



REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2012/13



**AUDITOR-GENERAL'S OFFICE
SINGAPORE**

1 July 2013

Dr Tony Tan Keng Yam
President
Republic of Singapore

Dear Mr President

In accordance with the provisions of the Audit Act (Cap. 17, 1999 Revised Edition), I am pleased to submit my Report on the audits carried out for the financial year 2012/13.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Willie Tan'.

Tan Yoke Meng Willie
Auditor-General

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2012/13



Auditor-General's Office
Singapore

MISSION

To audit and report to the President and Parliament, in accordance with the law, on the proper accounting of public moneys and use of public resources so as to enhance public accountability.

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OVERVIEW

OVERVIEW

I am pleased to present my Report on the audits carried out by the Auditor-General's Office (AGO) for the financial year 2012/13.

The audits give assurance to the President and Parliament on the proper accounting, management and use of public funds and resources. This strengthens the accountability of public sector entities as custodians and stewards of public funds and resources.

Audit Authority

AGO's authority to audit and report comes from the following laws:

- Constitution of the Republic of Singapore (1999 Revised Edition);
- Audit Act (Cap. 17, 1999 Revised Edition);
- Financial Procedure Act (Cap. 109, 2012 Revised Edition); and
- Enabling Acts of Government funds and statutory boards.

The details of AGO's audit authority are in Annex I.

Audits Carried Out for Financial Year 2012/13

For the financial year 2012/13, AGO audited the following:

- The Government Financial Statements (incorporating the accounts of all Government ministries and organs of state);
- 2 Government funds;
- 13 statutory boards;
- 5 Government-owned companies; and
- 2 other accounts.

As AGO's audits are conducted on a test check basis, they do not reveal all irregularities and weaknesses. However, they should enable me to discover some of the occasional serious lapses.

The *Report of the Auditor-General* includes coverage of selected audit observations. These are typically the more significant findings in terms of monetary value, frequency of occurrence and impact on accounting. Minor lapses are also reported if they point to significant or systemic weaknesses in internal controls which, if not addressed, could lead to serious consequences.

The reporting of audit observations in the *Report of the Auditor-General* is an essential part of the system of public accountability. The irregularities and weaknesses reported do not necessarily reflect the general state of administration in the entities audited, but point to the areas where improvement should be made in the accounting, management and use of public funds and resources.

This Report is submitted to the President giving an account of all the audits conducted in the financial year. It would subsequently be presented to Parliament and deliberated on by the Public Accounts Committee.

Audit Observations

From the audits carried out this year, AGO observed lapses in a number of areas. In this Overview, I would like to highlight the following five areas where public sector entities could pay greater attention to and improve on their internal control systems:

- Monitoring of performance of contractors;
- Oversight of projects managed by external consultants;
- Procurement;
- Management of stocks and stores; and
- Management of computer access controls.

Monitoring of Performance of Contractors

This year, several audit findings pertain to the inadequate monitoring of performance of contractors. There were a number of instances where public sector entities were found to be lax in ensuring that contractors comply with contract requirements. AGO's site inspections revealed many instances of works not performed in accordance with contract requirements. Despite the failures by contractors in complying with contract requirements, the public sector entities had certified that services were satisfactorily rendered and payments were made to the contractors. I note that in one case, an entity had extended a contract for outsourced works despite repeated non-compliance with contract requirements by the contractor.

Inadequate monitoring of performance of contractors could result in public sector entities not obtaining full value for the public funds spent. The entities should hold contractors accountable for compliance with contract requirements, including taking firm action against errant contractors, where warranted.

Oversight of Projects Managed by External Consultants

AGO's test checks on two projects managed by external consultants revealed laxity in oversight and monitoring of the work of the external consultants by public sector entities. In the first case, AGO found that the consultant had not complied with Government procurement rules when procuring items for the project on behalf of the public sector entity. Hence, there was no assurance of open and fair competition, and value for money for the items purchased. In the other case, AGO observed that the consultant had not been diligent in checking the claims submitted by contractors. The laxity in checks resulted in overpayments by the public sector entity to the contractors.

It is important for public sector entities to exercise proper oversight over external consultants appointed to manage projects funded through public funds. This is to ensure that the use of public funds and the outcomes of the projects meet Government's objectives. Public sector entities are ultimately accountable to the public for the use of public funds.

Procurement

Based on the audits for this year and the last six years, AGO observed that procurement has continued to be an area prone to lapses. While efforts had been made to enhance procurement rules and procedures across the public sector over the last few years, there were indications that some entities were not sufficiently diligent in ensuring compliance with procurement rules in the areas that AGO audited. AGO observed instances of non-compliance with Government procurement rules and principles of transparency, open and fair competition, and value for money. These included:

- Waiving competition on weak grounds;
- Allowing bid alterations by certain bidders after tender had closed;
- Not disclosing evaluation criteria upfront in tender documents;
- Not evaluating tenders properly (e.g. comparisons of bids not carried out on a like-for-like basis, and accepting tenders not meeting tender specifications/ evaluation criteria); and
- Obtaining approvals retrospectively.

AGO also observed irregularities in the manner in which two public sector entities had awarded contracts to related parties. For example, an entity had awarded two tenders to a related party (its subsidiary) even though the bids submitted by the related party did not comply with tender specifications.

Without open and fair competition, there is no assurance that public sector entities are able to secure competitive prices for the goods and services procured. The entities' actions could also lead to the perception that the related parties were given preferential treatment or unfair advantage over other vendors. As public funds are involved in such dealings, public sector entities should ensure that transactions with related parties are at arm's length and be seen to be so.

Management of Stocks and Stores

AGO found a few instances of poor management of stocks and stores. For example, surprise checks were not carried out on stocks as required and stocks/stores were not accounted for. There was also no prompt follow-up on overdue loans of stores and no proper monitoring system to ensure that items were purchased only when needed.

To minimise the risk of wastage, misuse and pilferage, it is important for public sector entities to put in place effective monitoring systems for stocks and stores.

Management of Computer Access Controls

AGO also observed a number of instances where public sector entities had not been vigilant in their management of computer access controls. The lapses are as follows:

- Not removing accounts of users who were no longer performing functions which required access to the IT systems;
- Not granting access rights on a need basis; and
- Not tracking and reviewing activities of users with powerful access rights.

It is of concern that despite the reporting of lapses in computer access controls found in various entities in previous Reports of the Auditor-General, AGO found similar lapses in other entities audited this year. Weak controls over access rights could compromise the integrity and confidentiality of data stored in IT systems. Public sector entities cannot afford to be lax given that many of the entities' operations are highly computerised.

Acknowledgements

I would like to put on record my recognition of the continued co-operation given to AGO by the ministries, organs of state, statutory boards, Government-owned companies and other entities audited.

I would also like to express my thanks to all my officers for maintaining high professional standards and showing dedication and commitment to their work.

TAN YOKE MENG WILLIE

Auditor-General

Singapore

1 July 2013

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 Financial Statements of the Government of Singapore for the financial year ended 31 March 2013 prepared by the Minister for Finance under 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) were submitted to the Auditor-General for audit under section 8(1) of the Audit Act (Cap. 17, 1999 Revised Edition) on 27 June 2013.
2. The Auditor-General has completed the audit and has issued his audit report on the Financial Statements to the Minister for Finance on 28 June 2013. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the audit report to the President on 1 July 2013.
3. 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.
4. In accordance with section 8(3) of the Audit Act, the President would present to Parliament the audited Financial Statements with the audit report thereon.

Acknowledgements

5. 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

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. In this regard, AGO also takes into account complaints received on the use and management of public funds and resources. The authority for these audit checks is provided by section 5 of the Audit Act.

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 the auditor, 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 2012/13 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.

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. In the financial year 2012/13, AGO carried out selective audit of the CONNECT Fund².

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

² The CONNECT Fund was established under the Education Service Incentive Payment Act (Cap. 87B).

Acknowledgements

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

Selected Observations

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

MINISTRY OF DEFENCE

Inadequate Oversight over Project to Enhance Fitness Corners

7. The Ministry of Defence (MINDEF) had tasked the SAFRA National Service Association (SAFRA) to implement a project to enhance existing fitness corners in public housing estates. This project was meant to make physical fitness training facilities more accessible to National Servicemen. The approved budget for the project was \$4.42 million for works to be carried out at 50 sites.

8. AGO observed the following irregularities:

- a. SAFRA called a tender for equipment and works four months before MINDEF approved the project requirements. The specifications that SAFRA used in the tender did not meet requirements that were approved by MINDEF.

- b. SAFRA did not re-call the tender when it was subsequently confirmed that the tender specifications used did not meet MINDEF's requirements; instead, ad-hoc clarifications were sought from the tenderers which participated in the tender for prices of items based on MINDEF's approved requirements. SAFRA also did not compare the quotes for two (out of five) items of equipment on a like-for-like basis. In addition, in the midst of clarifications on the requirements, SAFRA gave its in-principle approval to award the contract to one of the tenderers. This effectively excluded the other tenderers from further consideration. This process, taken as a whole, did not give assurance that SAFRA was able to secure competitive prices for this project.
- c. SAFRA allowed the contractor to increase the prices of some of the works arising from new requirements. There was no evidence that the prices for these revised works had been assessed for reasonableness and had been approved by the relevant committee appointed by SAFRA Management Committee.
- d. The number of fitness corners eventually enhanced by SAFRA exceeded MINDEF's approved requirement by 58 sites, at an additional cost of \$2.03 million. Although the total costs for the 108 sites were within the approved budget, approval should have been obtained before additional works were carried out for proper control and accountability. MINDEF informed AGO that it would seek re-approval for the 108 fitness corners enhanced.

9. MINDEF has explained that the project was a SAFRA initiative funded by a MINDEF grant. According to MINDEF, as this was a SAFRA project, the calling of tender as well as the evaluation and award of tender were executed by SAFRA with oversight by a committee appointed by SAFRA Management Committee.

10. Notwithstanding MINDEF's explanation, AGO noted that the project requirements were specified by MINDEF. Hence, this project was in essence a MINDEF project funded by public funds. Regardless of whether it is defined as a MINDEF or SAFRA project, AGO is concerned over the irregularities found in the procurement process. AGO is therefore of the view that MINDEF should have exercised better oversight.

Lapses in Logistic and Contract Management

11. Since October 1999, MINDEF had outsourced the management and distribution of MINDEF-owned stores to a logistics contractor. AGO's audit revealed the following lapses:

A. Weak Controls over Loaned Stores

12. AGO's test checks revealed that the controls over MINDEF-owned stores on loan to various MINDEF units were weak. As at December 2011, there were 3,993 loans (estimated value of \$20.63 million) which were overdue, with due dates ranging from April 2006 to December 2011. Confirmations from the units revealed that stores (amounting to \$0.20 million) relating to 94 loans could not be accounted for and were pending their investigations.

13. This could result in a waste of resources as the stores could become unusable without proper maintenance, and MINDEF would also need to incur additional costs to purchase more stores to meet operational requirements.

14. MINDEF informed AGO that the 3,993 overdue loans constituted 8 per cent of the total loans. More than half of the overdue loans were from units which had operational requirements for the stores beyond the loan period, but these units did not request for loan extensions or permanent issue of the items. The units acknowledged their oversight and would tighten their internal control processes. All the outstanding loans have since been renewed or returned. Of the 94 loans highlighted by AGO as unaccounted for at the time of audit, MINDEF had since completed its follow-up actions on 63 cases and the rest of the cases were still under investigation.

B. Basis Used to Measure Contractor's Performance Not Properly Established

15. AGO noted that for the provision of motor vehicle spares, MINDEF had set a new and more stringent performance target for the contractor in 2006. Between 2006 and 2011, MINDEF and the contractor were unable to agree on the performance measurements due to a lack of clarity in the performance measurement parameters and methodology. It was only in 2011 that MINDEF came to an agreement with the contractor on the parameters and methodology to be used. This led to a corresponding delay in imposing liquidated damages on the contractor for failing to meet the stipulated performance target. The liquidated damages to be imposed yearly for the period 2006 to 2011 (totalling \$0.46 million) were only collected in 2012.

16. MINDEF informed AGO that the finalised methodology for measurement of the contractor's performance had been effected via a contract variation on 9 April 2013.

Unauthorised Payments from Pension Fund

17. The Pension Fund ("Fund"), set up on 1 April 1995 under the Pension Fund Act (Cap. 224A), provides for payment of pensions, gratuities, allowances, etc. under prescribed superannuation schemes. Before payment can be made, the respective superannuation schemes have to be legislated in the Pension Fund (Prescribed Superannuation Schemes) Regulations (Cap. 224A, Rg 1). Prior to the enactment of the Pension Fund Act and the Regulations, all such payments were made from the Consolidated Fund.

18. AGO's test checks revealed cases where MINDEF had made unauthorised payments from the Pension Fund for certain special gratuities and dental benefits to Singapore Armed Forces servicemen. This was because at the time of payment, the superannuation schemes covering these payments were not legislated in the Regulations for such payments to be made from the Fund. The payments should instead have been made from the Consolidated Fund.

19. It is important for MINDEF to exercise due care in ensuring that the superannuation schemes are legislated before payments are made, for the proper control and accounting of payments from the Fund.

20. Following AGO's audit, MINDEF ascertained that the total amount of unauthorised payments made from the Fund since April 1995 was \$2.13 million. It had since restored this amount to the Fund. MINDEF also informed AGO that the Regulations had been amended and gazetted on 30 May 2013 to regularise such payments from the Fund.

MINISTRY OF FINANCE

ACCOUNTANT-GENERAL'S DEPARTMENT

Inadequate Controls to Detect IT Security Breaches

21. The Accountant-General's Department (AGD) outsourced the maintenance of the Government accounting and pension administration systems to a vendor.

22. AGO's test checks on the access controls implemented for the two systems revealed that, for a considerable period of time, the activities performed by system administrators in two of the servers were not logged.

23. According to the Government Instruction Manuals, information on activities performed by system administrators is to be logged and reviewed for possible security breaches.

24. Without such a review, it would not be possible to detect any security breach. The consequences may be serious as system administrators have powerful access rights which will enable them to access and modify data in the two servers, used for financial reporting and management of pensions.

25. AGD informed AGO that it has taken immediate action to ensure that the logs of the system administrators' activities in the two servers are complete and reviewed by an independent team.

MINISTRY OF FOREIGN AFFAIRS

Lapses in Procurement

26. AGO noted from its audit of an overseas mission that the mission had not complied with Government procurement principles of transparency, open and fair competition, and value for money for the following two procurements:

A. Procurement of Security Services

27. In 2012, the mission awarded a two-year contract for security services at a cost of \$427,886. AGO noted that:

- a. Quotations were obtained from three companies before the Head of Mission had approved the requirements. This undermined the role of the Head of Mission and increased the risk that the requirements specified in the quotation documents might not meet the mission's needs.
- b. Quotations, instead of tenders, were called even though the estimated value of the procurement had exceeded the threshold which required tenders to be called under Government procurement rules. This had the effect of bypassing the stricter requirements imposed on higher value purchases, for example, specifying the evaluation criteria, having longer opening period for vendors to submit their bids and appointment of tender opening committee to ensure transparency in handling tender proposals received.
- c. The procurement was not carried out in a fair manner to allow the companies to compete on a level playing field. First, two companies were invited in writing to quote on different days, and the invitation to the third company was made verbally. Second, different requirements were given to the companies and no closing date was specified for the submission of quotes. The third company (which was eventually awarded the contract) was also allowed to re-submit its quote for services which it had omitted in its original quote.

- d. The tender approving authority was given incomplete and incorrect information. For example, the approval paper incorrectly indicated that the three companies were invited to quote on the same day and that there was a specified closing date.

28. AGO further noted that after the contract was awarded, due to new security needs, the mission awarded additional security services to the same company (via contract variation) without conducting independent checks on the reasonableness of the price quoted. This contract variation was for the engagement of guard services after office hours which resulted in an increase of \$332,389 or 77.7 per cent over the original contract value.

29. The Ministry of Foreign Affairs explained that the mission was working within a tight window to ensure that proper security was put in place for its relocation to a new premise. As a result, the mission failed to comply with certain procurement procedures and to ensure proper documentation of the procurement process. The Ministry also explained that for the additional security services, the mission had assessed that the price quoted (which was 21.5 per cent higher than the normal hourly rate) was acceptable taking into account the local law on overtime rates payable to employees, which was between 50 and 100 per cent more than the normal rate. It acknowledged that other independent checks could have been carried out.

B. Procurement of Gardening Services

30. AGO also noted lapses in the procurement and contract management of gardening services. The mission had engaged the services of a gardener on a yearly basis from April 2009 to March 2013 at a total cost of \$172,982 without obtaining competitive bids. In addition, the mission allowed the gardener to include additional services and thereby increase the monthly fee. There was no documentary evidence of assessment on whether the works were required and the prices charged were reasonable.

31. The Ministry informed AGO that after the audit, the mission had rectified the matter in April 2013 by obtaining new quotations for gardening services and awarding a new contract.

MINISTRY OF HEALTH

Claims Over-valued by \$0.30 Million

32. In the *Report of the Auditor-General for the Financial Year 2011/12*, AGO reported on irregularities in the contract management of the Khoo Teck Puat Hospital development project. AGO continued its audit on the project in the financial year 2012/13 and found lapses in valuations of and payments for contractors' claims. The valuations were determined by a consultant engaged by the Ministry of Health. AGO noted that the Ministry did not have a system of checks on the consultant's assessments of the contractors' claims. Details are in the following paragraphs.

A. Over-valuation of \$254,100 for Variation Works

33. For the contract for building construction (contract value of \$362.39 million), AGO found instances of wrong valuation of claims for variation works. These included the following:

- a. The valuation of anti-slip homogeneous floor tiles (laid near the main entrance of the hospital) was based on a rate which was 3.8 times higher than the market rate obtained by AGO. This resulted in an over-valuation of \$128,000. Other lapses included valuation of works not based on actual dimensions and quantities installed on site, and arithmetical errors. AGO estimated that the Ministry would have overpaid the contractor by a total of \$239,900, had it made payment based on the erroneous valuations.
- b. An item not installed on site was included in the valuation which resulted in an overpayment of \$14,200.

34. The Ministry informed AGO that it would adjust the valuations accordingly and would recover the overpayment from the contractor. It would also implement a system of checks to ensure that variation items are correctly charged, fair market rates are used where contract rates are not available, and valuations of variations are in accordance with contract provisions and actual works completed.

B. Overpayment of \$48,700 for Additional Expenses

35. For the contract for foundation works and basement construction (contract value of \$66.86 million), it was estimated that the Ministry had overpaid the contractor by \$48,700 for additional expenses incurred during the extended period for completion of the contract. The overpayment was a result of wrong valuation of claims for such expenses. These included payments for:

- a. Expenses incurred in another project (not related to the hospital development project) which were wrongly charged; and
- b. Expenses incurred during the period when the completion of the contract was delayed by the contractor. Under the contract, the contractor was not entitled to such payments.

36. The Ministry informed AGO that it would request the contractor to refund the overpayment. It would also put in place a system to ensure that payments are properly assessed in accordance with contract provisions.

MINISTRY OF HOME AFFAIRS

SINGAPORE CIVIL DEFENCE FORCE

Weaknesses in Management of Gift Vouchers

37. The Singapore Civil Defence Force (SCDF) gave gift vouchers to its staff for various awards. AGO's test checks revealed the following weaknesses in the management of gift vouchers:

- a. Controls over the issuance of gift vouchers were weak. For example, there were many instances where the serial numbers of gift vouchers issued were not recorded and acknowledgement of receipt was not obtained from the recipients. There were also discrepancies between the serial numbers of gift vouchers purchased and those subsequently issued to the recipients. AGO's test checks further revealed a number of instances where gift vouchers were not accounted for. There was therefore no assurance that the gift vouchers had indeed been issued to the intended recipients.
- b. Surprise check was not carried out on the stocks of gift vouchers although this was required under the Ministry of Home Affairs Finance Directive on Management of Gift Vouchers.
- c. Payment of \$0.94 million was made on 27 March 2012 before the gift vouchers were delivered on 2 April 2012. This was contrary to the Financial Regulations (Cap. 109, Rg 1) which stipulated that payment should only be made upon satisfactory receipt of goods and services.

38. Gift vouchers are cash-in-kind and therefore subject to a high risk of misappropriation. Thus, SCDF would need to enhance its controls over gift vouchers, especially when the amount of vouchers it purchased was significant (about \$1 million a year for the financial years 2009/10 to 2011/12).

39. SCDF informed AGO that it has since strengthened its controls over the management of gift vouchers to address the issues and concerns raised by AGO. SCDF has revised the procedures from April 2012 to ensure that proper records are kept and that receipts of vouchers are duly acknowledged and signed by all individual recipients of the vouchers. Since May 2013, SCDF has appointed officers to conduct monthly surprise checks on gift vouchers. SCDF would also ensure that for future purchases, payments would only be approved after the goods have been received in good order at SCDF premises.

Lapses in Tender Evaluation

40. SCDF called two tenders in October 2010 and July 2011 for additions and alterations works to fire stations. The tenders were awarded (total value of \$2.75 million) to a tenderer which did not meet a critical evaluation criterion requiring the submission of audited financial statements for the past three years for assessment of creditworthiness/financial solvency. AGO noted that:

- a. For the first tender, the tenderer only submitted unaudited financial statements for one year; and
- b. For the second tender, the tenderer only submitted the latest audited financial statements which contained a qualification by its auditor. The auditor was unable to form an opinion as the completeness and accuracy of the tenderer's accounting records were in doubt.

41. Notwithstanding the above, both the tender evaluation committee and SCDF's external project manager (who was involved in the tender evaluation) concluded that the tenderer had met the critical evaluation criterion. For the second tender, they also concluded that the tenderer was financially sound from 2007 to 2009, even though it was only formed in 2008 and the financial statements submitted were qualified by its auditor.

42. These lapses showed a lack of effectiveness and fairness in SCDF's evaluation process. In addition, a tenderer which does not meet the critical evaluation criterion may not be able to fulfil its contractual obligations.

43. SCDF informed AGO that the two projects were successfully completed and that it would ensure that tenderers which do not meet critical criteria would be excluded from consideration in future. According to SCDF, it would consider allowing newly established companies to participate in its tenders if such companies have good track records and sound financial position. It would reflect its intent accordingly in the tender specifications and evaluation criteria.

Lapses in Management of User Accounts

44. Financial transactions of ministries are processed using the Government central accounting system.

45. AGO's test checks revealed the following lapses in the management of user accounts for the accounting system by SCDF:

- a. A total of 30 user accounts were not removed even though the users had left service or had been redeployed to other positions (which did not require them to access the accounting system) between 4 months and 5.5 years ago.
- b. There were indications that 16 of these accounts were subsequently used to gain unauthorised access to the accounting system. This was evident from the dates of last login which were after the officers had left service or had been redeployed.

46. As some of these user accounts were assigned rights for creating, updating or approving transactions in the accounting system, these should be removed promptly to prevent unauthorised access which could compromise the integrity and security of the system.

47. SCDF informed AGO that it has since taken immediate action to check on the lapses and carried out an investigation into the possible unauthorised access to the accounting system. According to SCDF, the investigation showed that no unauthorised transactions were made. SCDF had also removed all 30 user accounts and has since instituted monthly checks to ensure prompt removal of user accounts which are no longer required.

MINISTRY OF LAW

Weak Access Controls over Database Records

48. The Ministry of Law outsourced to two vendors the maintenance of a computer system used by its department, the Insolvency and Public Trustee's Office (IPTO), for administering services to the public. The public could submit information on insolvency, request for administration of trust funds and apply for moneylender's or pawnbroker's licence through this system.

49. AGO's test checks of access controls over the system revealed that database records in the system were not adequately protected from unauthorised modifications. Four of the accounts held by the vendors had privileged access rights, which would allow the vendors to modify the database records even though they were not authorised to do so. The consequences may be serious as any unauthorised modification could affect the accuracy of database records used by IPTO to manage insolvency cases and perform other regulatory functions.

50. AGO further noted that the Ministry had not activated a system feature to track the activities of privileged users for review. Thus, there was no way to verify whether unauthorised access and modifications to the database records had taken place.

51. The Ministry informed AGO that it has since taken action to tighten the access rights granted to the vendors. The Ministry would also be activating the feature to track the activities of privileged users and reviewing the activities for any security breach.

MINISTRY OF THE ENVIRONMENT AND WATER RESOURCES

Lapses in Controls over Payments

52. AGO's test checks on payments made by the Ministry of the Environment and Water Resources between 25 and 31 March 2013 revealed the following lapses:

- a. Eight invoices (amounting to \$118,720) were certified for payment when the services billed for had not been fully performed. The services were only fully performed 1 to 15 days later.
- b. There were three instances where payments for goods and services (amounting to \$37,531) were made before they were due. This was contrary to payment terms specified in the contracts.

53. Making payments before the goods or services were fully received or performed would not be in the Government's interest. The Government would have to expend time and resources to seek recourse if the contractors subsequently failed to provide the goods or services in accordance with contract specifications.

54. The Ministry informed AGO that it has since taken action to rectify the lapses. It would tighten the controls on certification and payment processes such as implementing a certification checklist to ensure that invoices are certified only after services have been completed.

PRIME MINISTER'S OFFICE

NATIONAL RESEARCH FOUNDATION

Irregularities in Management of Campus Development Project

55. The construction of the Campus for Research Excellence and Technological Enterprise, undertaken by the National Research Foundation (NRF), was completed in July 2011. AGO test-checked expenditure on two construction contracts and three consultancy services contracts (total contract value of \$322.97 million) for the Campus and found the following irregularities:

A. Weak Grounds for Waiving Competition

56. AGO found that a contract for project management services (contract value of \$2.25 million) was awarded via waiver of competition to a vendor without reasonable grounds. NRF had selected the vendor based mainly on a recommendation. There was no evidence that the vendor was the only company which could provide such services. NRF was unable to provide AGO with documentary evidence that NRF had conducted an independent assessment on the reasonableness of the sole quote received. NRF had breached Government procurement principles of transparency and open and fair competition. There was also no assurance that value for money was achieved.

57. Furthermore, NRF had allowed the vendor to commence work more than two months before obtaining the requisite approvals for waiver of competition and award of the contract. This had the effect of circumventing the approving authorities' gatekeeper role in ensuring that Government procurement principles were upheld.

B. Excessive Honorarium Amount for Design Consultancy Tender

58. For the tender for design consultancy services (total contract value of \$25.00 million), AGO observed that NRF had paid approximately \$467,000 as honorariums to three unsuccessful tenderers for their efforts in submitting concept design proposals. The amount of honorariums paid was three times the amount derived based on the compensation framework provided in the Government Instruction Manuals.

C. Scoring Method Used for Evaluation Not Disclosed in Tender Documents

59. For the tender for building works construction (contract value of \$283.36 million), AGO observed that the scoring methods used for evaluating the qualitative criteria were not established upfront and made known to the tenderers. This was not in line with Government procurement principle of transparency. As there was no evidence that the scoring methods used were established prior to the tender closing date, NRF could also face difficulties in protecting itself against allegations of manipulation of scoring methods to favour certain tenderers after the details of the bids were known.

D. Contract Variation Instructions Issued Without Appropriate Approval

60. AGO test-checked 149 variation instructions issued to the contractor for building works construction and found 108 instances (72.5 per cent) amounting to \$5.99 million, where there was no evidence that appropriate approval had been obtained. In another 17 instances (amounting to \$330,900), AGO observed that retrospective approvals were obtained 29 to 260 days after variation instructions were issued.

61. NRF had not complied with the Government Instruction Manuals as well as its internal procedures which required approvals to be obtained before variation instructions could be issued. This undermined the role of the approving authority and bypassed the controls to ensure that variations were properly justified before they could be implemented.

E. Late Payments and No Payment Responses Provided

62. The Building and Construction Industry Security of Payment Act (Cap. 30B, 2006 Revised Edition) stipulated the time frame for making payment and requirements for payment response to a payment claim. The Act was passed to address cash flow problems faced by the construction industry by upholding the rights of parties to seek progress payments for work done and goods supplied.

63. For the contract for building works construction and another contract for foundation works (total contract value of \$295.72 million), AGO found 32 instances of late payment to contractors (totalling \$254.04 million). In six instances (totalling \$26.09 million), the delays ranged from 33 to 174 days.

64. For the three consultancy services contracts (total contract value of \$27.25 million), AGO observed that NRF did not provide payment responses to the consultants' payment claims (totalling \$24.56 million).

65. In response to AGO's findings, NRF acknowledged that there were gaps in internal controls and staff competencies. It takes a serious view of the lapses and would spare no effort to prevent recurrence of such lapses. NRF informed AGO that it has since taken steps to put in place measures for better control and monitoring of all procurement and contract management.

PUBLIC SERVICE DIVISION

Poor Maintenance of Government Resorts

66. The Public Service Division (PSD) is responsible for the management of two local Government resorts with a total of 77 chalets. These chalets are rented to civil servants for recreational use. In 2010, PSD awarded the contract for management and maintenance of the resorts to a contractor at a contract sum of \$13.07 million for four years.

67. AGO conducted site inspections and found that 37 of the 41 chalets (90.2 per cent) inspected and certain areas of the resort compounds were not properly maintained. AGO noted many instances of poor maintenance such as dirty or damaged furniture and appliances, exposed electrical wires and sockets, and presence of insect hives. These were indications that the contractor had not carried out the maintenance works required under the contract.

68. PSD should ensure that the resorts are properly maintained by the contractor and hold the contractor accountable for compliance with contract requirements. Otherwise, there is no assurance that PSD has obtained the full value for the public funds spent.

69. PSD acknowledged that there is scope for improvement. It would review and tighten its processes and consider the need to strengthen its capabilities in the management of the contractor and the resorts.

PART II

AUDIT OF STATUTORY BOARDS

PART II : AUDIT OF STATUTORY BOARDS

Financial Statements Audits

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

2. The Acts of most statutory boards require their accounts to be audited by the Auditor-General or another auditor. When the Auditor-General is not the auditor, 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.

3. AGO audited the financial statements of the following three statutory boards for the financial year 2012/13:

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

Unmodified audit opinions were issued on the financial statements of these statutory boards.

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. A selective audit is an examination of selected activities and operations, carried out in relation to the accounts, to check for financial regularity (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.

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. The authority for selective audits of statutory boards is provided for under a Ministry of Finance circular (first issued in 1972 and revised in 2011), read with section 4(4) of the Audit Act.

6. In the financial year 2012/13, AGO carried out selective audits of the following 10 statutory boards:

- a. Agency for Science, Technology and Research
- b. Housing and Development Board
- c. Majlis Ugama Islam Singapura
- d. Media Development Authority
- e. National Council of Social Service
- f. Ngee Ann Polytechnic
- g. Public Transport Council
- h. Republic Polytechnic
- i. Singapore Land Authority
- j. Urban Redevelopment Authority

7. In addition, AGO carries out ad hoc checks on other statutory boards arising from matters that come to AGO's attention, for example, a complaint or an observation from a past audit.

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 in the paragraphs that follow.

MINISTRY OF COMMUNICATIONS AND INFORMATION²

MEDIA DEVELOPMENT AUTHORITY

Irregularities in Procurement

10. AGO's test checks of procurement carried out by the Media Development Authority (MDA) revealed a number of instances where Government procurement principles of transparency, open and fair competition, and value for money were not upheld. These irregularities could result in MDA being seen as biased towards certain vendors.

A. *Request for Proposal for Organising Film Festival (Contract Value of \$4.57 million)*

11. MDA called an open Request for Proposal ("RFP") to appoint an event organiser for a film festival. Three vendors submitted proposals.

12. AGO's test checks revealed the following lapses:

- a. Negotiation was carried out with a vendor (which submitted the highest bid) to obtain a revised proposal after the RFP had closed, even though Government procurement rules disallowed negotiations for open RFP. This vendor's bid, based on the revised proposal, became the lowest and the vendor was awarded the contract.
- b. There were instances of unfair tender evaluation, which included weak basis for assignment of scores to the vendors for some criteria and price comparison not carried out on a like-for-like basis.

² The Ministry of Communications and Information was known as the Ministry of Information, Communications and the Arts before 1 November 2012.

- c. The scope of services and payment terms stipulated in the contract with the selected vendor were less stringent than those in the RFP.

B. Tender for Claim Processing and Other Related Services (Contract Value of \$91,530)

13. MDA called an open tender for the provision of claim processing and other related services for several grant schemes. Two bids were received, including one from the incumbent vendor.

14. AGO's test checks revealed the following lapses:

- a. The evaluation criteria for evaluating proposals were not fully disclosed in the tender documents.
- b. The evaluation, which concluded that the incumbent vendor's offered price was reasonable and competitive, was not done properly. The conclusion was based on a comparison between the two vendors' total bid prices which were wrongly computed by MDA. The price comparison presented to the tender approving authority was, therefore, erroneous.

C. Appointing Vendor to Administer Grant Scheme Without Competition (Contract Value of \$1.56 million)

15. AGO's test checks of the procurement revealed the following lapses:

- a. MDA appointed the vendor without competition on grounds of it being a sole supplier, even though there could be others capable of providing similar services. Under Government procurement rules, an open tender should have been called.
- b. The price evaluation was carried out on only two of the seven components of the services to be provided. The evaluation of these two components was also lacking in rigour. For example, there was no comparison with market prices to assess whether the proposed price by the vendor was reasonable and competitive.

16. MDA informed AGO that it has since implemented some measures to enhance its procurement process. These measures included formation of a dedicated procurement unit, compulsory training for procurement staff, and sharing of procurement case studies. MDA would continue to introduce additional measures to ensure that Government procurement principles and rules are complied with.

Lapses in Administration of Film Distribution and Exhibition Licensing

17. Under the Films Act (Cap. 107, 1998 Revised Edition), only a person who has a valid licence can carry out the business of importing, making, distributing or exhibiting films. MDA requires an applicant to place a security deposit for the licence and pay a licence fee.

18. AGO's test checks revealed the following lapses in MDA's administration of film distribution and exhibition licensing:

- a. In 22 instances, the security deposits provided by licensees to MDA did not cover part of the licence period. This could result in MDA having no recourse to draw on the security deposit, should there be a need to revoke or suspend the licence.
- b. In 23 instances (totalling \$350,000), inadequate efforts were made to refund the security deposits even though the licences had expired for periods of more than 2 months to almost 14 years. MDA could be seen as being tardy in refunding security deposits which were no longer required.
- c. 22 licences were backdated to commence immediately after the old licences expired, even though these were renewed after the expiry date of the old licences (as long as 1 year 9 months). By doing so, MDA could be seen as allowing the operation of the businesses without valid licences.

19. MDA informed AGO that steps have since been taken to refund security deposits not required, and new measures would be implemented to prevent future lapses. These include having clearer guidelines on collection and refund of security deposits, and enhancing MDA's computerised system for licensing.

Lapses in Evaluation and Approval of Research Projects

20. The “GAMBIT Game Lab” was a \$40 million multi-year research initiative managed by MDA, with the aim to train a new generation of game developers who would carry innovative ideas from the academia into the game industry. As at 30 September 2012, \$33.46 million in grants had been disbursed to fund research and development projects under this initiative.

21. AGO’s test checks revealed lapses in the evaluation and approval of projects funded under the GAMBIT initiative, indicating an overall laxity in controls over evaluation and approval of projects:

- a. Under the standard operating procedures, projects were to be evaluated by an independent research panel or committee and approved by an appropriate authority before funding could be given. For all the six projects test-checked by AGO, there was no evidence that the required evaluations were carried out and approvals were obtained to fund the projects.
- b. Contracts for all projects exceeding \$200,000 were signed by an officer who was only authorised to sign contracts up to \$200,000. MDA had bypassed the control put in place to safeguard its interest by having officers of appropriate seniority to scrutinise the terms and conditions of contract and to raise pertinent questions, where necessary.

22. MDA informed AGO that it has since taken measures to ensure compliance with policies and standard operating procedures for project evaluation, funding approval and contract signing, including incorporation of additional checks and balances, to prevent recurrence of similar lapses for existing and future funding initiatives.

MINISTRY OF CULTURE, COMMUNITY AND YOUTH³

MAJLIS UGAMA ISLAM SINGAPURA

Laxity in Monitoring and Collection of Debts

23. As at 19 July 2012, the Majlis Ugama Islam Singapura (MUIS) had a sizeable balance (\$24.68 million) of debts owing to it. Of this amount, \$22.27 million (90.2 per cent) was outstanding for more than 90 days with some dating as far back as 1998. The majority of these cases were loans and advances given to wakafs, mosques, madrasahs and MUIS' subsidiaries.

24. AGO observed that MUIS' management of debts was lax. Numerous lapses were found, for example:

- a. There was inadequate monitoring of fees and charges (amounting to \$0.49 million) which were long overdue and could have become uncollectible. In addition, there were 18 instances of duplicate billing (amounting to \$48,400) dating as far back as 2007, which resulted in overstatement of outstanding fees and charges.
- b. Loan and advances (amounting to \$5.14 million) were given to a MUIS' subsidiary and mosques without any agreement. There were also inadequate records of such moneys owing to MUIS. In addition, there was no repayment schedule for the loan and advances given. Without such agreements and documentation, MUIS' interest would not be safeguarded.
- c. There were 13 instances of MUIS not billing the mosques or billing them late for books (amounting to \$96,300) procured by MUIS on behalf of the mosques.

25. MUIS agreed with AGO that proper procedures should be put in place to ensure that debts are promptly collected when due, and errors such as duplicate billing and inaccurate records are prevented. According to MUIS, it has started putting in place procedures to improve its controls and documentation over debt management.

³ The Ministry of Culture, Community and Youth was formed on 1 November 2012.

Lapses in Management of Haj Administration Fees

26. Under the Administration of Muslim Law (Haj) Rules (Cap. 3, R6), Haj administration fees are collected by MUIS from persons who apply to perform the Haj. As at 19 July 2012, the Haj administration fees held by MUIS for applicants who had registered but yet to perform the Haj amounted to \$2.52 million.

27. AGO observed that MUIS did not have proper tracking and follow-up procedures for the management of Haj administration fees. AGO's test checks revealed some lapses, for example:

- a. There was no regular reconciliation of the Haj administration fees recorded in MUIS' accounts with those recorded in its computerised Haj administration fees system. The last yearly reconciliation carried out by MUIS was in 2010. AGO carried out a reconciliation and noted a discrepancy of \$0.11 million as at 19 July 2012.
- b. There were 2,369 cases of cancelled applications for Haj where the Haj administration fees (totalling \$0.45 million) were not refunded to the applicants. There were another 154 cases (totalling \$31,800) where the Haj administration fees were not refunded to the estate of applicants who had passed away.

28. MUIS informed AGO that it would perform regular reconciliations of the Haj administration fees. MUIS also informed AGO that for the cases of cancelled applications or where the applicants had passed away, MUIS would publish a newspaper advertisement informing the applicants or the next of kin of the deceased to contact MUIS for the refunds.

Irregularities in Procurement

29. AGO's test checks of procurement by MUIS revealed many instances where Government procurement principles of transparency, open and fair competition, and value for money were not upheld. These included the following:

A. Biased Quotation Evaluations

30. There were indications of bias in the evaluation of nine quotations (totalling \$0.28 million). MUIS cited reasons such as the selected vendors had worked with MUIS before or time factor to justify awarding to the selected vendors. In eight of the quotations where higher bids were selected for award, the evaluations did not indicate why the lower bids could not meet MUIS' requirements.

B. Incorrect Information Given to Quotation Approving Authority

31. There were five quotations (totalling \$0.14 million) where incorrect information was provided to the approving authority for its decision-making. The approving authority was wrongly informed that the vendors recommended for award submitted the lowest bid, had the highest score, and/or met all specifications.

C. Approval Obtained After Services Rendered

32. Approvals for waiver of competition and award of five quotations (totalling \$0.18 million) were obtained 17 days to 4 months after the vendors had delivered the goods/services. In addition, approvals for contract variations for eight cases (totalling \$42,000) were obtained 10 days to 9 months after the services had been rendered.

33. By failing to obtain prior approval, MUIS had undermined the role of the approving authority and bypassed the controls to ensure that waivers of competition, award recommendations and variations were properly justified before implementation.

D. Lapses in Tender Evaluation for Construction Works

34. AGO's test checks of six tenders for construction works revealed the following lapses:

- a. For four tenders (totalling \$17.38 million), seven of the eight criteria used to evaluate the tender proposals were not stated in the tender documents and hence were not made known to potential tenderers.
- b. For two tenders (totalling \$0.64 million), there was no evidence that the tender proposals were evaluated against the criteria set out in the tender documents.
- c. For two tenders (each with an estimated procurement value of more than \$3 million), the Price-Quality Method was not used to evaluate the tenders although this was required under the Government Instruction Manual on Procurement. This method would have provided a more systematic and transparent evaluation, with better assurance that tenders are awarded to the most competent tenderers.

35. MUIS informed AGO that it has since implemented several measures to improve its procurement procedures and would continue to enhance its procedures. These include setting up a procurement function within MUIS to strengthen its procurement system and to ensure compliance with Government procurement rules and procedures.

Lapses in Tenders for Appointment of Service Provider

36. Arising from a complaint, AGO audited the tenders called by MUIS in 2007 and 2010 for the appointment of a service provider to supply sheep/goats and ancillary services to the community for the purpose of rites.

37. AGO's test checks revealed some lapses in the evaluation and award of the tenders. For example, evaluation was not carried out to ascertain the reasonableness of the prices quoted for some items, the selected vendor did not meet some of the mandatory criteria, and the award of the 2007 tender was approved by a panel only authorised to approve award of a lower value.

38. MUIS informed AGO that the procedures would be reviewed and streamlined to prevent such lapses from recurring.

MINISTRY OF EDUCATION

NGEE ANN POLYTECHNIC

No Assurance of Value for Money for Provisional Sum Items

39. AGO's test checks revealed that the Ngee Ann Polytechnic (NP) did not follow Government procurement principles of open and fair competition, and value for money in the procurement of provisional sum items of a construction contract. The provisional sum of \$7.10 million was approximately 24 per cent of the total contract value of \$30.19 million. For this contract, NP engaged a consultant to undertake design and project management.

40. A provisional sum⁴ (in construction contracts) is an estimate included in a tender for works which cannot be defined in sufficient detail for tenderers to price or for works which cannot be foreseen. However, AGO noted that the provisional sum for this contract had included items which should have been foreseen to be required for the project, such as an audio visual system, stage lighting and equipment, auditorium and lecture theatre seats.

41. AGO's test checks on four provisional sum items (amounting to \$2.58 million) also revealed that for most of the purchases, only one supplier was invited to quote. As a result, there was no assurance of open and fair competition, and value for money for the items purchased.

⁴ At the time when the tender for the construction project was called, tenderers were not required to provide price quotes for the provisional sum items. Procurement of such items would be made separately after the award of the contract.

42. Furthermore, the suppliers were invited to quote by phone. The evaluation and recommendation for award were also not documented. Hence, there was no assurance that the procurement had been properly carried out, evaluated and approved.

43. NP informed AGO that for future projects, it would call tenders for the procurement of provisional sum items and maintain proper documentation of the procurement process. It would also exercise close oversight of its project consultants to ensure that they follow proper procurement procedures.

Lapses in Procurement of Graduation Attire and Related Services

44. In 2012, NP awarded a tender for supply and management of graduation attire to a related party⁵ at a contract sum of \$528,120. AGO found irregularities in the tender process which could have reduced the chance of NP getting a more competitive price. These included the following:

- a. An insufficient tender opening period, which gave the related party (which was the previous contractor) an unfair advantage over other tenderers, was specified. As a result, only the related party was able to submit a tailored sample based on NP's requirements for the evaluation of workmanship and compliance with tender specifications; the other tenderers were only able to submit ready samples made by them for other institutions. AGO noted that the tender opening period (which coincided with Chinese New Year) was not extended even though some tenderers had given feedback that the samples could not be produced in time due to factory closures for Chinese New Year.
- b. A tenderer, which indicated that it would not be able to meet the delivery deadline if the contract was not awarded by a certain date, was unfairly disqualified. AGO noted that based on the time taken by NP to evaluate the tender and finalise its orders, the specified delivery deadline was not achievable. In fact, the successful tenderer subsequently delivered the graduation attire more than a month after the specified deadline.

⁵ The related party is Ngee Ann Polytechnic Consumer Co-operative Society, Limited. Its key positions of President, Chairman and Directors are held by NP's senior staff.

- c. The use of Price-Quality Method for evaluation and the weightings for the different criteria were not disclosed in the tender documents. In fact, NP only decided on the weightings after the tender had closed and during the evaluation of the tender. This was not in line with the Government procurement principle of transparency and NP could run the risk of allegations of manipulation of weightings to favour certain tenderers.

45. NP informed AGO that its staff had not set out to create any unfair advantage for its related party. NP had taken note of the concerns raised and would improve its planning and execution of projects of this nature in future.

REPUBLIC POLYTECHNIC

Outsourcing Had Effect of Circumventing Control over Headcount

46. The Public Sector's Manpower Management Framework (MMF) was introduced by the Government to instill greater discipline in public sector headcount management. This is to ensure that the Government optimises scarce manpower resources.

47. The Republic Polytechnic (RP) had engaged an external service provider for the supply and management of manpower for administrative and corporate support roles. The staff engaged through the service provider were recruited and managed no differently from RP's staff. For example, RP decided who to recruit and determined the salaries (including annual increments) to offer. RP also funded the expenditure from its manpower budget. This was unlike usual outsourcing arrangements. The above arrangement, therefore, had the effect of circumventing the manpower control imposed under the MMF. If these "outsourced" staff had been included in RP's headcount, RP would have exceeded its approved manpower headcount by 40 as at 31 March 2012.

48. RP explained that its parent ministry, the Ministry of Education, was informed that the outsourcing was part of RP's manpower planning strategy. It was never RP's intent to circumvent the MMF. RP informed AGO that it would be working with its parent ministry to revise its MMF headcount, taking into account AGO's concerns.

Lapses in Tender Process

49. AGO's test checks revealed lapses in the tender process for the following two tenders awarded by RP.

A. Tender for Development of Integrated Academic System

50. RP awarded a tender for the development of an Integrated Academic System at a total value of \$19.14 million in 2011. Based on the tender specifications, tenderers were required to bid for the project in two parts, Part A - Consultancy Study and Part B - Implementation and Maintenance of the System. It was also stated that RP could exercise the option to proceed with Part B of the project after the completion of Part A.

51. AGO noted that the tender was not conducted in an open and fair manner. After the tender had closed, one of the tenderers was allowed to submit a revised proposal which merged Parts A and B of the project into one so that it could meet the project timeline. Even though this resulted in a substantial change from the original tender specifications, RP accepted the tenderer's revised proposal. RP did not consider recalling the tender or inviting the other shortlisted tenderers to submit their bids based on the revised specifications even though this was required under Government procurement rules. The tenderer was eventually awarded the contract.

52. Furthermore, the substantial change in specifications and the tenderer's submission of a revised proposal were not disclosed to the tender approving authority to enable an informed decision to be made.

B. Tender for Supply and Management of Management Support Officers

53. RP awarded a tender for the supply and management of management support officers at a total value of \$9.42 million in 2011.

54. AGO noted that the tender evaluation was not carried out in a fair and objective manner. For example, the tender evaluation committee (“Committee”) had justified that the recommended tenderer’s prices were “fairly reasonable” although its price for the major cost component was three times that of the other shortlisted tenderer. The recommended tenderer’s total price was also higher than the other shortlisted tenderer. In addition, in its evaluation of the overall proposed solutions, the Committee only mentioned the merits of the recommended tenderer’s proposal; no mention was made of the proposal submitted by the other shortlisted tenderer and how it compared against the recommended tenderer’s proposal. The contract was awarded to the recommended tenderer.

55. According to RP, the Committee had taken into account other considerations when evaluating the proposals which included the tenderers’ ability to meet tender requirements based on clarifications during tender presentations. However, these considerations and clarifications were not documented in the tender evaluation report submitted to the tender approving authority.

56. RP informed AGO that it has since revised its procurement processes to ensure compliance with Government procurement rules and documentation of all information pertinent to the evaluation of tender proposals.

Related Party Given Preferential Treatment

57. For the provision of travel-related services such as airfares and hotel accommodation, RP's practice was to appoint a panel of vendors based on the merits (e.g. area of expertise) of each vendor in meeting RP's requirements. As and when services were required for each overseas trip, RP would get quotations from vendors on the panel for comparison and select the best quote for award to ensure competitive prices were obtained. RP's wholly-owned subsidiary, Republic Polytechnic International Pte Ltd ("RPI"), was one of the vendors on the panel.

58. AGO's test checks revealed several instances where RP had given RPI, its related party, preferential treatment over the other vendors. These included the following:

A. Tenders to Appoint Panels of Vendors for Travel-related Services

59. RP awarded two tenders (amounting to \$700,000) to RPI even though RPI did not meet the registration and licensing criteria specified in the tenders.

60. Furthermore, RP awarded to RPI additional services (amounting to \$64,000) which were not listed in the tender specifications and it also did not assess whether RPI's quoted price was reasonable.

B. Subsequent Awards of Jobs to Panel of Vendors

61. RP awarded jobs (two overseas trips amounting to \$50,200) directly to RPI without obtaining quotes from the other vendors on the panel.

62. It is important to ensure that statutory boards transact with their subsidiary companies at arm's length to avoid allegations of unfair treatment.

63. RP informed AGO that in future, RPI would not participate in RP's procurement for services that could be provided by the private sector. It had also revised the existing procurement process to achieve a more structured approach in evaluating tender proposals.

MINISTRY OF FINANCE

ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

Application Support Engineers Granted Inappropriate Access Rights to Data Files

64. The Accounting and Corporate Regulatory Authority (ACRA) has a computer system which allows businesses to submit information to ACRA via the Internet, for the purpose of registration and meeting statutory requirements. Some of the business information, stored in the system, is available for purchase by the public.

65. AGO's test checks covering the period from April 2011 to April 2012 revealed that on 345 occasions, application support engineers who had accounts with rights to modify data files used those accounts to access several servers containing data files.

66. Based on the principle of segregation of duties, application support engineers should not be granted modification rights to data files. As application support engineers have knowledge of how the data is stored and used in the system, they could tamper with the data files. The consequences may be serious as any unauthorised modification could affect the integrity of business information, some of which are available for purchase by the public.

67. As there was no documentation on the reason for the access, it was not possible to ascertain the legitimacy of the application support engineers' access to the servers.

68. ACRA informed AGO that it has since taken action to address AGO's observations. As at May 2012, the access rights granted to the application support engineers had been removed and a process has been put in place to tighten the controls over access to servers. ACRA had also assessed that the integrity of the business information was not compromised.

MINISTRY OF LAW

SINGAPORE LAND AUTHORITY

Ineffective Management of Maintenance Contracts

69. The Singapore Land Authority (SLA) engaged term contractors to maintain vacant State land and properties under its management. In the financial year 2011/12, the expenditure incurred for such maintenance services amounted to \$6.29 million.

70. AGO conducted site inspections at 42 vacant land sites and 11 vacant properties. AGO observed 80 instances where maintenance was not carried out in accordance with contract requirements for 27 vacant land sites (64.3 per cent) and all the vacant properties inspected. These instances included:

- a. Fifteen land sites where illegal dumps and/or water receptacles were not removed;
- b. Thirteen land sites and properties with tall grass, ranging between 30 and 140 centimetres in height, although grass cutting services were required once or twice monthly;
- c. Nine properties with vegetation growth on building facade and/or in drains;
- d. Nine properties where the contractors failed to seal or destroy potential mosquito breeding and harbouring sites; and
- e. Four land sites where rubbish was not removed for at least 7 to 51 days although daily cleaning was required.

71. AGO noted that SLA officers had certified that services were satisfactorily rendered for 62 cases (where invoices were received at the time of audit) despite the instances of non-compliance observed by these officers during the site inspections conducted with AGO. In this regard, AGO observed that SLA's standard operating procedures did not provide sufficient guidance to its officers in monitoring contractors' compliance with contract requirements and following up on service lapses.

72. SLA should put in place an effective contract management system to ensure that the term contractors are held accountable for compliance with contract requirements. Otherwise, there is no assurance that SLA has obtained the full value for the public funds spent.

73. SLA informed AGO that it had followed up with the contractors on the lapses and remedied all the reported cases. SLA would also improve its system of contract management. It would, among other things, leverage on technology and enhance its procedures to guide its officers in the monitoring of contractors' compliance with contract requirements.

MINISTRY OF MANPOWER

CENTRAL PROVIDENT FUND BOARD

Wastage from Software Not Installed after Purchase of Licences

74. Arising from a complaint, AGO carried out test checks on software licences purchased by the Central Provident Fund Board (CPF Board) for its project on Common Infrastructure for IT Systems. The software licences test-checked amounted to \$10.60 million (including maintenance costs for the licences).

75. AGO observed wastage for nine types of software licences due to the following:

- a. Installation of software was not carried out for 55 of the 180 licences (30.6 per cent) purchased between 1 and 3.5 years ago as at January 2013. The software licences were purchased at a cost of approximately \$0.99 million (including maintenance costs for the licences).
- b. Maintenance was extended for 12 of the 55 licences (21.8 per cent) in December 2011 although the software was not installed at the time of extension, and remained so even after 12 months. The cost for the three-year extension of maintenance amounted to \$0.10 million.

76. AGO further observed that there was no evidence of monitoring and reconciliation of the type and quantity of software installed against a complete listing of licences purchased. Maintaining proper records and having a monitoring system would help to minimise unnecessary purchase of licences and payment for maintenance of software that is not installed.

77. CPFEB informed AGO that 12 licences (amounting to \$0.30 million) were no longer required due to changes in the project scope. These could not be redeployed as they were of an older version. For the remaining 43 licences (amounting to \$0.69 million), CPFEB would be assessing these licences for potential redeployment. It would also put in place a monitoring system for software management.

MINISTRY OF NATIONAL DEVELOPMENT

HOUSING AND DEVELOPMENT BOARD

Ineffective Management of Car Park Enforcement Contracts

78. The Housing and Development Board (HDB) engaged service providers to carry out enforcement functions at its car parks.

79. AGO's checks on HDB's management of six car park enforcement contracts (totalling \$37.24 million) revealed that HDB was lax in monitoring the service providers' performance. There were many instances of non-compliance with contract specifications by the service providers.

A. Test Checks Using Records in Computerised System

80. AGO's test checks on patrol records in HDB's computerised system revealed the following:

- a. There was no record of patrols being carried out for 664 of 7,086 scheduled patrols (9.4 per cent) stated in the service providers' rosters approved by HDB.

- b. There were 167 instances where the time of patrol recorded in the system was not within the scheduled patrol time specified in the approved roster.
- c. There were 133,478 of 823,318 instances (16.2 per cent) where the patrolling officers did not scan the “Radio Frequency Identification” tag affixed to the car park signboard although this was required under the contracts. Instead, they had entered the car park number manually into their scanning devices.

B. Surprise Checks Carried Out On-site at Selected Car Parks

81. AGO carried out surprise checks at 88 car parks to observe the work performed by the service providers and noted the following lapses:

- a. There were five instances where the patrolling officers had manually keyed in the car park numbers for sites that they were required to patrol, when they were not present at the sites.
- b. There were 54 instances where the patrolling officers did not turn up for duty at the car park during the time specified in the approved patrol roster. AGO checked the 54 instances against HDB’s computerised system and found that:
 - i. There was no record of patrols in the system for 33 cases;
 - ii. The records showed that the patrolling officers conducted their patrols outside the approved time schedules for 17 cases; and
 - iii. The records showed that the patrolling officers conducted their patrols during the specified time schedules for four cases, even though this was not observed by AGO during the on-site surprise checks.
- c. There were 26 instances where the patrolling officers did not check all vehicles in the car parks although this was required under the contracts.

82. It is important for HDB to hold the service providers accountable for compliance with contract requirements. Otherwise, HDB would not be getting the full value for the public funds spent.

83. HDB informed AGO that it would improve its monitoring of the service providers' performance. HDB would, among other things, computerise the tracking of various records to identify discrepancies for follow-up, and conduct targeted audit spot checks on sites. HDB would also be leveraging on technology to improve its monitoring. Such measures, together with its ramped-up programme to implement Electronic Parking System would help HDB to manage its car parks better.

Poor Maintenance of Vacant Land

84. HDB engaged term contractors to maintain vacant land under its management. Four contracts (amounting to \$3.33 million) for regular grass cutting works and cleaning of vacant land and drains were awarded. These two-year contracts commenced in 2011 and 2012.

85. AGO carried out site inspection of maintenance works done by the contractors on a test check basis and found that the works were not completed in accordance with contract requirements.

86. For grass cutting works, AGO observed from the inspections that 15 of the 17 scheduled grass cutting works were carried out late (after the time frame approved by HDB). In 11 instances, the grass cutting works were not carried out in accordance with contract requirements. For example, the contractor did not cut the grass of the entire site and/or did not clear the cut grass after works had been completed.

87. For the cleaning of vacant land and drains, AGO found that at 5 of the 10 locations inspected, there was still rubbish in the drains and open spaces even though daily cleaning should have been carried out. The same rubbish was still present when AGO made a second visit to the site on a different day.

88. AGO observed that HDB officers had certified in their "Inspection Checklists" that the works were satisfactorily completed for all the above cases, even though works were not properly carried out. AGO also noted that the "Inspection Checklists" did not contain a list of performance standards specified in the contracts which would have helped the officers in performing their checks.

89. HDB should review its inspection procedures and hold the contractors accountable for the services that HDB had paid for. Otherwise, there is no assurance that HDB has obtained the full value for the public funds spent.

90. HDB informed AGO that it would review its work processes to ensure that the contractors comply with contract requirements.

URBAN REDEVELOPMENT AUTHORITY

Poor Management of Car Park Enforcement Contract

91. The Urban Redevelopment Authority (URA) engaged a contractor to carry out enforcement patrols and related services for the car parks under its management. The three-year contract (amounting to \$10.38 million) was extended twice from 1 August 2011 to 31 January 2013 at a further cost of \$4.90 million.

92. AGO found indications that the contractor had not carried out the works properly. In particular, AGO noted that URA's surprise field audits on the contractor consistently showed high absenteeism rates (i.e. the patrolling officers were absent from scheduled patrols) of between 70 and 80 per cent since 2010.

93. AGO noted that URA had imposed liquidated damages, amounting to less than 4 per cent of monthly payments, on the contractor for the high absenteeism rate, which did not result in an improvement in performance. Despite that, URA extended the contract with the contractor on the justification that the contractor's performance had been satisfactory.

94. URA informed AGO that "the imposition of LD [liquidated damages] is punitive enough". It had taken into consideration other indicators such as monthly output of offence notices, error rate in issuance of offence notices and contractor's responsiveness to public complaints on illegal parking, in deciding on the extension of contract with the contractor.

95. URA's ineffective use of liquidated damages and extension of contract in spite of the contractor's repeated failure to meet certain performance standards meant that there was no assurance that URA had obtained the full value for the public funds spent.

Lapses in Procurement of Field Inspection Services

96. URA called a tender in 2011 for the provision of field inspection services. Five bids ranging from \$203,976 to \$775,200 were received and the contract was awarded at a cost of \$492,984 to the tenderer which had submitted the third lowest bid. The successful tenderer was also URA's incumbent contractor. AGO observed lapses in the tender process which indicated that there was no assurance that the procurement had been conducted in a transparent, and open and fair manner, and URA could be perceived as showing favouritism to its incumbent contractor. Details of the lapses are in the following paragraphs.

- a. A tenderer (the successful tenderer) was allowed to amend its bid after the tender had closed. It had included its own set of contractual conditions in its tender submission. This was not compliant with the critical criteria stated in the tender documents. Instead of disqualifying the bid, URA allowed the tenderer to retract those conditions after the tender had closed.
- b. The tenderer was allowed to remove two chargeable items from its original bid after the tender had closed. This had the impact of reducing its original bid price. Such action is unfair to the other bidders.
- c. The tenderer was awarded maximum points for the evaluation criterion on conformance with tender specifications even though its original bid had not complied with the tender specifications. This was in contrast to two other tenderers which were penalised for obvious omissions and errors in their submissions.
- d. The approving authority was not informed that the tenderer was allowed to amend its bid after the tender had closed. The evaluation and recommendation reports submitted to the approving authority only stated that all bids received complied with the tender specifications. Hence, the approving authority was not provided with correct and complete information to enable it to make informed decisions.

- e. The tender was awarded one day before the commencement of the contract. Such short notice would not have provided sufficient time for a new contractor to prepare and mobilise its resources required for the contract.

97. URA had acknowledged AGO's concerns. URA had reviewed and found that the evaluation was carried out with due diligence to ensure fairness. It would enhance its evaluation process to ensure that all tender proposals are processed in accordance with established procurement procedures and avoid any perception of favouritism or unfair practice.

Improper Advance Payments

98. AGO noted from its test checks that URA had made advance payments for five IT hardware maintenance contracts in the financial year 2011/12. This was contrary to the payment terms stipulated in the contract. Payments (amounting to \$101,027) were made to the contractors up to 45 months before the services were rendered.

99. URA explained that for IT hardware maintenance services, it is an industry practice to pay contractors at the start of the maintenance period in order to secure the services.

100. Making such advance payments would not be in URA's interest as it would have to expend time and resources to seek recourse if the contractors subsequently failed to provide the services in accordance with contract specifications. Where there is a need for advance payments, for example when it is a normal industry practice, the terms and conditions governing such payments should be stipulated in the contract. The appropriate frequency of such advance payments should also be considered, to minimise the risk of non-performance by contractors.

101. URA informed AGO that in future, for services which require advance payment, it would seek approval from the relevant authority to stipulate the advance payment condition in the contract.

MINISTRY OF THE ENVIRONMENT AND WATER RESOURCES

PUBLIC UTILITIES BOARD

Irregularities in Small Value Purchases

102. Government procurement rules require quotations to be called if the estimated value of the purchase exceeds \$3,000. The rules stipulate that purchases must not be split to avoid complying with rules applicable to higher value purchases.

103. In continuation of the audit on the Public Utilities Board (PUB)'s procurement in the financial year 2011/12, AGO test-checked small value purchases made by PUB during the period from September 2011 to May 2012. AGO's test checks revealed 46 small value purchases (totalling \$112,400), each worth less than \$3,000, which appeared to have been split from 13 higher value purchases to avoid calling open quotations. Each group of purchases was requested by the same officer for the same or similar goods or services. In addition, the goods or services were purchased on the same day or within a short period of time and obtained from the same supplier.

104. In 11 of these 46 split purchases, which involved the procurement of labour services, AGO noted the following irregularities:

- a. PUB had obtained 11 quotes consecutively from the same contractor between June and August 2011 but did not carry out the works during the specified periods. The works, which were only carried out three months later between September and November 2011, also did not tally with details stated in the quotes.
- b. In six cases, prior approval for the need for the purchases was not sought.
- c. In seven cases, works had commenced before approval was obtained for award of the small value purchases.

105. PUB informed AGO that it has since tightened its procurement procedures for small value purchases. PUB would also be enhancing its computerised procurement system with built-in checks to ensure segregation of duties and approvals by the correct approving authorities. PUB has instituted regular reviews of small value purchases to identify potential aggregation of these purchases, which had resulted in a drop of such purchases from 5,749 (totalling \$10.10 million) in the financial year 2011/12 to 1,702 (totalling \$2.66 million) in the financial year 2012/13. As for the 11 small value purchases, PUB explained that it had investigated and found that the works were completed as required.

MINISTRY OF TRADE AND INDUSTRY

SENTOSA DEVELOPMENT CORPORATION

Staff Not Subject to Personnel Rules for Statutory Boards

106. In 2002, the Sentosa Development Corporation (SDC) embarked on a restructuring exercise and appointed one of its wholly-owned subsidiary companies as its agent to provide manpower services for SDC's operations and corporate functions. Under the agreement between SDC and the subsidiary company, SDC would reimburse the subsidiary company for the remuneration of the staff⁶ provided and pay the subsidiary company a management fee.

107. Upon implementation of the agreement, the affected staff of SDC became employees of the subsidiary company but continued in their previous jobs in SDC. As at 31 July 2011, 513 of the 552 staff (92.9 per cent) filling positions in SDC were employees of the subsidiary company.

⁶ For the financial year 2010/11, such expenses amounted to \$32.23 million.

108. Under the governance framework for statutory boards, the remuneration and conditions of service of statutory board employees are subject to oversight by the Public Service Division (PSD). Statutory boards are required to consult their supervising ministries and PSD on changes to the remuneration and conditions of service of their staff. The arrangement adopted by SDC, as described above, had the effect of circumventing PSD's oversight of statutory boards' staff remuneration and conditions of service since the staff filling positions in SDC were employees of the subsidiary company and not of SDC. SDC also did not consult PSD on the restructuring exercise or subsequent changes made to the remuneration and conditions of service of these staff.

109. SDC has informed AGO that it had overlooked the matter and that there was no intention to circumvent PSD's rules on staff remuneration and conditions of service.

110. As public sector human resource matters fall under PSD's purview, AGO brought the matter to PSD's attention for it to review whether there was an unintended gap in existing rules which ought to be addressed.

111. PSD informed AGO that SDC should consult its supervising ministry and PSD on remuneration and conditions of service of the employees of its subsidiary companies who are essentially performing the core roles and responsibilities of SDC's employees. PSD would be refining its rules to address the above scenario.

112. Subsequently, SDC also informed AGO that it has since decided to redeploy staff so that staff performing SDC's core functions would be employed directly by SDC instead of its subsidiary companies.

PART III

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

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

Government-owned Companies

1. The Auditor-General audited the financial statements of the following five Government-owned companies for the financial year 2012/13 under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition):

- a. GIC Asset Management Private Limited
- b. GIC Real Estate Private Limited
- c. GIC Special Investments Private Limited
- d. Government of Singapore Investment Corporation Private Limited
- e. MND Holdings (Private) Limited

Unmodified audit opinions were issued on the financial statements of these companies.

Other Accounts

2. At the request of the President, the Auditor-General audited the accounts of the President's Challenge 2011 under section 4(1)(b) of the Audit Act.

3. The Auditor-General audited the ASEAN Cultural Fund (Singapore) accounts for the financial year 2012 as required under an ASEAN agreement.

4. Unmodified audit opinions were issued on the above accounts.

Acknowledgements

5. 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, all subordinate 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, all subordinate courts and the 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 (i.e. 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 is required under section 5 of the Audit Act to 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(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 Acts of most statutory boards provide for audits of their financial statements to be carried out either by the Auditor-General or another auditor appointed by the Minister responsible in consultation with the Auditor-General.

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

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

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.

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

Selective Audit

12. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation. The authority for selective audits of statutory boards is provided for under a Ministry of Finance (MOF) Circular Minute⁸, read with section 4(4) of the Audit Act⁹.

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

Audit of Other Entities

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

⁸ Ref. Finance Circular Minute No. M3/2011 dated 10 March 2011. This replaces an earlier MOF Circular Minute Try F 10/1-5 dated 10 November 1972.

⁹ 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 may, for example, have access to all records and documents subject to his audit, call upon any person to provide explanation or information, and authorise any person to conduct any inquiry, examination or audit on his behalf.

ANNEX II : CRITERIA FOR APPOINTMENT OF AUDITORS

1. The Acts of a number of public agencies (i.e. most statutory boards, all town councils and certain funds) require their accounts to be “audited by the Auditor-General or by an auditor appointed annually by the Minister in consultation with the Auditor-General”. The Government Instruction Manuals also require statutory boards to seek the Auditor-General’s concurrence when appointing an auditing firm.

2. When the Auditor-General is not the auditor and he is consulted on the appointment of an auditor, he will give his advice based on the five criteria below:

- (i) The proposed person, accounting corporation, accounting firm or accounting limited liability partnership (LLP) is not precluded by the Companies Act (Cap. 50, 2006 Revised Edition) from acting as auditor of a company.
- (ii) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not been suspended from practice or have not been de-registered, during the last five years, under section 38, 52 or 53 of the Accountants Act (Cap. 2, 2005 Revised Edition) or the equivalent sections of the predecessor 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 or the equivalent sections of the predecessor 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.

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

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

Application Notes:

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

3. Criteria (i) to (iv) give the assurance that the person, the accounting corporation, accounting firm or accounting LLP and its directors/partners, are suitably qualified and have a clean record for a sustained period, with regard to disciplinary action meted out by the Public Accountants Oversight Committee¹ or adverse judgment by a Court. Criterion (v) provides for the rotation of auditors and audit engagement partners. The two application notes (a) and (b) ensure that there will be no double penalty for the same case of professional misconduct and that only the directors/partners concerned are debarred, not the whole corporation, firm or LLP.

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

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

