



REPUBLIC OF SINGAPORE

REPORT

OF THE

AUDITOR-GENERAL

FOR THE FINANCIAL YEAR

2014/15



**AUDITOR-GENERAL'S OFFICE
SINGAPORE**

1 July 2015

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 2014/15.

Yours sincerely

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

Tan Yoke Meng Willie
Auditor-General

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2014/15



Auditor-General's Office
Singapore

MISSION

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

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OVERVIEW

OVERVIEW

I am pleased to present my Report on the audits carried out by the Auditor-General's Office (AGO) for the financial year 2014/15.

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

In general, AGO carries out two types of audits, namely:

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

Audits Carried Out for Financial Year 2014/15

For the financial year 2014/15, AGO audited the following:

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

AGO adopts a risk-based approach in determining the areas to be covered in an audit. In selecting areas for audit, AGO considers factors such as financial value of transactions and the potential impact an irregularity in a particular area may have on the organisation or the public sector as a whole.

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

The irregularities and weaknesses uncovered 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 resources.

All audit observations are conveyed to the respective Government ministries, statutory boards and other entities by way of AGO Management Letters. In the case of statutory boards, the Management Letters are also sent to their respective supervising ministries.

The *Report of the Auditor-General* covers selected audit observations that are typically more significant 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.

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

Audit Observations

In this year's audits, AGO uncovered a number of instances that indicated laxity in the administration of grants. The common weaknesses observed include failure by the public sector entities to ensure that the correct amount of grants are disbursed and conditions for grants are adhered to. For proper accountability, it is important that controls and proper mechanisms are in place to ensure that grants are used for the intended purposes.

AGO also observed several instances of lapses in tendering and management of revenue contracts, and poor management of contract variations. These lapses raised concerns on whether the key principles of open and fair competition, and transparency had been upheld.

Our audit observations also revealed related party transactions, involving substantial amounts, which were not carried out at arm's length. Related parties were not charged or were charged below market rate for goods and services provided by the public sector entities; effectively, they were given hidden subsidies.

In this Overview, I would like to highlight the following areas where public sector entities could pay greater attention to and where improvements could be made:

- Administration of grants;
- Tendering and management of revenue contracts;
- Management of contract variations; and
- Related party transactions.

Administration of Grants

Significant amounts of grants are disbursed every year for various Government programmes and projects. As public funds are involved, it is important that adequate controls and monitoring mechanisms are in place to track the use of grants and to monitor that grants disbursed have achieved their intended purposes.

AGO found lapses in administration of grants by several public sector entities. The National Research Foundation (NRF) was lax in reviewing progress reports submitted by its grant recipients to ensure that the funded projects were on schedule and met key project milestones. In particular, there were instances where the project milestones were not met but NRF had not taken any follow-up action. AGO also observed that the Ministry of Health had overpaid its grant recipients over three financial years due to wrong computation of rental subvention and the overpayment would be perpetuated if it is not detected and rectified.

Public sector entities also engaged external parties as programme partners to administer grants on their behalf. AGO found that the Singapore Workforce Development Agency was lax in its monitoring of a programme partner. It did not ensure that its programme partner enforced grant conditions on the grant recipients and adhered to the funding caps which it had set. When public sector entities partner other parties to administer their grants, it is necessary for the entities to have adequate oversight of their partners to ensure that grants are properly disbursed and programme requirements enforced.

Tendering and Management of Revenue Contracts

Public sector entities award a significant amount of contracts for vendors to operate businesses on the entities' premises. The entities earn revenue from these contracts. In awarding these revenue contracts, it is important that the entities uphold the principles of transparency, and open and fair competition, and obtain proper approvals for award of contracts. The operators' performance should also be properly monitored to ensure that they fulfil the contractual requirements.

In the audit of the People's Association (PA), AGO found instances where training operators were engaged directly by grassroots organisations (GROs) without calling competitive bids. In doing so, there was no assurance that the GROs were able to obtain the most advantageous bids. In addition, AGO observed many instances where approvals for award of revenue contracts were obtained from the wrong approving authorities. Consequently, the awards of the contracts were not subject to the scrutiny of the relevant approving authorities. This undermined the role of the approving authorities which is to ensure that the principles of revenue contracting are upheld.

AGO also found lapses in the management of revenue contracts in the Institute of Technical Education (ITE). ITE did not adequately monitor and enforce its operators' fulfilment of contractual requirements. There is a need to hold operators accountable and take firm action against errant operators when warranted. Otherwise, the intended outcomes and benefits of the contracts would not be realised.

Management of Contract Variations

Public sector entities typically raise contract variations for an incumbent contractor to carry out variation works when there are changes to the original contract due to unforeseen circumstances or requirements. Public sector entities are expected to carry out reasonableness checks on the prices of goods and services and obtain approval before awarding the contract variations. This is to ensure that the Government procurement principles of value for money and, open and fair competition are adhered to.

AGO found lapses in controls over management of contract variations in the National Parks Board, the National Population and Talent Division and the Jurong Town Corporation. There was no documentary evidence of assessment on the reasonableness of the quotes received. AGO also noted delays in seeking approvals for contract variations. There were many instances where approvals for contract variations were obtained only after works had commenced, or worse still, only after works had been completed and payments made. Obtaining retrospective approvals for variations weakens the controls put in place to ensure that variations are properly justified and that the approving authority has adequate oversight of project costs.

Related Party Transactions

In carrying out their functions, public sector entities may have dealings with parties that are related to them. While AGO recognises that many of these related parties are established to complement the public sector entities' functions, they are, after all, separate legal entities accountable for their own performance. Therefore, for proper accountability, transactions with related parties should be carried out at arm's length, and funding and resources provided to the related parties should be clearly reflected. There should not be any hidden subsidy. This is to maintain financial discipline and accountability.

AGO observed instances in two public sector entities where transactions with related parties were not carried out at arm's length. The Singapore Polytechnic (SP) had sub-leased a land parcel at nominal rent to a related party. It had also waived a substantial amount due from this related party without carrying out proper evaluation. In addition, SP did not recover a significant amount of costs for secondment of its staff to a subsidiary.

In another case, ITE leased an office space to a subsidiary at below market rate. ITE also did not have a proper system to ensure complete, correct and prompt billing of services rendered to the subsidiary. This resulted in wrong, late and non-billing of services rendered.

Importance of Proper Documentation

In addition to the above observations, I am concerned over the lack of documentation on decisions, actions taken and matters with significant financial implications in the areas audited. In this year's audit, AGO found a number of instances where public sector entities, in response to lapses highlighted by AGO, explained that they had taken actions in the past based on certain justifications but they were not able to provide supporting documentation. For example, AGO was informed that verbal approvals were obtained or discussions were carried out but these were not recorded.

AGO is aware that maintaining records requires time and effort, and hence AGO does not expect every issue to be recorded. However, AGO is concerned when entities are unable to produce any evidence of what they have represented to AGO as key considerations when decisions were made at the material point in time.

Acknowledgements

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

TAN YOKE MENG WILLIE
Auditor-General
Singapore

1 July 2015

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 2015 have been prepared by the Minister for Finance in accordance with Article 147(5) of the Constitution of the Republic of Singapore (1999 Revised Edition) and section 18 of the Financial Procedure Act (Cap. 109, 2012 Revised Edition).
2. The Auditor-General has completed the audit required under section 8(1) of the Audit Act (Cap. 17, 1999 Revised Edition) and has issued an unmodified audit opinion on the Financial Statements. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the audit report to the President on 26 June 2015.
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

Government Ministries and Organs of State

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

Government Funds

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

3. The Auditor-General audited the financial statements of the Workers' Fund¹ for the financial year 2014/15 as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2). An unmodified audit opinion was issued on the financial statements.

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

4. For Government funds whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation, at least once every five to seven years. A selective audit is an examination of selected activities and operations, carried out in relation to the accounts, to check for financial irregularity (not for the purpose of rendering an opinion on the financial statements), and to ascertain whether there has been excess, extravagance, or gross inefficiency leading to waste, and whether measures to prevent them are in place. In the financial year 2014/15, no Government fund was due for selective audit.

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 EDUCATION

Inadequate Controls to Ensure Proper Use of Grants

7. AGO found that the Ministry of Education (MOE) did not have adequate controls to prevent the allocation of excess Advanced Elective Module (AEM) grants to schools and to ensure that the grants were used for the intended purposes.

8. MOE offers AEM grants to schools as a means of enriching the schools' curriculum with more applied learning courses that connect theoretical knowledge to real world applications. From 2011 to 2014, AEM grants allocated averaged \$1.65 million a year. AGO's test checks of AEM grants allocated to eight schools revealed the following lapses:

- a. 22 cases (or 57.9 per cent of the 38 cases checked) amounting to \$165,768 where MOE allocated grants to schools in advance based on target student participation in AEM courses. This was not in compliance with MOE's instructions to its staff and the schools that AEM grants should be allocated to schools based on actual attendance after AEM courses had been conducted.
- b. 14 cases (or 23.3 per cent of the 60 cases checked) where excess grants totalling \$64,734 were allocated to the schools. The excess grants arose because the target student participation was higher than the actual participation, the AEM courses were cancelled, or duplicate applications were received for the same AEM course. After the allocation of grants, MOE did not track the actual participation for the purpose of recovering any unused amount.
- c. 5 of the 8 schools had wrongly used another grant not meant for AEM courses to pay for 21 AEM courses totalling \$149,725.

9. AGO estimated that a total of \$232,900 (or 53.8 per cent) of the AEM grants allocated to the eight schools from January 2011 to August 2013 was not used. In particular, there were two schools which did not use any of the grants allocated. Most of these unused grants were retained by the schools in a common pool of funds, which could result in the use of such grants for purposes not intended under the AEM grants scheme.

10. Allocating AEM grants in advance without proper mechanisms to track the use of grants and to recover excess grants shows laxity in compliance with MOE's instructions, and more importantly, weak management of public funds.

11. MOE informed AGO that it has since put in place controls to ensure proper use of the AEM grants.

MINISTRY OF HEALTH

Overpayment of Rental Subvention

12. AGO's test checks of rental subvention of \$104.80 million provided by the Ministry of Health (MOH) to Restructured Hospitals and Institutions² (RHIs) during the financial years 2010/11 to 2012/13 revealed overpayment of \$2.07 million. For the three financial years, MOH disbursed \$314.12 million of rental subvention to RHIs.

13. AGO found that MOH had wrongly included a vacant building in one RHI and a car park in another RHI in its computation of rental subvention, when its policy is to provide subvention only for land and buildings used by subsidised patients. These errors resulted in overpayment of \$2.07 million over the three financial years, and the overpayment would be perpetuated if it is not detected and rectified.

14. AGO also found that the research space in 13 RHIs were funded by two departments in MOH. During the financial years 2010/11 to 2012/13, one department provided subvention (totalling \$7.05 million) to the RHIs for the rental of research space. During the same period, another department provided subvention (totalling \$28.30 million) to the same RHIs for similar purposes. MOH was not able to provide AGO with supporting documents to show that there was no overpayment of rental subvention.

15. MOH informed AGO that it had since rectified the errors in rental subvention, and has also taken action to ensure that research space in RHIs would be funded only by one department with effect from the financial year 2014/15.

² Consist of Restructured Hospitals, National Centres and Polyclinics.

MINISTRY OF MANPOWER

Ineffective Monitoring of IT Vendor's Database Activities

16. AGO noted that the Ministry of Manpower (MOM) was ineffective in monitoring the activities carried out by its IT vendor on the databases of the Work Pass and the Employment Pass processing systems. There was thus a risk that unauthorised access and changes to data by the IT vendor might not be detected.

17. MOM outsourced the maintenance of the two systems to an IT vendor. MOM monitored the activities carried out by its IT vendor on the databases through monthly reports prepared by the IT vendor. By relying on the IT vendor to prepare the reports on its own activities, there was a risk that errors or intentional omissions of any unauthorised database activity would not be detected by MOM.

18. In addition, AGO's test checks on the reports covering the period May 2014 to November 2014 revealed that:

- a. Certain activities carried out by the IT vendor, including addition, modification and deletion of data, were not included in the reports.
- b. The reports showed only the number of occurrences of the activities captured. Important information such as the persons who carried out the activities and details of the actions performed was omitted.

19. Taken together, the above inadequacies made it difficult for MOM to effectively monitor the activities carried out by its IT vendor and detect any unauthorised access and change to the data.

20. MOM informed AGO that it would strengthen its monitoring of the activities carried out by its IT vendor on the databases.

Inappropriate Access Rights Assigned to IT System Users

21. AGO's test checks on the access rights given to 310 users of the Employment Pass processing system revealed that inappropriate access rights were assigned to 160 users (51.6 per cent):

- a. 21 users could create records in the system for refund of Employment Pass related fees, approve the refunds created by them and void or waive Employment Pass related fees on their own.
- b. 139 users could create records in the system to extend Short Term Visit Passes (STVP) and approve the extensions created by them.

22. It is inappropriate to assign access rights which would allow an officer to create and approve the same record without any independent check. In this regard, AGO's test checks covering the period January 2013 to August 2014 revealed two instances where the records of STVP extension were created and approved by the same officer.

23. Furthermore, AGO noted that MOM did not conduct regular reviews of the logs on the activities carried out by users of the Employment Pass processing system. Given this lapse and the inappropriate access rights highlighted in paragraphs 21 and 22, there was a risk that the users could carry out unauthorised transactions without being detected.

24. MOM explained that the access rights were granted for operational efficiency. Nonetheless, MOM agreed that there was a risk of unauthorised transactions due to inappropriate assignment of access rights. To address this risk, MOM would reorganise the work of its officers to reduce the number of users with such inappropriate access rights and carry out quarterly reviews of logs on payments and STVP transactions to detect any unauthorised transaction. MOM also informed AGO that it had reviewed the two extensions of STVP which were created and approved by the same officer and found that the transactions were in order.

PRIME MINISTER'S OFFICE

NATIONAL POPULATION AND TALENT DIVISION

Irregularities in Procurement of Event Management Services

25. In the review of procurement of event management services for two overseas events held in 2013 and 2014 (total original contract value of \$6.79 million), AGO found that the National Population and Talent Division (NPTD) had not checked that the prices of goods and services, totalling \$1.51 million, procured by its vendors on its behalf were reasonable. In addition, AGO found that prior approval was not obtained for all variation works totalling \$1.47 million (60.7 per cent increase over the original contract value) for the event held in 2013.

A. Recurring Lapse on Lack of Checks on Price Reasonableness

26. AGO's test checks on procurement for the events held in 2013 and 2014 revealed that there was no evidence that NPTD had carried out reasonableness checks on the prices of \$1.51 million out of \$1.81 million of goods and services before the items were procured. AGO had made a similar observation on a similar event in the *Report of the Auditor-General for the Financial Year 2011/12*; and NPTD had subsequently updated AGO that it would carry out cost comparisons or market checks for future events to ensure price reasonableness. The current failure to carry out reasonableness checks on the prices of goods and services is thus a recurring lapse. Hence, there was no assurance that the prices were reasonable and the Government procurement principle of value for money was upheld.

27. NPTD explained that its appointed vendor would need to work with the vendor's overseas strategic partners to ensure timely delivery of quality goods and services. It was not operationally feasible to require the vendor to source for every item through competitive bidding and overrule these established partnerships. NPTD further explained that during the tender evaluation stage, it had already compared the prices of various categories of goods and services across bidders as well as against previous events as a means of ascertaining price reasonableness.

28. AGO had looked for evidence to substantiate NPTD's explanation but found no indication in the tender evaluation report that NPTD had compared the prices of various categories of goods and services across bidders. There was also no indication that NPTD had compared the prices quoted against previous events. As the detailed requirements had yet to be worked out at the time the tender was called, AGO noted that the prices quoted in the tender submissions were presented as estimates based on broad categories of goods and services and it was stated in the contracts that the vendors would be reimbursed based on the actual costs incurred. Hence, there was a need for checks to be carried out on the reasonableness of the prices of goods and services when the requirements were firmed up and before the items were procured. AGO also observed that a number of items subsequently purchased and reimbursed by NPTD were not included in the tender submissions.

29. AGO recognises the operational constraints faced by NPTD. Nevertheless, sufficient checks should be carried out by NPTD to satisfy itself that the amounts paid for the items are reasonable.

B. Prior Approval Not Sought for All Contract Variations

30. AGO's test checks on procurement for the overseas event held in 2013 also revealed that prior approval was not sought for all contract variations totalling \$1.47 million (60.7 per cent increase over the original contract value) before they were carried out. Proceeding with works without approval from the relevant authority renders the checks over the need for contract variations ineffective.

31. NPTD agreed that approval should have been sought before work commenced and informed AGO that it would review and improve the management of its contract variation process.

NATIONAL RESEARCH FUND

Lapses in Administration of Grants

32. AGO found lapses in the National Research Foundation (NRF)'s monitoring of research projects funded under three grant schemes, where there were laxity in reviewing progress reports submitted by grant recipients and in taking follow-up actions when projects did not meet specified milestones or key performance indicators. As a result, there was no assurance that the intended objectives of the grant schemes had been achieved. Such lapses could lead to wastage of public funds.

33. AGO carried out test checks on projects awarded from 2007 to 2013 under three grant schemes administered by NRF, namely the Proof-of-Concept (POC) Grant Scheme, the Competitive Research Programme (CRP) Funding Scheme and the NRF Fellowship Scheme. The POC Grant Scheme funds research on inventions or ideas that could be licensed or marketed eventually; the CRP Funding Scheme funds high-impact research of relevance to Singapore; and the NRF Fellowship Scheme supports outstanding, early-stage career researchers in carrying out independent research in Singapore. The amount disbursed from the National Research Fund for the three schemes as at 31 December 2013 was \$301.20 million.

A. POC Grant Scheme

34. AGO test-checked 90 progress reports under the POC Grant Scheme and noted that there was no evidence that NRF had conducted any review on all 90 reports to ensure that the projects were on schedule and key project milestones had been met. These reports submitted by the grant recipients to NRF contained information on the progress of the researches and achievement of milestones.

35. In addition, for 77 of the 90 progress reports, NRF did not take any action when the host institutions³ did not provide their assessments on the reports, even though NRF's guidelines required such assessments to be carried out. AGO found two projects that did not meet several milestones at mid-term but no action was taken by NRF on these projects.

³ Host institutions are Singapore-based institutions of higher learning, public sector agencies and research institutions which provide employment and research facilities for the researchers to carry out their researches.

B. CRP Funding Scheme and NRF Fellowship Scheme

36. AGO's test checks of 60 projects under the CRP Funding Scheme and the NRF Fellowship Scheme revealed that, contrary to NRF's guidelines, all the annual progress reports were not reviewed by an NRF-appointed review panel. Of the 60 projects, AGO observed that there were 36 projects where the key performance indicators were not met but there was no documentary evidence of any follow-up action taken by NRF on these projects.

37. For proper accountability and to avoid wastage of public funds disbursed for these research projects, it is important that reviews are carried out in a timely manner so that prompt action can be taken on projects which are not making satisfactory progress.

38. NRF informed AGO in August 2014 that it would ensure that host institutions comply with its guidelines and follow up with these institutions to discuss the progress report findings and the necessary actions to further support these research projects. NRF would also review the progress reports and ensure that follow-up actions are recorded and filed.

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 auditing the accounts, the Minister concerned will appoint an auditor in consultation with the Auditor-General. In advising on the appointment, the Auditor-General takes into account the criteria listed in Annex II.

3. AGO audited the financial statements of the following three statutory boards for the financial year 2014/15:

- 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 irregularity (not for the purpose of rendering an opinion on the financial statements), and to ascertain whether there has been excess, extravagance, or gross inefficiency leading to waste, and whether measures to prevent them are in place.

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 2014/15, AGO carried out selective audits of the following 10 statutory boards:

- a. Competition Commission of Singapore
- b. Health Promotion Board
- c. Institute of Technical Education
- d. Jurong Town Corporation
- e. National Environment Agency
- f. People's Association
- g. Public Utilities Board
- h. Singapore Polytechnic
- i. Singapore Workforce Development Agency
- j. Temasek Polytechnic

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

Acknowledgements

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

Selected Observations

9. Selected observations arising from the audits of statutory boards are summarised in the paragraphs that follow.

MINISTRY OF COMMUNICATIONS AND INFORMATION

INFO-COMMUNICATIONS DEVELOPMENT AUTHORITY OF SINGAPORE

Lapses in Administration of Project Funding

10. AGO found that the Info-communications Development Authority of Singapore (IDA) had used funds totalling \$9.30 million from the Ministry of Communications and Information (MCI) and the Ministry of Finance (MOF) for two projects without approvals from the ministries, indicating a lack of accountability in the usage of funds by IDA.

11. IDA administers funding of projects pertaining to Information and Communications Technology development. These projects could be funded by grants from ministries or IDA depending on factors such as the nature of the project. Ministries would disburse grants to IDA based on the projected fund usage and any unused funds would have to be returned to the ministries.

12. AGO's test checks of eight projects revealed that two projects, namely the i-Space project² to revamp the Singapore Science Centre's Hall of IT Exhibition and the project on development of the Singapore e-Government Leadership Centre³, which were to be funded by IDA were instead funded by unused grants from MCI (\$7.30 million) and MOF (\$2 million) respectively. These grants were earlier disbursed to IDA for other projects. IDA had not obtained the approvals from the two ministries before using their funds.

² The period of the project was from 2005 to 2011. The project fund account was finalised and closed in 2013.

³ The period of the project was from 2006 to 2011. The project fund account was finalised and closed in 2013.

13. For proper accountability and to ensure that funds are used for their intended purposes, it is important for IDA to seek approvals from the ministries before using their funds for other projects or purposes. In addition, any unused funds should be returned promptly so that they could be reallocated for other purposes.

14. IDA informed AGO that it would seek its supervising ministry's advice on the approving authority for future changes of funding source.

NATIONAL LIBRARY BOARD

Weaknesses in Procurement of Electronic Resources

15. AGO found that the National Library Board (NLB) had procured electronic resources (e-resources) directly from specific vendors without any evidence of having considered other e-resources of similar nature. NLB also did not have a robust system to verify that the vendors selected were sole distributors of the e-resources. In addition, NLB had renewed subscriptions to e-resources based on weak justifications. These weaknesses could lead to bias, unfair and inappropriate procurement practices.

16. In the financial year 2012/13, NLB spent about \$7.30 million to acquire and maintain its e-resources collection which included electronic books and databases.

A. Weaknesses in Acquisition of Electronic Resources

17. For all seven cases of procurement test-checked, AGO observed that there was no documentary evidence to show how NLB had selected those e-resources over other e-resources of similar nature. The procurement officer merely stated the merits of the proposed e-resource in the paper submitted to the approving authority.

18. NLB had procured all its e-resources directly from various vendors⁴ on the grounds that they were sole distributors of these e-resources. AGO observed that NLB's standard operating procedures required NLB officers to obtain, through the vendor, a letter from the e-resource owner to confirm that the vendor had been appointed as the sole distributor. AGO test-checked 29 procurement cases and found 13 cases where NLB relied on scanned copies of letters provided by the vendors to confirm their sole distributorships of the e-resources. As the vendors would have vested interests in the procurement, NLB should confirm the sole distributorships directly with the e-resource owners.

19. By procuring the e-resources without going through a proper process of sourcing, selection, evaluation and justification, NLB may not have availed itself of the best offer from the market and may be subject to allegations of bias, unfair and inappropriate procurement practices.

B. Weaknesses in Evaluation Process for Subscription Renewal

20. AGO's test checks also revealed that NLB had renewed the annual subscription of an e-resource for two consecutive years, although the usage rates had deteriorated over the years. AGO noted that for the first renewal, all three evaluators in the user group had recommended termination of this e-resource and for the second renewal, based on the usage rates, the subscription should have been terminated under NLB's guidelines. AGO found that the justification put forth by NLB in the approval paper for subscription renewal for both years (despite the recommendation by the evaluators and the poor usage rates) was weak. Both renewals were justified on grounds that the vendor would implement initiatives to improve usage.

21. There should be greater scrutiny by NLB to ensure that renewal of e-resources subscription is justified and that there is no wastage of public monies.

C. Possible Wrongdoings in Procurement of Certain Electronic Resources

22. AGO found indications that the above control weaknesses could have been exploited and there were possible wrongdoings in relation to procurement of certain e-resources. Following AGO's recommendation, the Ministry of Communications and Information has referred the matter to the Police for further investigation.

⁴ During the period April 2010 to August 2013, there were more than 60 such vendors.

23. NLB informed AGO that it has since established guidelines to ensure that the principles of open and fair competition, transparency and value for money are adhered to when procuring e-resources, such as using open tender as the default procurement method. NLB also informed AGO that it had conducted two open tenders in 2014 which fulfilled 88 per cent of NLB's e-resource requirements and that the rest were procured in compliance with Government procurement procedures. In addition, NLB has enhanced its procedures to require its officers to obtain confirmation letters directly from e-resource owners regarding their sole distributorships and has tightened the evaluation process for subscription renewals.

MINISTRY OF CULTURE, COMMUNITY AND YOUTH

PEOPLE'S ASSOCIATION

Lapses in Management of Tenancy Contracts and Procurement

24. AGO found lapses in the management of tenancy contracts in 35 Community Club/Centre Management Committees (CCMCs)⁵ and common procurement lapses across most of the nine grassroots organisations (GROs) checked. These lapses include not obtaining prior approvals or obtaining approvals from the wrong authorities for award of contracts and procurement. By failing to seek proper approvals, the award of the contracts was not subject to the scrutiny of the relevant approving authorities.

A. Lapses in Management of Tenancy Contracts

25. AGO test-checked 91 CCMCs and observed that 35 of the CCMCs did not obtain approvals from the relevant approving authorities for awarding 53 tenancy contracts (totalling \$17.78 million). AGO noted that approvals were either obtained from committees which were not authorised approving authorities or from approving authorities whose approval limits were below that of the contract values.

⁵ The People's Association (PA) relies on its grassroots organisations (GROs) comprising grassroots volunteers to achieve its mission. The GROs include the Citizens' Consultative Committees, Community Club/Centre Management Committees and Residents' Committees and their sub-committees. PA sets the Financial Rules for GROs and provides administrative support to the GROs, among other things.

26. In addition, 10 of the 35 CCMCs did not obtain the relevant approvals⁶ for the direct award of 13 tenancy contracts (totalling \$3.67 million) without competition. This undermined the role of the approving authorities and the CCMCs did not adhere to controls that ensure competition was waived only under exceptional circumstances.

27. The number of lapses detected points to a weakness in the People's Association (PA)'s monitoring of CCMCs' compliance with its Financial Rules with regard to tenancy contracts.

28. PA informed AGO that it had since obtained covering approvals for the award of all 53 tenancy contracts and the direct awards of the 13 tenancy contracts.

B. Common Lapses in Procurement

29. AGO's test checks of procurement by nine GROs [comprising four CCMCs, three Citizens' Consultative Committees (CCCs) and two Residents' Committees (RCs)] revealed non-compliance with PA's Financial Rules in the following areas:

- a. Five GROs (two CCCs and three CCMCs) had awarded nine contracts (totalling \$152,600) prior to obtaining approvals from the relevant authorities. The approvals were obtained 2 to 70 days after the contracts were awarded. In addition, five GROs (three CCCs and two CCMCs) obtained approvals for the award of 15 contracts (totalling \$565,300) from the wrong approving authorities.
- b. Four GROs (three CCCs and one CCMC) did not seek approval for making 10 direct purchases from suppliers (totalling \$53,700). Direct purchases should only be made if there are compelling reasons since there would not be competition, and such purchases should be subject to additional scrutiny by the approving authorities.

⁶ If there are exceptional reasons which warrant inviting quotations from fewer than three vendors or inviting tender without publishing the invitation in major newspaper or portal, approval is to be sought from the relevant approving authority. This approval is separate from the approval to be obtained for award of revenue contract.

- c. Three GROs (one CCC, one CCMC and one RC) did not invite quotations (totalling \$187,900) in writing for 13 purchases. There was hence no assurance that requirements were consistently conveyed to all suppliers who were invited to quote.

30. The common lapses found in most of the GROs test-checked indicate that the GROs may not be familiar with PA's Financial Rules. They also reflect a lack of oversight by PA on the GROs' compliance with its Financial Rules.

31. PA informed AGO that it would review its procurement rules for GROs to strike the right balance between competitive procurement and expeditious decision-making on the ground. The GROs would be reminded to comply with PA's Financial Rules.

Lapses in Engagement of Training Operators and Collection of Course Fees

32. AGO found common lapses in engagement of training operators (hereinafter referred to as "operators") and collection of course fees across most of the seven GROs checked. The lapses include engaging operators directly without calling for competitive bids, calling a quotation even though a tender was required, obtaining approval for award of contract from the wrong approving authority and not carrying out audit checks on course fees collected by operators on behalf of the GROs.

33. AGO's test checks of course fees collected by seven GROs (comprising three CCMCs and four RCs) revealed non-compliance with PA's rules and procedures in the following areas:

- a. Four GROs (one CCMC and three RCs) had engaged operators directly without calling competitive bids under eight contracts (totalling \$311,800). Hence, there was no assurance that the GROs were able to obtain the most advantageous bids for the courses.

- b. One RC awarded a contract for tuition services with estimated revenue of \$1.11 million to its incumbent operator, through a quotation exercise even though tender was required. There was also no evidence that other operators were invited to quote; hence there was no assurance that the RC had availed itself of more bids. In addition, approval for award of the contract was obtained from a lower approving authority at the constituency level instead of PA Tenders Board B chaired by the Chief Executive Director. The stricter controls prescribed by PA for higher value revenue contracts such as approvals from higher approving authorities were also not adhered to.
- c. All four RCs test-checked could not produce evidence showing that they had carried out audit checks on course fees collected by operators on behalf of the RCs (totalling \$1.26 million). These checks, required under PA's standard operating procedures, were to ensure that fees collected were promptly deposited into the RC's bank account and that there was no under-reporting of course fees, among other things.
- d. One RC did not take any action when an operator had repeatedly delayed handing over course fees collected (totalling \$414,700) on behalf of PA, ranging from one to seven months. The delays happened every month for an entire 16-month period (April 2013 to July 2014) test-checked by AGO. By not monitoring and taking prompt actions on the delays, the RC was exposed to the risk of the operator defaulting on the payment of course fees.

34. The common lapses found in the majority of the GROs test-checked indicate that the GROs might not be familiar with PA's rules and procedures. They also reflect a lack of oversight by PA on the GROs' compliance with PA's rules and procedures on the engagement of operators and collection of course fees.

35. PA informed AGO that it would review its financial rules which require the GROs to call competitive bids for operators to run its courses. The RC which awarded the contract for tuition services had sought covering approval for the award of the contract from PA Tenders Board B.

36. As for paragraph 33(c), PA explained that the RCs had conducted random checks on the course fees collected but these were not documented. It would henceforth ensure that the results of such checks are documented. PA informed AGO that the course fees for the period April 2013 to July 2014 mentioned in paragraph 33(d) were fully collected from the operator and the RC had since advised the operator to promptly hand over future course fees collected.

Irregularities in Procurement and Payment at a Citizens' Consultative Committee

37. AGO's checks at a CCC revealed lapses in the management of related party transactions and payments. AGO found that a CCC member was involved in approving awards of two contracts (totalling \$32,000) to a company and another member was involved in approving one of these contracts, even though they were also holding senior positions in the company; they also did not declare the conflict of interest. In addition, one of the members was involved in approving payments of the two contracts to the company as well as seven of his own claims amounting to \$114,767. As a result, there was no assurance that these transactions were conducted at arm's length.

A. Lapses in Management of Related Party Transactions

38. AGO noted that the CCC did not adequately manage conflict of interest involved in related party transactions:

- a. The Chairman of the CCC was involved in approving awards of two contracts (totalling \$32,000) and corresponding payments to a company of which he was a member of the senior management. In addition, for one of the awards, another CCC member involved in the approval process, was both a director and shareholder of the company.
- b. The Chairman approved payment for a purchase (amounting to \$1,500) from another company of which he was both a director and shareholder.

39. In all the above cases, the Chairman and the CCC member did not declare their interests in the transactions. As a result, there was no assurance that the transactions were conducted at arm's length.

40. PA informed AGO that the evaluation and award of the contracts was a collective decision made by a Committee. No preferential or additional information was given to the company and it had submitted the lowest quote which was assessed to be value for money.

41. PA also acknowledged that the Chairman should not have approved the payments. It has checked that there was no irregularity in the payments as the amounts paid tallied with the quotations and the work rendered. CCC members would be reminded to declare any conflict of interest.

B. Claimant Approving Own Claims

42. AGO's test checks of 41 payments at the CCC revealed seven instances where the Chairman was involved in approving his own claims (totalling \$114,767). This is a clear conflict of roles as the approver of payments should not be approving his own claims. Furthermore, AGO observed that there was no supporting document for three of the payments. Approving payment without any supporting document exposes the CCC to the risk of paying for invalid expenditure.

43. PA said that the Chairman had inadvertently approved his own claims. For proper segregation of duties, the CCC would ensure that for reimbursements to the Chairman, the Vice-Chairman and Treasurer would endorse the payment vouchers instead.

Inadequate Controls over Accuracy and Completeness of Fund Utilisation Reports

44. AGO noted numerous errors and omissions in the updating of disbursements from the Citizens' Consultative Committee ComCare Fund (CCF) by seven of the eight CCCs test-checked. In addition, five CCCs did not take into account cancelled and expired cheques to reflect the actual CCF utilised. These errors resulted in the submission of inaccurate CCF utilisation reports by PA to the Ministry of Social and Family Development (MSF). Consequently, PA obtained excess CCF funding from MSF amounting to \$84,394 over a two-year period.

45. PA acts as MSF's agent for overseeing the administration of CCF by the 87 CCCs. CCF is used to provide immediate and temporary financial assistance to needy residents. MSF provides 80 per cent of the funding for CCF, while the CCCs fund the remainder. MSF would disburse to PA its share of the CCF utilised quarterly based on PA's CCF utilisation report for that quarter.

46. AGO's test checks of eight CCCs revealed numerous errors and omissions in the recording of CCF disbursements by seven CCCs. The errors included duplicate entries of CCF disbursements, incorrect amounts recorded and inclusion of financial assistance that was not to be funded from CCF. AGO observed that the controls over updating of CCF disbursement by CCCs were inadequate in ensuring the accuracy and completeness of the data recorded in the CCF system. CCF disbursements were entered into the system by an officer without any independent check.

47. AGO also found that five of the eight CCCs did not take into account cheques that were cancelled or had expired so as to reflect the actual CCF utilised. The actual CCF utilised was therefore overstated.

48. The above errors and omissions led to the submission of inaccurate CCF utilisation reports by PA to MSF. AGO found an overstatement of \$225,703 in some cases and an understatement of \$120,210 in others for the financial years 2012/13 and 2013/14. As a result, PA obtained excess CCF funding amounting to \$84,394⁷, which was about 7.4 per cent of the total amount disbursed (\$1,142,936) by MSF for the eight CCCs.

49. PA informed AGO that it was conducting a one-off reconciliation exercise for all CCCs to update and correct the CCF utilisation reports and had planned to complete the exercise by June 2015. It would work with MSF to rectify errors in the CCF funding disbursed. PA would also ensure that the CCF data is accurately and completely updated in the system by the CCCs.

⁷ Computed at 80 per cent of the difference between \$225,703 and \$120,210.

MINISTRY OF EDUCATION

INSTITUTE OF TECHNICAL EDUCATION

Lapses in Management of College Central and Headquarters Development Project

50. AGO's test checks of the construction and consultancy services contracts (total contract value of \$407.47 million) under the College Central and Headquarters development project of the Institute of Technical Education (ITE) revealed the following areas of concern:

- a. Adoption of an inappropriate procurement method for variation works (amounting to \$3.15 million) resulting in lack of oversight over increase in total project cost; and
- b. Lapses in contract management, resulting in interim payment of \$2.43 million for works not carried out and late payments amounting to \$14.35 million.

A. Adoption of Inappropriate Procurement Method

51. ITE awarded additional works to its main building works contractor via three contracts separate from the main building works contract, even though these additional works were integral or related to the works covered under the main contract and hence should be variations to the main contract. AGO observed that with the variation works (totalling \$3.15 million), the Approved Procurement Value (APV) of the main building works contract would be exceeded by \$3.14 million. By awarding the additional works as separate contracts and not alerting the relevant approving authority that the APV would be exceeded, the authority would not have the opportunity to consider the increased costs in the context of the original justifications for the development project.

52. ITE explained that it awarded the works via separate contracts instead of variations to the main contract as the contractor could use the variation works to request for extension of time and it understood that the contractor had the intention to do so. According to ITE, this would delay the completion of the project which was on a fast-track schedule.

53. AGO was informed by ITE that it did not have records of project meetings and discussions to substantiate that the justification explained in paragraph 52 was considered at that stage. With regard to the contractor's intention to request for extension, AGO noted from the report of ITE's consultant that, before the separate contracts for the additional works were awarded, the contractor had committed to complete the additional works within the timeline of the main building works contract. These works were eventually completed within the same timeline as the main building works. In addition, urgency did not turn out to be a real issue as ITE took half a year to award the additional works to the contractor. Regardless of the procurement method, the important point is that ITE did not alert the relevant approving authority that it had exceeded the APV.

54. ITE agreed that it should have informed the relevant approving authority that it had exceeded the APV.

B. Interim Payment of \$2.43 Million Made for Works Not Carried Out

55. AGO's test checks of works carried out under the main building works contract revealed that interim payments, amounting to at least \$2.43 million, were made for works not carried out. AGO noted during site inspections that two items which were certified as 100 per cent completed by ITE's consultant were not installed. ITE had made full payment for these items. Payment for works not carried out indicated laxity in ITE's payment controls.

56. ITE informed AGO that its project team carried out site verifications with the consultant and that it had made interim payments based on the reported percentage of works completed on site. AGO noted from the documentary evidence that payment was made on the basis of the specific items of works that were certified as completed up to that stage. The two items in question were certified 100 per cent completed and paid for in full even though no work was carried out. For good payment control, there should be proper verification of the work done on site before payments are made. ITE also informed AGO that it had made the necessary adjustments to exclude the items in the final account approved in February 2015. AGO noted that adjustments were only done after AGO's audit in January 2015. It is not prudent to make interim payments for works not done on the expectation that adjustments can be made at the final account stage.

C. Late Payments

57. The Building and Construction Industry Security of Payment Act (Cap. 30B, 2006 Revised Edition) stipulates the time frame for responding to payment claims and for making payments. This is to address cash flow problems faced by the construction industry by upholding the rights of parties to seek progress payment for work done and goods supplied.

58. For the main building works contract and the architectural consultancy services contract, AGO found seven late payments (totalling \$14.35 million) out of 11 payments test-checked. In five instances (totalling \$12.05 million), the delays ranged from 18 to 98 days. Such delays might be seen as unfair as it could affect the cash flows of the contractors and consultants.

59. ITE explained that the delays were due to the need to ensure that defects were promptly rectified by the contractor before payments were made. AGO noted that at the time when ITE responded to the contractor's payment claim, it had already established the amount that should be paid (that is, it had excluded the amounts pertaining to defects which needed to be rectified). Hence, there was no reason for the delays in paying the contractor what was due. In this regard, ITE agreed that it should ensure that payments are made in accordance with the law.

Weaknesses in Controls over Determination of Monthly Charges

60. AGO's test checks revealed that ITE was unable to provide documents to support the adjustments made to monthly charges payable to its private sector partner for the use of facilities in ITE College West. ITE also did not carry out reviews of cost factors and targets which could affect its payments, even though these reviews were required under ITE's agreement with its partner. Hence, there was no assurance that the payments by ITE (estimated at \$32.93 million annually) were correctly determined. As this is a 27-year project, any omission or error will have financial implications on ITE over a long period.

61. ITE entered into a 27-year project agreement (approved cost of \$980 million) with a company in August 2008 under a Public Private Partnership (PPP) arrangement for ITE College West. Under the agreement, ITE is required to pay a monthly charge to the company for ITE's use of campus facilities. Deductions are to be made to the monthly charge for unavailability of facilities and service performance shortfalls by the company, and adjustments are to be made for any change in operating costs due to variation works and utility consumption. ITE also receives a monthly income from the company for the use of facilities by external parties. This income is netted off against the monthly charge.

A. No Documentary Evidence on How Guaranteed Minimum Monthly Income Was Determined

62. AGO observed that the guaranteed minimum monthly income stated in the agreement⁸ was lower than the amount approved by ITE's supervising ministry⁹. There was no documentary evidence to explain the difference and to show how the amount in the agreement was determined. Hence, there was no assurance that the guaranteed minimum monthly income stated in the agreement was correct and properly approved. Consequently, the monthly amount received by ITE since commencement of services in 2010 may not be correctly determined.

B. Inadequate Supporting Documents on Deductions for Performance Shortfalls

63. AGO's test checks of two monthly charges revealed 27 out of 31 instances where there were inadequate documents to support the deductions made by ITE for unavailability of facilities or service performance shortfalls. ITE had deducted \$90,700 in total but there was no assurance that the deductions were correctly determined.

⁸ Higher of \$24,750 and 30 per cent of monthly income earned.

⁹ Annual income of \$300,000 (\$25,000 per month), plus up to 75 per cent of all net income.

C. No Adjustment to Monthly Charge for Variation Works

64. Variation works to the campus may affect the operating costs of the company. The agreement provides for the monthly charge payable by ITE to be adjusted in accordance with changes in the operating costs. AGO noted that ITE had not assessed whether variation works carried out (amounting to \$952,900 as at September 2014) would affect operating costs and consequently the monthly charge payable to the company. Some of these variation works had been completed and handed over to ITE as far back as in April 2012.

65. In the event that the operating costs are reduced as a result of these variation works and no adjustments are made, ITE would be paying the company more than it should for the remaining period of the 27-year project. It would also get increasingly difficult to establish the cost implications to ITE and resolve any disagreement as time passes.

66. ITE explained that as the PPP arrangement was new in Singapore, there were limited data on how changes in operating costs due to variation works should be ascertained, for determining the required adjustment to the monthly charge. Nevertheless, the company would work out the proposed cost adjustments to ITE in October 2015.

D. No Review of Annual Utility Services Consumption Targets

67. Under the agreement, annual utility services consumption targets¹⁰ are set and these have to be reviewed periodically by ITE. AGO noted that ITE had not carried out any review of the targets since the commencement of services in 2010. The targets are intended to incentivise the company to control the actual utility consumption since it gets to share in any savings¹¹, so that over time, ITE will pay less for utility consumption. Periodic review of targets should be carried out to take into account changes in the use of the facilities.

¹⁰ The targets reflect the forecast consumption of all utility services for the ITE facilities.

¹¹ If the actual consumption in a period is outside the range of 10 per cent from the targets, the company would co-share 50 per cent of the amount (additional costs or cost savings) outside the range of 10 per cent of the targets.

68. ITE explained that it has been monitoring the utility consumption and noted that the consumption was lower than the targets. ITE has therefore made an interim arrangement with the company for ITE to reimburse the latter based on actual consumption. Both ITE and the company wanted to do away with the targets and use the reimbursement model which is more equitable. ITE would seek the approval of the relevant approving authority and formalise the amendment to the agreement.

69. In AGO's view, it is not prudent for ITE to rely on an arrangement that is not covered in the written agreement for almost five years. ITE should have conducted a proper assessment of the changes promptly and sought the necessary approval before implementing the changes.

Irregularities in Award and Management of Contracts

70. AGO found irregularities in the award and management of contracts for the appointment of a cafeteria operator and a swimming pool operator at ITE. The irregularities included awarding a contract to a tenderer which did not meet an evaluation criterion, inadequate monitoring of operators' compliance with contractual requirements, delays in signing contracts, and extending a contract without requisite approval. There was laxity in managing the contracting process, and the key principles of open and fair competition, transparency and maximising total returns were not upheld. ITE could also be perceived as favouring certain operators.

A. Contract for Appointment of Cafeteria Operator (Total Contract Value of \$635,000)

71. ITE called an open tender in 2010 to appoint an operator for a cafeteria and student café on one of its campuses for a period of three years with an option to continue for another three years. Three tenderers submitted offers.

72. AGO's test checks revealed the following irregularities:

- a. ITE awarded the contract to a tenderer which was eligible to tender for contracts of up to \$250,000, lower than the required quantum of \$500,000 stipulated in the tender. In addition, ITE did not use a published evaluation criterion ("other value-added services and contributions in kind to ITE") to evaluate the tender offers.

- b. There was inadequate monitoring and enforcement of the operator's compliance with certain contractual requirements. The operator was awarded the contract on the bases that, among other things, its commitment to invest in renovation was the highest among the tenderers. There was, however, no evidence that ITE monitored and ensured the fulfilment of investment commitment by the operator. There were also other instances where ITE did not take enforcement action against the operator when it failed to meet contractual requirements.

B. Contracts for Appointment of Swimming Pool Operator (Total Contract Value of \$171,540)

73. The swimming pool operator was initially appointed under a Memorandum of Understanding in August 2005 and subsequently, under three contracts from April 2008 till July 2015.

74. AGO's test checks revealed the following irregularities:

- a. The three contracts were signed one to eight months after the operator had commenced operating the swimming pool. During the interim period, ITE would not have any contractual right and consequently, its interests would not have been properly safeguarded.
- b. There was no monitoring on whether the operator purchased the required public liability insurance for swimming pool users under the three contracts. AGO observed that since the commencement of the first contract in April 2008 till the time of audit in October 2014, the operator had only purchased the insurance for a two-year period from January 2011 to December 2012.
- c. Approval to extend the second contract for a year was obtained two months after the offer for extension had been made to the operator. In doing so, ITE bypassed the controls put in place to ensure that contract extension is properly justified and scrutinised by the appropriate authority before implementation.

- d. For the third contract, ITE reduced the contract period from three to two years so as to lower the estimated total revenue to avoid the need to call tender and seek endorsement from the relevant authority, thereby avoiding the more stringent controls put in place for tenders.

75. It is important for ITE to evaluate tender offers in accordance with the published criteria so as to uphold the principles of transparency, and fair and open competition. There is also a need for proper monitoring of operators' performance and enforcement of contractual requirements. Otherwise, the intended outcomes and benefits of the contracts would not be realised. ITE should hold operators accountable and take firm action against errant operators when warranted.

76. ITE acknowledged the lapses and indicated that it would take appropriate actions against its officers for the lapses. ITE had also commenced actions against the operators. In addition, ITE has implemented measures to improve its revenue contracting procedures. These included a contract monitoring system to ensure timely enforcement and follow-up actions.

Transactions with Subsidiary Not at Arm's Length

77. AGO found lapses in transactions between ITE and its subsidiary, ITE Education Services Pte Ltd (ITEES), which was set up to share ITE's expertise in Technical and Vocational Education and Training. ITE did not obtain the requisite approval before leasing an office space to ITEES, and did not charge ITEES market rate for the lease. There was also laxity in controls over billing for services rendered to ITEES. By subsidising the rental and not being diligent in ensuring complete, correct and prompt billing of services rendered to ITEES, ITE did not carry out its transactions with ITEES at arm's length and ITEES' operation costs would also not be fully accounted for.

A. Lapses in Leasing of Office Space to Subsidiary

78. ITE obtained the requisite approval for leasing the office space of 613 square metres to ITEES for a five-year period (January 2013 to December 2017), four months after the commencement of the lease. In not obtaining prior approval, ITE bypassed the controls put in place to ensure that the leasing of the space is properly justified and scrutinised by the appropriate authority before implementation.

79. ITE leased the space to ITEES, under a Temporary Occupation Licence (TOL), at below market rate. This was not in compliance with Government's instruction that all premises should be let out at market rate. The monthly licence fee of \$13 per square metre charged by ITE was half the average market rate of \$26.05 per square metre. This translates to ITE undercharging ITEES approximately \$480,000 for the five-year licence period. By not charging ITEES market rate, ITE was effectively providing a hidden subsidy to ITEES.

80. In addition, the terms and conditions laid down in the TOL were inadequate to safeguard ITE's interests and to ensure that both parties (ITE and ITEES) have a common understanding of their roles and obligations. For example, the TOL only specified that ITEES was to pay the licence fee to ITE on a quarterly basis, without stating when payment would be due and the interest payable for late payment.

81. ITE acknowledged that the approval for leasing of space to ITEES was obtained late. ITE also indicated that it has since started reviewing the TOL terms and conditions, and revising the licence fee to bring it in line with the market rate.

B. Laxity in Controls over Billing for Services

82. ITE did not have a proper system to ensure complete, correct and prompt billing of services rendered to ITEES. It relied on ITEES to provide the required information for billing and would initiate the billing process only after ITEES had provided the information. AGO found that ITE did not put in place a proper system to monitor and ensure that ITEES provided the required information promptly for billing of all services rendered by ITE. In addition, there were inadequate checks to verify the information provided by ITEES before issuing invoices to ITEES.

83. The serious weaknesses in the billing process resulted in wrong, late and non-billing of services rendered. For example, AGO's test checks of 20 invoices revealed underbilling, overbilling and/or late billing for seven (35 per cent) of these invoices.

84. ITE informed AGO that it would rectify the billing process and put in place a proper work flow to ensure complete, correct and prompt billing of services rendered to ITEES.

SINGAPORE POLYTECHNIC

Not Dealing with Related Parties at Arm's Length

85. AGO observed instances where the Singapore Polytechnic (SP) did not perform due diligence to ensure that transactions with its related parties were carried out at arm's length, and that there was clear accountability of the funding and resources provided to the related parties. In these instances, hidden subsidies amounting to millions of dollars were given to the related parties.

86. The related parties were the Singapore Polytechnic International Pte Ltd (SPI) and the Singapore Polytechnic Graduates' Guild (SPGG). These organisations were set up as separate legal entities with clear missions and accountability. SPI, which is SP's subsidiary, was established to offer SP's brand of technology-based education internationally, through initiatives that included providing SP's niche training programmes and consultancy services to overseas institutions, and attracting and recruiting international students to study in SP. SPGG is a registered society set up to promote professional and entrepreneurship development, through social and business networking activities that connect members, industry leaders, professionals and SP.

A. Non-recovery of Salaries and Related Costs of Officer Seconded to SPI

87. SP did not recover from SPI the salaries and related costs of a senior officer seconded to SPI, and did not impose secondment charges on this case. The total cost to SP, including secondment charges foregone, amounted to about \$1.23 million since the commencement of the secondment on 1 January 2010 till the time of AGO's audit on 31 December 2014. SP also did not enter into a secondment agreement with SPI.

88. There was no evidence that SP had carried out due diligence before deciding not to recover all relevant costs and not to impose charges for the secondment, as well as not to enter into an agreement with SPI. AGO further noted that while SP did not recover the costs for the secondment, it had paid fees to SPI and reimbursed SPI costs and expenses incurred for services provided by SPI.

89. SP did not carry out the transactions at arm's length and was effectively providing SPI a hidden subsidy, which would in turn distort SPI's actual financial performance and undermine SPI's financial accountability. In addition, without a secondment agreement to specify the roles and responsibilities of both parties, there would not be clear accountability for each of the parties, which is key in an arm's length relationship.

90. SP informed AGO that it would seek advice from its legal counsel and would establish a secondment agreement with proper terms and conditions by October 2015.

B. Land Sub-leased at Below Market Rate to SPGG

91. In October 2000, SP sub-leased to SPGG a land parcel measuring 7,189 square metres at a nominal rental of \$12 per year. SP had paid a land premium of \$2.19 million to lease this land parcel for 30 years from the then Land Office. Under the sub-leasing arrangement, SP would charge SPGG the annual rental of \$12 till the lease with SPGG expires on 12 June 2021.

92. Sub-leasing the land parcel at nominal rental is not in line with Government's instruction that all premises be let out at market rates. In charging nominal rental, SP was also providing a hidden subsidy to SPGG. In doing so, the transactions with SPGG, which is a separate legal entity from SP, are not carried out at arm's length. The financial support given to SPGG would also not be properly accounted for.

93. SP informed AGO that it would consult its supervising ministry on this arrangement.

C. Lapses in Administering Financial Matters Relating to Graduates' Guild

94. SP had, without carrying out proper evaluation, accepted SPGG's request for SP to waive cumulative interest amounting to \$1.05 million payable by SPGG for loans from SP, and for SP to continue paying SPGG corporate membership subscription for six more years totalling \$1.08 million. In addition, SP decided to forego future interest of about \$0.62 million payable by SPGG for the loans.

95. AGO found that the justifications for SP's decision to accept SPGG's request and to forego future interest were weak. SP had made its evaluations and decisions primarily on the basis of the close relationship it had with SPGG and the need to help SPGG succeed. This is not in line with the principle that transactions with related parties should be carried out at arm's length. If SPGG indeed needed help, the help rendered by SP should be transparent and should not have been hidden in the form of interest waived. The payment of membership subscription should be separately evaluated on an objective basis and without conflating it with the waiving of interest.

96. As a public sector entity managing public funds and resources, SP has the duty to ensure that its decisions are made in the best interests of SP and the Government.

97. SP informed AGO that the corporate membership subscription based on SP's total staff strength would enable the staff to enjoy a wider range and greater diversity of sports and wellness facilities; based on the statistics provided by SPGG, nearly half of SP's staff used the facilities in 2014. SP also explained that the decision to waive and forego interest payable by SPGG was made after considering that it would be too huge to write off both the loan principal sum and interest payable.

TEMASEK POLYTECHNIC

Lapses in Evaluation of and Approval for Investments in Bonds

98. AGO found lapses in the Temasek Polytechnic (TP)'s evaluation of and approval for its investments in bonds. TP did not ensure that requisite approval had been obtained before it proceeded with its investments in five bonds. In addition, for two of the bond investments, there was no assurance that the evaluation on the investments was robust. As the investments involved a large amount of public funds, it is important for TP to properly evaluate the proposed investments and seek approval before making the investments.

99. As at 31 March 2014, TP had invested \$62.50 million in bonds. AGO's test checks of five bonds totalling \$61.50 million revealed that for all the five bonds, TP had proceeded to make the investments before obtaining the requisite approval from its Investment Committee.

100. AGO also noted, based on documents provided, that for two of the five bonds (totalling \$40 million), the evaluation and subsequently the decision to invest in these two bonds focused only on the bonds' interest rates. There was no documentary evidence that other relevant factors, such as the business nature and performance of the company that issued the bonds were considered. In addition, TP's evaluation relied heavily on inputs sought from a person who had an interest in the company that issued the bonds. With these lapses, there was no assurance that the evaluation was robust.

101. TP informed AGO that it would improve its process and documentation.

OTHER OBSERVATIONS

Subsidising Charges for Vehicle Parking

102. AGO found that three educational institutions did not impose charges or imposed below market rate charges for use of their car parks. Such practices are tantamount to providing hidden subsidies for vehicle parking and are not in line with the requirements laid down in the Government Instruction Manuals.

A. Institute of Technical Education

103. The Institute of Technical Education (ITE) did not impose charges for use of its car parks. The estimated amount of parking charges foregone was \$66,000 per month.

104. Following AGO's query, ITE sought clarifications from its supervising ministry, the Ministry of Education (MOE), which confirmed that ITE being a statutory board had to comply with Government's instruction of not subsidising users, including staff, for such services. ITE then submitted a proposed paid parking scheme to MOE for endorsement. AGO, however, noted that the proposed parking charges for some cases were still below market rates and raised the concern with ITE. ITE informed AGO that it has since forwarded AGO's concern to MOE and submitted a revised proposal on paid parking scheme to MOE for endorsement.

B. Singapore Polytechnic

105. Before May 2013, the Singapore Polytechnic (SP) did not impose charges for use of its car parks. In May 2013, SP implemented paid parking. However, parking continued to be free for motorcycles at all car parks and for all vehicles at the staff apartment car park. In addition, SP charged some users including SP's staff, tenants, and term contractors below market rate at all other car parks on campus. This group of users was charged \$0.008 per minute which was half the market rate. The daily amount payable was also capped at \$1.50.

106. AGO noted that under the agreement for the paid parking system, SP's car park operator paid a monthly licence fee to SP and retained the parking charges collected. The agreement provided for the monthly licence fee to be adjusted according to the parking charges set by SP. Hence, had SP charged users market rate for parking, the monthly licence fee paid by the operator would have been higher. The estimated amount of licence fee foregone was \$120,000 per year.

107. SP informed AGO that it would consult MOE on the setting and reviewing of parking charges.

C. Temasek Polytechnic

108. Before June 2014, the Temasek Polytechnic (TP) did not impose charges for use of its car parks. In June 2014, TP imposed charges for the use of its car parks. While the per minute rate charged for parking of cars was the same as the market rate, TP capped the daily amounts payable by staff and other users at \$1.50 and \$6.00 respectively, which resulted in some users paying below market rate charges. The estimated revenue foregone due to the undercharging for the six months, since the implementation of parking charges on 1 June 2014 until the time of audit on 30 November 2014, was \$590,600.

109. TP informed AGO that it is reviewing the parking charges and will implement the revised charges before end of 2015.

MINISTRY OF MANPOWER

SINGAPORE WORKFORCE DEVELOPMENT AGENCY

Lapses in Administration of Grants

110. AGO found lapses in the Singapore Workforce Development Agency (WDA)'s administration of three types of grants. WDA did not ensure that its programme partner¹² and training providers adhere to audit requirements for the use of grants. There were also over-disbursements of grants totalling \$170,100 and delays in recovery of unused grants estimated at \$461,000. As a result, there was a risk that grants disbursed might not have achieved their intended purposes.

111. The three types of grants are as follows:

- a. Grants under the WorkPro scheme administered by the programme partner to help employers expand and sustain their manpower pool by implementing strategies such as job redesign and recruiting and retaining back-to-work locals and mature workers;
- b. Institutional Grants administered by the programme partner to develop and implement initiatives and programmes under the National Continuing Education and Training effort; and
- c. Grants disbursed by WDA directly to training providers for the continuing training and upgrading of eligible workers (hereinafter referred to as "training grants").

¹² This is an external party engaged by WDA to administer grants on its behalf.

A. Failure to Ensure Compliance with Audit Requirements

112. WDA did not ensure that its programme partner and training providers comply with audit requirements for the use of the three types of grants. AGO found that as at 28 February 2015:

- a. Two audit reports had yet to be submitted by the programme partner, which received the Institutional Grants and grants under the WorkPro Scheme (totalling \$39 million) for the first programme year, even though the stipulated submission deadlines had lapsed by more than five months.
- b. Based on test checks of 40 audit reports that are due from training providers for programmes funded by training grants (totalling \$124.80 million), 13 audit reports were only submitted 1 to 22 months after the stipulated submission deadlines while the remaining 27 audit reports had yet to be submitted even though the stipulated submission deadlines had lapsed by 5 to 30 months.

113. Without the audit reports, there is no assurance that the grants disbursed were used for their intended objectives. Delays in submission of audit reports would also impede WDA's ability to take prompt corrective action on any lapse reported.

114. WDA informed AGO that it would take steps to ensure timely submission of audit reports on use of grants.

B. Over-disbursements of Grants

115. AGO's test checks of 14 programmes funded by WDA's training grants revealed one programme where there were over-disbursements of grants (totalling \$170,100) to a training provider for the period October 2011 to December 2014. The over-disbursements arose because WDA had disbursed the grants to the training provider even though the trainees had not fulfilled all the conditions for reimbursement of course fees. WDA informed AGO that it had since recovered the excess grants from the training provider.

C. Delays in Recovery of Unused Grants

116. AGO's test checks of nine programmes funded by WDA's training grants revealed three programmes where unused grants estimated at \$461,000 were not promptly recovered from the training providers. In two of the three programmes, grants were refunded to WDA, four to seven and a half months after the due dates. For the remaining programme, the grant had not been refunded as at March 2015 even though it was due for refund in October 2013.

117. According to WDA, the delays were due to the time required by the training providers to determine the amounts to be refunded. Going forward, WDA would obtain an interim refund from the training providers based on the estimated unused funds as provided for in its funding policy.

Laxity in Monitoring Programme Partner's Administration of Grants

118. Arising from a complaint, AGO carried out checks on the administration of the Institutional Grants and the Age Management Grant (AMG)¹³ under the WorkPro Scheme by a WDA's programme partner. AGO found that WDA was lax in its monitoring of the programme partner's administration of these grants. There were instances where the programme partner did not enforce programme requirements on the grant recipients and did not adhere to funding caps. The programme partner also failed to properly verify the applicants' eligibility for the grants totalling \$0.98 million.

119. As a result, there is no assurance that the grants disbursed had achieved their intended purposes and were committed only to eligible applicants.

¹³ These are one-off grants to help employers acquire knowledge and implement age management practices to better manage and sustain a multi-generational workforce.

A. Non-enforcement of Programme Requirements

120. AGO found instances where the programme partner did not enforce WDA's requirements on the recipients of the Institutional Grants. AGO's test checks revealed that the programme partner:

- a. Did not impose audit requirements for two of eight programmes test-checked, and did not ensure prompt submission of audit reports for the remaining six programmes. For the six programmes where audit requirements were imposed, there were delays ranging from 3 to 19 months in the submissions of audit reports for four programmes while the audit reports for the remaining two programmes had not been submitted as at 28 February 2015, more than five months after the stipulated deadlines. A total of \$4.69 million had been disbursed for these eight programmes.
- b. Did not ensure that its partner had fulfilled its contractual obligation to make sure that the trainees were hired by their apprenticeship companies upon completion of a course. In this regard, AGO noted that 10 of the 17 trainees who had completed the course were not hired by their apprenticeship companies. As a result, it is not certain whether the grants given have achieved their intended purposes.
- c. Did not take action when four trainees who had received training grants (totalling \$77,250) subsequently did not fulfil their one-year minimum service period. As the purpose of the minimum service period is to ensure that the trainees apply the skills acquired in the relevant industry where there is a shortage of skilled and trained manpower, there is no assurance that the objective of the programme has been achieved.

121. WDA informed AGO that it would ensure that the programme partner takes immediate action to rectify the lapses noted by AGO. WDA would also improve its oversight of the programme partner by requiring the programme partner to table the following at their bilateral meetings to enable any non-compliance to be flagged out for review:

- a. A complete list of projects funded through WDA grants with details of audit due dates and status; and
- b. A list of programmes with minimum service period obligations.

B. Excess Funding Paid

122. AGO's test checks of 10 programmes under the Institutional Grants revealed two programmes where the programme partner did not adhere to funding caps in WDA's funding guidelines. This had resulted in excess funding commitment of \$64,447 to the grant recipients by the programme partner, out of which \$34,447 had been paid to the grant recipients.

123. WDA informed AGO that it has since asked the programme partner to strengthen its governance structure to ensure compliance with the funding guidelines. According to WDA, the programme partner had tightened controls and stepped up efforts to ensure that its staff are conversant with WDA's funding guidelines. The programme partner would also recover the excess funding of \$34,447 and take corrective action on the excess funding committed.

C. Grants Approved for Applicants Possibly Not Meeting Criteria

124. The programme partner did not verify applicants' eligibility for the AMG. AGO found that for all 49 cases test-checked, the programme partner had committed grants (totalling \$0.98 million) without obtaining all the necessary supporting documents from the applicants to verify their eligibility.

125. AGO requested supporting documents for 11 of the 49 cases to carry out further checks and found that:

- a. One applicant had received grants of \$20,000 even though it did not meet an eligibility criterion; and

- b. One applicant could not be contacted when AGO requested for supporting documents from the applicant through the programme partner. The programme partner had since withheld the applicant's claim for partial disbursement of the \$20,000 grant following its inability to contact the applicant.

126. WDA informed AGO that it has since issued guidelines requiring the programme partner to verify the eligibility of applicants. The programme partner would claw back the grants from the ineligible applicants and take action against the errant applicants.

MINISTRY OF NATIONAL DEVELOPMENT

NATIONAL PARKS BOARD

Lapses in Management of Gardens by the Bay Project

127. AGO's test checks revealed a general lack of documentation, failure to obtain approval and laxity in control over contract variations and payments by the National Parks Board (NParks) in managing the development of the Gardens by the Bay project¹⁴ (estimated total contract value of \$1.06 billion). Consequently, there was no assurance that NParks had not spent more funds than necessary.

128. AGO's test checks covered the construction, consultancy services and supply contracts. Among other things, NParks had breached the Government procurement principle of open and fair competition for consultancy services contracts and there was no assurance that value for money was achieved for the services procured.

¹⁴ The construction of the Gardens by the Bay was completed in 2012. As at the time of audit in the financial year 2013/14, the project accounts were pending finalisation.

A. Consultant Commenced Services before Contract Awarded

129. NParks allowed a consultant to commence services before approval was obtained to call a limited tender for the consultancy services inviting only the consultant to bid (contract value of \$2.37 million). By doing so, NParks had prematurely communicated to the consultant that it had intended to award the contract to the consultant. Thus, there was no assurance that NParks had obtained a competitive bid for the tender.

130. NParks explained that it faced a tight timeline and acknowledged that it should have highlighted to the relevant authorities that more time was needed and called an open tender instead.

B. Weak Grounds for Waiving Competition

131. In addition to the case mentioned in paragraph 129 above, AGO found another three consultancy services contracts (estimated total contract value of \$20.77 million) that were awarded via waiver of competition without compelling reasons. NParks cited tight timeline as the main reason for waiving competition in the papers seeking approval. There was, however, no evidence to show that the tight timeline was caused by unforeseen and urgent events.

132. NParks acknowledged that the reasons cited for waiver of competition were not compelling and indicated that it should have called open tenders instead.

C. Pertinent Details Not Included in Contract Documents

133. AGO found that the description and/or photograph, quantity and unit price of “unique, rare and unusual” plants and landscaping materials to be procured under four supply contracts (total contract value of \$7.04 million) were not stated in the contracts. As a result, NParks could face difficulties in seeking recourse against the suppliers should they fail to supply the correct items.

134. NParks acknowledged that such details should be included in the contract documents. It also informed AGO that, since July 2013, it has put in place checks to ensure completeness of contract documents.

D. Weak Controls over Variations

135. AGO noted that controls over contract variations were generally weak. AGO's test checks revealed:

- a. 65 instances (totalling \$8.03 million) where there was no documentary evidence of assessment on the reasonableness of the single quotes received. Of the 65 instances, the reasons for obtaining only one quotation for 43 instances (totalling \$6.37 million) were not compelling. The main reason cited was that the vendor was familiar with the project. There was, however, no evidence to show that no other vendors could provide the services.
- b. 45 instances (estimated value totalling \$0.99 million) where approvals were obtained after the variation works had been carried out, and in some cases, completed. In 34 instances, approvals were obtained 7 to 18 months after payments (totalling \$0.37 million) were made.
- c. 12 instances (estimated value totalling \$0.33 million) where there was no evidence that approval had been obtained for variation works even though payments (totalling \$0.14 million) had been made.

136. NParks explained that the project was a large scale garden project, managed by a lean in-house staff supported by the main and project management consultant teams. NParks acknowledged that it should have scrutinised the evaluation and price assessment submitted by the consultants for the contract variations more stringently to ensure that the Government procurement principles of open and fair competition and value for money were adhered to. The variations highlighted were mainly specialist sub-consultancy studies which had to be carried out due to the complexity of the project. To minimise such variations in the future, NParks would incorporate the requirements for such studies and award these in the main consultancy services tenders. Where the requirements for specialist sub-consultants are unforeseen during the tender for the main consultancy services, NParks would call separate tenders subsequently.

137. NParks also informed AGO that in future, it would obtain the necessary approvals for contract variations before carrying out the works. It has since implemented a computerised contract variation system to better track contract variation approvals.

E. Lapses in Payments

138. AGO also observed the following lapses in payments:
- a. 33 cases where reimbursements (totalling \$776,900), including one for a lump sum of \$189,200, were made without supporting documents.
 - b. 2 cases of overpayments totalling \$142,000.
 - c. 3 cases where the goods accepted (totalling \$35,500) did not match the items procured.
139. NParks informed AGO that it has since recovered the overpayments and would tighten its payment process and procedures for receiving goods.

No System to Track Assets

140. During the audit of the project for the development of the Gardens by the Bay, AGO observed that NParks did not have a system to monitor and recover money due from its consultants and contractors for the procurement of information management services. NParks also did not have a system to track the location of its high value landscaping materials and plants located at the Gardens by the Bay. For proper management and accountability of public funds, it is important for NParks to put in place a system to track its assets.

A. No System to Monitor and Recover Money Due from Consultants and Contractors

141. NParks did not have a system to monitor and recover money due from its consultants and contractors for the procurement of information management services. The costs of the services were to be shared among NParks, its consultants and contractors. NParks was not able to ascertain whether a total of \$199,800, which NParks had paid on behalf of its consultants and contractors three to five and a half years earlier (as at June 2014), had been recovered from the relevant parties.

142. For proper management and accountability of public funds, it is important for NParks to put in place a system to monitor and recover money due from its consultants and contractors.

143. NParks informed AGO that it would put in place a system to track and recover money due. It had also sought clarification from its consultants and contractors on the outstanding amounts. All outstanding amounts have since been recovered.

B. No System to Track High Value Landscaping Materials and Plants at Gardens by the Bay

144. AGO's site inspections on selected landscaping materials and plants procured under six supply contracts (total contract value of \$6.59 million) revealed that NParks did not have a system to track the location of high value landscaping materials and plants at the Gardens by the Bay.

145. As the landscaping materials and plants were purchased using public funds and located in public places, it is important that high value items be tracked to ensure that they were properly accounted for.

146. NParks informed AGO that a database system has since been implemented to catalogue and track the location of landscaping materials and plants.

MINISTRY OF THE ENVIRONMENT AND WATER RESOURCES

NATIONAL ENVIRONMENT AGENCY

Revenue Tenders Not Called for Sale of Steel Scrap

147. AGO found that the National Environment Agency (NEA) did not call revenue tenders for sale of steel scrap recovered from three of its incineration plants when the agreements for two of the plants and the third expired in 2006 and 2012 respectively. NEA had continued to sell the steel scrap to the contractor based on the original contract price but there was no evidence that NEA had properly assessed whether the original contract price was still reasonable and fair. Consequently, other contractors were not given an opportunity to participate in the purchase of steel scrap and there could be potential loss of revenue.

148. NEA extended the agreement for the sale of steel scrap recovered from two of its incineration plants at the original contract price upon expiry of the agreement in 2006, without calling tenders. NEA informed AGO that although it had carried out informal market survey in 2006 and found that there was no market price for its steel scrap, this was only recorded in a handwritten note. AGO observed that the note did not contain sufficient details such as the parties surveyed and is of the view that it is not appropriate for a matter with significant financial implications to be addressed through an informal survey with little documentation.

149. As for the steel scrap recovered from the third plant, NEA had continued to sell them at the original contract price after the agreement expired in 2012 without calling new tenders; for this case, there was no evidence that NEA had extended the original agreement or signed a new agreement with the contractor. NEA informed AGO that it was an oversight on its part.

150. AGO's checks on market prices in 2014 showed that for the past years, a plant operated by a third-party operator had sold its steel scrap at an average price which was about six times higher than the price which NEA had been selling its steel scrap. Based on the volume of steel scrap sold by NEA between December 2012 and November 2014, AGO estimated that there could be a potential loss of revenue of at least \$680,000.

151. AGO understands that NEA had since called a tender for the sale of steel scrap on 12 November 2014 and awarded the tender on 11 February 2015. NEA informed AGO that it has set up a central repository of contracts to track and ensure that new tenders are called expeditiously before the expiry of the contracts.

Gaps in Management of Rodent Surveillance and Control Programme

152. AGO found gaps in NEA's management of its rodent surveillance and control programme. According to NEA, its contractor, in carrying out routine surveillance on rodent situations in public areas (contract value of \$4.19 million over two years), was only required to treat burrows in areas under NEA's purview and not those under the purview of other public agencies. As a result, some burrows were left untreated and the number of burrows in several locations had increased over time. The NEA's surveillance and control programme as currently structured could result in higher overall cost of treating rodent problems.

153. AGO found, from its review of the monthly reports on rodent control services for the period September 2013 to January 2014, that the contractor did not treat 115 active burrows detected in areas under the purview of other public agencies. AGO's checks on the reports for the 115 burrows revealed that:

- a. 16 burrows in nine locations had remained active two to four months after the burrows were detected; and
- b. 17 burrows in seven locations had increased to 32 burrows in a span of two to six months after the burrows were first detected.

154. AGO observed that NEA's rodent control contract had specified that the contractor was to carry out treatment to destroy rodents detected in public areas which would include those areas under the purview of other public agencies. However, NEA explained that the contract specification was not accurately worded to convey its intent. NEA had intended for the contractor to treat only the burrows in areas under NEA's purview but not those under other public agencies, and it had conveyed its intent to the tenderers at a tender briefing. NEA would inform the relevant public agencies of the active burrows detected by its contractor in areas under their purview. In this regard, AGO observed that NEA had not actively followed up with the public agencies on actions taken to treat the active burrows detected.

155. NEA informed AGO that it would strengthen the co-ordination with stakeholders and the other public agencies to ensure that rodent infestation continues to be tackled effectively.

PUBLIC UTILITIES BOARD

Poor Management of Assets

156. AGO found the following lapses in the Public Utilities Board (PUB)'s management of assets:

- a. Structures in the water reclamation plants not in use or only partially used for many years;

- b. Obsolete assets not promptly written off or disposed of and left in unkempt condition; and
- c. Fixed assets not properly tagged or recorded.

157. Part of proper management of assets is to ensure that obsolete assets are disposed of promptly to realise any salvage value and free up space for other uses. In addition, unkempt storage of condemned items could pose fire hazard and pest problems. There should also be proper recording and tagging of fixed assets to ensure that all assets could be identified and accounted for.

A. Structures Not In Use or Only Partially Used for Many Years

158. AGO's checks from October 2014 to January 2015 revealed that 12 structures or groups of similar structures, such as sludge tank, fuel tank, lime tank and chlorine tank (with a total net book value of \$1.19 million) were not used, and three other structures were partially used, for 10 to 25 years.

159. PUB explained that its practice was to carry out demolition of the structures only when the entire plant or treatment phase was decommissioned to avoid damaging adjacent structures in operation, and some of these structures could be put to alternative use. However, PUB could not provide AGO with documents showing that it had considered alternative uses for the structures or the feasibility of demolishing the structures.

160. PUB informed AGO that it would ensure that timely review, write-off, and where appropriate demolition of structures not in use are duly undertaken and documented in its annual asset review and verification exercise. PUB would state in the papers for capital projects the decision to be taken for existing structures that would become obsolete with the implementation of the new proposed projects.

B. Obsolete Assets Not Promptly Written Off or Disposed Of

161. Based on site visits and test checks carried out by AGO between October 2014 and January 2015, AGO found the following lapses in the management of obsolete assets:

- a. 11 sets of fixed assets, such as low and high pressure press machinery and chemical scrubbers (with a total net book value of \$5.49 million), and spare parts (with a total cost of \$1.03 million) were not written off even though the fixed assets and spare parts had been obsolete for 5 to 15 years.
- b. Large quantities of unwanted old assets such as equipment and office furniture and machinery that had been amassed over a long period of time were not written off or disposed of, but left in unkempt condition in the three water reclamation plants test-checked.
- c. Scrap metals weighing 181.04 tonnes were not disposed of for two to nine years.

162. PUB informed AGO that unwanted old assets would be disposed of by end October 2015 and proper housekeeping of the areas used to store the unwanted old assets would be carried out. In addition, it would ensure that scrap metals are disposed of more frequently.

C. Fixed Assets Not Properly Tagged or Recorded

163. AGO found the following lapses in tagging and recording of fixed assets:

- a. 59 fixed assets (with net book value totalling \$117.30 million) were not tagged. AGO further noted that for these assets, PUB had kept the asset tags in its files and would scan the tags in the files after the assets were sighted during its annual assets verification exercises.
- b. 52 fixed assets (with net book value totalling \$81.80 million) had generic descriptions such as “Plant & Machinery”, “others”, “general” and “miscellaneous”. AGO’s checks during site visits to the three water reclamation plants revealed that 22 of the 52 fixed assets (with net book value totalling \$15.64 million) could not be identified.

- c. 7 cases where the same fixed asset identification number was used for two to eight fixed assets but there was no description in the fixed assets register on the assets which shared the same identification number.

164. There was, therefore, no assurance that the fixed assets register was complete and accurate. This could result in difficulties in managing the fixed assets.

165. PUB informed AGO that the problem with the records of fixed assets would be addressed with the implementation of its Asset Management System in the financial year 2017/18, and that the assets would be tagged by December 2015.

MINISTRY OF TRADE AND INDUSTRY

JURONG TOWN CORPORATION

Lapses in Management of International Cruise Terminal Development Project

166. AGO's audit of the construction and consultancy services contracts (total contract value of \$510.18 million) for the International Cruise Terminal development project undertaken by the Jurong Town Corporation (JTC)¹⁵ revealed the following lapses in controls and management of contract variations:

- a. Approvals for 87.1 per cent of variations (estimated value of \$47.97 million) were not obtained from the relevant authority in JTC before the works were carried out;
- b. Payments for variations (amounting to \$1.13 million) were \$0.34 million higher than those based on contractual rates; and
- c. Assessment of reasonableness of fees (estimated value of \$0.92 million) was not carried out before JTC engaged consultants to provide new services.

¹⁵ The project was undertaken by JTC on behalf of the Singapore Tourism Board.

A. Approval Not Obtained before Variations Carried Out

167. AGO's review of 132 contract variations under two construction contracts and two consultancy services contracts revealed 115 variations (87.1 per cent) estimated at \$47.97 million where approvals were not obtained from the relevant authorities before the works and services were carried out. For these 115 variations, approvals were obtained 51 days to about four years after works and services were carried out; for 39 of these variations (33.9 per cent), the delays in obtaining approvals were more than two years. In addition, AGO's test checks of 10 variations revealed two instances where the works were completed and payments of \$1.84 million had been made by the time approvals were sought.

168. The pervasive delays in seeking approvals indicate laxity in JTC's controls over the management of contract variations for this project. Obtaining retrospective approvals for variations weakens the controls put in place to ensure that variations are properly justified. These controls are essential to ensure that the approving authority has adequate oversight of project costs. If alerted to potential cost overruns on a timely basis, the approving authority could implement cost control measures to ensure that financial prudence and discipline are maintained.

169. JTC acknowledged that formal approvals were not obtained from the relevant authority before the works and services were carried out. According to JTC, it had obtained in-principle approvals for urgent variations but these approvals were not documented. JTC also informed AGO that it monitored the project costs including variations through monthly progress meetings to ensure that the overall cost was within its budget. However, it was not able to produce documentation to support that the variations were adequately monitored and properly approved. JTC would ensure that all in-principle approvals are properly documented and that after obtaining in-principle approval, the formal request for variations would be put up as soon as possible.

B. Payments Not in Accordance with Contract

170. AGO's test checks of 12 variations under one consultancy contract revealed that in 11 cases, JTC had paid \$0.34 million more in consultancy fees than those based on contractual rates. It had paid fees of \$1.13 million based on hourly rates even though the contract stipulated that weekly rates should be used for cases where the period of services was five days and above. Fees computed using weekly rates would only be about \$0.79 million.

171. JTC explained that there was a significant change in the design of the Terminal building that caused an increase in the extent of work. As a result, the weekly rates were no longer valid. The consultant negotiated with JTC to fix the new rates at the hourly rates. However, this change was not documented and approved by the relevant authority.

172. In AGO's view, it is not prudent for JTC to operate based on an arrangement which deviates from the contract before carrying out an assessment of the changes and seeking the necessary approval as there are financial implications and increased risk of manipulation.

173. JTC acknowledged that it should have documented the rationale for deviating from the contractual rates and obtained the relevant authority's approval before implementing the change. JTC would ensure that this is done for all such cases.

C. Assessment of Reasonableness of Fees Not Carried Out

174. AGO observed that JTC had procured consultancy services related to modification works of the Terminal building as variations under the original consultancy contracts, more than 20 months after the project was completed. The consultancy fees estimated at 75.9 per cent (or \$0.92 million) of the cost of modification works were exceptionally high. JTC had not considered the merits of calling a separate tender and did not conduct a cost analysis to ascertain whether the consultancy fees were reasonable before engaging the consultants. Hence, there was no assurance that value for money had been obtained.

175. JTC explained that there had been discussions about whether a tender should be called. Because of the urgency and the need for continuity, the Singapore Tourism Board and JTC decided to issue a contract variation to the original consultants. JTC was of the view that doing so would also allow it to enjoy the rates in the original contracts as compared to calling a separate tender which would result in higher rates. JTC acknowledged that it should have conducted and documented a formal assessment, including a cost analysis. JTC would ensure that all such assessments are done and documented.

No Review on Security Deposits

176. AGO observed that JTC had not reviewed \$22.44 million of the \$40.05 million security deposits held as at 31 July 2014. AGO's test checks revealed that there were 40 deposits (totalling \$321,010) which were not refunded or offset against future rental payments although they were no longer required or had been approved for refund more than 21 months earlier. For 11 deposits, the time lapse was more than 10 years.

177. JTC informed AGO that it would put in place processes to identify deposits due for refund, including instituting a yearly review and exploring system enhancements to alert officers on cases for follow-up. JTC would be performing a one-off review on all deposits by June 2015.

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 2014/15 under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition):

- a. GIC Asset Management Private Limited
- b. GIC Private Limited
- c. GIC Real Estate Private Limited
- d. GIC Special Investments 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 2013 under section 4(1)(b) of the Audit Act.

3. The Auditor-General audited the accounts of the Financial Sector Development Fund for the financial year 2014/15 in accordance with the Monetary Authority of Singapore Act.

4. The Auditor-General audited the ASEAN Cultural Fund (Singapore) accounts for the financial year 2014 as required under an ASEAN agreement.

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

Acknowledgements

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

ANNEXES

ANNEX I : AGO'S AUDIT AUTHORITY

Audit of Government Ministries, Organs of State and Government Funds

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

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

3. Under section 3(1) of the Audit Act (Cap. 17, 1999 Revised Edition)¹, the Auditor-General shall carry out an audit and report on the accounts of all departments and offices of the Government (including the office of the Public Service Commission), the Supreme Court, the State Courts and Parliament. He shall perform such other duties and exercise such other powers in relation to the accounts of the Government and the accounts of other public authorities and other bodies administering public funds as may be prescribed by or under any written law as provided for under section 3(4) of the Audit Act².

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

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

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

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

Financial Statements Audit

5. The Auditor-General is required to audit and report (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 shall, under section 5 of the Audit Act, make such examination as he may consider necessary to ascertain whether all reasonable steps have been taken:

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

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 Finance Circular Minute No. M3/2011, read with section 4(4) of the Audit Act⁸.

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

Powers of Auditor-General

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

ANNEX II : CRITERIA FOR APPOINTMENT OF AUDITORS

1. The 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.

