



REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2018/19



**AUDITOR-GENERAL'S OFFICE
SINGAPORE**

2 July 2019

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 2018/19.

Yours sincerely

Goh Soon Poh
Auditor-General

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2018/19



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 2018/19.

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 (PAC) 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 2018/19

AGO audited the following:

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

Financial Statements Audits

For the financial year 2018/19, 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 six statutory boards and three Government funds whose financial statements were not audited by AGO.

Thematic Audit

AGO conducted a thematic audit on selected social grant programmes managed by the Ministry of Health (MOH) and the Ministry of Social and Family Development (MSF).

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 for financial year 2018/19 are mainly in the areas of Information Technology (IT) controls, contract management, procurement and payment, grant management and financial controls. The audit observations have been conveyed to the public sector entities concerned through AGO Management Letters for their follow-up. The more significant audit observations relating to 7 out of 16 Government ministries, 2 out of 4 Government funds and 4 out of 9 statutory boards audited are highlighted in this Report. These could be summarised into the following key areas:

- Weaknesses in IT controls
- Lapses in procurement and contract management
- Gaps in management of social grant programmes

Weaknesses in IT controls were found across several public sector entities audited. The weaknesses included inadequate monitoring and review of privileged users' activities in IT systems, and lapses in the management of user access rights such as not granting access on a needs-only basis. Similar issues were also found across different public sector entities audited by AGO over the last few years, indicating that IT controls remain a key area for improvement.

In the area of procurement and contract management, AGO found lapses in the management of contract variations and in the evaluation of tenders and quotations. The common lapses included approval not obtained before carrying out variation works, and no assessment of cost reasonableness of variation works. There were also lapses found in the evaluation process such as accepting tender documents after tender closing, errors in computing evaluation scores, and not evaluating proposals received based on published evaluation criteria. In some cases, the awarded vendor could have been different had the tenders/quotations been administered and evaluated properly.

For the management of social grant programmes, AGO noted that generally there were established processes for grant application, evaluation and approval in the two ministries which AGO conducted a thematic audit on. Nevertheless, AGO observed that there was a need to strengthen controls in areas such as timeliness in obtaining approval of funding, verification of grant disbursements, and in the monitoring and review of documents due from grant recipients.

(I) Weaknesses in IT Controls

The public sector is leveraging on technology in many ways such as digitalisation and automation of processes to better serve individuals and businesses. With the vast amounts of data managed, which includes personal and confidential data, any unauthorised access or activity could have significant implication on the integrity and confidentiality of the data in the IT systems. It is therefore critical that the public sector ensures that the IT controls put in place are sufficiently robust to prevent and detect unauthorised access and activities.

AGO found weaknesses in IT controls in its audits of several public sector entities such as the Ministry of Manpower (MOM), Singapore Customs (Customs) and the Ministry of Defence (MINDEF). These included inadequate logging and review of activities of privileged users, such as operating system (OS) and database (DB) administrators, and lapses in the management of user access rights. AGO also noted that some of these privileged users were staff of IT vendors.

AGO noted lapses in MOM's management of its IT security monitoring system which centralises the collection of logs from MOM's IT systems and generates security alerts for review. For example, MOM was not aware that five servers for two of its IT systems were not able to send logs to the IT security monitoring system for about seven months due to outdated configurations.

MOM also did not review the activities performed by the OS administrators, who were IT vendor staff, for two IT systems that support the processing of work permits and employment passes. As the OS administrators had unrestricted access to the systems, any unauthorised activity could compromise the confidentiality and integrity of the data in the systems. Furthermore, the OS administrators could delete audit trails to remove any trace of the unauthorised activities carried out, making it difficult to detect such activities.

In the audit of Customs, AGO found that Customs did not log the activities performed by the DB administrator, who was an IT vendor staff, on a database in the eCustoms system. This system supports Customs' key business processes such as administration of customs licences and schemes. In addition, seven OS administrators, who were IT vendor staff, were able to use the most privileged OS user account without password authentication in six out of the seven IT system servers test-checked. The activity logs also did not capture sufficient details of the activities performed using this privileged user account.

In the audit of MINDEF, AGO found that a number of IT vendor staff were granted unrestricted access to read personnel and payroll information in MINDEF's human resource system. The read-access was not granted on a strict, needs-only basis based on the vendor staff's job scope and duties to be performed in the system. AGO also noted that since 2014, MINDEF had not reviewed the log records of access made by the IT vendor staff to information types which required controlled access.

The above weaknesses would expose the entities to the risk of not detecting unauthorised access and activities which could compromise the integrity and confidentiality of data in the IT systems.

(2) Lapses in Procurement and Contract Management

The public sector spends a significant amount of public funds to procure goods and services, and on development projects. There are procurement rules in place to govern how procurement and contracts should be carried out and managed based on the principles of transparency, open and fair competition, and value for money. It is important that these principles are adhered to.

AGO found lapses in procurement and contract management in the Ministry of Culture, Community and Youth (MCCY), the Majlis Ugama Islam Singapura (MUIS), and the National Council of Social Service (NCSS). These lapses included weaknesses in the management of contract variations and the evaluation of tenders/quotations.

In the audit of the National Gallery development project, a project owned by MCCY and managed by the National Gallery Singapore, AGO noted that there were lapses in the approval of 142 contract variations (or 35.2 per cent of variations test-checked) amounting to \$12.40 million. These lapses included obtaining approval from the approving authority only after works had commenced or had already been completed, obtaining approval from incorrect approving authority, and not seeking approval for substantial increase in variation cost. In addition, for the star rate items¹ (totalling \$2.06 million) under six variations, there was no assessment of cost reasonableness of the star rates which were based on a single quotation obtained by the contractor for each item. Failure to properly assess and manage contract variations could result in MCCY not obtaining full value from the public funds spent.

¹ Star rate items refer to items for which rates are not listed in the contract.

For MUIS, AGO noted a number of lapses from its test checks. First, for 12 tenders and quotations (totalling \$5.54 million), the evaluation sub-criteria and/or scoring methodology used were only determined after tender/quotation closing. Second, for four tenders and quotations (totalling \$1.38 million), MUIS did not evaluate the proposals according to its published evaluation criteria. Third, for six tenders and quotations (totalling \$4.40 million), there were errors in the scores awarded during the evaluation process. For some of these cases, had the proposals been properly evaluated, the awarded vendors could have been different. As a result, there was inadequate assurance that the procurement had met Government procurement principles of transparency, open and fair competition, and value for money.

In the case of NCSS, AGO found lapses in three tenders. For the first tender on renovation and relocation (\$3.29 million), NCSS had accepted from three tenderers some of the tender documents required under the Invitation to Tender (ITT), after the tender closing date. One of the three tenderers was subsequently awarded the contract. For the second tender on the printing and delivery of training materials (\$888,200), the ITT did not provide sufficient information for prospective tenderers to reasonably gauge the printing volume and price their bids accordingly. Consequently, only a single bid was received and this was from the incumbent vendor. In the third tender involving the provision of refreshments for training programmes organised by NCSS for external parties (\$878,400 for three years), the evaluation scores for two criteria were either wrongly computed or not properly substantiated. Had the scores been properly computed, the outcome of the tender could have been different.

(3) Gaps in Management of Social Grant Programmes

AGO carried out a thematic audit on selected social grant programmes managed by MOH and MSF. A total of \$1.59 billion was disbursed by the two ministries under their social grant programmes to 1,058 Programme-Voluntary Welfare Organisations² (VWOs) during the two-year period 1 April 2016 to 31 March 2018. Of these, AGO test-checked 429 Programme-VWOs covering disbursement value of \$488.52 million (or 30.7 per cent). The audit covered five stages of grant management, namely, (i) grant design and setup, (ii) grant evaluation and approval, (iii) disbursement of grants, (iv) monitoring and review of grants, and (v) cessation of grants.

² Refers to the pairing of grant programme and VWO which is formalised through a funding agreement. For example, a VWO which entered into separate funding agreements for three different programmes would be counted as three Programme-VWOs.

Grant Design and Setup

AGO found that MOH and MSF had put in place processes for approving new grant programmes and renewal of grant programmes. By and large, grant programmes managed by both ministries had defined objectives and clear service deliverables which were approved by the correct approving authority.

Grant Evaluation and Approval

AGO observed that MOH and MSF had put in place processes for the invitation to apply for grants, grant evaluation and grant approval. Based on AGO's test checks, there was proper segregation of duties between grant evaluation and grant approval. Nevertheless, common areas for improvement were noted for both ministries. AGO found a significant number of instances where approval of funding was obtained or funding agreement was entered into only after the commencement of funding period. There were also instances where grant was approved for payment or disbursed before funding approval was obtained or before an agreement had been entered into.

Grant Disbursement

AGO observed that MOH and MSF had procedures and guidelines for processing and approving grant disbursements. VWOs were required to submit supporting documents and information for disbursements of grants. Guidelines on administration of grants were issued to VWOs. There was proper segregation of duties in the processing and approving of disbursements. In general, grant disbursements were made on a timely basis. However, AGO noted that checks by both ministries for grant disbursements were inadequate. Based on AGO's test checks, there was a significant number of instances where the ministries had not carried out adequate checks on VWOs' inputs and claims for disbursements to ensure that these were valid and correct before processing the disbursements. AGO also noted instances of errors in the computation of disbursement amounts.

Grant Monitoring and Review

AGO observed that MOH and MSF generally required the VWOs to submit documents such as key performance indicators (KPI) reports and audited financial statements to establish whether funding conditions had been met. The ministries also conducted periodic audits to check for compliance with funding terms and conditions. Nonetheless, for MOH, AGO's test checks showed that there were gaps in its monitoring process, including no evidence of review of documents submitted by VWOs, inadequate follow-up on anomalies detected in documents submitted and no follow-up to obtain required documents which the VWOs had failed to submit.

Grant Cessation

Generally, MOH and MSF had included provisions in the funding agreements relating to the cessation of grants. Based on AGO's test checks, both ministries had generally recovered unused funds from VWOs in a timely manner.

Irregularities Noted in Quotation Documents Submitted by Contractors

AGO's audit at the Ministry of National Development (MND) and the Urban Redevelopment Authority (URA) revealed irregularities in quotation documents submitted by their contractors. For the audit at MND, AGO's test checks revealed tell-tale signs indicating irregularities in a significant number of the quotations submitted by a contractor for 49 out of 71 works orders involving star rate items. As AGO had concerns over the authenticity of the quotations, AGO recommended that MND refer the matter to the Police. Similar concerns were noted in the audit of one of URA's infrastructural projects. For this project, AGO's test checks revealed irregularities in more than half of the quotations submitted by a contractor for the star rate items for 4 out of 17 contract variations. Both MND and URA have since referred their cases to the Police.

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 public sector entities may need to pay attention to.

Some of the lapses highlighted in this Report, such as weaknesses in IT controls and lapses in procurement and contract management, are similar to those reported last year although the lapses involve different entities. It is important that public sector entities avoid repeating similar lapses and implement effective measures to enhance governance and controls on the use of public funds.

In this regard, I am pleased to note that in its update to PAC in October 2018, the Ministry of Finance (MOF) informed PAC that it will be working on several fronts with public sector entities to address weaknesses identified from AGO's audits, paying close attention to recurrent issues. The measures include setting the right tone at the top, raising awareness and uplifting capabilities of public officers in areas such as project management and contract management, and strengthening the public sector internal audit community. MOF also informed PAC that the Smart Nation and Digital Government Group (SNDGG) will step up efforts to strengthen IT governance across the public sector and that SNDGG has since increased the number and types of internal IT audits conducted.

In addition to measures from MOF and SNDGG, every public sector entity has to play its part to continuously improve financial governance in their own entities and to ensure that their officers at all levels exercise due diligence when managing public funds. I am pleased to note that the public sector entities audited by AGO take the audit observations seriously and are committed to taking concrete steps to rectify the lapses and weaknesses. AGO will follow up with the public sector entities to ascertain that remedial 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.

GOH SOON POH
Auditor-General
Singapore

2 July 2019

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 2019, upon completion of the audit required under section 8(1) of the Audit Act (Cap. 17, 1999 Revised Edition).

Government's Responsibility for the Financial Statements

2. The Minister for Finance is responsible for the preparation of the financial statements 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).

3. The Accountant-General is responsible under the Financial Procedure Act for the supervision and administration of the Government accounting system and is required under the Financial Regulations (Cap. 109, Rg 1) to prepare and submit to the Minister the statements required under section 18 of the Financial Procedure Act.

4. The Permanent Secretaries of ministries and Heads of organs of state, as Accounting Officers, are responsible, inter alia, for ensuring that proper books and systems of accounts are adopted and maintained in every department under their charge, in accordance with the Financial Regulations.

Auditor-General's Responsibility for the Audit of the Financial Statements

5. The Auditor-General is required to audit and report on these financial statements under section 8(1) of the Audit Act. In discharging this responsibility, the audit objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.

6. As part of the audit, professional judgement is exercised and professional scepticism is maintained throughout the audit. The audit also includes:
- a. Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for opinion;
 - b. Obtaining an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls; and
 - c. Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made, having regard to the law.

Submission of Audited Financial Statements and Audit Report

7. 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.

8. 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 27 June 2019. The President would present to Parliament the audited Financial Statements with the audit report thereon.

Acknowledgements

9. 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 2018/19 as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2). An unmodified audit opinion was issued on the financial statements.

¹ The Workers' Fund is audited by AGO annually as its Regulations do 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 2018/19, AGO carried out selective audits of the following three Government funds:

- a. CONNECT Fund²;
- b. Medical Endowment Fund³; and
- c. Pioneer Generation Fund⁴.

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 CONNECT Fund was established under the Education Service Incentive Payment Act (Cap. 87B, 2002 Revised Edition).

³ The Medical Endowment Fund was established under the repealed Medical Endowment Scheme Act (Cap. 173A, 1994 Revised Edition) and reconstituted under the Medical and Elderly Care Endowment Schemes Act (Cap. 173A, 2001 Revised Edition).

⁴ The Pioneer Generation Fund was established under the Pioneer Generation Fund Act 2014 (No. 43 of 2014).

MINISTRY OF CULTURE, COMMUNITY AND YOUTH

Weaknesses in Financial Governance of the National Gallery Development Project

8. AGO found weaknesses in the financial governance of the National Gallery development project, a project under the Ministry of Culture, Community and Youth (MCCY), which was managed by the National Gallery Singapore (NGS). AGO's test checks revealed weaknesses such as waivers of contractual provisions involving \$13 million without due scrutiny by MCCY, and inadequate monitoring (including the lack of timely audits) to ensure that the final sum to be paid for the main construction contract was properly supported. These weaknesses did not give assurance that public funds had been properly managed.

9. While MCCY was the owner of the National Gallery development project, this entire Government development project was managed by NGS [a company limited by guarantee (CLG) under the supervision of MCCY] through a Funding Agreement (FA). The FA provided for monthly financial and project status reports to be submitted to MCCY and key milestone audits by MCCY. The project was completed in 2015 within the approved budget of \$532 million. The final account for the main construction contract was issued in September 2017. In July 2018, AGO started its audit of the contract management of the key contracts under the project. These included the main construction contract, the exhibition fit-out contract and the integrated consultancy services contract.

A. Waivers of Contractual Provisions with Significant Financial Implications Granted Without Due Scrutiny by MCCY

10. AGO observed that the FA was silent on the appropriate authority to approve waivers of contractual provisions and MCCY did not explicitly give authority to NGS to decide on such waivers. Nevertheless, NGS had proceeded with the waivers of contractual provisions with significant financial implications (amounting to \$13 million) under the main construction contract (contract value of \$413.82 million) without due scrutiny by MCCY. AGO noted that MCCY only raised questions with NGS on the basis for the waivers in September 2018, one year after the final account for the main construction contract had been issued and after final payments had been made to the contractor. This may be too late for any recovery from the contractor.

11. AGO noted that approval for the waivers was neither sought nor obtained from the NGS Board even though NGS had put up a paper in July 2017 to inform the Board on the final account for the main construction contract, including NGS' recommendations on the waivers.

B. Inadequate Monitoring Mechanism

12. AGO found that the monitoring mechanism put in place by MCCY, as the project owner, was not adequate to ensure that the waivers with substantial financial implications were highlighted for its attention on a timely basis, i.e. before the issuance of the final account in September 2017.

13. There was a significant time gap from the last monthly status report (submitted by NGS to MCCY in May 2015) and the last audit of the project expenditure (conducted by MCCY in 2015), to the issuance of the final account in September 2017. In addition, the final audit by MCCY was to be carried out after the settlement of the final account as prescribed under the FA. Furthermore, MCCY had scheduled this final audit only in the second half of 2018, which would be close to a year after the final account was issued and final payments were made. While there was an MCCY senior officer on the NGS Board, MCCY informed AGO that it was not aware of the waivers granted until September 2018, one year after the final account was issued and final payments were made.

14. MCCY informed AGO that the NGS Board had delegated authority to the NGS Chief Executive (NGS CE) to decide on contractual matters related to the project. AGO's concern is not on whether the NGS CE had the authority to decide on contractual matters but the governance framework behind the decision-making process. In this regard, AGO noted that while the NGS CE was given financial limits of up to \$1 million to approve procurement and contract variations, no financial limits were set for other decisions (such as waivers) involving far more significant sums of moneys.

15. The waivers of contractual provisions had significant financial implications amounting to \$13 million. There is hence a need for MCCY to strengthen its oversight to ensure financial prudence in the use of public funds managed by NGS on its behalf.

16. AGO's view is that even though the National Gallery development project was managed by NGS (which was structured as a CLG), MCCY as the owner of the National Gallery building should have put in place a proper governance framework and key controls. These include ensuring that the FA sets out clear roles and responsibilities of NGS and its Board, and that decisions involving large sums of public funds are made only after obtaining MCCY's approval.

17. MCCY informed AGO that NGS was appointed to directly manage the project to more closely align the design, construction and end-use of the infrastructure to allow NGS to better achieve its mission during its operations of the building, and lead to lower operating costs over the life-cycle of the infrastructure. The FA stated clearly that NGS was required to "*establish a system of corporate governance to ensure effective and efficient performance and to safeguard the Funds provided to develop, operate and use the Premises as the National Art Gallery*". Subsequently, the NGS Board did establish a project governance framework. While NGS has the right to waive any contractual obligations and undertake contract variations, NGS would still be subject to recourse actions taken by MCCY, including the restitution of funds from NGS directly, in the event of any breach or inappropriate action by NGS. In line with this, as part of the FA, MCCY had put in place and carried out milestone audits, as well as a final audit to be conducted after the close of final account. This final audit by MCCY is ongoing, and clarifications are being made with regard to the basis of the contractual waivers. As NGS had done in response to previous milestone audits, it will be expected to rectify any issues that have been identified by MCCY as necessary.

18. MCCY also highlighted that despite the challenging conditions of re-developing two gazetted national monuments, and the unique requirements of an arts infrastructure, NGS completed the project on time and within approved budget. MCCY and NGS agreed that processes can be improved, and the NGS Audit Committee will review these processes and keep MCCY informed on the outcomes of the review. MCCY will also review how it can further enhance the accountability structure with its CLGs with regard to future development projects, in consultation with the Ministry of Finance and taking into account AGO's findings.

Inadequate Oversight in Management of Contract Variations for the National Gallery Development Project

19. AGO found lapses in the management of contract variations by NGS and its consultants for the main construction contract, exhibition fit-out contract and integrated consultancy services contract relating to the National Gallery development project. The total value of the contracts amounted to \$458.98 million. The lapses found included:

- a. Lapses in approvals for contract variations. These included no approvals obtained before contract variations were carried out, approvals obtained from the incorrect approving authority and no approvals sought for substantial increase in variation costs from the original approved value.
- b. Lapses in valuation of contract variations such as no assessment of cost reasonableness of star rates⁵ quoted by only one supplier for each item and failure to deduct costs for works not done, resulting in overpayment.

20. The lapses indicated a lack of controls and inadequate oversight of NGS by MCCY on the management of contract variations. There was no assurance that the need for variations had been scrutinised and that financial prudence had been exercised in the use of public funds.

A. Lapses in Approvals for Contract Variations

21. AGO's test checks of 403 contract variations (amounting to \$29.34 million) under the three contracts revealed lapses in approvals for 142⁶ variations (35.2 per cent) amounting to \$12.40 million (42.3 per cent). The lapses are described below:

- a. Approvals for 126 contract variations (amounting to \$10.84 million) were obtained from the approving authority 30 days to 3.9 years after works had commenced or were already completed. Furthermore, it was not highlighted in the submissions to the approving authorities that the works for 125 variations had already commenced or were already completed and that covering approvals were being sought.

⁵ Star rates refer to rates used for valuation of variations that are not listed in the contract.

⁶ Some variations could have more than one category of lapse.

- b. Approvals for seven contract variations (amounting to \$2.40 million) under one contract were obtained from the incorrect approving authority, i.e. an authority with lower financial limits. This lapse occurred for all variations exceeding \$100,000 each.
- c. No approval was sought for the substantial increase in variation cost for 17 contract variations from the original total approved value of \$1.27 million to \$2.67 million. The increase for each variation ranged from 21.9 per cent to as high as 2,552.1 per cent (25.5 times of the original approved value).

B. Lapses in Valuation of Contract Variations

22. AGO's test checks of nine contract variations (amounting to \$5.51 million) under the main construction contract and exhibition fit-out contract revealed lapses in the valuation of six⁷ contract variations. The lapses are described below:

- a. Assessment of cost reasonableness of the star rates quoted by only one supplier for each item was not carried out for star rate items (totalling \$2.06 million) in six variations. AGO further noted that the quotations for these star rates were all obtained by the contractor. There was no evidence of assessment of reasonableness of the star rates by NGS and its consultants.
- b. Costs for works not done were not deducted for three variations, resulting in an estimated overpayment of \$150,300.

23. AGO also found two instances under the main construction contract where works provided for in the contract were not carried out. Contract variations should have been issued to deduct the costs from the contract sum. However, this was not done, resulting in an estimated overpayment of \$115,500. In total, the estimated overpayment for works not done, including those mentioned in paragraph 22(b) was \$265,800.

⁷ Some variations could have more than one category of lapse.

24. 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 approvals to be sought from the correct approving authorities on a timely basis with all relevant facts disclosed. Allowing an officer to approve variations beyond his authority increases the risk of committing the Government to inappropriate or unauthorised variations. In addition, for good control, approvals should be sought for the substantial increase to the original approved value so that the approving authority is kept informed of the reasons for the cost overrun and the authority can raise concerns or implement cost control measures to contain the project cost. Failure to deduct costs for works not done under contract variations could result in MCCY not obtaining full value for the public funds spent.

25. MCCY informed AGO that NGS acknowledged the lapses in approvals for contract variations and would submit explanations for these lapses to MCCY. NGS would also review its processes on assessment of star rates. In addition, NGS would review the lapses due to the failure to deduct costs for works not done and seek recovery of the overpayments where possible.

26. AGO's view is that while MCCY had appointed NGS to manage the project, it remained accountable and responsible for ensuring financial prudence and proper use of public funds. MCCY informed AGO that it had requested NGS to submit results of its review, as well as measures endorsed by NGS' Audit Committee to prevent recurrence of the lapses.

MINISTRY OF DEFENCE

IT Vendors Granted Unrestricted Read-Access to Personnel and Payroll Information

27. AGO's audit of controls over access rights granted to the Ministry of Defence (MINDEF)'s Enterprise Human Resource (E-HR) system revealed weaknesses in the management of access rights. AGO noted that a number of IT vendor staff were granted access to read personnel and payroll information in the E-HR system, including 73 information types for which MINDEF required controlled access to be put in place.

28. The read-access for these IT vendor staff was not granted on a strict needs-only basis. The read-access allowed all these IT vendor staff to read information in the E-HR system. AGO's test checks showed that 23 out of the 73 information types had not been accessed by any of these IT vendor staff during the 2.8-year period covered in AGO's test checks. In addition, four of the IT vendor staff had not accessed any of the 73 information types since the date they were granted the access, in one case for more than two years as at December 2018. MINDEF should have granted the read-access to each of the IT vendor staff based strictly on their job scope and duties to be performed in the E-HR system.

29. Furthermore, AGO noted that there was no review performed on the log records of the 73 information types that had been accessed and read by the IT vendor staff. MINDEF had not reviewed the log records of access to these information types since 2014. Consequently, any access by the IT vendor staff for unauthorised purposes would not have been detected and promptly followed up upon.

30. It is important that access rights for IT vendor staff be granted on a strict needs-only basis for the relevant information types. It is also critical for MINDEF to perform regular reviews of the log records to ensure that the read-access made by the IT vendor staff is for authorised purposes.

31. MINDEF informed AGO that the E-HR system was introduced to enable MINDEF to effectively manage HR operations across the spectrum of HR functions. MINDEF anticipated that the E-HR system would be complex to administer, requiring dedicated resources to manage a whole range of HR operations and ensure system availability. It therefore deployed IT vendor staff to support the management of the system. In doing so, it had wanted its IT vendors to be able to handle the full range of possible scenarios, and hence had granted them read-access to all the information types. MINDEF stated that it had put in place a set of strict controls to mitigate the risks arising from granting access to IT vendor staff. These included rigorous security clearance of the IT vendor staff, designated rooms that were monitored by CCTV for them to work in, and regular reviews of CCTV footage.

32. MINDEF noted AGO's concern and acknowledged that it could have better managed the assignment of roles based on more specific job scope so that access rights granted to the IT vendor staff could be streamlined to only what was required. MINDEF informed AGO that it has since taken action to remove the IT vendor staff access to the 23 information types. The access rights of the four IT vendor staff who had not accessed the information types were also removed. MINDEF had also embarked on a review of the access rights for each of the IT vendor staff, based on each individual's assigned job and responsibility in the E-HR system. The review was targeted to be completed by June 2019. Thereafter, restrictions to their access rights would be implemented accordingly.

33. MINDEF also informed AGO that with effect from May 2019, it had commenced regular reviews of the log records of the 73 information types that have been accessed and read by the IT vendor staff. In addition, MINDEF undertook to conduct reviews of the log records for past access made by the IT vendor staff.

Lapses in Processing of Flying Allowances

34. AGO's test checks of flying allowances (FA) paid to pilots in the Republic of Singapore Air Force (RSAF) revealed erroneous payments to 14 pilots. These 14 cases (involving \$278,970 in total) comprised 12 cases of overpayment and two cases of underpayment. For one case, the erroneous payments took place over a period of almost six years.

35. Of the 14 cases, five cases (totalling \$7,600) were due to human resource officers having the wrong interpretation of eligibility criteria when processing the FA. The other nine cases (totalling \$271,370) were due to administrative lapses.

36. MINDEF informed AGO that it had since recovered the erroneous payments for nine cases, and was in the process of recovering or making good the payments for the remaining five cases.

37. MINDEF also explained that as the FA payment processing currently relied mainly on manual checks, it would look into automating the payment processing and reviewing policies to minimise manual inputs as far as possible. RSAF would also increase its audits on FA to provide added governance of and control over the administration of FA, until the technological solution was ready.

MINISTRY OF EDUCATION

CONNECT FUND

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

- a. Contribution to members⁸ accounts;
- b. Awards and payouts to members;
- c. Investment and interest income;
- d. Administrative expenses; and
- e. Management of access rights and review of activities of privileged users.

The more significant observation arising from the audit is presented in the paragraphs that follow.

No Review of System Administrators' Activities

39. AGO found that the Ministry of Education (MOE) had not reviewed the activities performed by system administrators in the CONNECT Plan system since the upgraded system was implemented in August 2013. This was contrary to MOE's IT security policy which required activity logs to be reviewed on a monthly basis by an independent party. The CONNECT Plan system is used to manage CONNECT Plan members' accounts and to compute contributions and payouts. The duties of the system administrators include maintaining and updating certain financial parameters in the system, updating user roles and deleting unneeded user accounts. Without reviewing the activity logs, MOE would not be able to detect and investigate any unauthorised activity carried out by the system administrators. Unauthorised activities, if any, could compromise the integrity of data in the system and affect payouts to members.

⁸ Members of the CONNECT Plan are trained teachers who would receive payouts from the CONNECT Plan at various defined points in their career.

40. In this regard, AGO's review of the logs of activities performed by system administrators during the period January to December 2018 revealed that actions had not been taken promptly to follow up on several failed attempts to remove a user account in April 2018. As a result, there was a delay of six months before the account was eventually removed. These failed attempts to delete the user account were not investigated for any potential security violation and/or unusual activity. The failure to promptly remove the user account that was no longer needed could have been detected earlier had regular reviews of the activity logs been performed.

41. MOE informed AGO that it had tightened its internal processes since January 2019 to ensure that the review of the activity logs of the system administrators was properly carried out by an independent reviewer and approved by the system owner.

MINISTRY OF FINANCE

ACCOUNTANT-GENERAL'S DEPARTMENT

Weaknesses in Logging and Review of Privileged User Activities

42. In the audit of the IT application access controls of NFS@Gov, the Government accounting and financial system, AGO found weaknesses in the Accountant-General's Department (AGD)'s logging and review of privileged user activities. Access rights assigned to the NFS@Gov privileged accounts allowed the users to amend configuration settings such as controls over the approval process (e.g. straight-through processing⁹) and other business rules. Inadequate logging and review of privileged user activities would increase the risk of not detecting any unauthorised modification to the configuration settings, which could then compromise the controls over the processing and recording of financial transactions in NFS@Gov.

⁹ Refers to a process where transactions that meet certain business rules defined in NFS@Gov can be approved automatically without manual intervention.

43. The passwords of eight NFS@Gov shared privileged accounts were held by AGD senior management, who would issue passwords to selected AGD staff when the staff needed to use the accounts for making changes to application or configuration settings. AGD staff would manually record the purpose and time of their use of the shared privileged accounts in log books for accountability. These manual records would then be reviewed against the activity logs (i.e. the “system audit trail reports”) by an independent reviewer.

44. However, AGO noted that the activity logs only recorded details such as User ID and the date and time of access. The activity logs did not record details of the activities performed using the NFS@Gov shared privileged accounts. Hence, from the logs, the reviewer would only be able to detect when the shared privileged accounts were used but not any unauthorised activity performed using the privileged accounts.

45. AGD informed AGO that in addition to the activity logs, the system audit tables which were set up in NFS@Gov to serve as an audit trail to capture the activities of the privileged accounts, had been partially turned on to capture selected critical system activities. The system audit tables were partially turned on so as not to adversely affect system performance. AGD had put in place the manual process controls to manage and mitigate the residual risks associated with the use of the privileged accounts.

46. AGO noted that AGD did not conduct any review of the system audit tables to detect unauthorised activities performed using the shared privileged accounts. In addition, AGO’s test checks revealed that activities such as updating of approval limits and setting up of approval workflow in NFS@Gov were not captured in the system audit tables, as AGD had only partially turned on the system audit tables. AGO is of the view that activities such as updating of approval limits and setting up of approval workflow are also critical and should be logged and reviewed.

47. NFS@Gov is the Government’s core accounting and financial transaction system. It supports a wide range of functions, including processing of payments to all Government suppliers, and is also used to prepare the financial accounts of ministries and organs of state. It is critical that activities performed using the privileged accounts are properly logged and reviewed, especially when the use of privileged accounts with powerful access rights are shared amongst several AGD staff. Any unauthorised activity could compromise the controls over the processing and recording of financial transactions in NFS@Gov.

48. AGD informed AGO that it had to balance between operational and security needs on the use of privileged accounts for NFS@Gov. AGD will carry out regular reviews to strengthen the current process controls and assess the feasibility of increasing the scope of system logs to cover more activities without adversely impacting system performance. AGD targets to complete the review by October 2019.

SINGAPORE CUSTOMS

Weak Controls over Privileged User Accounts and Monitoring of Privileged Users' Activities

49. In the audit of the general IT controls and application access controls of Singapore Customs (Customs)' TradeNet system and eCustoms system, AGO noted the following weaknesses in the controls over privileged user accounts and monitoring of privileged users' activities:

- a. For six eCustoms system servers, seven operating system (OS) administrators, who were IT vendor staff, were able to use the most privileged OS user account which gives unrestricted access to the servers without password authentication. The activity logs also did not capture sufficient details of the activities performed using the most privileged OS user account.
- b. The activities of the database (DB) administrator (an IT vendor staff) of eCustoms system were not logged.
- c. Customs did not review the activity logs of six privileged users (four of whom were IT vendor staff) managing user accounts and associated access rights in the TradeNet system.

50. Such weaknesses exposed Customs to the risk of unauthorised access and risk of not detecting any unauthorised activity. This could then compromise the integrity of information in the two systems.

A. Weak Controls over Most Privileged Operating System User Account

51. In six of the seven eCustoms system servers test-checked, AGO found that seven OS administrators, who were staff of Customs' IT vendor, were able to use the most privileged OS user account without password authentication. Furthermore, AGO found that the logs did not capture sufficient details of the activities performed by the OS administrators using the most privileged OS user account. The weak controls over the most privileged OS user account and the absence of detailed activity logs exposed Customs to the risk of unauthorised access and risk of unauthorised activities not being detected.

52. The eCustoms system supports Customs' key business processes such as registration of entities for import and/or export activities, administration of customs licences and schemes, collection of Goods and Services Tax (GST) and customs and excise duties, tracking of trade non-compliance, and administration of fines and penalties. The eCustoms system is managed and supported by an IT vendor.

53. The IT vendor staff performing the role of OS administrator may require access to the most privileged OS user account as part of their duties. According to Customs, it had controlled the OS administrators' access to the most privileged OS user account with a password. However, AGO found that the six servers were configured such that after the OS administrators had logged into the system using their individual non-privileged OS user accounts, they could gain access to the most privileged OS user account without having to key in another password. The lack of password authentication to access the most privileged OS user account increased the risk of unauthorised access.

54. In addition, AGO noted that the activity logs did not capture sufficient information of the activities performed using the most privileged OS user account to allow detection of unauthorised activities. The logs also did not contain sufficient information to identify the OS administrator who performed the activities. Detailed activity logs are critical for proper accountability as more than one OS administrator could concurrently use the most privileged OS user account.

55. Following AGO's audit in October 2018, Customs informed AGO that it had, since April 2019, enhanced the configuration of the servers to enforce password authentication for the use of the most privileged OS user account. The number of OS administrators required to manage its eCustoms system servers was also reduced from seven to three. Customs would review and further tighten the use of all privileged user accounts, including the most privileged user account, by end June 2019. Customs further informed AGO that it would implement system enhancements to capture more detailed information of the activities performed using the most privileged OS user account by end 2019.

B. No Logging of Database Administrator's Activities

56. AGO found that Customs did not log the activities performed on one of the eCustoms system databases by the DB administrator. The DB administrator, who was an IT vendor staff, had full access to the database and could modify the trade and financial information contained in the database. Without logging and reviewing the DB administrator's activities, Customs would not be able to detect any unauthorised database activity which could compromise the integrity of information in the database. Information stored in the database included details of customs licences and collections of GST, and customs and excise duties.

57. Customs informed AGO that the feature to log the activities of DB administrators had since been activated from April 2019. Customs also informed AGO that it would be working with its IT vendor to automate the review of logs by the third quarter of 2019.

C. Privileged User Activities Not Reviewed

58. AGO's checks in March 2019 revealed that Customs did not review the activity logs of the four customer administrators (CAs) who were IT vendor staff and two system security administrators (SSAs) who were Customs staff. Being privileged users, the CAs and SSAs had access rights which enabled them to modify user accounts and associated access rights in the TradeNet system. The activity logs of the CAs and SSAs were available in the TradeNet system but were not generated for review. Without reviewing the activity logs, Customs would not be able to detect any unauthorised change carried out by these privileged users.

59. The TradeNet system is used by Customs to receive and process applications for permits, and to deduct or refund fees and taxes electronically. Hence, it is important that Customs put in place controls to detect unauthorised changes to user accounts and access rights which could then compromise the integrity and confidentiality of information stored in the TradeNet system.

60. Customs informed AGO that it had since commenced the monthly review of the privileged accounts and activity logs of the CAs and SSAs for the TradeNet system from April 2019.

MINISTRY OF HEALTH

MEDICAL ENDOWMENT FUND

61. For the audit of the Medical Endowment Fund (Medifund), AGO covered the following areas in its test checks:

- a. Administration of Medifund; and
- b. Disbursement of Medifund assistance.

The more significant observation arising from the audit is presented in the paragraphs that follow.

Medifund Assistance Not Computed in Accordance with Medifund Manual

62. AGO's test checks revealed that a restructured hospital (RH) did not compute Medifund assistance for recipients who chose to stay in class B2 wards, in accordance with the guidelines in the Medifund manual issued by the Ministry of Health (MOH). As a result, the RH granted higher Medifund assistance than what was provided for in the Medifund manual.

63. The Medifund scheme was established to help needy Singaporeans with their medical bills. Singaporeans, who have difficulty paying the balance of their subsidised medical bills after drawing on all other means of payment¹⁰, may apply for Medifund assistance. MOH issues a Medifund manual to guide public healthcare institutions (including RHs) in the administration of the Medifund scheme and in the assessment of the assistance to be granted.

64. AGO's test checks revealed that an RH did not follow the guidelines in the Medifund manual to compute the Medifund assistance for recipients who chose to stay in its class B2 wards. The computation approach used by the RH resulted in higher Medifund assistance than what would be granted based on the guidelines in the manual. Based on AGO's test checks, the difference amounted to \$119,100 for 24 bills for 22 recipients who chose to stay in class B2 wards at the RH during the period 1 April 2017 to 31 March 2018. The RH informed AGO that it had been using that approach to compute the Medifund assistance for recipients who chose to stay in class B2 wards since 2009. Arising from AGO's audit, MOH estimated that there could be 4,500 class B2 ward bills at the RH where Medifund assistance was provided from 2013¹¹ to 2018.

65. AGO noted that MOH had been aware since 2015 that in addition to the RH, there were some other public healthcare institutions which used the same computation approach as the RH to compute Medifund assistance granted to recipients who chose to stay in class B2 wards. The different approaches in computing Medifund assistance across public healthcare institutions would result in inconsistent treatment of Medifund recipients. The Medifund manual has provided for situations where Medifund recipients choose to stay in class B2 wards. Under such situations, RHs may write off the outstanding hospital bill amount which exceeded the Medifund assistance computed based on the Medifund guidelines, without reimbursement from Medifund.

¹⁰ Other means of payment include MediSave, MediShield, personal medical insurance, employer-provided medical benefits and cash.

¹¹ According to MOH, the RH could only provide bills from the year 2013 as it only retained five years of financial records based on the Inland Revenue Authority of Singapore's requirements.

66. MOH acknowledged that while Medifund is a discretionary safety net with decentralised assessments and decision-making at institutions approved to administer the Medifund scheme, the guidelines on Medifund assistance computation should be clearly communicated so as to guide the institutions. MOH also acknowledged that it had not been sufficiently clear or timely in rectifying the misunderstanding by the RH in the computation approach.

67. MOH informed AGO that it will not be recovering from the RH or other public healthcare institutions the difference in Medifund assistance granted to recipients as the guidelines in the Medifund manual were for reference and not strict adherence, and the institutions had assessed the recipients to be in significant financial difficulties. MOH also informed AGO that, moving forward, it would ensure greater clarity and more consistent understanding of the guidelines in the Medifund manual. MOH would be implementing a consistent computation approach across institutions in the new billing system to be rolled out in end 2019. In the interim, before the billing system changes were made, MOH would remind institutions to apply the guidelines on Medifund assistance computation more consistently.

MINISTRY OF MANPOWER

Weak Controls over Activities Carried Out in IT Systems

68. AGO's audit of the general IT controls over the Ministry of Manpower (MOM)'s Work Permit and Employment/S Pass systems¹² revealed the following:

- a. Weaknesses in management of Security Incident and Event Management system;
- b. No review of activities carried out using privileged operating system (OS) account; and
- c. Inadequate review of database (DB) administrators' activities.

¹² The systems facilitate the administration and processing of Work Permits, S Passes and Employment Passes which are issued to foreign nationals who work in various sectors in Singapore.

69. Such weaknesses exposed MOM to the risk of unauthorised access and risk of not detecting any unauthorised activity. This could then compromise the confidentiality and integrity of information in the Work Permit and Employment/S Pass systems.

A. *Weaknesses in Management of Security Incident and Event Management System*

70. AGO noted lapses in MOM's control over its Security Incident and Event Management (SIEM) system and its activity log review process. MOM did not have in place a process to manage and review changes made to its SIEM system. The SIEM system plays an important role in MOM's IT operations by collecting activity logs from its systems, including the Work Permit and Employment/S Pass systems, and generates security alerts on possible security violations and breaches (e.g. multiple failed logins, unknown access attempts and activities performed on the databases) for review. The reliability and integrity of the SIEM system is key to ensure that the SIEM system generates complete and accurate security alerts for review.

71. AGO's audit in January 2019 found that MOM had not been reviewing changes made to the SIEM system since the system was implemented in January 2016. At the time of AGO's audit, two MOM IT staff and one IT vendor staff, who were responsible for maintaining the SIEM system, had access rights to modify security alert rules and remove systems from being monitored by the SIEM system. Without regular reviews, any unauthorised change that could compromise the reliability and integrity of the SIEM system would not be detected.

72. Upon AGO's query, MOM took action to review the activity logs on changes made to the SIEM system. However, AGO noted that MOM's review was not effective as the activity logs did not contain sufficient details (e.g. which security alert rule was changed) to facilitate a proper review.

73. AGO also noted that the IP addresses of five Work Permit and Employment/S Pass servers were changed in July 2018 but the corresponding logging configurations in the five servers were not updated. As a result, the five servers were not able to send activity logs to the SIEM system. MOM was not aware that the SIEM system was not receiving activity logs from these five servers until AGO checked with MOM on the outdated logging configurations in the five servers during AGO's audit in January 2019.

74. MOM informed AGO that it had put in place a process to manage changes made to the SIEM system since March 2019. MOM also informed AGO that it had upgraded the SIEM system to a version with better logging capabilities in March 2019, and it would work with its vendor to further enhance the logging. With regard to the five servers, MOM informed AGO on 28 January 2019 that it had since updated the configurations of the five servers to send activity logs to the SIEM system.

B. No Review of Activities Carried Out Using Privileged Operating System Account

75. AGO noted that MOM had not reviewed the activities performed by the OS administrators, on MOM's Work Permit and Employment/S Pass systems since June 2011.

76. At the time of AGO's audit in January 2019, 13 IT vendor staff held the role of OS administrators. As OS administrators, they had access to the most privileged OS user account of the respective Work Permit and Employment/S Pass servers they supported. This account enabled them to have unrestricted access to the Work Permit and Employment/S Pass databases, including access rights to change data (e.g. employers' information, work pass and permit holders' records, levies and fees), change database security settings and remove the audit trail of any unauthorised activity carried out.

77. AGO noted that MOM did not review the activities, performed by all 13 OS administrators, using the most privileged OS user account on the Work Permit and Employment/S Pass systems. As a result, MOM would not be able to detect any security violation and breach performed using this account. In fact, AGO noted that MOM had not carried out any review of activities performed using this privileged account since 2 June 2011, the day when the requirement for log review was mandated in the Government Instruction Manuals.

78. AGO further noted that an external IT consultant, which was engaged to perform an IT security review on the Work Permit system, had highlighted to MOM this same issue in July 2017, that there was no review of privileged activities performed using the most privileged OS user account. MOM had indicated then that the activities for the privileged account of the operating system would be reviewed quarterly, and that it had targeted to complete the remediation by October 2017. However, 15 months later, at the point of AGO's audit in January 2019, MOM was unable to provide evidence that it had carried out the review of privileged activities performed using the most privileged OS user account.

79. MOM explained that following the external IT consultant's review in July 2017, MOM had implemented additional logging of the OS administrators' activities but did not ensure that the activity logs were reviewed. MOM informed AGO that it had started reviewing the OS administrators' activity logs since March 2019. MOM had also reviewed past OS administrators' activity logs from January 2018 to March 2019 and verified that there was no unauthorised database activity by the OS administrators.

C. Inadequate Review of Database Administrators' Activities

80. AGO noted that MOM did not adequately review the activities performed by its four DB administrators on the Work Permit and Employment/S Pass databases. For five different weeks of DB administrators' activity logs in 2018 that were test-checked, AGO noted that there were 418 activities performed by the DB administrators on the databases, and MOM was not able to provide evidence of its review for 411 (98.3 per cent) of the activities.

81. The four DB administrators, as part of their work requirements, had full access rights to the databases, including unrestricted read and modification access to the data pertaining to employers' information, work pass and permit holders' records, levies and fees. By not reviewing all activities performed by the DB administrators on the Work Permit and Employment/S Pass databases, MOM would not be able to detect any unauthorised access or modification that would impact the integrity of the data in the databases.

82. MOM informed AGO that it had started reviewing all security alerts on DB administrators' activities, generated by its SIEM system, since January 2019.

MINISTRY OF NATIONAL DEVELOPMENT

Irregularities Noted in Quotations

83. Arising from a complaint alleging procurement irregularities, AGO carried out test checks on the Ministry of National Development (MND)'s procurement and contract management of works for building facilities. AGO's test checks revealed irregularities in a significant number of quotations submitted by a contractor for 49 out of 71 works orders (69 per cent) involving star rate items. The total value of the star rate items in the 49 works orders amounted to \$0.25 million.

84. MND engaged a managing agent (MA) to manage its contractors for building facilities works. For works orders involving star rate items, the contractor was required to source three quotations from different suppliers and submit these quotations to the MA for evaluation. The MA would evaluate the quotations and put up its recommendation on which supplier to award to for MND's approval.

85. AGO's test checks of quotations submitted by a contractor for 49 works orders revealed tell-tale signs indicating irregularities in a significant number of quotations. The works orders (totalling \$0.32 million) were paid during the period April 2016 to March 2018 and the star rate items totalled \$0.25 million.

86. As AGO had concerns over the authenticity of the quotations submitted in relation to the star rate items, and these were relied upon for payment of the works orders, AGO recommended that MND refer the matter to the Police.

87. MND has informed AGO that the matter has since been referred to the Police. MND also informed AGO that it will enhance its controls such as having more stringent checks on quotations and suppliers in its contract with the MA. MND will also step up the level of staff training in the areas of contract management and detection of irregularities.

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 2018/19 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 Finance Circular Minute No. M3/2011, 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.

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 2018/19, AGO carried out selective audits of the following six statutory boards:

- a. ISEAS – Yusof Ishak Institute;
- b. Majlis Ugama Islam Singapura;
- c. National Council of Social Service;
- d. Singapore Land Authority;
- e. Singapore Totalisator Board; and
- f. Urban Redevelopment Authority.

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

MAJLIS UGAMA ISLAM SINGAPURA

10. For the audit of the Majlis Ugama Islam Singapura (MUIS), AGO covered the following areas in its test checks:

- a. Procurement and payment;
- b. Access controls over selected IT systems;
- c. Management of Haj administration fees;
- d. Management of inheritance moneys and financial assistance; and
- e. Management of Zakat-related records.

11. AGO's audit revealed a number of lapses which indicated weaknesses in MUIS' financial controls and administration across the areas audited. These included lapses in procurement such as failure to establish evaluation sub-criteria and scoring methodology before the close of tenders and quotations, evaluation of proposals not done according to the published evaluation criteria, and errors in the scores awarded to the proposals. There were also weaknesses in the management of access rights granted to users of a few IT systems and instances where Haj administration fees relating to deceased applicants were not refunded in a timely manner.

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

Lapses in Evaluation of Tenders and Quotations

13. AGO's test checks of 22 tenders and quotations awarded (contract value totalling \$30.85 million) during the period 1 April 2016 to 30 June 2018 revealed a number of lapses. The lapses included not establishing evaluation sub-criteria and scoring methodology before the close of tenders/quotations, evaluation of proposals not done according to the published evaluation criteria and errors in the scores awarded to the proposals during the evaluation process. As a result, there was inadequate assurance that the Government procurement principles of transparency, open and fair competition, and value for money had been adhered to.

A. *Evaluation Sub-criteria and/or Scoring Methodology Not Established before Close of Tender/Quotation*

14. AGO's test checks revealed 12 tenders and quotations (contract value totalling \$5.54 million) where the evaluation sub-criteria and/or scoring methodology used were only determined after the tender/quotation had closed. AGO noted that this could subject the evaluation process to manipulation as the sub-criteria and scoring methodology could be set during evaluation to favour certain bidders. To ensure fairness, transparency and integrity in the evaluation process, the evaluation criteria (including the sub-criteria) and the scoring methodology should be established upfront.

15. MUIS informed AGO that it would enhance its procurement process to align with best practices.

B. *Evaluation Not Done According to Published Evaluation Criteria*

16. There were four tenders and quotations (contract value totalling \$1.38 million) where MUIS did not evaluate the proposals according to its published evaluation criteria. The proposals were not evaluated when they met the critical evaluation criteria, not disqualified when they failed to meet the critical evaluation criteria or evaluated using criteria different from that published in the tender/quotation documents. For one of the cases, had the non-compliant proposals been disqualified from evaluation, the awarded vendor could have been different. By not evaluating the proposals based on the published evaluation criteria, MUIS could be subject to allegations of unfairness.

17. MUIS informed AGO that it would enhance its procurement expertise, e.g. raising staff knowledge on procurement matters by organising evaluation criteria training for all officers.

C. Errors in Scoring

18. AGO's checks also revealed six tenders and quotations (contract value totalling \$4.40 million) where there were errors in the scores awarded to proposals during the evaluation process. The errors included the following:

- a. Awarding bidders full scores for a criterion when the requirement was not met;
- b. Using information of other entities to evaluate the bidders; and
- c. Not including bidders' past projects as qualifying track records.

19. For three of the cases, had the proposals been properly evaluated and scores correctly computed, the awarded vendors could have been different.

20. MUIS acknowledged that there was room to enhance its evaluation of tenders and quotations. Going forward, MUIS would raise the seniority level for the Chairman of its Tender Evaluation Committee. This would allow better guidance during the procurement evaluation stage.

Weaknesses in Management of Access Controls of IT Systems

21. AGO's checks of controls over user accounts and access rights for two of MUIS' IT systems used for processing of applications and collections revealed weaknesses in the management of access rights granted to users, including conflicting access rights assigned to certain users. AGO also noted that MUIS did not conduct annual reviews of access rights granted to users for four out of five IT systems checked. It is important that regular reviews of access rights be carried out to ensure that access rights no longer needed are removed promptly and only authorised users have access to the systems. The details of the observations are in the paragraphs that follow.

A. Weaknesses in Management of Access Rights in Electronic Halal System

22. AGO's audit of controls over user accounts and access rights for the Electronic Halal (eHalal) system revealed the following weaknesses:

- a. No segregation of duties due to the conflicting access rights assigned to 5 out of 25 users checked.
 - i. Four users were able to assign or re-assign applications for certification to themselves, conduct inspections, and approve applications and their own inspections. Furthermore, three of the four users were also granted the system administrator role, which would enable the user to create or deactivate user accounts, activate obsolete accounts, assign roles, etc.
 - ii. For the remaining user, apart from being granted the system administrator role, the user was also granted other operational roles such as updating payment status, and assigning or re-assigning applications.

Such weaknesses increased the risk of unauthorised activities. In this regard, AGO noted 22 applications where two officers who conducted the inspection also approved their own recommendations relating to the applications.

- b. 84 deactivated user accounts were not removed from the system. These accounts could be reactivated to gain unauthorised access to the system to conduct unauthorised transactions.
- c. Four active accounts which were no longer required were not deactivated. Two of them belonged to officers who had resigned in December 2017, which was about a year before the time of audit. Another account was a dummy account created during testing phase while for the last account, MUIS could not explain why it was created. By not deactivating the four user accounts, there could be a risk of unauthorised access and misuse of these accounts to conduct unauthorised transactions.

23. MUIS informed AGO that the eHalal system was a legacy system with a number of technical limitations. It would be rolling out a new eHalal system in two phases. Phase One, which is the public facing portion of the new system went live on 15 October 2018. Phase Two, which serves internal users, is currently undergoing business process re-engineering and is expected to be completed by end 2020. With the implementation of the new system, the technical limitations and limitations on access rights would be addressed. MUIS would also assess the mitigating measures to be put in place in the interim period.

B. Weaknesses in Management of Access Rights in Zakat Receipting System

24. AGO's checks on the user accounts and access rights granted to the Zakat receipting system revealed the following weaknesses:

- a. Eight obsolete accounts, out of 686 user accounts were not deactivated. Five of these accounts belonged to users who had resigned between 2 months and 4.4 years before the time of audit in November 2018. Another two accounts belonged to users from a mosque which had closed in April 2014 while the remaining account belonged to an external party who had ceased to be an agent of MUIS for more than 10 years. The delay in deactivating user accounts which were no longer required increased the risk of unauthorised access to and modification of the data in the system.
- b. Thirteen users had access rights which were in excess of their job functions, such as rights to add and edit users, and delete and edit receipts. Such weaknesses not only exposed the system to unauthorised access, but also increased the risk of unauthorised activities being performed in the system.

25. MUIS informed AGO that it had since replaced the Zakat receipting system with a new receipting system with effect from January 2019. The new receipting system would have the functionalities to fully address the above issues.

C. User Access Rights for IT Systems Not Regularly Reviewed

26. AGO's checks revealed that MUIS did not conduct annual reviews of access rights granted to users for four out of five IT systems during the period checked (2014 to 2018). This was contrary to the Government Instruction Manuals and MUIS' Standard Operating Procedures (SOP) which require reviews of accounts and access rights to be conducted annually for such systems.

27. As these systems contain important information relating to MUIS' core functions (including financial information), it is important that regular reviews of access rights be carried out to ensure that access rights no longer needed are removed promptly and only authorised users have access to the systems.

28. MUIS informed AGO that going forward, it will work with system owners to conduct regular account and access rights reviews as required under the Government Instruction Manuals and MUIS' SOP.

Haj Administration Fees Relating to Deceased Applicants Not Refunded in a Timely Manner

29. Under the Administration of Muslim Law (Haj) Rules (Cap. 3, R 6), Haj administration fees are collected by MUIS from persons who apply to perform the Haj. If the applicant passes away before performing the Haj, the fee is to be refunded to the estate of the deceased applicant. AGO noted that MUIS would check the applicant's status against its internal records when his/her allocated Haj year is due and refund the administration fees to the estate at that point in time if checks establish that the applicant had passed away.

30. AGO's audit revealed that there were 226 Haj applicants who had passed away between 2012 and 2018 but the administration fees collected had yet to be refunded to their estate. The total value of Haj administration fees yet to be refunded amounted to \$57,900. AGO noted that if MUIS waited until the deceased applicants' respective allocated Haj year to refund the fees, it could be many years later before refunds to their estate were made. This may also result in MUIS facing difficulties in locating the next of kin by then, and consequently, having many cases of unclaimed moneys to handle.

31. In the selective audit of MUIS in financial year 2012/13, AGO had raised similar concerns regarding Haj administration fees not refunded to the estate of deceased applicants in a timely manner. It is important that MUIS be more proactive in following up on the refund of Haj administration fees. For cases where MUIS was not informed of the death of the applicant, AGO recommends that MUIS consider how it can more proactively use its internal records to determine the status of applicants and refund the Haj administration fees to the estate of deceased applicants in a timely manner.

32. MUIS agreed with AGO that refunds to the estate of deceased applicants should be made as soon as is practically possible. Currently, MUIS immediately processes refunds in cases where MUIS is informed of the death of a Haj applicant by his family. MUIS would review the Haj refund process for further improvements.

MINISTRY OF FINANCE

SINGAPORE TOTALISATOR BOARD

33. For the audit of the Singapore Totalisator Board (Tote Board), AGO covered the following areas in its test checks:

- a. Procurement and payment;
- b. Administration of grants; and
- c. Investments by external fund managers.

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

Lapses in Administration of Grants

34. AGO's test checks of Tote Board's administration of grants for 54 projects revealed lapses in 19 projects, for which \$192.30 million had been disbursed as at 31 March 2018. These included lapses in monitoring the submission of documents and recovery of unutilised grants, and inadequate follow-up with grant recipients on the status of their claims. Without proper monitoring and follow-up, there was inadequate assurance that the grants were properly managed and that the intended outcomes were achieved.

A. Lapses in Monitoring Submission of Documents and Recovery of Unutilised Grants

35. Of the 19 projects, AGO noted 16 projects (disbursements totalling \$55.58 million) where Tote Board did not follow up or could not produce evidence of its follow-up on documents that were due from the grant recipients. According to the grant terms and conditions, the recipients were required to submit documents including statement of accounts, audited financial statements, progress reports and final reports within 6 to 12 months after the end of each financial year.

36. AGO's checks found that as at February 2019, some of the documents were overdue by 4 months to 7.3 years. Without these documents, Tote Board would not be able to establish whether the projects were progressing satisfactorily and the grants had been used in accordance with the agreed terms and conditions. Of these 16 projects, AGO noted that 11 projects involved grants partially disbursed in advance. Without proper monitoring, the risk of unutilised grants not being recovered in a timely manner is increased.

37. AGO also noted two projects² (disbursements totalling \$821,156) where Tote Board did not follow up with the recipients to recover the unutilised grants in a timely manner. The delays in recovery were 9 months and 6.5 years after Tote Board had established that there were excess funds disbursed. The unutilised funds were 22.2 per cent of the grants disbursed.

² Of the two projects, one was also included in the 16 projects where there was inadequate follow-up on the submission of documents.

38. AGO also noted two other projects where Tote Board accepted the grant recipient's requests to extend the timeline for the submission of audited financial statements for financial years 2016/17 and 2017/18 till its next claim, without compelling reasons. Without the audited financial statements, there was no assurance that the grants disbursed, amounting to \$6.11 million, were used in accordance with the grant terms and conditions. As at 1 February 2019, AGO noted that Tote Board had still not received the audited financial statements from the grant recipient for financial years 2016/17 and 2017/18.

B. Inadequate Follow-up with Recipients on Status of Claims

39. AGO noted that for 12 out of the 16 projects mentioned in paragraph 35 above, Tote Board did not follow up with the grant recipients on the status of their claims even though the timelines for the claims had passed. The delays ranged from 4 months to 3.9 years. AGO further noted that the approved funding period had ended for 11 of the 12 projects.

40. It is important that Tote Board promptly follow up with grant recipients when timelines for claims had passed so that it would have a complete picture of its current and projected fund utilisation. This would also enable Tote Board to promptly recover any unutilised grants and channel the funds to other projects.

41. Tote Board explained that it adopts a risk-based approach to manage its grants. This includes (i) requiring grant recipients to co-fund projects to ensure that they have an interest in the projects, (ii) allowing progressive and partial disbursement of funds and making final disbursement only when complete documentation is received, and (iii) reviewing performance of past projects when evaluating funding for future projects. AGO noted that while Tote Board adopts a risk-based approach to manage its grants, there is a need for Tote Board to institute rigour in its grant monitoring process. This is to ensure that Tote Board is adequately informed of the progress of the projects on a timely basis for it to take prompt follow-up actions where necessary.

42. Tote Board acknowledged the lapses highlighted by AGO and agreed that there should be more timely follow-up on the monitoring of projects and recovery of unutilised grants. Tote Board informed AGO that it had started to enhance its efforts to monitor and track projects, and would continue to put in place additional measures and initiatives.

MINISTRY OF NATIONAL DEVELOPMENT

URBAN REDEVELOPMENT AUTHORITY

43. For the audit of the Urban Redevelopment Authority (URA), AGO covered the following areas in its test checks:

- a. Procurement and contract management;
- b. Revenue and receivables;
- c. Asset transfer of completed infrastructural projects to other public sector entities; and
- d. Corporate governance.

The more significant observation arising from the audit is presented in the paragraphs that follow.

Irregularities Noted in Quotations

44. AGO's test checks on contract variations involving star rate items for one of URA's infrastructural projects revealed irregularities in some quotations submitted by a contractor.

45. URA awarded the contract for an infrastructural project to a contractor and appointed a consultant to manage the project. For contract variations involving star rate items, the contractor would obtain quotations from suppliers and submit them to the consultant upon request. The consultant may make reference to the quotations obtained by the contractor to estimate the cost of the variation works and to assess whether the contractor's payment claims for star rate items were reasonable and reflective of fair market prices.

46. AGO's test checks revealed irregularities in 4 out of 17 contract variations involving star rate items approved during the period June 2017 to September 2018. AGO had concerns over the authenticity of 9 out of 16 quotations (56.3 per cent) obtained for star rate items for the four contract variations. The nine quotations were submitted by the contractor to the consultant. The total estimated value of the four contract variations amounted to \$55,000. While these variation works have not yet been paid, AGO is concerned that these quotations may be used to assess the reasonableness of payment claims for star rate items by the contractor.

47. AGO recommended that URA look into the documents submitted by the contractor and make a police report if necessary.

48. URA has since informed AGO that it has lodged a police report on the matter. URA also informed AGO that it would ensure that a thorough, independent re-evaluation of the value of the variation works in question is carried out before payment is made to the contractor.

MINISTRY OF SOCIAL AND FAMILY DEVELOPMENT

NATIONAL COUNCIL OF SOCIAL SERVICE

49. For the audit of the National Council of Social Service (NCSS), AGO covered the following areas in its test checks:

- a. Procurement and payment;
- b. Collection of course fees;
- c. Donations and fund-raising proceeds;
- d. Grants;
- e. Trust funds; and
- f. Petty cash imprest.

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

Lapses in Procurement

50. AGO's test checks of six tenders (approved procurement value totalling \$20.04 million) for the period 1 April 2016 to 30 June 2018 revealed significant lapses in three tenders (approved procurement value totalling \$5.06 million). As a result, there was no assurance that the Government procurement principles of open and fair competition, transparency and value for money were adhered to.

A. Accepting Tender Documents After Close of Tender

51. For the interior renovation and relocation tender (approved procurement value of \$3.29 million), AGO noted that NCSS had accepted tender documents from three tenderers after the tender had closed. The Invitation to Tender (ITT) had required a comprehensive set of information and documents to be submitted by the tender closing date. Accepting the required documents after the tender had closed would not be fair to other tenderers which had submitted those documents within the stipulated timeline.

52. After the close of tender, the three tenderers and other shortlisted tenderers were invited to present their proposals to the Tender Evaluation Committee (TEC). The three tenderers, which had not submitted some of the required tender documents (e.g. organisation chart, résumé of key personnel, technical proposals and/or programme of works), presented such information during their briefing to the TEC. These documents were submitted 14 days after the tender closing date. The TEC accepted the additional information and documents for evaluation and awarded scores for the proposals. One of the three tenderers was subsequently awarded the contract.

53. NCSS agreed with AGO that documents required to be submitted under the ITT should not have been accepted if they were submitted after the tender had closed.

B. Lapses in Tender Documentation and Evaluation

54. AGO found that NCSS did not provide sufficient information in the ITT for the printing and delivery of materials for training courses/events organised by NCSS for external parties (approved procurement value of \$888,200). Prospective tenderers were only informed of the number of training programmes and training participants for a year. This was not adequate for them to reasonably gauge the printing volume and price their bids for the full contract period of one year with an option to extend for another two years. Consequently, only a single bid was received and this was from the incumbent vendor. Not providing sufficient information in ITT documents could preclude competition as prospective tenderers would not be able to put up a competitive bid.

55. In the assessment of the price reasonableness of items quoted by the incumbent vendor, AGO noted that the TEC had only done price comparison for 2 out of the 28 items³ quoted. AGO also noted that there were 11 items quoted by the incumbent vendor with prices higher (ranging from 6 to 900 per cent) than those stated in the previous contract. However, the TEC did not assess the price reasonableness of these items. There was hence no assurance that value for money had been obtained for the tender.

56. NCSS informed AGO that going forward, the tender specification would include a minimum guaranteed volume or state the existing estimated volume so that bidders would have more information to determine the volume of printing for the contract period. The TEC would also evaluate all items in the bid instead of a few items.

C. Evaluation Scores Incorrectly Computed and Not Properly Substantiated

57. This tender involved the provision of refreshments for training programmes organised by NCSS for external parties (approved procurement value of \$878,400 for three years). AGO found that there were lapses in the tender evaluation process. For one of the tender evaluation criteria, the score awarded to a tenderer was wrongly computed. In addition, for another tender evaluation criterion, the score assigned to the same tenderer did not take into consideration negative feedback received from a food sampling conducted during the evaluation process.

58. Had the evaluation scores for the criteria been correctly computed and properly substantiated, the outcome of the tender could have been different.

59. NCSS acknowledged the lapses and agreed with AGO's recommendations to put in place procedures to ensure that tender proposals are properly evaluated.

³ These items included single-sided/double-sided printing, black and white or colour printing and paper size.

Partial Sponsorship Not Solicited in a Fair Manner

60. AGO test-checked eight direct contracts⁴ (contract value totalling \$0.44 million) for the period 1 April 2016 to 30 June 2018. One of these direct contracts (contract value of \$0.11 million) was for the production of a short video and contracted to a particular vendor which provided partial sponsorship in the form of a discount. AGO found that the partial sponsorship was not solicited in a fair manner and did not adhere to the Ministry of Finance (MOF)'s principles of non-discrimination and value for money required for NCSS' fund-raising activities involving partial sponsorship.

61. AGO noted that NCSS had a particular vendor in mind for the production of the video and approached the vendor to solicit partial sponsorship in the form of a discount from the total production cost. Although NCSS had approached other vendors to obtain quotes to ascertain the reasonableness of the vendor's quote, there was no evidence that it had approached them for partial sponsorship similar to what it did for the vendor. This could lead to allegations of discrimination in the selection of vendors by NCSS.

62. AGO also noted that the vendor's discounted quote of \$105,000 was only 11.7 per cent lower than the lowest quote of \$118,900 obtained from two other vendors. Had NCSS approached the other two vendors for partial sponsorship on a similar basis as it did for the particular vendor, NCSS could have obtained better value for money for the production of the video.

63. NCSS informed AGO that it is seeking MOF's views for greater clarity on how the principles of non-discrimination and value for money can be applied in the case of partial sponsorships.

⁴ This refers to NCSS procuring goods or services from a vendor by directly approaching and contracting with the vendor without calling an open tender or quotation.

PART III

THEMATIC AUDIT

PART III : THEMATIC AUDIT

1. In the financial year 2018/19, AGO conducted a thematic audit on selected social grant programmes managed by the Ministry of Health (MOH) and the Ministry of Social and Family Development (MSF).

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 MOH and MSF for their co-operation in the audit.

Scope of Audit

5. The thematic audit focused on the management of social grant programmes during the period 1 April 2016 to 31 March 2018. Both MOH and MSF partner Voluntary Welfare Organisations and intermediaries¹ (together termed as “VWOs”) which provide services or funding for social purposes², to administer social grant programmes.

¹ Refers to entities involved in the management of grant programmes for the ministries.

² Funding for social purposes include funding programmes for seniors, the disadvantaged and vulnerable individuals and families.

6. The audit covered the following stages in grant management:
 - a. Stage 1: Grant Design and Setup
 - whether processes were in place to ensure that grant programmes were authorised and reviewed for relevance
 - b. Stage 2: Grant Evaluation and Approval
 - whether the processes to invite, evaluate and approve grant applications/proposals from VWOs and enter into funding agreements were properly managed
 - c. Stage 3: Disbursement of Grants
 - whether processes were in place to ensure that grant disbursements were properly supported, approved and disbursed in an accurate and timely manner
 - d. Stage 4: Monitoring and Review of Grants
 - whether processes were in place to ensure that relevant terms and conditions in agreements with VWOs were adhered to and monitoring and review were carried out to ensure deliverables were achieved
 - e. Stage 5: Cessation of Grants
 - whether processes were in place to ensure that unused grants, if any, were refunded by VWOs or final payments were made by the ministries 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. The audit did not seek to certify whether the VWOs had, in all material aspects, used or managed the grants in accordance with the grant terms and conditions. For grants which were jointly managed by MOH/MSF, its intermediaries and one or more VWOs, the audit focus was on MOH/MSF's role and responsibilities in the grant management.

Summary

8. For each social grant programme, MOH/MSF would enter into a funding agreement with the VWO or a branch of the VWO. For this audit, AGO selected VWOs or their branches funded under grant programmes (henceforth known as “Programme-VWOs³”) for test checks.

9. A total of \$1.59 billion was disbursed by the two ministries under their social grant programmes to 1,058⁴ Programme-VWOs during the period 1 April 2016 to 31 March 2018. Of the 1,058 Programme-VWOs, AGO test-checked 429 Programme-VWOs (comprising 177 for MOH and 252 for MSF) covering disbursement value of \$488.52 million (or 30.7 per cent) out of the \$1.59 billion⁵. Only Programme-VWOs with grant disbursements or funding agreements which had ended during the period 1 April 2016 to 31 March 2018 were selected for checking across the different stages of grant management.

10. The key observations arising from the audit are presented in the paragraphs that follow.

A. Grant Design and Setup

11. AGO found that MOH and MSF had put in place processes for approving new grant programmes and renewal of grant programmes. By and large, grant programmes managed by both ministries had defined objectives and clear service deliverables which were approved by the correct approving authority. Based on AGO’s test checks, reviews of the grant programmes were carried out periodically by both ministries to assess whether the programmes had achieved their objectives and were still needed.

³ Refers to the pairing of grant programme and VWO (or branch) which is formalised through a funding agreement. For example, a VWO which entered into separate funding agreements for three different programmes would be counted as three Programme-VWOs. If two VWOs entered into separate agreements under one programme, they would be counted as two Programme-VWOs.

⁴ Programme-VWOs comprised 360 Programme-VWOs and 698 Programme-VWOs for MOH and MSF respectively.

⁵ Disbursements totalling \$349.25 million out of \$1.01 billion and \$139.27 million out of \$583.25 million for MOH and MSF respectively.

B. Grant Evaluation and Approval

12. AGO observed that MOH and MSF had put in place processes for the invitation to apply for grants, grant evaluation and grant approval. Based on AGO's test checks, there was proper segregation of duties between grant evaluation and grant approval. In addition, MSF had developed an Internal Funding Approval Framework (IFAF) that spelt out the approving authorities, based on different financial limits, for funding MSF programmes and projects.

13. Nonetheless, AGO noted common areas for improvement for both ministries. AGO found a significant number of instances where approval of funding was obtained or funding agreement was entered into only after the commencement of funding period. There were also instances where grant was approved for payment or disbursed before funding approval was obtained or before an agreement had been entered into.

14. For MOH, AGO found instances where funding agreements were entered into by an officer who was not authorised to do so. MOH was also not able to provide a significant number of documents relating to the application, approval and award of grant for AGO's audit. This indicates that documentation and the record keeping of key documents need to be improved. As for MSF, AGO noted instances where the IFAF was not consistently adhered to and approval of funding was obtained from a lower authority instead of the authority stated in the IFAF.

C. Disbursement of Grants

15. AGO observed that MOH and MSF had procedures and guidelines for processing and approving grant disbursements. In general, VWOs were also required to submit supporting documents and information for disbursements of grants. Guidelines on administration of grants were issued to VWOs. Based on AGO's test checks, both ministries had proper segregation of duties in the processing and approving of disbursements. Grant disbursements were generally made on a timely basis.

16. However, AGO noted that checks by both ministries for grant disbursements were inadequate. Based on AGO's test checks, there was a significant number of instances where the ministries had not carried out adequate checks on VWOs' inputs and claims for disbursements to ensure that these were valid and correct before processing the disbursements. AGO also noted instances of errors in the computation of disbursement amounts.

17. For MOH, AGO's test checks found instances in two major programmes (i.e. the operating subvention programme and salary adjustment programme) where the amounts disbursed were incorrect. For the operating subvention programme, AGO found that inputs submitted by VWOs for computing the disbursements included records of deceased persons and incorrect means-tested subsidy rates. For the salary adjustment programme, AGO was not able to ascertain whether disbursements were correctly made to a number of VWOs as MOH did not have complete documentation to support the assessment that the VWOs had met the funding conditions.

18. For MSF, there was inadequate assurance that disbursements to VWOs for one major programme (i.e. the family services programme) were correct. MSF had used an IT system to capture case recordings⁶ which were entered directly into the system by the VWOs. Data from the system was then used by MSF to compute the disbursement amounts to the VWOs. AGO observed that there were inadequate checks on the data in the IT system to ensure that only case recordings eligible for funding were included for grant computation and disbursement. Hence, there could be over-disbursements to the VWOs.

D. Monitoring and Review of Grants

19. AGO observed that MOH and MSF generally required the VWOs to submit documents such as key performance indicator (KPI) reports and audited financial statements for the ministries to establish whether funding conditions had been met. The ministries also conducted periodic audits to check for compliance with funding terms and conditions.

⁶ Case recording refers to the documentation of interactions which took place between the VWO staff and the client. In each quarter, cases with at least one case recording which met the funding conditions would be funded.

20. Nonetheless, for MOH, AGO's test checks showed that there were gaps in the monitoring process. For the operating subvention programme, while there were reporting requirements stated in the funding agreements, AGO observed that for a significant number of instances, there was no evidence that documents submitted by VWOs had been reviewed. For the salary adjustment programme, there was inadequate follow-up by MOH on anomalies in the documents submitted by VWOs. For other programmes, AGO noted that MOH did not follow up to obtain the required documents which the VWOs had failed to submit. In view of the lapses, MOH would not have adequate assurance that the funding conditions had been met.

E. Cessation of Grants

21. AGO observed that generally MOH and MSF had included provisions in the funding agreements relating to the cessation of grants (e.g. recovery of unused portion of funding from VWOs). Based on AGO's test checks, MOH and MSF had generally recovered unused funds from VWOs in a timely manner.

22. Details of the key observations for each ministry are summarised and reflected in the paragraphs that follow.

MINISTRY OF HEALTH

23. MOH provides social and healthcare assistance to Singapore citizens through the funding of programmes run by VWOs which provide intermediate and long-term care services, social support services and active ageing programmes. During the period 1 April 2016 to 31 March 2018, MOH disbursed a total of \$1.01 billion to 73 VWOs for 60 social grant programmes.

24. AGO carried out test checks on the five stages of grant management and found that MOH had the following processes in place:

- a. Approvals to fund new grant programmes and to renew grant programmes were generally sought from the correct approving authorities;

- b. Requirement for funding agreements⁷ to be entered into with VWOs. These agreements set out the terms and conditions of the grant, KPIs and service deliverables;
- c. Proper segregation of duties between officers who processed grant claims and those who approved disbursement of moneys;
- d. Requirement for VWOs to submit documents such as KPI reports and audited financial statements for MOH to monitor and review whether funding conditions had been met; and
- e. Provisions for cessation of grants and for unused funds, if any, to be returned to MOH.

25. Nonetheless, AGO observed lapses which indicated that the following areas could be improved:

- a. Timeliness in obtaining approval of funding and entering into funding agreements;
- b. Clearer funding terms in funding agreements and better controls to ensure that funding agreements were entered into by authorised officers;
- c. Better record keeping of key grant documents such as grant applications received and decisions regarding approval of grant funding and award to VWOs;
- d. Strengthening checks on information submitted by VWOs before disbursement of grants; and
- e. Better monitoring of VWOs' adherence to reporting requirements.

⁷ Funding agreements include letters of offer and acceptance or their equivalent (e.g. letters of appointment or notifications of MOH's approval of grant applications) which would form a binding agreement.

26. In particular, AGO observed lapses in more than one grant stage for two major grant programmes, namely, the salary adjustment programme and the operating subvention programme. The objective of the first programme was to help VWOs recruit and retain staff by raising staff salaries to minimum salary benchmarks. The second grant programme provided subvention for the operations of VWOs including subsidies to eligible patients.

27. For the salary adjustment programme (\$147.81 million disbursed in financial years 2016/17 and 2017/18), AGO's test checks found that there were unclear terms in the funding agreement, inadequate checks on amounts disbursed, inadequate oversight over management of the programme and lapses in monitoring of stipulated requirements. These lapses are elaborated in paragraphs 42, 45, 51 and 60.

28. For the operating subvention programme (\$469 million⁸ disbursed from MOH's operating budget in financial years 2016/17 and 2017/18), AGO noted from its test checks that invalid and incorrect inputs from VWOs were used for computing grant disbursements. There was also no evidence of review or follow-up on some documents submitted by the VWOs. These lapses are elaborated in paragraphs 45, 55 and 60.

29. Details of the key observations on lapses are in the paragraphs that follow.

Approval of Funding Obtained After Commencement of Funding Period

30. From test checks of 101 Programme-VWOs, AGO noted that funding approval of 15 Programme-VWOs for the operating subvention programme was obtained after the funding period had commenced, with delays of up to 4.7 months. In addition, MOH had made a disbursement of \$0.14 million to one VWO before obtaining approval to renew funding.

31. It is important that approval to fund VWOs is obtained before commencement of the funding period to ensure that the approving authority has given due consideration before funding is committed.

⁸ The amount refers to the disbursements funded from MOH's operating budget which was the scope of the AGO audit. The total amount disbursed to VWOs for the operating subvention programme for financial years 2016/17 and 2017/18 was \$668.21 million. This was funded from both MOH's operating budget and the ElderCare Fund, a separate Government Fund established under the Medical and Elderly Care Endowment Schemes Act (Cap. 173A, 2001 Revised Edition).

32. MOH informed AGO that to institute better control, it would make changes to better plan for sufficient lead time for the approval process prior to the expected commencement of funding period. MOH also informed AGO that its practice was to make disbursements to VWOs only after approval of funding had been obtained. MOH also acknowledged the oversight on the disbursement made prior to obtaining approval.

Agreements Not Entered into by Authorised Officers

33. AGO's test checks of 207 funding agreements found that 32 agreements were entered into by officers who were not authorised to do so. Of the 32 agreements, 24 for the operating subvention programme were issued by officers who had not been designated to do so by the Minister for Health. The remaining eight for other programmes were issued and signed by officers not authorised under the Government Contracts Act (Cap. 118, 2013 Revised Edition).

34. It is important for MOH to ensure that agreements are entered into by authorised officers so that the terms and conditions in the agreements are enforceable.

35. MOH informed AGO that it had reviewed its processes, issued a circular and reminded departments and staff to ensure that future funding agreements are signed by the authorised officers. The authorised signatories had also ratified the affected funding agreements.

Funding Agreements Entered into After Commencement of Funding Period

36. From test checks of 329 funding agreements, AGO noted that 142 of them were entered into after the funding period had commenced, with delays of up to 5.7 months. Of the 142 agreements, 47 were entered into more than two months after the commencement of the funding period. In addition, for nine of the agreements, AGO noted that disbursements totalling \$6.31 million had been made even though the agreements had not been entered into at the time of payment.

37. For good control, funding agreements should be entered into before commencement of funding period to safeguard MOH's interests in the event of any dispute.

38. MOH informed AGO that it would improve the timeliness of entering into funding agreements. It would put in place standard templates for agreements with VWOs for better turnaround time for legal vetting. It had also issued a circular to require its departments and staff to ensure funding agreements are entered into before the commencement or renewal of funding period and before payments are made.

Grant Documents Not Properly Maintained

39. AGO's test checks of 101 Programme-VWOs found that key documents for 26 Programme-VWOs were not properly maintained for the operating subvention programme and the salary adjustment programme. MOH was not able to provide AGO with documents relating to grant applications, approval of funding and communication of grant awards to VWOs.

40. Without these documents, there was inadequate assurance that the award of grants was properly considered and approved, and that MOH's interests would be adequately safeguarded in the event of any dispute.

41. MOH informed AGO that it would put in place measures for better maintenance of grant documents. For the operating subvention programme, MOH informed AGO that it had started reviewing the retention period for different grant documents and would add functions in its IT systems to better support the archival of key grant documents. For the salary adjustment programme, MOH would put in place Standard Operating Procedures to ensure that relevant grant documents are properly maintained.

Unclear Terms in Funding Agreements for Grant Programme

42. AGO noted that in the funding agreements for the salary adjustment programme, there was no sunset clause, i.e. end date by which the VWOs had to meet one of the funding conditions relating to utilisation of the grant. The main objective of the salary adjustment programme was to help VWOs recruit and retain staff by raising staff salaries to minimum salary benchmarks. The funding condition stated that after the grants had been used to fund the salary increase, at least half of the remaining grants had to be used for manpower-related initiatives. Thereafter, the balance could be used for any other purpose. A total of \$147.81 million was disbursed for this programme in financial years 2016/17 and 2017/18.

43. Without a sunset clause, MOH would need to continue incurring resources to monitor the utilisation of grant until the VWOs had used at least half of the remaining grants for manpower-related initiatives, which could be years later.

44. MOH acknowledged that an end date could have been stipulated upfront for the usage of the remaining grant after VWOs had met the minimum salary benchmarks in the funding terms. MOH informed AGO that going forward, it would ensure that timeframes within which funds should be utilised are clearly stipulated in funding agreements or other correspondences with grant recipients. MOH had also issued a circular to remind existing recipients to fully utilise their outstanding grant on manpower-related purpose and to declare utilised funds to MOH annually.

Inadequate Checks on Grant Disbursements

45. AGO's test checks of 127 grant disbursements (totalling \$88.45 million) made during the period 1 April 2016 to 31 March 2018 found errors in 26 of them. The errors resulted in over-disbursements totalling \$0.08 million and under-disbursements totalling \$0.01 million, and were mainly found in the salary adjustment programme and the operating subvention programme.

46. For the salary adjustment programme, AGO's checks found that the VWOs' inputs included records of ineligible staff. There were also computation errors in determining the grant disbursements. For the operating subvention programme, AGO's test checks found that inputs submitted by the VWOs for computing the disbursements included records of deceased patients and incorrect means-tested subsidy rates. The above errors were not detected by MOH due to inadequate checks.

47. In response to AGO's queries, MOH carried out checks on other disbursements for the salary adjustment programme and found over-disbursements totalling \$0.26 million and under-disbursements totalling \$1.07 million from October 2014 to March 2019.

48. In addition to the test checks mentioned in paragraph 45 for the operating subvention programme, AGO carried out analysis of subvention records of 71,113 patients⁹ (disbursements totalling \$707.24 million) and found that disbursements relating to 2,669¹⁰ patient records might be incorrect. 179 records were of deceased patients and the remaining 2,492 patient records contained means-tested subsidy rates that were different from MOH's records. In the event that the 2,669 records were erroneous, there would be over-disbursements of \$4.04 million (estimated) and under-disbursements of \$3.84 million (estimated) for the period 1 January 2016 to 31 March 2018.

49. MOH acknowledged the need to step up its checks on inputs provided by the VWOs to ensure that disbursements are correct and valid. MOH also informed AGO that for the types of cases highlighted, it had started working with the VWOs to verify and perform rectifications on over-disbursements and under-disbursements.

50. For the operating subvention programme, MOH had been engaging commercial auditors to certify the accuracy of the claims submitted by the VWOs on an annual basis, and would make disbursement adjustments based on the auditors' reports after the close of the financial year. MOH informed AGO that prior to AGO's observations, it was in the process of implementing enhancements to its IT systems to better ensure the accuracy of means-tested subsidy rates for subvention claims. MOH also informed AGO that it would look into making better use of data and enhancing its systems to check the accuracy of patient details submitted by the VWOs. Prior to the completion of the system enhancements, MOH would continue to stress the importance of the submission of accurate details of patients during briefing sessions with the VWOs.

⁹ The operating subvention programme was funded from MOH's operating budget and the ElderCare Fund. While the focus of AGO's audit was on patients of VWOs which were funded from MOH's operating budget, the subvention records provided by MOH did not indicate the source of funding. Hence, AGO's analysis included patients of VWOs which were funded from the ElderCare Fund.

¹⁰ 2 out of 2,669 patient records were found in both categories of lapses.

Inadequate Oversight over Management of Grant Programme

51. Of the 127 disbursements test-checked by AGO, 45 (totalling \$10.22 million) were for the salary adjustment programme. AGO observed that for 38 of them (totalling \$9.93 million disbursed to 24 VWOs), MOH had relied completely on its administrator's¹¹ assessment of whether the VWOs had satisfied all funding requirements without maintaining adequate oversight.

52. MOH did not require the administrator to submit any report or document to support its assessment. MOH and its administrator were not able to produce documentation requested by AGO to substantiate some of the assessments. For those documents which were produced for audit, AGO's checks showed that the 24 VWOs had met only some and not all of the funding requirements. Hence, according to the funding agreement, they should only qualify for half of the funding instead of the full funding which they were given. Without the full supporting documents, there was inadequate assurance that the disbursements made to the VWOs were correct.

53. AGO also noted that MOH was not aware that its administrator had used a different criterion from that prescribed in the funding agreements to assess one of the requirements until about two years later when its administrator informed MOH of the deviation. It is important that MOH maintain adequate oversight over the management of grants by its administrator to ensure that grants are given to VWOs which had fulfilled MOH's funding requirements.

54. MOH agreed that there was a need to improve oversight over its administrator which was responsible to assess the extent the VWOs had met the funding requirements, including establishing Standard Operating Procedures and defining clearer roles, responsibilities and reporting requirements for the administrator. MOH also informed AGO that it had since reviewed the approved funding requirements and found that several funding criteria used to assess the requirements did not accurately reflect the policy intent. It had since obtained approval from the approving authority to reassess the VWOs using the revised funding criteria and would take appropriate actions to recover over-disbursements.

¹¹ For the programme, MOH had appointed an administrator whose responsibilities included collating documents from the VWOs and assessing the extent to which the VWOs had met funding requirements based on the documents submitted.

Inadequate Checks on Subvention Claims for Overlapping Service Types

55. In the course of the audit, AGO noted that there was potential over-disbursement of grants as MOH did not check on claims made by VWOs for overlapping service types for the same patient on the same day for the operating subvention programme. For example, there were instances of claims for a patient staying at a nursing home and also claims for meal delivery service to his residence for the same patient on the same day. The claim period for these overlapping services ranged between one month and about two years.

56. For proper accountability of public funds, it is important that MOH perform checks so that subventions are not given to VWOs for overlapping service types used by the same patient in the same time period.

57. AGO's analysis of subvention records for 77,853 patients for the period 1 January 2016 to 31 March 2018 showed that there was potential over-disbursement of grants due to overlapping services provided by 27 VWOs for 70 patients. However, there could be more cases that were not detected because the exact dates of provision of service were not indicated in a significant number of the records.

58. According to MOH, gatekeeping of overlapping services would be carried out by its administrator when it performed referral of patients to VWOs. AGO noted that despite the checks by the administrator, 38 of the 70 patients with potential overlapping service types had referrals. AGO also noted that the referral checks may not be adequate as not all service types require the administrator's referral. It is therefore inadequate to depend on the referral checks to detect overlapping service types.

59. MOH informed AGO that while there were some instances where claims for overlapping services were legitimate, it agreed with the need to prevent inappropriate claims for overlapping service types. MOH would reduce inappropriate claims by enhancing its IT system to exclude cases based on certain parameters (e.g. overlaps exceeding a stipulated number of days) and/or performing data analytics periodically to detect claims on potential overlapping service types for further checks. It was also in the process of reviewing the cases identified by AGO and would take appropriate actions, where required.

Lapses in Monitoring of Requirements in Funding Agreements

60. AGO's test checks of 101 Programme-VWOs found that there were lapses in MOH's monitoring of 67 Programme-VWOs to ensure that requirements in the funding agreements were adhered to. Where documents such as audited financial statements were submitted by VWOs for the operating subvention programme, AGO noted that there was no evidence that MOH had reviewed them for a significant number of cases. For the salary adjustment programme, MOH had not carried out adequate follow-up on anomalies in the documents. For documents that were not submitted by VWOs by the stipulated deadlines for a few programmes (including the operating subvention programme), MOH did not follow up with the VWOs to obtain them. As at the time of AGO's audit in April 2019, some of the documents such as KPI reports had been outstanding for about three years. In view of the above, MOH would not have adequate assurance that funding conditions had been met.

61. MOH informed AGO that it would put in place processes to ensure that submitted documents are reviewed regularly to ensure that terms and conditions are adhered to. It would also make enhancements to relevant IT systems to monitor the progress of submission of documents stipulated in funding agreements.

MINISTRY OF SOCIAL AND FAMILY DEVELOPMENT

62. MSF provides social grants to families and individuals in need through the funding of programmes run by VWOs which provide services such as family counselling services, services for children and youths, and care for seniors and people with disabilities. During the period 1 April 2016 to 31 March 2018, MSF disbursed a total of \$583.25 million to 141 VWOs for 97 social grant programmes.

63. AGO carried out test checks on the five stages of grant management and found that MSF had the following processes in place:

- a. Approving authorities to approve new grant programmes and renewal of grant programmes;

- b. Requirement for funding agreements to be entered into with VWOs. These agreements set out the terms and conditions of the grant, KPIs and service deliverables;
- c. Proper segregation of duties between officers who processed grant claims and those who approved disbursement of moneys;
- d. Requirement for VWOs to submit documents such as KPI reports and audited financial statements for MSF to monitor and review whether funding conditions had been met; and
- e. Provisions for cessation of grants and for unused funds, if any, to be returned to MSF.

64. Nonetheless, AGO observed lapses which indicated that the following areas could be improved:

- a. Timeliness in obtaining approval from the appropriate approving authority before commencement of funding period and before any moneys were disbursed;
- b. Timeliness in entering into funding agreements;
- c. Enhancement of IT system controls for the family services programme to ensure data used for computing grant amounts was valid and correct;
- d. Strengthen checks on information submitted by VWOs before disbursement of grants; and
- e. Carry out checks to ascertain that the correct formulae and rates were used to compute funding.

65. In particular, AGO observed that there were lapses in more than one grant stage for a major programme, namely the family services programme. A total of \$136.43 million was disbursed for this programme for the period 1 April 2016 to 31 March 2018. AGO noted that approval of funding to the VWOs was obtained from the wrong authority or after the commencement of funding period. There were also inadequate system controls over case recordings entered into an IT system by VWOs to ensure that only eligible case recordings were included for funding. AGO found many instances where the case recordings were left blank in the system by the VWOs. However, these were still processed for payment by MSF. This could have resulted in over-disbursements to the VWOs. These lapses are elaborated in paragraphs 67 and 74.

66. Details of the key observations on lapses are in the paragraphs that follow.

Lapses in Approval of Funding

67. AGO's test checks of 116 Programme-VWOs found lapses in approval of funding for 41 Programme-VWOs (approved funding totalling \$28.67 million) as follows:

- a. 19 Programme-VWOs (including 11 for the family services programme) where approvals were obtained from a lower authority, instead of the approving authority stated in MSF's Internal Funding Approval Framework (IFAF);
- b. 10 Programme-VWOs where there was no policy on the authority to approve funding for maintenance of facilities used by VWOs. Different MSF officers applied different reference points to determine the approving authority for funding; and
- c. 12 Programme-VWOs (including 10 for the family services programme) where the approval of funding was obtained up to eight months after the funding period had commenced. In addition, a disbursement of \$0.08 million was made before approval of funding for one of the Programme-VWOs.

68. It is important that approval to fund VWOs be sought from the correct approving authority before the commencement of the funding period to ensure that due consideration has been given at the appropriate level before funding is committed.

69. MSF informed AGO that it had updated its procedures to seek approval based on the approval matrix in IFAP prior to commencement of the programmes. It would also include a requirement in the IFAP for approval to be sought for any delegation of authority. MSF had obtained the approval of its Minister in January 2019 to appoint the approving authority to approve funding of maintenance of facilities used by VWOs. MSF also said that it had put in place a manual system to track the status and follow up on agreements due to expire in six months.

Funding Agreements Entered into After Commencement of Funding Period

70. AGO's test checks of 332 funding agreements found that 169 of them were entered into after the funding period had commenced, with delays of up to 10.7 months.

71. Of the 169 agreements, 60 were entered into more than two months¹² after the funding period had commenced. In addition, for nine of these agreements, AGO noted that disbursements totalling \$1 million had already been approved for payment by MSF even though the agreements had not been entered into at that point in time.

72. For good control, funding agreements should be entered into before the commencement of the funding period to safeguard MSF's interests in the event of any dispute.

73. MSF informed AGO that it would review its processes and work closely with the VWOs to factor in sufficient lead time to finalise agreements. MSF would also strengthen their monitoring process to provide sufficient lead time for the approval process for funding agreements so that they could be signed before the commencement of the funding period. It would also check that funding agreements are signed before payments are approved.

¹² There would be higher risks of payments made before funding agreements were entered into as payments would generally be made by the third month after the funding period had commenced.

Inadequate Controls to Ensure Valid and Correct Data Used for Computing Grants

74. For the family services programme, AGO found that there were inadequate system controls over case recordings entered into an IT system to ensure that only eligible case recordings would be included for funding. Case recordings documented interactions between the client and VWO staff. VWO staff would key the case recordings directly into the IT system managed by MSF. To be eligible for funding, the cases must have at least one case recording that met the funding conditions during the relevant quarter.

75. AGO's analysis¹³ of 187,650 case recordings from the IT system found 2,487 case recordings with indications that they were not eligible for funding. This could have resulted in over-disbursements totalling \$0.86 million to 11 VWOs for the period 1 January 2017 to 31 March 2018. AGO noted that most of these 2,487 case recordings were blank and might not be eligible for funding. However, disbursements were still made for these case recordings. According to MSF, it had carried out annual data verification checks to validate the case recordings used to determine the eligible cases for funding. However, AGO found that the checks would not be effective as cases verified by MSF might not be the cases that were funded. To perform the checks, MSF had relied on the listings of cases generated by the VWOs at the time of its annual checks. MSF had not generated the listings at the time of processing the disbursements and would not be able to do so subsequently due to system limitations. VWOs were also able to make amendments to past case recordings even after payments had been made for the cases. Therefore, MSF would not have the assurance that the listings used for its checks were correct and complete.

76. It is important that system controls and checks be put in place to ensure that data extracted from the system for computing grants for the family services programme is valid and correct. The family services programme is a major programme under MSF, with a total of \$136.43 million disbursed for financial years 2016/17 and 2017/18.

¹³ AGO's analysis arose from test checks of 9 out of 136 disbursements that pertained to the family services programme.

77. MSF informed AGO that it had reviewed the existing system requirements and is exploring several system enhancements. MSF also reviewed the annual verification processes to ensure that caseload data used for funding is correct by requiring audited caseloads for financial year 2019/20 onwards. For the cases noted by AGO, MSF would check and take the necessary corrective action should invalid case recordings be found.

Inadequate Checks on Grant Disbursements

78. From test checks of 136 grant disbursements (totalling \$14.20 million) to VWOs, AGO noted that MSF did not perform the necessary checks for 15 disbursements (totalling \$1.15 million) to ensure that funding conditions were met before making disbursements. MSF did not obtain supporting documents or carry out checks on the supporting documents submitted.

79. The main lapses noted were:

- a. Seven disbursements (totalling \$1.14 million) were made where MSF did not ask for supporting documents to verify the accuracy of caseloads and KPIs submitted by the VWOs. Instead, MSF only performed checks once every two to three years when it considered renewal of funding to VWOs and only disbursements that were made closer to the time of the checks were selected for checks; and
- b. Seven disbursements (totalling \$0.01 million) where the supporting documents were not properly verified to ensure that funding conditions were met. For two disbursements, the related claims were submitted by VWOs 9 months to 6.4 years after the deadline stipulated in the funding agreements. The other five disbursements were made even though the VWOs did not submit the complete set of required documents.

80. Without obtaining and performing checks on the supporting documents, there was inadequate assurance that the disbursements were accurate.

81. MSF informed AGO that subsequent to the period of AGO's audit, it had put in place a Grant Administration Governance Framework which required VWOs on caseload funding to submit audited caseloads. MSF had also enhanced its IT system such that from April 2019, VWOs would only be paid for cases that fall within the submission timeframe, as listed in the funding agreement. It would review the disbursement process and streamline the Standard Operating Procedures for funding reimbursement.

Lapses in Norm Costs Used to Determine Grant Disbursements

82. AGO's test checks of 136 grant disbursements (totalling \$14.20 million) found lapses in norm cost¹⁴ used to determine the grant amount for 18 disbursements (totalling \$3.43 million). In general, MSF reviewed the norm costs once every three years. In between review years, funding was adjusted annually using the incremental rate approved by MSF based on its assessment of the adequacy of funding against expected cost increases.

83. The lapses noted for the 18 disbursements¹⁵ were as follows:

- a. Nine disbursements where the approved incremental rate and salary benchmarks were not used to compute the norm costs and no approval was sought from the approving authority for the deviations;
- b. Five disbursements where there were errors in the computation of norm costs as incorrect formulae or rates were used. The incorrect formula noted for one of the disbursements was also applied to disbursements for other VWOs under the same programme, resulting in MSF over-disbursing a total of \$0.20 million for financial years 2016/17 and 2017/18; and
- c. Five disbursements where MSF had relied on a salary benchmark from a previous review in 2009, which was at least seven years old as at the time of disbursement in financial year 2016/17.

¹⁴ Standard rates for manpower and other operating costs. Inputs for arriving at the standard rates include salary benchmarks and incremental rates.

¹⁵ 1 out of 18 disbursements had more than one category of lapse.

84. In view of the above, there was inadequate assurance that the funding to the VWOs was based on rates approved by the appropriate authority, correctly computed or reflective of current costs.

85. MSF informed AGO that from financial year 2019/20, it would include the approving authority for deviations in the annual circular, and reiterate its funding principles and computations to staff to allow better understanding and reduce human error. Since March 2019, MSF has introduced a set of guidelines governing the selection and reappointment of VWOs, which stipulates that all aspects of a programme need to be reviewed at least once every five years to ensure that funding models for programmes are reviewed on a sufficiently regular basis and remain relevant.

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 2018/19 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 2017;
- b. Financial Sector Development Fund for the financial year 2018/19; and
- c. ASEAN Cultural Fund (Singapore) for the financial year 2018.

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). 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 registered or deemed to be registered as a public accountant, or approved or deemed to be approved as an accounting corporation/firm/LLP under the Accountants Act (Cap. 2, 2005 Revised Edition);
 - (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;
 - (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 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.

