternative offers.

⁵ An alternative offer is a tender proposal which proposes the use of materials, designs or processes different from those specified in the tender.

C. Errors in Scoring

40. Errors were found in the scoring of the five construction tenders and two consultancy services tenders (contract value totalling \$215.29 million). These included using information pertaining to another company with a similar name to award the score to a tenderer and erroneously including tenderers' projects as proof of track record even though the projects did not fall within the qualifying time frame.

D. No Evidence that Sub-criteria were Established Before Close of Tender

41. AGO found that there was no documentary evidence that the sub-criteria for certain quality attributes used to evaluate tender proposals were established before the close of tenders for two construction tenders and the four consultancy services tenders (contract value totalling \$62.91 million). These sub-criteria included site utilisation, construction phases and risk assessment. All evaluation criteria, including sub-criteria, must be established upfront to prevent manipulation to favour certain tenderers.

42. MOE informed AGO that it would put in place measures to strengthen the tender evaluation process.

EDUSAVE ENDOWMENT FUND, EDUSAVE PUPILS FUND AND POST-SECONDARY EDUCATION FUND

43. For the audit of the Edusave Endowment Fund, Edusave Pupils Fund and Post-Secondary Education Fund, AGO covered the following areas in its test checks:

- a. Security of IT systems and databases;
- b. Administration of Edusave grants and awards;
- c. Management of Edusave and Post-Secondary Education accounts; and
- d. Procurement and payment.

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

Poor Oversight of Activities Carried Out in IT Systems

44. AGO found that MOE did not log and review the activities of seven IT administrators. These administrators were vendors engaged to schedule computer scripts for execution in two IT systems. The IT systems support the management of financial transactions of Edusave⁶ and Post-Secondary Education⁷ (PSE) accounts. As a result, MOE would not be able to trace and hold the administrator responsible if there was any unauthorised execution of computer scripts.

45. The computer scripts contained a series of commands to enable the systems to execute important tasks, such as top-ups to and withdrawals from students' Edusave and PSE accounts. The IT administrators were responsible for scheduling computer scripts via a job management system and setting alerts to inform MOE of successful or failed execution of scripts. However, MOE did not enable the logging feature in the job management system since its implementation in 2012. As a result, there was a lack of traceability and accountability as MOE would not be able to identify the administrator responsible for any unauthorised computer scripts scheduled.

46. Furthermore, AGO test-checked 60 computer scripts and found seven without documentation to show that they were approved for execution. There was thus no assurance that the seven computer scripts were authorised.

47. In addition, AGO's test checks of the operating system (OS) and database (DB) activity logs of 16 servers for the two IT systems revealed that the logs did not capture details of the activities of the OS and DB administrators. These administrators were MOE's vendors. Based on checks for the period April to August 2017, AGO noted that in June 2017, a DB administrator had turned off a password control and changed the password of a DB user account to one that failed to meet the password complexity requirement in the Government Instruction Manuals. However, the breach was not detected by MOE due to the lack of details of the activities in the logs. Without logging and reviewing the details of the activities, MOE would not be able to detect unauthorised changes to the settings of the two IT systems and the data in the database made by the OS and DB administrators.

⁶ An Edusave account was maintained for each eligible child under the Edusave scheme which was launched in 1993 with the aim to enhance the quality of education in Singapore and to level up educational opportunities for all Singaporean children. In the financial year 2017/18, a total of \$88.10 million was credited to and \$91.85 million was paid out from the Edusave accounts.

⁷ A PSE account was maintained for each eligible child under the PSE scheme which was launched in 2008 to help parents save for their Singaporean children's post-secondary education. In the financial year 2017/18, a total of \$135.68 million was credited to and \$96.03 million was paid out from the PSE accounts.

48. The violations of IT controls mentioned above exposed MOE to the risk of security breaches which could compromise the confidentiality and integrity of data in the Edusave and PSE accounts.

49. MOE informed AGO that it would carry out a thorough assessment of its review processes for scheduling and executing scripts and seek approval from its approving authority for the revised processes by July 2018. MOE also informed AGO that it had since reviewed all the computer scripts, including the seven identified by AGO and updated the documentation on authorisation. In addition, it would carry out half-yearly reviews of the computer scripts. MOE would be enhancing the logging and review process for OS and DB administrator activities and has targeted to complete this by December 2018.

MINISTRY OF HOME AFFAIRS

IMMIGRATION AND CHECKPOINTS AUTHORITY

Operator Not Selected Through Competitive Process and Not Charged Rental for Using Premises

50. AGO's audit found that the Immigration and Checkpoints Authority (ICA) had given the right to use ICA's premises to operate photo booths to a recreation club without any competitive process and without charging rental. This was contrary to Government's instructions on revenue contracting.

51. AGO's checks were conducted following a complaint alleging that there was little transparency in the selection process and moneys received from the operators were diverted to fund welfare activities and functions attended by ICA staff.

52. AGO found that one of the two photo booth operators at the ICA Building was not selected through a competitive process. The right to use the ICA premises to provide photography services at a charge to members of the public was given to a recreation club via direct allocation. In addition, ICA did not charge the club any rental for using ICA's premises to operate the photo booths. In contrast, the other photo booth operator in the same building, which also provided photography services at a charge to members of the public, was selected via an open tender. This operator paid ICA market rental (in the form of royalties) which was determined through the open tender.

53. When the right to use the premises was given to the club via direct allocation instead of a competitive process, potential operators were deprived of a fair chance to bid for that right. There was also no assurance that the club's offer was the best since potential operators might be able to put in better offers. Such unfair practices had subjected ICA to the allegation of lack of transparency and mismanagement of Government premises. This was worsened by the fact that the club was not charged any rental for using the premises, which was contrary to Government's instructions on revenue contracting that Government premises be rented out at market rates. Not charging the club market rental was equivalent to diverting moneys, which should have been collected by the Government as rental, to the club. AGO noted that the club was registered as a society. Its members were current or retired ICA staff and the club's moneys were used primarily to fund sports and recreational activities for its members. For proper financial accountability and transparency, if ICA deemed it necessary to provide funding to the club to organise activities for ICA staff, such funding should have been direct and transparent and not hidden by forgoing rental.

54. The Ministry of Home Affairs (MHA) and ICA agreed that their practices must be aligned with Government revenue contracting principles and requirements. They explained that the practice was a historical legacy – the Ministry of Finance (MOF) had given approvals in 1981 and 1984 for the club to operate photography services at the then Singapore Immigration's premises and for the profits from operating the services to be credited to the club. ICA also explained that it had continued the practice as MOF did not explicitly rescind the approval.

55. AGO noted that the approvals were given more than 33 years ago and since then, there had been many changes to the Government policy regarding revenue contracting matters to keep pace with changing circumstances and to enhance financial discipline and accountability. Among other changes, MOF had made it clear through a circular in October 2002 that all Government premises are to be rented out at market rates. ICA ought to have taken note of the changes in Government policy, and promptly review and align its practice with prevailing Government policy.

56. Following the audit, ICA informed AGO that it would no longer directly allocate the space to the club from 1 July 2018. It would also follow the Government's instructions on revenue contracting in appointing the operator if there is still a need to let out the space for photography services after 1 July 2018.

57. With regard to the rental forgone, MHA had since consulted MOF, which advised that for proper accountability, ICA should seek to recover the rental forgone from year 2002 onwards (when the market rental policy was introduced). MHA estimated that the rental forgone was \$6.10 million. MHA has informed AGO that the club intends to use up all its funds of \$2.45 million to pay for the rental forgone.

58. MHA also indicated that it had issued a directive to remind Home Team Departments to adhere to Government revenue contracting rules, and had conducted a training session on matters relating to financial governance, internal controls and contracting.

SINGAPORE CIVIL DEFENCE FORCE

Poor Management of Vehicle Maintenance Contracts

59. AGO's audit revealed poor management of two vehicle maintenance contracts in the Singapore Civil Defence Force (SCDF). SCDF did not have adequate procedures to ensure that the two contractors had provided the required maintenance services totalling \$1.80 million a year, and that payments were made only for services that had been satisfactorily provided. As a result, funds could have been wasted to pay for services not performed. AGO's test checks found instances of payments totalling \$0.12 million made for services not provided.

60. There were inadequate procedures to ensure that the contractors had provided the preventive maintenance services required under the contracts. SCDF relied on the servicing schedules prepared by the contractors. SCDF's standard procedures did not involve checking these schedules against its list of vehicles which required servicing and the types and frequency of servicing required under the contracts, to establish whether vehicles had been scheduled for servicing at the appropriate frequency and for the required types of servicing. There was also no evidence that such checks had been carried out.

61. In addition, SCDF did not check the servicing records to establish whether all the vehicles scheduled for servicing had indeed been serviced and whether the types of servicing scheduled had indeed been performed. In fact, SCDF did not keep a complete set of servicing records, even though it was supposed to do so. When AGO asked for the records, SCDF did not have most of them and had to rely on the contractors to furnish their copies. As the contractors would have a vested interest to prove that the servicing works had been completed, their servicing schedules and records could not be relied upon as an independent source to establish that the required maintenance services had been carried out.

62. There were also inadequate procedures to ensure that payments were made only for services that had been satisfactorily rendered. There was no mechanism for the various SCDF units to convey to the department that processed payments whether services had been satisfactorily provided by the contractors. There were also no procedures in place for SCDF to check the invoices against the servicing records to verify that the services billed by the contractors had been provided. In this regard, AGO's test checks of payments made for servicing jobs on 179 vehicles revealed that SCDF had made payments totalling \$0.12 million to the contractors for jobs purportedly done on 21 vehicles, even though the contractors did not perform the jobs. SCDF did not detect the errors in the invoices submitted by the contractors, resulting in the wrong payments.

63. SCDF acknowledged that its contract management was weak and needed to be strengthened. MHA informed AGO that operational readiness of the fleet is of utmost importance, sufficient vehicles are always maintained for operations and rate of breakdown has been kept low. SCDF has taken over the preparation of the servicing schedules to have tighter oversight of the vehicle maintenance and servicing process. In addition, SCDF would strengthen its internal procedures to ensure that services are provided as per contractual requirements and payments are made only for services satisfactorily provided. The wrong payments will be recovered by end June 2018. Going forward, a new integrated logistics management system would be implemented at SCDF in April 2020. Amongst other things, the system would provide for the scheduling, checks and validation of vehicle servicing and repairs.

64. AGO agrees with MHA that operational readiness is of utmost importance. However, SCDF still had the duty to ensure that the maintenance contractors had fulfilled their contractual obligations of providing the required services, before paying for their services.

Creating and Backdating of Documents Furnished for Audit

65. During the audit of the management of vehicle maintenance contracts, AGO noted indications that certain documents furnished for audit could have been created and backdated to give the impression that the documents existed at the time when the servicing jobs purportedly took place.

66. AGO asked for the servicing records for 926 scheduled preventive maintenance jobs purportedly done during the period from August 2015 to July 2017 on 179 vehicles. AGO noted, from the records furnished for audit, that there were indications that the records for 104 servicing jobs were not authentic. The indications included duplicate servicing records for the same servicing job, and numerous discrepancies between the two sets of records. The records for 82 of these servicing jobs were furnished by the contractors as SCDF did not keep a copy of the records although it was supposed to do so.

67. Following AGO's queries, SCDF investigated and found that these 104 servicing records had indeed been created and backdated to meet AGO's requests for the records. They were created by three SCDF officers and the contractors. SCDF's investigation found that the three SCDF officers created the records as they thought that the documentation was needed for audit. According to SCDF, there was no intention on the part of the three officers to falsify any records, and there was also no evidence of personal or financial gains. As for the contractors, SCDF's investigation revealed that they had intended to cover an internal administrative gap by creating records which were missing. SCDF concluded that it was a wrongful act for the contractors to create records and have them signed off wilfully by personnel who did not perform the actual servicing jobs. SCDF had since taken the contractors to task for failing to keep proper records and for creating and backdating records.

68. Creating and backdating records to give the false impression that such records existed at the time when the relevant servicing jobs purportedly took place is a serious irregularity. It also cast doubts on the authenticity of other documents and information provided to AGO, including the records provided for the remaining 822 servicing jobs. Consequently, there was a risk that all the 926 servicing jobs (totalling \$1.35 million) which had been paid for, might not have been properly performed.

69. MHA informed AGO that the incident where the three SCDF officers had created the records was grave. MHA would not tolerate such conduct, even though the officers did not forge any data but had created the records by compiling data obtained from various sources such as the contractors' records. Disciplinary action had been taken against the officers. All SCDF units had been reminded that creating and backdating documents was strictly prohibited.

70. MHA also informed AGO that SCDF had conducted investigation into vehicle servicing jobs for its entire fleet from August 2015 to July 2017 and established that more than 95 per cent of all servicing jobs were supported by records correctly signed off by SCDF personnel and the contractors. AGO noted that the records that MHA referred to were the job sheets, which was only one type of the servicing records. Such records were not sufficient to substantiate that the required servicing had been done as they did not contain information on the servicing tasks completed on the vehicles. In addition, MHA had earlier on informed AGO that some of the job sheets, which supported the more than 95 per cent of servicing jobs, were obtained from the contractors as SCDF did not keep the records. AGO would like to stress that as pointed out at paragraph 61 of the audit observation on "Poor Management of Vehicle Maintenance Contracts", since the contractors had a vested interest, their records could not be relied upon as an independent source to substantiate that the servicing jobs had been performed.

PART II

AUDIT OF STATUTORY BOARDS

PART II : AUDIT OF STATUTORY BOARDS

Financial Statements Audits

1. The Auditor-General has issued unmodified audit opinions on the financial year 2017/18 financial statements of the following three statutory boards that were audited by AGO:

- a. Accounting and Corporate Regulatory Authority;
- b. Inland Revenue Authority of Singapore; and
- c. Monetary Authority of Singapore¹.

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

3. The law requires the accounts of most statutory boards 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 2011²), read with section 4(4) of the Audit Act.

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

² Finance Circular Minute No. M3/2011.

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 2017/18, AGO carried out selective audits of the following five statutory boards:

- a. Civil Aviation Authority of Singapore;
- b. Maritime and Port Authority of Singapore;
- c. People's Association;
- d. Science Centre Board; and
- e. Singapore Tourism Board.

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

PEOPLE'S ASSOCIATION

10. For the audit of the People's Association (PA), AGO covered the following areas in its test checks:

- a. Revenue and expenditure for events and activities;
- b. Procurement and payment (including development projects);
- c. Welfare assistance schemes, scholarships and bursaries;
- d. Revenue contracting for trade fairs;
- e. Rental and tenancy agreements; and
- f. Course fee revenue and payment of trainers' honorarium.

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

Lapses in Procurement and Contract Management for Major Events

11. AGO found that PA and one of its Grassroots Organisations (GROs)³ had not adhered to the Government procurement principles of open and fair competition, transparency and value for money for two tenders (contract value totalling \$500,000) and four quotations (contract value totalling \$129,400). There were also serious weaknesses in controls over overseas purchases and payments which could be exploited.

³ PA relies on its GROs comprising grassroots volunteers to achieve its mission. The GROs include the Citizens' Consultative Committees, Community Club/Centre Management Committees and Residents' Committees and their sub-committees. PA sets the Financial Rules for GROs and provides administrative support to the GROs, among other things.

12. AGO's observations were based on its test checks on 15 tenders amounting to \$1.68 million for two major events – Mid-Autumn Festival (MAF) 2016 and Chinese New Year (CNY) 2017, and six quotations amounting to \$243,400 for another major event, Chingay Parade 2017. These events were organised by PA and one of its GROs. The details of the observations are in the following paragraphs.

A. Lapses in Procurement and Contract Management for Manufacture of Street Light-up Decorative Items

13. AGO's test checks revealed that a GRO had not adhered to Government procurement principles for two tenders for the manufacture of street light-up decorative items – one for MAF 2016 (contract value of \$200,000) and another for CNY 2017 (contract value of \$300,000) events. The successful tenderer for both contracts had been awarded the contracts for the annual MAF and CNY events since 2014.

Tender Proposals Not Evaluated on Same Basis

14. For the MAF 2016 tender, the GRO had not evaluated the proposals from the tenderers on the same basis. Besides the issue of fairness, there was also no assurance that the contract was awarded to the tenderer which could provide the best value.

15. The overseas tenderer which was awarded the contract had in its tender proposal required the GRO to bear additional obligations which included accommodation cost for its workers during their stay in Singapore, transportation charges for materials and provision of a site for assembling lanterns. These additional costs, on top of the tender price, were not considered by the GRO in its tender evaluation for price comparison. There was also no mention of these additional obligations in the tender evaluation report and tender recommendation report for the tender approving authority to make an informed decision.

16. AGO also noted that the same tenderer, which was the sole bidder and awarded the contract for the CNY 2017 tender, had also stated in its proposal additional items which the GRO had to bear under the contract. Similar to the tender evaluation for MAF 2016, the additional costs were not mentioned in the tender evaluation report and tender recommendation report for the tender approving authority to make an informed decision.

17. The GRO should have included costs of additional items to be borne by the GRO in the price comparison so that all tender offers could be evaluated on the same basis.

Accepting Late Tender Proposal and Allowing Re-submissions After Close of Tender

18. For the CNY 2017 tender, AGO noted that the GRO had accepted the tender proposal of this tenderer after the tender closing time specified in the Invitation to Tender. The GRO had also allowed the tenderer to submit two revised tender proposals mainly to revise the quantity and lighting effects on the lanterns and consequently, the bid price after the tender had closed. Whilst AGO noted that there was only one bidder for this tender, accepting late submission of tender proposal and allowing the tenderer to amend its tender proposals and bid price after the tender had closed went against the principles of open and fair competition, and transparency. Such lapses could lead to allegations of unfair practice.

19. PA informed AGO that the procurement lapses were largely attributed to the procuring team having inadequate understanding of Government procurement guidelines and operating under time constraints. PA also informed AGO that it would take measures to improve staff understanding and compliance with Government procurement requirements as well as ensure proper contract management documentation.

Contracts Not Governed by the Laws of the Republic of Singapore

20. AGO observed that the contracts signed with the overseas tenderer were not based on the laws of the Republic of Singapore. Instead, the contracts were based on the laws of the tenderer's country and required any unresolved disputes to be filed for litigation in the courts of the tenderer's country. As the tenderer's country has a different legal system, such provisions in the contracts might not safeguard the interest of PA and its GRO.

21. PA explained that the contracts were prepared by the tenderer and the GRO did not seek the advice of PA's legal department before signing the contracts. Moving forward, the GRO would prepare the contract.

B. Weaknesses in Overseas Purchases and Payments for Costumes and Accessories

22. AGO's test checks on overseas purchases and payments for costumes and accessories amounting to \$142,200⁴ for Chingay Parade 2017 revealed serious weaknesses which could be exploited. The weaknesses included not adhering to procurement principles and weak controls over payments. There were also tell-tale signs on some supporting documents submitted for reimbursement claims which indicated that they might not be authentic.

23. PA had posted Invitations to Quote for costumes and accessories in the Government-wide electronic procurement system, GeBIZ, and concurrently obtained manual quotations for the same items from overseas vendors not registered under GeBIZ. PA subsequently posted "no award" announcements in GeBIZ for the Invitations to Quote even though it had awarded the contracts to overseas vendors. Conducting parallel manual quotation exercises was not allowed under the Government Instruction Manuals. As obtaining manual quotations from overseas suppliers were not subject to the more stringent controls for calling quotations via GeBIZ, PA could be exposed to the risks of manipulation of bids as well as allegations of discriminatory practice and lack of transparency.

24. AGO found that PA had allowed an officer to make overseas purchases amounting to \$142,200 and to pay for them in cash or through a remittance agent. This officer subsequently claimed reimbursements using cash sales receipts. AGO found that some of the cash sales receipts submitted by the officer had tell-tale signs which cast doubts on their authenticity. Thus, there was no assurance that the amount of reimbursement claimed by the officer was the actual amount of cash that was paid by the officer to the overseas vendors.

25. AGO noted that although the officer was accompanied by at least one other staff during the sourcing and purchasing trips, he had made two additional personal overseas trips at his own expense to make purchases, settle final payments for earlier purchases and obtain cash sales receipts. Allowing the officer to make purchases and payments unaccompanied by other staff exposed PA to the risks of duplicate and inflated claims.

⁴ The amount of \$142,200 included purchases via quotations totalling \$129,400 and small value purchases.

26. PA informed AGO that since April 2017, it had stopped all overseas direct purchases by staff and procured the costumes and accessories for Chingay Parade through GeBIZ. As overseas purchases had been made for Chingay Parade since 2007, PA has accepted AGO's recommendation to review past purchases and payments to ascertain if there were similar weaknesses and whether they had been exploited.

Failure to Obtain Proper Approvals for Award of Contracts and Variation

27. AGO's test checks of 189 purchases amounting to \$6.03 million made by 18 GROs revealed that 13 GROs did not obtain proper approvals for award of contracts and variation for 25 purchases totalling \$619,900. The lapses found were as follows:

- a. 19 purchases (totalling \$497,400) made by 10 GROs without approval, with only verbal approvals, or with approvals obtained only after goods and services had been delivered.
- b. 6 purchases (totalling \$122,500) made by five GROs with approvals for award of contracts and variation obtained from the wrong parties. The approving parties were either not authorised or had lower approval limits.

28. Not obtaining approvals from the appropriate authorities before awarding the contracts would undermine the role of the approving authorities and the award of contracts would not be subject to the scrutiny of the relevant authorities. Delays in seeking approval indicate laxity in controls over the award of contracts. Retrospective approvals weaken the controls put in place to ensure that contracts are properly considered by the approving authorities before they are awarded.

29. AGO noted that failure to obtain proper approvals for award of contracts is a recurring lapse. A similar observation was raised in the *Report of the Auditor-General* for the financial year 2014/15.

30. PA explained that some of the lapses pointed out by AGO resulted from unexpected requirements that arose at short notice. Nevertheless, PA acknowledged that proper approvals should have been sought for award of the contracts and that it would review its financial procedures and strengthen the approval processes to cater for contingency scenarios and ensure that proper approvals from the appropriate authorities were sought. PA would also step up training on procurement for the GROs.

Lapses in Management of Welfare Assistance Schemes

31. AGO's test checks of welfare assistance schemes administered by GROs during the period from April 2016 to June 2017 revealed that cash gifts and assistance in-kind, which included supermarket vouchers, food vouchers and groceries given to needy residents were not properly managed. Consequently, there was no assurance that welfare assistance was given only to eligible applicants and that vouchers and groceries were properly accounted for.

A. No Documentary Evidence to Substantiate Recipients' Eligibility for Cash Gifts and Assistance In-kind

32. AGO's test checks at nine GROs found that three GROs did not have documentary evidence of assessment to substantiate the eligibility of recipients for assistance in-kind (totalling \$123,600) and cash gifts (totalling \$4,500) given out at festive events to 48 of the 177 recipients test-checked. This was not in compliance with the Rules and Regulations of the Citizens' Consultative Committee Central Development Welfare Fund. Hence, there was no assurance that welfare assistance was given only to eligible applicants.

33. PA explained that applicants were interviewed and assessed for welfare assistance but the assessments for eligibility were not documented. PA acknowledged the need to document the eligibility of recipients and would put in place procedures to standardise the evaluation process across GROs.

B. Weak Controls over Reimbursement Claims for Food Vouchers

34. AGO's test checks of reimbursement claims (totalling \$762,400) for food vouchers at four GROs revealed that controls were weak. AGO found that:

- a. All four GROs did not invalidate food vouchers submitted by participating hawkers and vendors for reimbursement claims to prevent the re-use of the vouchers for subsequent claims. There was hence a risk of the same vouchers being submitted more than once to make duplicate claims.

- b. One of the GROs did not keep records of representatives of participating hawkers and vendors who were authorised to claim reimbursement. The practice of allowing anyone to claim reimbursement exposed the GRO to the risk of paying to unauthorised persons.
- c. Two of the GROs did not tag the used food vouchers to the respective reimbursement claims. Without tagging, it was not possible to verify the vouchers against each claim. Therefore, there was no assurance that the payments made were valid and supported.

35. PA informed AGO that it would review the processes to enhance and standardise its controls over the food voucher schemes.

C. Groceries Purchased Not in Accordance with Contracts and Unaccounted For

36. AGO's test checks of groceries purchased (totalling \$169,000) for distribution to needy residents at two GROs revealed that the type of groceries purchased and prices paid by one GRO were not in accordance with those stated in the contracts with a vendor. As for the other GRO, AGO found that some of the groceries purchased could not be accounted for.

37. AGO test-checked the purchase of 66 types of groceries at the first GRO and found that it had paid prices higher than the contract rates for nine types of groceries. Another 25 types of groceries purchased were not provided for in the contracts. Hence, there was no assurance that best value was obtained for the purchases.

38. At the second GRO, AGO found that 12 types of groceries purchased (totalling \$2,800) were not in the packing lists for distribution to the residents for three of the five months test-checked. The GRO also did not maintain records to track the groceries purchased and distributed. Hence, there was no assurance that all groceries purchased were distributed to the needy residents and properly accounted for.

39. PA informed AGO that it would ensure that proper procurement procedures are observed. It would also strengthen its procedures on the stock-taking, packing and distribution of groceries.

MINISTRY OF FINANCE

ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

Privileged User Activities Not Logged

40. AGO's checks in September 2017 revealed that the Accounting and Corporate Regulatory Authority (ACRA) did not activate a critical feature to log activities carried out under two privileged user accounts in the database server of its new business filing system (BizFile⁺). The privileged users had unrestricted access and modification rights to business information in BizFile⁺. Consequently, ACRA would not be able to detect any unauthorised activity carried out by these privileged users which could compromise the confidentiality and integrity of the data in BizFile⁺.

41. AGO had earlier highlighted a similar lapse to ACRA in the financial year 2012/13 on its previous business filing system before the implementation of BizFile⁺. However, ACRA failed to ensure that the logging feature was activated in BizFile⁺.

42. ACRA allowed businesses to submit information through BizFile⁺ for the purpose of registration and filing of documents to meet statutory requirements. Some of the business information stored in the system is also available for purchase by the public. Hence, it is important that ACRA put in place controls to detect any unauthorised alteration, deletion or extraction of business information by privileged users in BizFile⁺.

43. ACRA informed AGO that the feature to log privileged user activities was activated in April 2018. It would also implement a Log Management System in June 2018 to enable it to detect any abuse, exploitation and misuse of privileged database accounts in a timely manner. Furthermore, ACRA would put in place a procedure to ensure that the logging feature is activated each time a new system is implemented.

MINISTRY OF TRANSPORT

MARITIME AND PORT AUTHORITY OF SINGAPORE

44. For the audit of the Maritime and Port Authority of Singapore (MPA), AGO covered the following areas in its test checks:

- a. Revenue;
- b. Investments by external fund managers;
- c. Disbursements under MPA's Maritime Innovation and Technology Fund and Maritime Cluster Fund;
- d. Related party transactions; and
- e. Procurement and contract management.

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

Port Dues Charged Deviated from Rates Prescribed in the Law

45. AGO's test checks revealed that MPA had charged port dues using rates that deviated from those prescribed in the law, resulting in over-collection of \$5.50 million and under-collection of \$5.87 million in port dues. MPA explained that the port dues were collected based on its policy intent and as communicated to the industry, but the rates were not accurately reflected in the law. The lapses indicated a lack of due diligence by MPA in ensuring that the law reflected its policy intent and that the law was complied with.

46. Port dues are charges imposed by MPA on vessels staying in Singapore port. The port dues payable to MPA are set out in the Maritime and Port Authority of Singapore (Scale of Dues, Rates and General Fees) Notification (Cap. 170A, N 2). For the financial year 2016, MPA collected \$150.27 million in port dues.

47. Arising from AGO's audit, MPA estimated that it over-collected port dues of \$5.50 million from 4,618 vessel calls from 2014 to 2017 due to the use of rates higher than those prescribed in the Notification for certain vessels which stayed in the port. MPA also estimated that it under-collected \$5.87 million from 2011 to 2017 in port dues from 40 vessels that were arrested⁵.

48. For the over-collection, MPA explained that the rates used were in line with its policy intent but the rates were not accurately updated in the Notification when it was amended in 2013 and 2014 following a review of the rates. For the under-collection, MPA acknowledged that the wording in the Notification (in place since 1997) was not in line with MPA's policy intent to charge concessionary port dues rates for certain vessels that were arrested.

49. MPA informed AGO that, for good corporate governance, it would refund the over-collected port dues and its Board's approval had been obtained to waive the under-collection. MPA also informed AGO that it had tightened the process for legislative amendments and would update the Notification to reflect its policy intent.

⁵ Detained due to a warrant of arrest.

PART III

THEMATIC AUDIT

PART III : THEMATIC AUDIT

1. In the financial year 2017/18, AGO conducted a thematic audit on selected Research and Development (R&D) grant programmes managed by the Agency for Science, Technology and Research (A*STAR) and the National Research Foundation (NRF) under the Research and Innovation Enterprise 2015 (RIE2015) plan.

2. A thematic audit is an in-depth examination of a selected area, which may involve more than one public sector entity. The in-depth examination enables AGO to report on good practices in financial governance and controls that it may come across in the course of the audit, in addition to lapses.

3. Thematic audits may involve Government ministries, organs of state, Government funds or statutory boards. For Government ministries, organs of state and Government funds, the authority is provided for under section 5(1) of the Audit Act. For statutory boards, the authority is provided for under Finance Circular Minute No. M3/2011, read with section 4(4) of the Audit Act.

Acknowledgements

4. AGO would like to thank A*STAR and NRF for their co-operation in the audit.

Scope of Audit

5. Under the RIE2015 plan set up to boost research, innovation and enterprise, the five-year R&D grant budget (for the financial years 2011/12 to 2015/16) managed by A*STAR and NRF totalled \$5.26 billion and \$3.65 billion respectively. The R&D budget is allocated to deserving funding initiatives (FIs)¹ or projects. The audit focused on the A*STAR and NRF's management of grants given for these R&D FIs/projects.

¹ An FI is a subset of a programme. Each FI comprises one or more projects managed collectively and evaluated based on a common set of criteria and processes.

6. The audit covered the following stages in grant management:
- a. Application, evaluation and award of grants
 - whether the processes to invite, receive, evaluate and approve proposals and contract with grant recipients² were properly administered
 - b. Disbursement of grants
 - whether the processes were in place to ensure that grants were disbursed in an accurate and timely manner
 - c. Monitoring and review
 - whether the processes were in place to monitor that grants were managed in compliance with terms and conditions and that the deliverables were achieved
 - d. Completion of FIs/projects
 - whether the processes were in place to take stock of final deliverables and settle the accounts in a timely and accurate manner
7. The audit examined whether there was a proper framework for grant management and whether due process was followed for the above stages by the two agencies. For grants that were jointly managed by A*STAR/NRF and one or more other agencies, the audit focus was on A*STAR/NRF's role and responsibilities in the grant management.

² Grant recipients refer to Programme Offices (POs), Host Institutions (HIs) or other grant receiving entities, where applicable. POs are part of the public agencies responsible for implementing the grants. HIs are Singapore-based institutions of higher learning, public sector agencies and research institutions which provide employment and research facilities for the researchers to carry out their work.

Summary

8. Of the 1,016 FIs/projects that commenced and/or ended during the period from 1 April 2014 to 31 March 2017, AGO test-checked 286 FIs/projects (comprising 188 projects for A*STAR and 98 FIs/projects for NRF) covering an award value of \$1.48 billion (or 61.2 per cent) out of \$2.42 billion³. The key observations arising from the audit are presented in the paragraphs that follow.

A. Application, Evaluation and Award of Grants

9. AGO found that both A*STAR and NRF had adequate processes for inviting, receiving, evaluating and approving grant proposals. Where applicable, the evaluation process involved local and international reviewers who were assessed by A*STAR/NRF to have the relevant expertise. The grants were awarded based on decisions of the majority or consensus of the reviewers. Approval limits for funding allocations and grant awards were also established as part of financial controls. The above measures for this stage were adhered to in most of the areas test-checked by AGO.

B. Post-Award Management of Grants

10. A*STAR generally had in place adequate controls for disbursement of grants and monitoring of grant utilisation and project deliverables with the exception of some areas. It had developed standard operating procedures (for example, the checks required for different types of expenditure when processing fund requests [FRs] and final statement of accounts [FSOAs]) and common work processes to guide its departments in managing grants. A*STAR also had an integrated electronic grants management system, which increased the efficiency of A*STAR's grant management process. Examples of the system's features included automated reminders sent before the deadlines for submission of progress/final reports and FSOAs, clear action trail of the FR/FSOA review process to ensure accountability, and built-in controls to reduce the risk of arithmetic errors and non-compliance with budgetary caps.

³ Award value totalling \$645.95 million out of \$1.25 billion and \$833.85 million out of \$1.17 billion for A*STAR and NRF respectively. The award value excluded block grants given to research institutes.

11. Nonetheless, AGO's audit had found some gaps, such as the need for A*STAR to obtain the audit reports stipulated in the grant agreements and enhance its monitoring of industry contributions that were matched with its R&D grants. A*STAR also needs to expedite its processing of FRs, review of progress/final reports and settlement of final accounts.

12. As for NRF, AGO observed significant control weaknesses in its post-award management of grants. NRF did not have a common framework among its Directorates for grant management and inconsistent practices were observed across the Directorates. Most Directorates had relied primarily on the annual declarations obtained from grant recipients as confirmation that they had a proper governance structure and all expenditure were in accordance with the grant agreements and/or National Research (NR) Fund Guide. NRF termed these annual declarations as "positive affirmation". As a result, these Directorates did not institute adequate measures to verify FRs against supporting documents prior to making grant disbursements. They also had not adequately monitored or reviewed the progress/final reports and audit reports, and ensured that unutilised funds from completed FIs/projects were refunded in a timely manner.

13. In AGO's view, relying primarily on positive affirmations from the grant recipients is not sufficient for NRF to discharge its responsibility as the custodian of the NR Fund. AGO's test checks had revealed instances where grants were disbursed for non-fundable items. There were also errors or omissions in the key performance indicators (KPIs) stated in the progress reports and audits were not carried out in accordance with the NRF's audit requirements. These lapses revealed the inadequacy of relying primarily on positive affirmations. Given NRF's role as a funding agency, it is important to institute adequate checks and balances in line with the risk level acceptable to NRF.

14. Details of the key observations on lapses under each entity are summarised and reflected under the respective supervising ministries in the paragraphs that follow.

MINISTRY OF TRADE AND INDUSTRY

AGENCY FOR SCIENCE, TECHNOLOGY AND RESEARCH

Delays in Grant Disbursements and Settlement of Final Accounts

15. AGO found that A*STAR had not promptly processed a number of FRs/FSOAs and did not adequately follow up on some of the overdue FSOAs. This led to delays in disbursing grants and recovering unutilised grants.

16. AGO's test checks of 342 FRs/FSOAs⁴ revealed that A*STAR had taken between three months and two years to process 99 FRs/FSOAs (disbursements totalling \$54.99 million and refunds totalling \$0.63 million).

17. AGO's test checks of 131 FSOAs also found that A*STAR did not adequately follow up to obtain 21 FSOAs that were overdue for periods of between 4 months and 2.5 years. For 15 FSOAs, A*STAR either did not follow up or was unable to produce evidence that it had followed up to obtain the FSOAs which were overdue. For another six FSOAs, the first reminders were not sent promptly (reminders were only sent between 4 months and 2.5 years after the deadline). The settlement of the 21 FSOAs would lead to an estimated \$0.40 million of disbursements and \$1.43 million of refunds.

18. A*STAR explained that it had faced challenges in handling the growing volume of work while maintaining its manpower resources within approved levels. Its operational constraints (for example, staff turnover, cash-flow constraint and heavy workload) had partially contributed to the delay in processing. A*STAR informed AGO that it would review its processes and work closely with its supervising ministry, the Ministry of Trade and Industry, to ensure that there is adequate funding for timely grant disbursements.

⁴ The 342 FRs/FSOAs test-checked were received and/or processed during the period from 1 April 2014 to 31 December 2017. They comprised \$199.54 million of disbursements and \$2.54 million of refunds.

Audit Reports Not Obtained

19. AGO's test checks of FRs/FSOAs for 57 projects revealed 31 projects where A*STAR did not obtain audit reports for grant expenditure totalling \$18.48 million, even though the terms and conditions required the recipients to submit the audit reports. As a result, A*STAR would not have adequate assurance that grants were used for their intended purposes and in accordance with the relevant terms and conditions.

20. According to A*STAR, a key reason for not obtaining the audit reports was that it had carried out its own reviews⁵ of FRs/FSOAs. Nonetheless, AGO noted that A*STAR's reviews would not fully replace the checks performed by the auditors as the scope and extent of checks were different. For example, auditors would verify the accuracy and validity of the transactions by tracing to source documents but this was typically not carried out by A*STAR. Given the substantial amount of grants, it is important for A*STAR to follow up by obtaining and reviewing the audit reports required in its terms and conditions. This is because audits form an important part of A*STAR's overall financial controls framework for grants.

21. A*STAR informed AGO that it would obtain the required audit reports.

Inadequate Monitoring of Industry Contributions

22. AGO's test checks of 16 projects⁶ for one of the FIs revealed 13 projects where A*STAR had not properly monitored that the industry partners had delivered on their commitment of contributions totalling \$3.79 million. The commitment of these contributions were matched by \$2.73 million of A*STAR's grants. The lapses in A*STAR's monitoring of industry contributions did not give adequate assurance that grants were given only for commitments that had been realised.

⁵ Its review of FRs included checking for computational accuracy, reconciliation of figures to make sure the budget is not exceeded and reviewing expenditure listings to check on the fundability of expenditure.

⁶ Out of the 188 projects test-checked by AGO, there were 16 projects (totalling \$4.39 million) funded by one of the grants where the documents supporting the actual industry contribution were required.

23. According to A*STAR, if actual industry contributions were less than the industry commitments agreed between grant recipients and industry partners, the grant recipients would have to return the excess grants received. A*STAR required grant recipients to submit documents supporting the industry contributions. However, AGO found lapses in A*STAR's verification of industry contributions totalling \$3.79 million for the 13 projects⁷. The lapses included:

- a. 7 projects where A*STAR acknowledged that it did not verify industry contributions totalling \$2.51 million;
- b. 6 projects where A*STAR had obtained the supporting documents but they were inadequate to prove cash or in-kind contributions totalling \$1.21 million; and
- c. 2 projects where A*STAR was unable to provide evidence or confirm that it had verified industry contributions totalling \$0.07 million.

24. Following AGO's query, A*STAR obtained the supporting documents for \$2.17 million out of a total industry commitment of \$3.79 million.

25. A*STAR informed AGO that it would review its guidelines and practices on the verification of industry contributions.

Lapses in Monitoring and Review of Progress and Final Reports

26. AGO found that A*STAR had not adequately followed up on some of the overdue progress/final reports and there were delays in its review of a number of reports. By not obtaining and reviewing the progress/final reports in a timely manner, A*STAR would have less assurance that the grants were properly managed to meet their intended outcomes.

⁷ 2 of the 13 projects were in more than one category of lapses.

27. Of the required 182 progress/final reports⁸, AGO found that A*STAR did not take adequate follow-up action to obtain 21 reports which were not submitted by the stipulated timelines. These reports were submitted late or not yet submitted as at the time of audit, with delays of between 3 months and 1.8 years.

28. Where reports were submitted, A*STAR also did not promptly review the reports. A*STAR had taken between 3 months and 1.6 years to complete the reviews of 45 reports. AGO also noted another five reports where A*STAR could not provide evidence that it had reviewed the reports.

29. A*STAR informed AGO that besides the progress/final reports, it had other measures to monitor the progress of the projects such as progress update meetings and mid-term reviews. AGO noted that the progress/final reports were required by A*STAR. They provided the necessary information to enable grant administrators to carry out a more thorough and systematic review of the progress achieved as compared to progress update meetings and are more timely than mid-term reviews.

30. A*STAR also informed AGO that notwithstanding its limited resources and the high volume of projects, it would endeavour to improve on its follow-up of the progress and final reports.

⁸ These reports arose from 125 projects out of 188 projects test-checked. The terms and conditions for these projects required the submission of progress/final reports for A*STAR's monitoring. AGO checked the progress reports of projects which commenced from the financial years 2014/15 to 2016/17 and final reports of projects which were completed by 31 March 2017.

PRIME MINISTER'S OFFICE

NATIONAL RESEARCH FOUNDATION

Lack of Framework Leading to Inconsistencies in Grant Management

31. AGO noted that NRF did not have a common framework for grant management. There were no policies and guidelines given to the NRF Directorates to ensure consistency in the way the FIs/projects were managed within NRF (for example, the extent of checks and follow-up on FIs/projects and monitoring of progress reports, FRs and audit reports). AGO test-checked FIs/projects managed by six out of eight⁹ NRF Directorates and noted inconsistencies in the way the FIs/projects were managed. One Directorate monitored the grants more closely than the other Directorates. It reviewed progress reports and maintained evidence of such reviews and checked that items claimed were fundable by reviewing detailed supporting listings. In contrast, the other Directorates relied primarily on positive affirmations¹⁰ by grant recipients for most of the FRs test-checked by AGO. They did not review or maintain any evidence of review for a significant number of the progress reports test-checked.

32. While detailed procedures may differ among the Directorates, it is important to put in place a framework to ensure that the key measures for grant management are consistently applied across the Directorates. Without a proper framework that is consistently applied, NRF would not have sufficient assurance that FIs/projects were managed in accordance with NRF's terms and conditions, and that the deliverables were achieved.

⁹ There were eight NRF Directorates managing grants.

¹⁰ The grant recipients were required to make annual management representations that a proper governance structure had been put in place and all expenditure reported were in accordance with the grant agreements and/or NR Fund Guide.

33. NRF informed AGO that it had noted AGO's observation and would implement a proper framework. NRF explained that being a small agency that served primarily as a strategy office under the Prime Minister's Office to coordinate efforts for the national R&D and innovation landscape, it was not structured nor resourced to perform direct checks for all the grants allocated. Hence, it had put in place an NR Fund Guide to be followed by all of its grant recipients. As most of the funds were disbursed to grant recipients which were public entities or institutions, NRF had instituted a system to obtain positive affirmations from them. NRF acknowledged that it was inadequate to rely only on positive affirmations and would take the necessary measures to ensure that the systems and processes set up to manage the grants are strong, well-articulated and properly implemented.

34. To ensure consistency across the Directorates, NRF informed AGO that it would review the NR Fund Guide to provide clarity on roles and responsibilities of the various stakeholders. It would also refine the positive affirmation framework, by putting in place a comprehensive system of selective checks and refining the treatment of reviewing progress, final and audit reports to provide NRF with the necessary assurance, balanced against the cost of compliance.

Laxity in Verification of Fund Requests

35. AGO's test checks of 115 FRs¹¹ revealed 61 FRs (disbursements totalling \$52.20 million) where NRF was lax in verifying the FRs prior to grant disbursements. As a result, NRF would not have adequate assurance that the claims were accurate and fundable in accordance with NRF's terms and conditions.

36. The lapses included:

- a. 14 FRs (disbursements totalling \$33.50 million) where NRF failed to follow up when grant recipients did not submit supporting documents;
- b. 39 FRs (disbursements totalling \$16.86 million) where there were supporting documents but there was no evidence of checks performed; and

¹¹ AGO test-checked 115 FRs where \$102.33 million in disbursements were made during the period from 1 April 2014 to 31 March 2017.

- c. 8 FRs (disbursements totalling \$1.84 million) where there were supporting documents but NRF failed to detect non-fundable items despite having reviewed the FRs.

37. For the FRs with supporting documents mentioned above, AGO's review¹² found 16 FRs where disbursements were made for non-fundable items totalling \$67,600. However, there could be more cases of non-fundable expenditure that were not detected because the supporting documents provided for most of the FRs test-checked were inadequate. AGO noted that reliance on positive affirmations from the grant recipients had often been cited by NRF as the reason for not performing checks against supporting documents.

38. NRF informed AGO that it had put in place a system of positive affirmation to ensure that the checks on the FRs were conducted by the grant recipients rather than by NRF. Nevertheless, NRF agreed that it should not rely only on the positive affirmations from the grant recipients. Going forward, it would implement various measures, which include putting in place a risk-based approach of selective checks to verify that the claims in the FRs are accurate and fundable in accordance with the terms and conditions of the grants. NRF would also put in place procedures to facilitate the detection of non-fundable items and establish a process for the documentation of checks done. These procedures would be disseminated to all staff in NRF, to ensure consistencies in practice. For the incorrect disbursements identified, NRF has initiated the recovery of funds.

No Monitoring of Audit Reports

39. Of the 139 audit reports¹³ that were required to be submitted, AGO noted 39 audit reports¹⁴ (for FIs/projects with award value totalling \$250.17 million) where NRF did not monitor to ensure that the required audits were properly carried out. As a result, NRF would not have adequate assurance that grants were properly accounted for and used in accordance with NRF's terms and conditions.

¹² AGO's checks were limited to the available details in the supporting listings to the FRs.

¹³ Of the 98 FIs/projects test-checked, there were 78 FIs/projects which required the submission of audit reports with reporting period ended 31 March 2017. The award value of the 78 FIs/projects amounted to \$706.11 million.

¹⁴ 3 of the 39 reports (pertaining to 25 FIs/projects) were in more than one category of lapses.

40. The lapses included:

- a. 16 reports where NRF did not follow up to obtain audit reports that were overdue for periods of between 3 months and 4.8 years;
- b. 24 reports where NRF did not detect that the audits were not carried out in accordance with the relevant NRF requirements; and
- c. 2 reports where NRF did not follow up on the audit observations raised by the auditors.

41. The fact that the deviations from NRF's audit requirements were not picked up by NRF prior to AGO's query indicated that it had not reviewed the reports to ensure that the audits were carried out in accordance with its requirements. Given the substantial amount of grants involved, it is important for NRF to follow up by obtaining and reviewing the audit reports required in its terms and conditions.

42. NRF acknowledged the need to review each audit report and follow up on observations raised, but indicated that it faced the challenge of doing so within approved manpower resources, given a growing volume of such reports. Nevertheless, NRF would endeavour to review the audit reports.

Laxity in Monitoring Progress and Final Reports

43. Of the required 140 progress/final reports¹⁵, AGO found that NRF was lax in its monitoring and review of 50 reports¹⁶. The lapses in monitoring of progress/final reports did not give adequate assurance that the grants were properly managed to meet their intended outcomes.

44. The lapses included:

- a. 38 reports where NRF had not reviewed or was unable to produce evidence that it had reviewed the reports;

¹⁵ AGO test-checked 140 reports pertaining to 90 FIs/projects.

¹⁶ 13 out of 50 reports were in more than one category of lapses.

- b. 5 reports where NRF did not follow up on reports that were overdue by four to five months; and
- c. 20 reports where there was laxity in the review and follow-up on the deliverables reported. NRF had not detected the errors in the project deliverables reported such as omitted KPI targets and incorrect KPI targets. There was also no follow-up or evidence of follow-up by NRF on KPIs that were under-achieved.

45. NRF informed AGO that it would tighten the process on monitoring of progress reports. It would also make the monitoring process a mandatory workflow in the new grant system that would be ready by mid-2018.

No Procedures to Recover Unutilised Grants from Grant Recipients

46. AGO noted that NRF did not have procedures for monitoring and recovering unutilised grants from grant recipients. This could lead to delays or omissions in recovering moneys due. In this regard, AGO's test checks of 13 completed projects (award value totalling \$4.82 million) with grants given in advance revealed 10 projects (award value totalling \$2.83 million) where unutilised grants were not promptly recovered. The unutilised grants (including interest) totalling \$252,100 were recovered after delays of between 3 and 10 months.

47. For 9 of the 10 projects highlighted above, the unutilised grants were recovered between three and nine months after the stipulated three-month deadline. As for the remaining case where no deadline was stated for the return of the grants, the unutilised amount was returned about 10 months after the date of receipt of the FSOA. NRF should stipulate a deadline for the return of the grants.

48. NRF informed AGO that it would establish clear procedures for the monitoring and recovery of unutilised grants from grant recipients.

PART IV

AUDIT OF GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS

PART IV : AUDIT OF GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS

Government-owned Companies

1. The Auditor-General has issued unmodified audit opinions on the financial year 2017/18 financial statements of the following four Government-owned companies that were audited by AGO:

- a. GIC Asset Management Private Limited;
- b. GIC Private Limited;
- c. GIC Real Estate Private Limited; and
- d. GIC Special Investments 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 has issued unmodified audit opinions on the following accounts that were audited by AGO:

- a. President's Challenge 2016;
- b. Financial Sector Development Fund for the financial year 2017/18; and
- c. ASEAN Cultural Fund (Singapore) for the financial year 2017.

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.

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)¹, 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 Act².

4. The Auditor-General is authorised under section 8(7) of the Audit Act³ to make recommendations and generally comment on all matters relating to public accounts, public moneys and public stores.

¹ Similar to Article 148F(3) of the Constitution.

² Similar to Article 148F(4) of the Constitution.

³ 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.”⁴

7. In discharging his duties, the Auditor-General shall, under section 5(1) 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.

⁴ 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(1)(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. 1990 Revised Edition). In assessing compliance with the Financial Regulations, AGO would check whether Government ministries and organs of state have in place precautions against, inter alia, negligence⁵ and measures to detect apparent extravagance⁶. 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 authority⁷ if it is so provided for by any written law.

10. The law requires the accounts of most statutory boards to be audited either by the Auditor-General or another auditor appointed by the Minister responsible in consultation with the Auditor-General. The auditor is required to state in his report:

- a. Whether the financial statements show fairly the financial transactions and the state of affairs of the statutory board;
- b. Whether proper accounting and other records have been kept, including records of all assets of the statutory board whether purchased, donated or otherwise;
- c. Whether the receipts, expenditure, investment of moneys, and the acquisition and disposal of assets, by the statutory board during the financial year have been in accordance with the relevant laws; and
- d. Such other matters arising from the audit as the auditor considers should be reported.

⁵ Regulation 3(e) of the Financial Regulations.

⁶ Regulation 3(f) of the Financial Regulations.

⁷ The definition of “public authority” includes statutory boards.

Selective Audit

11. 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 Act⁸.

12. 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.”

Thematic Audit

13. The Auditor-General may carry out thematic audits involving Government ministries, organs of state, Government funds or statutory boards. For Government ministries, organs of state and Government funds, the authority is provided for under section 5(1) of the Audit Act. For statutory boards, the authority is provided for under Finance Circular Minute No. M3/2011, read with Section 4(4) of the Audit Act.

Other Audits

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.

⁸ 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.

ANNEX II : CRITERIA FOR APPOINTMENT OF AUDITORS

1. The law requires the accounts of most statutory boards, all town councils and certain funds to be audited by the Auditor-General or by an auditor appointed or approved 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 Committee¹ 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.

¹ 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.

