



REPUBLIC OF SINGAPORE

**REPORT**

OF THE

**AUDITOR-GENERAL**

FOR THE FINANCIAL YEAR

**2015/16**



**AUDITOR-GENERAL'S OFFICE  
SINGAPORE**

14 July 2016

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 2015/16.

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  
**2015/16**



**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 2015/16.

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

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

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

## **Audit Approach**

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

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

## **Reporting of Audit Observations**

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

The more significant audit observations are covered in this Report. These are typically those which are more significant in terms of monetary value, frequency of occurrence and impact on accounting. Lapses where the monetary value is not significant are also reported if they point to significant or systemic weaknesses in internal controls which, if not addressed, could lead to serious consequences. Observations which are useful learning points for improvements across the Whole-of-Government are also included.

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

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

## **Audits Carried Out for the Financial Year 2015/16**

For the financial year 2015/16, AGO audited the following:

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

### Financial Statements Audits

For the financial year 2015/16, in addition to the audit of the Government Financial Statements, AGO carried out financial statements audits of three statutory boards, a Government fund, five Government-owned companies and three other accounts.

I have issued unmodified audit opinions on these financial statements.

### Selective Audits

In the financial year 2015/16, AGO carried out selective audits of eight statutory boards and three Government funds whose financial statements were not audited by AGO. AGO also carried out a selective audit of one of the three statutory boards whose financial statements were audited by AGO. A selective audit involves test checks on selected areas for financial irregularity, excess, extravagance, or gross inefficiency. It is not intended to draw any conclusion on the overall performance of the audited entity.

AGO's audits covered a range of areas including the use of public funds and resources, collection of revenue, administration of schemes and programmes, financial controls, procurement and management of contracts.

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

### **Summary of Audit Observations**

In this year's audits, AGO uncovered a number of instances of inadequate financial controls over Government operations including those outsourced to external operators. There were cases of inadequate controls over collection of fees resulting in loss of revenue to the Government. There were also instances where the controls were inadequate for ensuring that correct payments were made for services rendered.

AGO noted that governance over the management of public funds was weak in certain areas audited. In one public sector entity, the principles of good governance and financial controls were disregarded in several areas, resulting in a lack of financial accountability.

Another area of concern is the failure to exercise adequate oversight of external entities which were lax in their administration of schemes and loans. For proper accountability, it is important that controls and mechanisms are in place to ensure that public funds are used to achieve the intended objectives.

AGO also observed lapses in the management of contracts resulting in late payment to contractors. In addition, there was laxity in management of contract variations in an entity resulting in a significant number of instances where approvals were sought only after the variation works had already commenced or were completed.

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:

- Inadequate financial controls
- Weak governance over management of public funds
- Lack of oversight of administration of schemes and programmes
- Lapses in management of contracts

**(1) *Inadequate Financial Controls***

Public sector entities spend significant amounts of public funds each year running Government operations, some of which are outsourced. They are accountable for putting in place adequate controls to ensure proper monitoring and accounting of transactions.

AGO found instances of inadequacy in financial controls over revenue collection, payment, and handling of cash and valuable assets in public sector entities such as the Housing and Development Board (HDB), the Land Transport Authority of Singapore (LTA), the Ministry of Foreign Affairs (MFA) and the Ministry of Law (MinLaw).

AGO found that HDB did not have adequate oversight of the operations of its car parks at industrial estates and residential estates which were outsourced to commercial operators. There were many instances where vehicles were not charged parking fees and motorists had evaded payment by manipulating the car park system. HDB could have detected these instances if it had examined the data from its car park system and the monthly reports from the operators of the car parks. As a result, there was loss of revenue and no action was taken against those who took deliberate actions to avoid paying the charges.

AGO also observed that LTA's controls over the collection of toll at the Woodlands and Tuas Checkpoints were weak. As a result, there could be potential loss of revenue to the Government. AGO estimated that the under-collection of toll could be about \$13.93 million (or 21.9 per cent of the total toll collected of \$63.54 million) in the financial year 2014/15.

AGO's audit revealed irregularities in MFA's management of subscription of telecommunication services. AGO found that MFA did not carry out proper verification of invoices to ensure that the rates and amounts billed and paid were correct. MFA also did not conduct proper monitoring and review of the need for mobile lines, and continued to subscribe to lines that were no longer needed. These lapses had resulted in overpayments totalling \$109,868, and wastage amounting to \$80,744 in the areas test-checked by AGO.

AGO's test checks also revealed that the Public Trustee's Office (PTO) under MinLaw did not have adequate controls over the handling of deceased persons' assets received from nursing homes. The handling, recording and safekeeping of assets received were carried out by only one officer; there were no independent checks. AGO also noted discrepancies in the recording of assets received from nursing homes. Thus, there was no assurance that assets held in trust by PTO were correctly accounted for. This increased the risk of misappropriation of valuable assets.

## **(2) *Weak Governance over Management of Public Funds***

Effective governance in the public sector is necessary for the efficient use of public resources and strengthens accountability for the stewardship of those resources. It is therefore important that public sector entities practise good governance and exercise financial discipline in managing the resources entrusted to them.

AGO found that the Nanyang Polytechnic (NYP) did not have a proper governance framework to manage transactions with its subsidiary, including conflict of interest situations. AGO noted that some members of NYP's Board of Governors (BOG) with vested interests in a subsidiary of NYP were involved in the evaluation and decision-making process on matters relating to the subsidiary, including the approval of a funding model that was more generous than that provided for in Government's instructions. In addition, NYP did not charge market rates for premises used by the subsidiary and had given funding in excess of that approved by the BOG. This had resulted in hidden subsidies and excess funding totalling \$8.38 million given to the subsidiary since its inception in 2007 till March 2015. NYP's practices reflect a disregard for financial controls and proper governance.

## **(3) *Lack of Oversight of Administration of Schemes and Programmes***

Significant amounts of public funds are used for a wide range of Government schemes and programmes, to achieve specific objectives. These schemes and programmes could be administered by public sector entities directly or outsourced to external administrators. For the functions that are outsourced, public sector entities remain accountable for the proper use of public funds to achieve the intended objectives.

AGO carried out audits on tuition fee loans, study loans and scholarships funded by the Ministry of Education (MOE) and administered by the Nanyang Technological University (NTU) and the National University of Singapore (NUS). AGO observed that there were inadequate controls to ensure that tuition fee loans and study loans due (amounting to \$228.04 million as at 30 June 2015) were promptly recovered. The universities had relied on the outsourced agents to monitor and recover the loans. AGO found a number of instances where loan recovery actions as well as follow-up actions on default cases were not taken on a timely basis. MOE also did not follow up promptly on long outstanding loans surfaced by the outsourced agents for its review. Such control weaknesses would adversely affect the recoverability of the loans and increase the risk of loss of public funds.

For a scholarship scheme (\$36.52 million disbursed in the financial year 2014/15), MOE did not maintain adequate oversight of NTU and NUS on the monitoring and enforcement of scholarship bonds. AGO found that the universities did not take prompt action on scholars who were not serving the required bonds for 16 of the 30 cases test-checked. As a result, there was no assurance that the scholarship grants were used optimally.

Similar observations on inadequate oversight of schemes outsourced to external administrators had been raised over the past few years. However, AGO notes that such lapses are still occurring; there is a need for public sector entities to pay greater attention to this area.

#### ***(4) Lapses in Management of Contracts***

Each year, public sector entities manage and oversee a large number of development projects involving significant amounts of public funds. It is important that systems and processes are in place to ensure that the principles of fairness and value for money are adhered to.

AGO found that there was laxity in the management of development projects by HDB and the National Arts Council (NAC). In the audit of HDB, AGO's test checks on the accounts of 36 contracts relating to construction and upgrading of HDB flats (final payments totalling \$37.62 million) revealed delays of up to 3.3 years in making final payments to contractors. Delays in payment to contractors contravened contractual requirements and might be seen as an unfair business practice as it could affect the cash flows of the contractors.

For the audit of NAC, AGO's test checks of contracts for the Victoria Theatre and Victoria Concert Hall Redevelopment project revealed that 47 out of 164 variation works were carried out before approvals were given. The delays in obtaining approval were up to 3.5 years. The large number of instances indicated a breakdown in the controls put in place to ensure that variations were properly justified and approved before works commenced. AGO also found that NAC had paid a consultancy fee of \$0.41 million for the construction of a bin centre costing \$0.47 million. There was inadequate assessment on the reasonableness of the exceptionally high consultancy fee, at 87.2 per cent of the cost of construction.

## **Concluding Remarks**

I have highlighted some of the more significant observations in this Report to give a sense of the areas that may need the attention of public sector entities. I hope that AGO's audit and report on the observations will help the entities audited and the wider public sector in strengthening their management of public resources to achieve the intended objectives.

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



## **Acknowledgements**

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

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

TAN YOKE MENG WILLIE  
Auditor-General  
Singapore

14 July 2016

**PART I**

**(A)**

**AUDIT OF GOVERNMENT FINANCIAL  
STATEMENTS**

**(B)**

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

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

1. The Financial Statements of the Government of Singapore for the financial year ended 31 March 2016 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 on the Financial Statements to the President on 14 July 2016.
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.

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

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

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

### **Government Funds**

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

3. The Auditor-General audited the financial statements of the Workers' Fund<sup>1</sup> for the financial year 2015/16 as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2). An unmodified audit opinion was issued on the financial statements.

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

4. For Government funds whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation, at least once every five to seven years. A selective audit is an examination of selected activities and operations, carried out in relation to the accounts, to check for financial irregularity (not for the purpose of rendering an opinion on the financial statements), and to ascertain whether there has been excess, extravagance, or gross inefficiency leading to waste, and whether measures to prevent them are in place. In the financial year 2015/16, AGO carried out selective audits of the following three Government funds:

- a. Community Care Endowment Fund<sup>2</sup>
- b. Lifelong Learning Endowment Fund<sup>3</sup>
- c. SAVER-Premium Fund<sup>4</sup>

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

### **Acknowledgements**

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

### **Selected Observations**

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

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<sup>2</sup> The Community Care Endowment Fund was established under the Community Care Endowment Fund Act (Cap. 49B, 2006 Revised Edition).

<sup>3</sup> The Lifelong Learning Endowment Fund was established under the Lifelong Learning Endowment Fund Act (Cap. 162A, 2002 Revised Edition).

<sup>4</sup> The SAVER-Premium Fund was established under the Singapore Armed Forces Act (Cap. 295, 2000 Revised Edition).

## **MINISTRY OF DEFENCE**

8. For the audit of the Savings and Employee Retirement and Premium Fund (SAVER-Premium Fund), AGO covered the following areas in its checks:

- a. Receipts and payments; and
- b. Investments.

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

### **Failure to Provide for Central Provident Fund Contributions for Bonus Paid**

9. AGO found that the Ministry of Defence (MINDEF) did not provide for Central Provident Fund (CPF) contributions on Full Savings Vesting (FSV) Bonus paid to members on the Savings and Employee Retirement (SAVER) Plan, even though CPF contributions are payable on such a bonus under the law.

10. In 2007, MINDEF introduced the FSV Bonus which is a bonus payable to SAVER Plan members who have completed 10 years of service. Since the introduction of the FSV Bonus, MINDEF did not provide for CPF contributions on the bonus paid. According to MINDEF, it had considered the FSV bonus as an integral part of the SAVER Plan and as a termination benefit which would not attract CPF contributions. However, AGO noted that FSV Bonus is payable to officers while they are in employment. Hence, CPF contributions would need to be paid. MINDEF subsequently sought legal advice which affirmed that CPF is payable as the FSV Bonus is not a termination benefit but a reward for services rendered.

11. In the financial year 2014/15, FSV Bonus totalling \$6.07 million was paid to 353 officers. As the CPF contributions had not been paid on FSV Bonus since 2007 and there would be many members who would be affected, the amount not paid could be significant.

12. MINDEF informed AGO that it would make the CPF contributions for the FSV Bonus given. MINDEF estimated that the amount of CPF, which it did not contribute for 215 members for the FSV Bonus paid in the financial year 2014/15, was \$324,000. MINDEF would make the required CPF contributions to the affected members by August 2016.

### **Investment Made Without Proper Approval and Evaluation**

13. AGO noted that MINDEF had invested \$50.26 million in a United States (US) Real Estate Investment Trust (REIT) exchange-traded fund (ETF) without the approval of the SAVER-Premium Fund's Board of Trustees (BOT). In addition, MINDEF had made the investment through an investment manager without first obtaining the BOT's approval to appoint this manager to render such services. MINDEF has a fiduciary duty to ensure that the SAVER-Premium Fund is properly managed and invested. It has to ensure that investments are evaluated and approved by the appropriate authority as they have a direct impact on the quantum of retirement benefits payable to the members.

14. AGO found that in January 2015, a department in MINDEF responsible for executing the decisions of the BOT for the Fund, had made an investment in a US REIT ETF. The department had made this investment as a transitional arrangement, pending the finalisation of the appointment of two fund managers approved by the BOT for investments of \$25 million each in Global REITs and US REITs. The transitional investment of \$50.26 million in the US REIT ETF was made after obtaining only the approval from the then Director of Defence Finance, even though such an investment should have been approved by the BOT. Furthermore, when asked for evidence of approval for the appointment of the investment manager to transact this transitional investment, MINDEF referred AGO to an approval given by the BOT, which was for appointment of this investment manager seven years back for other investment services.

15. In addition, AGO found that the evaluation carried out by the department was not adequate. To invest in the US REIT ETF as a transitional arrangement, the department had to liquidate another investment to raise the required funds. There was, however, no evidence that the evaluation had taken into account all the relevant costs and benefits of the option of liquidating that investment to invest in US REIT ETF versus the option of not doing so. AGO also noted that the department had not presented complete information on the costs of investment when seeking the Director's approval.

16. MINDEF explained that no approval was sought from the BOT as the department concerned had deemed this transitional investment to be consistent with the BOT's approved strategic asset allocation. However, as noted by AGO above, the BOT's approval was for investments of \$25 million each in Global REITs and US REITs to be managed by the two approved fund managers.

17. Following the audit, MINDEF indicated that it had informed the BOT of AGO's observations. MINDEF also informed AGO that it had since obtained covering approval from the BOT for the appointment of the transitional investment manager for the transaction mentioned above, and it would be reviewing the processes relating to seeking approval from the BOT for investment.

## **MINISTRY OF EDUCATION**

### **Lapses in Monitoring and Enforcement of Scholarship Bonds**

18. AGO found that the Ministry of Education (MOE) did not maintain adequate oversight of the Nanyang Technological University (NTU) and the National University of Singapore (NUS) to ensure that recipients under a scholarship scheme who failed to serve their bonds were reminded of their scholarship obligations and liquidated damages were imposed, where warranted. Total disbursements for the scholarship scheme were \$36.52 million in the financial year 2014/15. Without proper oversight of the monitoring and enforcement actions on fulfilment of the scholarship bonds, there was no assurance that the scholarship grants were used optimally for the intended purpose.

19. AGO's test checks of the two universities' follow-up on 30 scholars where records showed that they were not serving the required bonds revealed the following lapses:

- a. 14 cases where there was a lack of follow-up by the universities. The universities did not send any letters to remind scholars of their bond obligations and the consequences of not fulfilling them, or Letters of Demand to impose liquidated damages where warranted. Based on MOE's guidelines, at the time of audit in October 2015, these letters were already between 1 and 22 months late.



- b. 2 cases where the Letters of Demand were sent after a lag of 17 and 26 months.

20. In AGO's view, MOE should maintain oversight of NTU's and NUS' monitoring and enforcement of the serving of bonds by the scholars. AGO observed that the universities would submit reports on the bond status of scholars to MOE annually. As the reports would indicate whether the universities had issued reminder letters or Letters of Demand to scholars who were not serving bonds, MOE could have followed up with the universities on cases where actions had not been taken.

21. MOE informed AGO that it would put in place additional checks and work closely with NTU and NUS to further ensure that tracking and enforcement are carried out in a timely manner.

### **Tuition Fee Loans and Study Loans Due Not Promptly Recovered**

22. AGO found that there were inadequate controls to ensure that tuition fee loans and study loans due were promptly recovered and prompt follow-up actions were taken on long outstanding loans. Such control weaknesses would adversely affect the recoverability of the loans and increase the risk of loss of public funds.

23. MOE provides NTU and NUS with the loan principal for the universities' tuition fee loans and study loans to students. The two universities outsource the administration of the loan schemes, which includes processing of loan applications and recovery of loans, to two banks. For long outstanding loans, the banks would submit their listings of loans proposed to be written off for MOE's review and approval after recovery efforts had been fully exhausted.

#### *A. Inadequate Controls for Recovery of Tuition Fee Loans and Study Loans*

24. AGO noted that the two universities did not put in place adequate controls to ensure that tuition fee loans and study loans were promptly recovered when due. They had relied on the banks to monitor and recover the loans. As at 30 June 2015, the outstanding balance of loans due for recovery from former students of the two universities was \$228.04 million.

25. AGO's test checks on 116 loans that were due for recovery (outstanding balance of \$2.27 million) revealed 27 cases (\$0.44 million) where the commencement of loan recovery was delayed by 1 to 3.5 years.

26. In addition, AGO's test checks of another 58 loans which were in default for at least two years (\$2.03 million) revealed 33 loans (\$1.15 million) where the banks could not produce any documentation of having taken loan recovery actions for prolonged periods of time – ranging from 6 months to 3.5 years.

*B. Delays in Follow-Up on Long Outstanding Loans Surfaced to MOE*

27. AGO found that MOE was not prompt in following up on long outstanding loans surfaced by the banks to ensure that recovery actions taken by the banks were adequate.

28. MOE maintains a list of long outstanding loans proposed for write-off by the banks. When reviewing the proposed loans for write-off, MOE would assess whether the recovery efforts taken by the banks were adequate. MOE would also request the banks to take further action to recover the loans, where necessary.

29. AGO's test checks of 32 loans<sup>5</sup> (totalling \$1.41 million as at 30 June 2015), which according to the banks were pending MOE's action, revealed that MOE did not promptly follow up on 23 loans (\$1.12 million) for between 2 and 6.5 years. MOE also did not act on the remaining nine loans (\$0.29 million) due mainly to miscommunication on whether the loans had been submitted for MOE's review; as a result, its records on outstanding loans submitted by the banks for review were different from that maintained by the universities or the banks. In this regard, AGO noted that if MOE had done a reconciliation of the loan records, MOE would have been able to detect discrepancies between the loans proposed for write-off by the banks and its records, and follow up on these discrepancies.

30. The lapses highlighted above could be due to the fact that the responsibilities of MOE, the universities and the banks were not made clear. Although MOE had been overseeing the administration of the tuition fee loan and the study loan schemes by the universities since the 1980s and 1990s respectively, MOE had not entered into any written agreement with the two universities for administration of the loan schemes. Without an agreement, the responsibilities, scope of work, expected deliverables and service level for the administration of these loans were not clear.

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<sup>5</sup> The loans were due from former students of NTU and NUS.

31. Furthermore, AGO noted that the existing Service Level Agreements (SLAs) between the universities and the banks, developed with inputs from MOE, did not contain sufficient terms to ensure that the banks take prompt actions to recover loans due. The SLAs did not include service standards (such as process, timeline and documentation for loan recovery actions), penalties for not meeting service standards and provision for audits on the bank's loan administration system. There is a need for MOE to review the SLAs to incorporate clauses on the expected service standards so that banks are incentivised to put in their best efforts to recover loans due and service standards can be enforced.

32. MOE informed AGO that it had taken steps to improve its review of long outstanding loans and would carry out regular reconciliations between its records and the banks' records. It would be issuing guidelines on the loan schemes to detail the responsibilities of the various parties and procedures on loan recovery and defaults. MOE also informed AGO that it had been working with the universities to review the SLAs with the banks and to incorporate expected service standards into the SLAs.

### **Undue Delay in Review of Agency Fees**

33. AGO found that MOE had not completed its review of the formula for agency fees payable to the banks for administering tuition fee loans and study loans six years after AGO had raised an audit observation on the inadequacy of the formula. The current agency fees formula does not incentivise the banks to put in their best efforts to recover outstanding loans. As at 30 June 2015, the outstanding balance of tuition fee loans and study loans given to students of Institutes of Higher Learning totalled \$511.49 million.

34. In the financial year 2008/09, AGO raised an observation that the agency fees formula would not incentivise the banks to put in their best efforts to recover loans due or seek write-off for uncollectible loans. As the agency fees were to be paid based on a percentage of the outstanding loan balances, any recovery or write-off of loans would reduce the outstanding balance and correspondingly the amount of agency fees payable to the banks. AGO was informed then that MOE would review the agency fees formula as part of its review of SLAs with the banks.

35. In response to AGO's various requests since 2010 for status updates of the review, MOE provided AGO with its target dates for the completion of the review. AGO noted that the target dates had been postponed several times. As at March 2016, the review had not been completed.

36. MOE informed AGO that it had been working with the Institutes of Higher Learning to review their agreements with the banks, but this had taken a while due to competing priorities and the need to establish a common agreement among the different stakeholders. MOE agreed that the review should have been done in a timely manner and informed AGO that it would complete the review soon.

### **Over-contributions to Sinking Fund**

37. AGO's test checks revealed that MOE had over-contributed \$4.14 million over nine years to NTU's sinking fund for replacement of MOE-funded building and facilities. The over-contributions would be perpetuated if they are not rectified.

38. Since the financial year 2006/07, MOE had been making annual contributions to NTU and NUS to build up their sinking funds for replacement of MOE-funded buildings and facilities. MOE used building registers maintained based on inputs certified by the universities to compute its contributions to the sinking funds. In the financial year 2014/15, MOE contributed \$32.95 million and \$64.68 million to the sinking funds of NTU and NUS respectively.

39. AGO selected 30 MOE-funded buildings and facilities for test checks on MOE's computation of its financial year 2014/15 contributions to the universities' sinking funds. AGO noted over-contributions to NTU for five facilities and one building. The facilities and building were funded twice by MOE due to duplicate and incorrect records in MOE's building register. The estimated over-contributions totalled \$0.46 million per year, or \$4.14 million over nine years from the financial year 2006/07 to the financial year 2014/15. It is important that MOE ascertain the accuracy and reliability of its building registers to ensure that its contributions to the sinking funds are computed correctly.

40. MOE acknowledged the over-contributions to the sinking fund of NTU and informed AGO that it would work with NTU to recover the excess amount disbursed. It would also review its current approach of relying on the building registers maintained based on inputs certified by the universities to compute the sinking fund contributions.

### **Inadequate Monitoring of Research Progress**

41. AGO found that MOE continued to disburse grants totalling \$2.96 million to NTU and NUS for research projects without carrying out any annual reviews to assess the progress of the projects. In addition, the recipients of the grants had not submitted project reports as required. As a result, there was no assurance that grants were disbursed only for projects with satisfactory progress.

42. MOE provides Academic Research Fund (AcRF) grants to support research carried out by Singapore-based universities. For one of the AcRF grant schemes, researchers were required to submit annual progress reports during the course of the projects, and final reports upon completion of the projects. Such reports would have helped MOE to monitor the progress of the research. According to MOE's guidelines, funding for these projects would be contingent upon satisfactory progress of the research as assessed by MOE during its annual review.

43. AGO carried out test checks on AcRF grants given to NTU and NUS. AGO noted that MOE did not track the submission of annual progress reports and final reports prior to AGO's audit. MOE also did not carry out annual reviews of the research projects. As at 31 December 2015, 52 project reports from the two universities were overdue for periods ranging from three months to five years. AGO's test checks of 27 of these overdue reports revealed that MOE had continued to disburse AcRF grants totalling \$2.96 million to the universities even though the required reports had not been submitted.

44. MOE informed AGO that it had since taken steps to improve the tracking of the submission of project reports. MOE also informed AGO that it is working with key research funding agencies to develop an integrated grant management system which is targeted for implementation in 2017. The system would provide for a more systematic tracking of research projects.

## **MINISTRY OF FOREIGN AFFAIRS**

### **Irregularities in Management of and Payments for Telecommunication Services**

45. AGO's audit revealed irregularities in the Ministry of Foreign Affairs (MFA)'s management of subscription of telecommunication services. MFA did not carry out proper verification of invoices to ensure that the rates and amounts billed and paid were correct. In this regard, AGO found instances of overpayments totalling \$109,868. MFA also did not conduct proper monitoring and review of the need for mobile lines, and there was wastage totalling \$80,744 on lines that were no longer needed.

46. AGO audited MFA's subscription of telecommunication services for the period April 2013 to June 2015, and found that there was no evidence that MFA had verified the services and rates billed by the vendors against the contracts. Instead, the officers responsible for checking had either compared the rates billed with the rates stated in previous months' invoices or carried out spot checks of the phone plan subscription rates billed against an internal listing compiled over the years. Such verifications were not effective as there was no evidence that the previous months' rates had been verified against a reliable source such as the contracts. In addition, the spot checks which MFA carried out were only on the phone plan subscription rates; checks were not conducted on the rates billed for other services such as overseas calls and data roaming (services which were used frequently by MFA officers).

47. AGO test-checked 26 invoices and found indications of overpayments in 18 invoices – either the rates billed were different from the usual rates charged by the vendor or there were wide fluctuations (more than 20 per cent) in rates billed between months. Following AGO's queries, MFA checked with the vendor and subsequently informed AGO that there were overpayments totalling \$109,868, and that MFA had since recovered the overpayments.

48. AGO's audit also revealed that MFA did not regularly monitor the usage of and review the need for mobile lines. AGO noted that MFA continued to subscribe to 28 mobile lines that were no longer needed, resulting in wastage of public funds amounting to \$80,744. Eleven of these lines were not used for more than two years, and for the remaining 17 lines, the officers to whom the lines were assigned had either left MFA or been assigned other lines (for overseas posting) three months to three years earlier.

49. This series of lapses and weaknesses shows that MFA did not have a satisfactory system of managing the telecommunication services and the associated expenditure. It also reflects a lax attitude on the part of the staff concerned in carrying out their responsibilities. MFA's subscription for telecommunication services is about \$307,000 a month. MFA needs to put in place a reasonable system to ensure that the amounts paid are correct.

50. MFA acknowledged the weaknesses highlighted and informed AGO that it is taking steps to tighten its processes. It has since terminated the 28 mobile lines that were no longer needed. In addition, MFA informed AGO that it has put in place processes to monitor the usage and review the need for mobile lines annually. MFA plans to put in place a process to trigger the termination or assignment of lines when officers leave MFA. MFA also indicated that it has since reminded its officers to verify invoices against the contracts.

## **MINISTRY OF HOME AFFAIRS**

### **SINGAPORE POLICE FORCE**

#### **Overpayment of Allowance to Volunteer Special Constabulary Officers**

51. AGO found that the Singapore Police Force (SPF) had overpaid its Volunteer Special Constabulary (VSC) officers allowance amounting to about \$2.63 million from 1 April 2008 to 31 December 2015.

52. Since early 2008, SPF had been paying its VSC officers a revised allowance rate of \$3.60 per hour. This is \$0.80 higher than the rate stipulated in the Police (Special Constabulary) Regulations (Cap. 235, Rg 3). The Deputy Commissioner of Police and Permanent Secretary (Home Affairs) who approved this revised rate were not authorised under legislation to do so. This resulted in overpayments totalling \$2.62 million during the period 1 April 2008 to 31 December 2015. In addition, AGO's test checks of 30 payments of allowance during the period 1 April 2014 to 31 May 2015 revealed overpayment in all the cases. These overpayments totalling \$10,560 arose as SPF paid allowance for VSC duty beyond the four-hour cap stipulated in the Regulations, and paid pro-rated allowance for VSC duty below an hour which is not permitted under the Regulations.

53. SPF acknowledged the lapse in not seeking the Minister's approval to amend the Regulations. SPF also indicated that it has since initiated action to amend the Regulations to regularise the overpayments, and to provide for payment of allowances to VSC officers for the full period of their duty.

## **MINISTRY OF LAW**

### **Lapses in Administration of Assets Received from Nursing Homes**

54. AGO found that the Public Trustee's Office (PTO) did not have adequate controls over the handling of deceased persons' assets received from nursing homes. AGO also noted that there were discrepancies in the recording of assets received from nursing homes.

55. These observations were based on test checks of 14 cases pertaining to assets of deceased persons from nursing homes handled by PTO.

56. Without adequate controls and proper recording of the assets received, there was no assurance that assets held in trust by PTO were correctly accounted for. This increased the risk of misappropriation of valuable assets.

#### *A. Inadequate Controls over Handling of Assets Received*

57. PTO's procedures required assets from nursing homes to be received in the presence of two PTO officers. However, AGO found 8 out of 14 cases test-checked where there was either no evidence of acknowledgement by PTO officers or the acknowledgement was made by only one officer.

58. AGO further observed that the subsequent handling and recording of these assets were carried out by only one officer. This officer was given the key and combination to the safe which held the assets, and had access to the room where the safe was located. As this officer could also amend the records, there was a risk that any unauthorised removal of assets from the safe would not be detected.

59. PTO also did not conduct any independent or surprise checks on the assets and record book to verify the existence of the assets.



*B. Assets Not Properly Recorded*

60. AGO's test checks revealed four cases where the assets were either omitted from the record book or not recorded correctly. Furthermore, there were 11 cases where the status of assets (that is, sold or returned) was not updated.

61. AGO also observed that all 82 records selected for test checks were not dated and the identity of the officers who did the recording or updates were not reflected in the record book. For proper accountability, there should be sufficient information in the record book to identify the officers who updated the records as well as to detect any irregularities.

62. The Ministry of Law (MinLaw) informed AGO that it has since reviewed and tightened PTO's procedures on administration of assets received from nursing homes. Among other measures, PTO would record assets received in a receipt book and the original receipt would be given to the nursing homes. In addition, the assets received would be sealed by PTO officers together with representatives from the nursing homes so that any subsequent removal of items could be detected. PTO would also put in place procedures to ensure that its officers would not be able to access the assets held in the safe alone. PTO would conduct half-yearly surprise checks on the assets and records to verify the existence of assets received from nursing homes.

**Weaknesses in Monitoring of Access to IT System**

63. AGO noted that MinLaw did not adequately review logs containing records of activities carried out by its IT vendors on the Insolvency and Public Trustee's Office Business Information System (IPTOBis) servers, to detect any unauthorised activities. In addition, AGO found that MinLaw did not remove 44 accounts held by its IT vendors which were no longer required and the access rights assigned to another seven accounts were excessive. There was thus a risk that unauthorised access and changes to the IPTOBis data by the IT vendors might not be detected.

64. The IPTOBis is a system used by MinLaw to manage cases pertaining to its insolvency, public trustee and related regulatory functions. MinLaw outsourced the maintenance of the IPTOBis to external IT vendors. MinLaw was expected to monitor the activities carried out by its IT vendors through logs generated from the system.

65. AGO's test checks of server logs from April to July 2015 revealed that MinLaw did not monitor the activities carried out by its IT vendors on half of its IPTOBis servers. These servers are used to either store IPTOBis data or transfer the data to other public sector entities. Thus, there was a risk that security violations that could compromise the integrity of the data were not detected. The consequences could be serious as any unauthorised changes could affect the accuracy of the data used by MinLaw for its regulatory functions.

66. For the remaining servers which MinLaw carried out reviews of logs on a quarterly basis, AGO observed that MinLaw only monitored the activities carried out by its IT vendors on eight specific days in a year. As the IT vendors would access the IPTOBis servers several times a day to perform maintenance, the extent of MinLaw's monitoring was ineffective in detecting unauthorised access and changes to IPTOBis data.

67. In addition, AGO's review of access controls as at October 2015 revealed that 44 user accounts provided to its IT vendors to set up the servers in October 2014 had not been removed, even though these accounts were no longer required. AGO further noted that another seven accounts held by its IT vendors were assigned excessive access rights which would allow them to modify IPTOBis data. If the IT vendors were to carry out unauthorised modifications to the data stored in the servers, the integrity of the data might be compromised.

68. MinLaw informed AGO that it has since taken action to tighten the access rights granted to its IT vendors and has removed the unnecessary accounts. It would also be implementing a monitoring tool to track the IT vendors' access to the servers and review these activities regularly for any security breaches.

## **MINISTRY OF MANPOWER**

### **Procured System Not Used Resulting in Wastage**

69. AGO found that the Ministry of Manpower (MOM) bought a computer system, a Document Generator System (DGS), for a sum of \$432,407 for integration with its Foreign Domestic Worker System (FDWS) only to find that it could not be integrated. The DGS had been left unused since November 2014, for 1.5 years as at the time of audit. This has resulted in a waste of public funds.

70. AGO test-checked assets purchased by MOM for its FDWS (costing \$27.49 million), including the DGS. AGO noted that MOM had not carried out a robust evaluation before proceeding with the procurement of the DGS.

71. AGO noted that MOM, in its tender evaluation in March 2014, did not evaluate whether the DGS could integrate with the FDWS which was to be developed separately. MOM subsequently found out in November 2014, when the DGS was delivered, that it could not be integrated with the FDWS. MOM then decided not to use the DGS as it would not be cost effective to make the required modifications. However, AGO noted that there was no documentary evidence that MOM had put up any plans to redeploy the unused DGS assets. There were only some working level discussions on the redeployment, which eventually did not materialise.

72. A number of the DGS assets (such as hardware servers, database licences) could have been redeployed for other uses within MOM or other government agencies. Not doing so would result in a waste of public funds as the usability of these assets would be reduced with the lapse of time, due to technology obsolescence or expiry of licences.

73. MOM acknowledged that its evaluation should have been more robust and that it could have taken more active steps to explore redeployment of the DGS assets to other government agencies. MOM informed AGO that it is currently exploring the redeployment of the DGS assets within MOM.

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## **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 2015/16:

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

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

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

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

6. In the financial year 2015/16, AGO carried out selective audits of the following nine statutory boards:

- a. Casino Regulatory Authority of Singapore
- b. Civil Service College
- c. Energy Market Authority of Singapore
- d. Housing and Development Board
- e. Inland Revenue Authority of Singapore
- f. Intellectual Property Office of Singapore
- g. Land Transport Authority of Singapore
- h. Nanyang Polytechnic
- i. National Arts Council

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

### **Acknowledgements**

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

## **Selected Observations**

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

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

#### **NATIONAL ARTS COUNCIL**

10. For the audit of the National Arts Council (NAC), AGO covered the following areas in its test checks:

- a. Contract management for the redevelopment of Victoria Theatre and Victoria Concert Hall;
- b. Procurement and payment;
- c. Administration of grants;
- d. Management of tenancies; and
- e. Administration of fixed assets.

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

## **Lapses in Management of Victoria Theatre and Victoria Concert Hall Redevelopment Project**

11. AGO carried out test checks on six contracts (total contract value of \$139.17 million) for the redevelopment of Victoria Theatre and Victoria Concert Hall (VT/VCH) costing \$142.86 million, and found the following lapses in the management of contract variations:

- a. Inadequate assessment on the reasonableness of the consultancy fee of \$0.41 million quoted for the construction of a bin centre; the fee was exceptionally high at 87.2 per cent of the construction cost (\$0.47 million). Hence, there was no assurance that the fee paid by NAC was reasonable.
- b. No approvals sought for 47 variations (estimated at \$4 million) under two construction contracts before the works were carried out. This undermined the role of the approving authority and controls put in place to ensure that variations were properly justified and approved before works commenced.

### *A. No Assurance of Reasonableness of Consultancy Fee*

12. AGO observed that NAC had directly engaged the VT/VCH consultants to provide additional consultancy services (amounting to \$0.41 million) for the construction of a bin centre, without first conducting a cost assessment to ascertain the reasonableness of the fee quoted. AGO is of the view that the consultancy fee, at 87.2 per cent of the construction cost of \$0.47 million for the bin centre, was exceptionally high.

13. Based on the terms of reference for this project, NAC was responsible for seeking approval from its tender board for the engagement of consultants. Thereafter, NAC would seek approval for the drawdown of funds from its supervising ministry. The project was started when NAC was under the then Ministry of Information, Communications and the Arts (MICA) and taken over by the Ministry of Culture, Community and Youth (MCCY) following a restructuring of MICA. AGO noted that when NAC sought approval for the engagement of consultants, it did not carry out due diligence to assess the reasonableness of the consultancy fee.



14. AGO's further checks revealed that when approval was sought for the drawdown of funds, the assessment by the then MICA of the consultancy fee quoted was not robust. Instead of using the norm methodology (that is, percentage of the quoted fee over the construction cost of the works) to assess the reasonableness of the fee, MICA had benchmarked the fee for the construction of the bin centre against other more complex projects. Had the norm been used, it would have been clear that the consultancy fee quoted for the bin centre was exceptionally high.

15. NAC explained that it had worked with its supervising ministry on this project and relied on the ministry's cost assessment. Going forward, NAC would ensure that the relevant cost assessments are included when seeking approval from its approving authorities for procurement.

16. MCCY informed AGO that the construction of the bin centre for this project was more complex and required significantly more design expertise, technical consultancy services and effort to coordinate with multiple parties and these were the reasons for the fee to be above the norm. It acknowledged that the cost assessment could have been more robust. In this regard, AGO noted that these reasons were not cited in the approval paper for the drawdown of funds. There was also no documentary evidence that these reasons were indeed considered at the material point in time.

17. MCCY also informed AGO that it would adopt the norm for cost assessment of consultancy fees for future development projects and provide justifications where there are good grounds for deviation from the norm.

*B. Variation Works Carried Out before Approval*

18. AGO's review of 164 variations (amounting to \$8.73 million) under two construction contracts revealed 47 variations (estimated at \$4 million) that were carried out before approvals were obtained. The delays in obtaining approval ranged from 12 days to 3.5 years. In addition, AGO noted that for 38 variations, the approval papers did not highlight that the works had already commenced or were already completed and that covering approvals were being sought. The large number of covering approvals indicated a breakdown in the controls put in place to ensure that variations were properly justified and approved before works commenced. The role of the approving authority was also undermined.

19. The role of the approving authority must not be regarded as perfunctory. If alerted on a timely basis, the approving authority can implement cost control measures to ensure that financial prudence and discipline is maintained. It is therefore important to seek approval on a timely basis and to disclose pertinent facts for approving authorities to make informed decisions.

20. NAC explained that the lapses were due to the external consultants' delays in submitting the requests for variation works for NAC's approval. Going forward, NAC would put in place measures to ensure that consultants comply with the requirement to obtain approvals before variation works are carried out. On this, AGO would like to add that NAC is accountable for the public funds spent and is responsible for maintaining adequate oversight of the project, including its consultants.

## **MINISTRY OF EDUCATION**

### **NANYANG POLYTECHNIC**

21. For the audit of the Nanyang Polytechnic (NYP), AGO covered the following areas in its test checks:

- a. Related party transactions;
- b. Management of donations;
- c. Revenue contracting; and
- d. Administration of loan schemes.

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

## **Proper Governance Framework Not in Place and Transactions with Subsidiary Not at Arm's Length**

22. AGO found that NYP did not have a proper governance framework to manage transactions with its subsidiary, the Nanyang Polytechnic International Private Limited (NYPi)<sup>2</sup>. NYP did not have any guidelines for the members of its Board of Governors (BOG) to properly manage conflict of interest situations in dealing with subsidiaries. AGO noted that some BOG members with vested interests in NYPi were involved in the evaluation and decision-making process on matters relating to NYPi. In this regard, the BOG had approved a funding model for NYPi that was more generous than that provided for in Government's instructions. In addition, NYP did not charge market rates for premises used by NYPi and had given funding in excess of that approved by the BOG, resulting in NYPi being provided with hidden subsidies and excess funds totalling \$8.38 million since its inception till March 2015.

23. NYP's practices reflect a disregard for financial controls and proper governance. Without a proper framework to manage conflict of interest, there was no assurance that decisions on transactions with its subsidiary were made in an objective and impartial manner. In addition, the provision of generous funding terms, excess funding and hidden subsidies lacked transparency, and also distorted NYPi's financial state of affairs, making it difficult for the Government to assess the true financial performance and viability of NYPi.

### *A. Conflict of Interest in Transactions with Subsidiary*

24. NYP did not set any rules or guidelines requiring its BOG members to abstain from involvement in transactions with its subsidiaries for which they have a vested interest. AGO noted that two senior officers of NYP (who were NYP's BOG members) and three other BOG members who were directors of NYPi, had participated in the evaluation, discussion and decision-making relating to the funding of NYPi and other transactions with NYPi. This practice contravened the principle of good governance, which requires Board members to avoid putting themselves in positions of actual or perceived conflict of interest and to abstain from being involved in transactions in which they have a vested interest. The cases involved are:

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<sup>2</sup> NYPi was established in 2007 as a separate legal entity to enhance the global presence of NYP.

- a. One of the two senior officers was involved in the evaluation of the recommendation that he be appointed as one of NYPi's directors. There was also no evidence that he had abstained from the discussion and decision-making on this matter.
- b. The other senior officer, who was also an NYPi director, cleared the paper on the proposed funding and financial arrangements for NYPi that was submitted to NYP's BOG for approval. In addition, there was no evidence that he and three other NYP BOG members, who were also directors of NYPi, had abstained from participating in the discussion and decision-making on this matter. In this regard, AGO noted that the approved funding was more generous than that allowed under Government's instructions (see details in paragraphs 26 and 27).
- c. The senior officer (mentioned in paragraph 24b) had on several occasions given approvals for NYPi to use NYP's premises without paying rental or paying rental at below market rate. These approvals resulted in hidden subsidies being provided to NYPi (see details in paragraphs 29 and 30).

25. NYP indicated that it would put in place a proper governance framework for its BOG members on the handling of transactions with NYP's subsidiaries. This would include requiring BOG members with potential conflict of interest to recuse themselves from the decision-making process.

*B. Improper Funding of Subsidiary*

26. AGO's audit revealed that NYP had given funds to NYPi without requiring repayment of the funds or market rate of returns on the funds. Such a funding arrangement is not compliant with Government's instructions requiring that funding to subsidiaries be provided by means of loan or equity and that returns in the form of interests or dividends be made on the funding provided. Instead, NYPi was given discretion to make donations and sponsorships to NYP with the timing, amounts and usage determined by NYPi. The bulk of these returns in the form of donations made by NYPi had allowed it to claim tax deductions and hence lower its tax liability. The improper funding arrangement and the subsequent arrangement of allowing NYPi to make returns at its discretion lacked transparency and financial accountability.

27. As at 31 March 2015, NYPI had received from NYP total funding amounting to \$12.81 million, and had generated an accumulated surplus of \$13.67 million. In lieu of interests or dividends, NYPI made donations and sponsorships totalling \$2.84 million to NYP as at 31 March 2016. Of this amount, \$2.54 million were donations to NYP's Nanyang Polytechnic Education Fund (an Institution of a Public Character) that had enabled NYPI to claim tax deductions.

28. NYP informed AGO that it had since stopped the funding arrangement from April 2016 and would not be receiving new donations from NYPI. NYP would also review its funding of NYPI.

C. Hidden Subsidies to Subsidiary

29. AGO's checks revealed that NYP had either not charged NYPI rental or charged rental that was below market rate for using its premises. In addition, NYP did not impose secondment charges for the secondment of officers to NYPI for 7.7 years (August 2007 to March 2015), and only started imposing secondment charges from April 2015. NYP did not carry out the transactions at arm's length and was effectively providing hidden subsidies to NYPI, which totalled \$3.14 million as at 31 March 2015.

30. NYP's practices are contrary to Government's instructions that statutory boards' interaction with others shall be guided by the principles of openness and transparency, and relationships with Government-linked enterprises shall always be at arm's length. The hidden subsidies would distort the financial state of affairs of NYPI, and hinder proper assessment of the true financial performance and viability of NYPI.

31. Following AGO's audit, NYP informed AGO that it would charge NYPI market rental for the premises.

D. Funding Provided in Excess of Approved Amounts

32. Besides the improper manner of funding NYPI, AGO found that the funding (totalling \$12.81 million) provided to NYPI was not computed in accordance with the basis approved by NYP's BOG. For example, NYP had provided funding for part of NYPI's revenue-generating activities, although the approved funding basis stated that such activities would not be funded. This resulted in excess funding totalling \$5.24 million during the period August 2007 to March 2015.

33. Providing funding in excess of the approved amount undermines the role of the approving authority and bypasses the controls put in place to ensure that all funding provided to external organisations are properly justified.

34. Following AGO's audit, NYP indicated that it would inform its BOG of the excess funding and seek the BOG's decision on the action to take.

### **Donations Raised for Unauthorised Purpose**

35. AGO found that NYP had allowed the name of Nanyang Polytechnic Education Fund (the Fund), an Institution of a Public Character (IPC), to be used to solicit donations (amounting to \$286,300) for a purpose not authorised under the Fund. After AGO's enquiry, NYP also did not take proper actions to regularise the matter. NYP's practices were not in line with the legislation governing IPCs. Such irregular practices could also tarnish NYP's reputation and erode the trust and confidence of donors and the public in NYP's financial management.

36. The donations were solicited through a fund-raising event held in October 2014. NYP allowed the Fund's name to be used even though the donations were solicited for a purpose not authorised under the Fund. NYP then issued tax deduction receipts in the name of the Fund, and also claimed and received matching grants totalling \$429,500 from the Ministry of Education (MOE), although the donations raised did not fall within the purpose of the Fund and would not qualify as donations to the Fund.

37. After the event, NYP obtained the endorsement of the Fund's Management Committee to include the purpose (for which the donations were solicited) in the Fund but did not seek approval from MOE although MOE's approval was required under the legislation governing IPCs.

38. Following AGO's enquiry, NYP sought MOE's approval in September 2015, almost a year after the event. However, MOE did not agree to the inclusion of such a purpose in the Fund. Instead of taking actions to remedy the situation, NYP left it to one of the event organisers to appeal to MOE on the use of the donations and to follow up with the donors should the appeal be unsuccessful. Throughout the process, NYP did not inform MOE that the donations had already been raised and received by NYP and that it had issued tax deduction receipts and claimed matching grants for these donations. As at April 2016, the donations were held by NYP pending the outcome of the event organiser's appeal to MOE.

39. Under the legislation governing IPCs, NYP is accountable to MOE for the management of the Fund. The legislation requires entities managing IPCs to adhere to specific rules and controls, and IPCs themselves to meet the standards of regulatory compliance and governance. NYP had failed to meet such expectations in its management of the Fund.

40. Following the audit, NYP indicated that it has since informed MOE of the irregularity and is currently working with MOE and the event organiser on the appropriate remedial actions. NYP would also put in efforts to familiarise its staff with duties and responsibilities of an IPC.

### **Lapses in Tendering and Management of Revenue Contracts**

41. AGO's test checks of seven revenue contracts (totalling \$3.27 million) revealed lapses in the tendering and management of two contracts (totalling \$1.10 million). The lapses included adopting an inappropriate basis to determine rental, not accurately reflecting NYP's requirements in tender specifications, and not obtaining requisite consent from the operator and approval from NYP's approving authority before implementing contract variations. As a result, the key revenue contracting principles of open and fair competition, transparency and securing fair total returns were not upheld.

A. Contract for Appointment of Childcare Centre Operator (Total Contract Value of \$864,000)

42. NYP called an open tender in 2010 to appoint an operator for a childcare centre on its premises for a period of three years with an option to renew for three years and thereafter another three years.

43. When NYP called the open tender, it did not comply with Government's instructions to determine the rental for the premises through market tests or professional valuers. Instead, it had fixed the rental based on the rental rates of two childcare centres in other locations without assessing whether these rental rates were reflective of the prevailing market rate.

44. When the tenancy was extended for another three years on 1 December 2013, NYP continued to charge the same rental rate on the basis that the rate was reasonable when compared to those charged by the other four polytechnics for the childcare centres on their premises. AGO, however, found that NYP's rental rate was only 51.5 per cent of the average rental rate charged by the four polytechnics. In addition, NYP did not comply with Government's instructions which require that rental rate for tenancy renewal be determined either by professional valuers or based on prices of recently leased out premises in close proximity. AGO noted that none of the four polytechnics was in close proximity to NYP. Based on the market rental of childcare centres located at nearby Housing and Development Board properties, AGO estimated that the rental forgone for the three-year period from 1 December 2013 to 30 November 2016 amounted to \$443,200.

45. NYP informed AGO that it would take measures to ensure compliance with Government's instructions and would engage a professional valuer to determine the market rental for the childcare centre. The new rate would apply when NYP renews the tenancy or appoints a new operator.



*B. Contract for Appointment of Canteen Operator (Total Contract Value of \$237,600)*

46. NYP called an open tender in August 2014 to appoint an operator for one of its canteens for an initial period of three years with an option to renew for three years and thereafter another three years. AGO found the following lapses in the contracting process:

- a. NYP did not use an appropriate basis to determine the market rental for the premises and predetermined the monthly rental of \$1,650 before the tender was called. NYP justified the predetermined rental rate on the basis that it was comparable to the rates used by other polytechnics and existing canteens in NYP. AGO noted that NYP's rate was 29.4 per cent lower than the average rental rate of the other polytechnics' canteens. In addition, using the rates of NYP's existing canteens as a benchmark was not appropriate as these rates were also predetermined by NYP and were not market rates. As a result, Government's instructions of charging market rate were not complied with.
- b. The tender specifications did not reflect accurately NYP's requirements. The specifications stated the predetermined rental of \$1,650 a month for the entire canteen. This predetermined rental was based on the total floor area for the stalls (a smaller area within the canteen). Based on NYP's requirement (as shown in its internal paper), the rental would be revised if there were changes in total floor area occupied by the stalls. This requirement was not stated in the tender specifications. In addition, the specifications wrongly reflected that the tenancy would commence upon tender award, even though the requirement was for the tenancy to commence upon the handing over of premises to the operator. The unclear tender specifications would lead to tenderers not having complete and accurate information to formulate their bids, which might result in them submitting sub-optimal bids.

- c. After the contract had been awarded, there were contract variations on rental and stall floor area which were not properly administered. NYP told the operator to proceed with renovation that would increase the total stall floor area, without first informing the operator of and obtaining its consent for the resultant higher monthly rental of \$2,200. This is against the principles of transparency and fairness. The requisite approval from NYP's approving authority was also not obtained before the contract variations were effected. Not obtaining prior approval undermines the role of the approving authority and bypasses the controls put in place to ensure that all contract variations are properly justified before they are implemented.

47. NYP informed AGO that it has since changed the tendering process for its canteen premises to one that invites tenderers to submit their rental bids, taking into consideration NYP's requirement of keeping food and drink prices low. NYP would also ensure that its officers involved in tender preparation are familiar with the relevant Government's instructions on revenue contracting.

## **MINISTRY OF LAW**

### **INTELLECTUAL PROPERTY OFFICE OF SINGAPORE**

48. For the audit of the Intellectual Property Office of Singapore (IPOS), AGO covered the following areas in its test checks:

- a. Procurement and payment;
- b. Related party transactions; and
- c. Revenue and deposits.

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

## Lapses in Procurement of Goods and Services

49. AGO found that IPOS had not adhered to procurement guidelines and upheld the key principles of open and fair competition and transparency in some purchases test-checked. IPOS was also not able to benefit from more competitive bids in some of these purchases.

50. AGO's test checks of 33 purchases (total contract value of \$10.96 million) by IPOS for the period November 2012 to March 2015 revealed the following lapses in four tenders and two quotations (total contract value of \$1.57 million):

- a. Unduly short period for resubmission of proposals for a tender on event management services;
- b. Amendments made to tender proposals after approval of award for a tender on recruitment agency services;
- c. Contracts awarded to vendors which did not meet mandatory tender requirements for two tenders on IT services; and
- d. Inappropriate use of financial category registration which unduly restricted competition for two quotations on recruitment services.

A. *Unduly Short Period for Resubmission of Proposals (Contract Value of \$404,740)*

51. IPOS called a tender for the procurement of event management services in November 2013. Two months after the tender closed, IPOS invoked a two-stage tender process and invited four shortlisted vendors to resubmit a proposal based on IPOS' refined specifications within three days. AGO noted that the tender opening period of three days for the second stage of the tender was not reasonable, especially when there were new requirements in the refined specifications. By giving such a short opening period, IPOS had reduced its chances of receiving competitive bids. As it turned out, only one of the four shortlisted vendors managed to meet the timeline. The contract was eventually awarded to the only vendor who managed to resubmit its proposal.

52. IPOS informed AGO that it had intended for the four shortlisted vendors to reorganise their proposals into key and optional items to facilitate its tender evaluation. IPOS recognised that it should have clarified with the four vendors on their original tender proposals instead of requiring the vendors to submit new proposals.

*B. Amendments to Tender Proposals after Approval of Tender Award (Contract Value of \$320,000)*

53. In the procurement of recruitment agency services in February 2014, IPOS made different amendments to the terms in the tender proposals of five successful vendors after the award of the tender was approved by the Tender Approving Authority (TAA). The TAA was not informed of these amendments. By amending the terms and conditions, and having different terms for different vendors, IPOS would not have been fair to all vendors and there was also a lack of transparency.

54. IPOS agreed with AGO that the TAA should have been informed of the amendments. Moving forward, IPOS would ensure that all vendors are subject to the same terms and conditions for each tender.

*C. Tenders Awarded to Vendors which Did Not Meet Mandatory Tender Requirements (Two Contracts with Total Value of \$717,906)*

55. AGO found that IPOS had awarded tenders to two vendors whose bids did not meet certain mandatory tender requirements. For one tender, IPOS had accepted the bid of the successful vendor even though the bid did not meet two mandatory requirements specified by IPOS, namely high availability and single sign-on for the system. For the other tender, AGO found that the successful vendor had not met the required financial category which IPOS had set as a qualifying criterion for the tender. The acceptance of bids that did not meet mandatory requirements indicated that IPOS was prepared to lower its specifications, and had thus over-specified its requirements. By doing so, IPOS had potentially restricted competition.

56. IPOS agreed that it should have carried out the evaluation in accordance with the criteria stated in the Invitations to Tender and excluded tender proposals that did not comply with mandatory tender requirements.

*D. Inappropriate Use of Financial Category Registration Criterion which Unduly Restricted Competition (Two Quotations with Total Value of \$133,000)*

57. AGO noted that in two quotations for procurement of recruitment services, IPOS had inappropriately required vendors to be registered for the financial category with a tendering capacity of up to \$1 million even though the estimated procurement value of the services required was below \$70,000. The use of such registration requirement as an evaluation criterion for procurement below \$70,000 was contrary to Government procurement rules. It unnecessarily restricts competition to only the bigger companies, thus contravening the principle of fair and open competition.

58. IPOS agreed with AGO that financial category requirement should not have been set as an evaluation criterion for the two quotations.

## **MINISTRY OF NATIONAL DEVELOPMENT**

### **HOUSING AND DEVELOPMENT BOARD**

59. For the audit of the Housing and Development Board (HDB), AGO covered the following areas in its test checks:

- a. Management of contracts with managing agents of industrial and commercial properties;
- b. Management of HDB's properties;
- c. Management and sale of State land on behalf of Government;
- d. Finalisation of accounts of contracts;
- e. Management of car parks; and

- f. Procurement and contract management for the construction of HDB flats.

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

### **Long Delays in Finalising Accounts of Contracts and Making Final Payments to Contractors**

60. AGO's test checks on the accounts of 36 contracts relating to construction and upgrading of HDB flats (final payments totalling \$37.62 million) revealed late issuance of certifications of completion of works, delays in the finalisation of accounts in a number of contracts, and delays in making final payments to contractors. Late issuance of certifications of completion of works could hold up the finalisation of accounts and cause delays in making final payments to contractors. Delays in payment to contractors contravened contractual requirements and might be seen as an unfair business practice as it could affect the cash flows of the contractors. Failure to pay within the stipulated timeframe could also give cause for the contractors to claim interests arising from the late payments.

61. AGO found the following lapses:

- a. 71 of 100 Certificates of Substantial Completion (CSCs) were issued late, with delays of up to 2.1 years;
- b. 74 of 97 sets of Final Accounts (FAs) were issued late, with delays of up to 4.3 years; and
- c. 44 of 71 final payments were made late, with delays of up to 3.3 years.

62. For construction and upgrading contracts, the CSC is issued to indicate the date of completion of the works and the commencement of the defects liability period. The FA is to be issued to the contractor within 13 months from the date of completion of the works. The issuance of FA would lead to the issuance of a Final Account Certificate (FAC) which serves as the certification for the final payment to be made to the contractor. Based on contractual requirements, HDB is to make the final payment within 21 days from the date of the FAC.

A. Long Delays in Issuing CSCs

63. AGO found that 71 out of 100 CSCs test-checked were issued late with delays ranging from 36 to 769 days (or 2.1 years). For these 71 CSCs, the outstanding payments amounted to \$29.24 million. AGO also noted that 40 of the 71 CSCs were only issued after the expiry of the defects liability periods. This defeats the purpose of the CSC which is to formalise the commencement date of the defects liability period, among other things.

B. Long Delays in Issuing FAs

64. AGO found that 74 out of 97 sets of FAs test-checked were not issued within the contractual timeframe of 13 months from the date of completion of works. The delays ranged from 52 to 1,583 days (or 4.3 years). The amount involved for these 74 sets of FAs was \$33.80 million.

65. In 63 of the 74 sets of FAs (final payments totalling \$31.42 million), the contractors did not receive any payments for very long periods of time ranging from 448 to 1,917 days (or 5.3 years) after the interim payments were last made.

C. Long Delays in Making Final Payments

66. AGO noted that even after the FACs were issued, there were further delays in making final payments to the contractors. AGO test-checked 71 sets of FACs and found that in 44 instances, the final payments totalling \$12.05 million were not made to the contractors within the contractual timeframe of 21 days from the dates of the issuance of FACs. In 21 of these 44 instances (final payments totalling \$3.46 million), the delays were between 36 and 1,204 days (or 3.3 years).

67. HDB informed AGO that it had made diligent efforts to finalise all accounts. HDB explained that it had to carry out checks to ensure that the finalised accounts were correct before releasing the final payments to contractors. HDB added that it recognised the need to comply with contractual requirements and would be implementing a tracking system to improve the management and monitoring of the issuance of CSCs. With regard to the delays in issuing FAs and late final payments, HDB would initiate the monitoring of finalisation of accounts earlier. Among other things, it would put in place a new process to ensure that FAs with delays are brought to management's attention, modify current processes to track the issuance of FACs and initiate checking of FAs earlier so that final payments could be made promptly.

## **Inadequate Monitoring of Car Park Operations and Enforcement**

68. AGO test-checked the records of five car parks at HDB's industrial estates for the period April 2014 to August 2015 and found 113,103 instances where vehicles were not charged parking fees. Test checks of the reports of 59 car parks at HDB's residential estates from April 2015 to September 2015 also revealed 2,501 instances where fees were not charged. Further test checks by AGO revealed 243 instances of manipulation of the car park system by motorists to evade payment.

69. AGO found that HDB could have detected these instances if it had examined the data from the Electronic Parking System (EPS) and the monthly reports from the operators of the car parks. Consequently, there was revenue loss and no action was taken against those who took deliberate actions to avoid paying the charges.

70. HDB outsourced the operation of its 24 EPS car parks at industrial estates and 952 EPS car parks at residential estates to commercial operators at an average total cost of \$78.39 million per annum<sup>3</sup>.

### *A. Car Parks at Industrial Estates*

71. AGO's test checks on the records of five car parks at industrial estates revealed 113,103 instances for the period April 2014 to August 2015 where vehicles were not charged parking fees. AGO found from the EPS data that the vehicles had either an entry or exit record but not both (that is, incomplete records in EPS) and as a result, the EPS was unable to charge parking fees estimated at \$159,000. There was no evidence that HDB had followed up on the significant number of incomplete records to assess whether there were control weaknesses in the management of the car parks or non-performance by the operators, resulting in revenue loss.

72. As the large number of incomplete records could indicate systemic weaknesses in controls, AGO followed up by checking the camera footages over four days at two car parks with significant instances of incomplete records. AGO found 243 instances where the motorists had, on multiple occasions, manipulated the EPS to allow another vehicle to exit the car parks without paying fees, for example through tailgating.

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<sup>3</sup> Based on 50 contracts with EPS car park operators with contract periods ranging from the financial years 2010 to 2025.



*B. Car Parks at Residential Estates*

73. AGO's test checks on car parks at residential estates revealed 2,501 instances for the period April 2015 to September 2015 where vehicles had exited the EPS car parks without making payments on more than three occasions in a month. AGO found that despite receiving the monthly reports from operators on such repeated instances of non-payment, HDB did not take any action against these motorists.

74. HDB informed AGO that it had since taken action to carry out thorough analyses of reports from car park operators and to amend the Parking Places Rules (Cap. 214, R2) to enable HDB to take action against motorists who evade parking fees. HDB had also made police reports against these motorists who had deliberately manipulated the EPS to evade parking fees in industrial estates.

**MINISTRY OF TRANSPORT**

**LAND TRANSPORT AUTHORITY OF SINGAPORE**

75. For the audit of the Land Transport Authority of Singapore (LTA), AGO covered the following areas in its test checks:

- a. Assets;
- b. Revenue;
- c. Grants and funds; and
- d. Procurement and payment.

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

## **Weaknesses in Controls over Revenue Collection at Checkpoints**

76. AGO found that the controls over the collection of toll at the Woodlands and Tuas Checkpoints were weak. As a result, there could be potential loss of revenue. AGO estimated that the under-collection of toll could be about \$13.93 million in the financial year 2014/15.

77. During its site audit, AGO observed that there was no effective system at the immigration booths to ensure that vehicles were allowed to pass through only after the applicable fees were paid. While LTA had put in place certain measures to detect non-payment of fees, AGO noted that these measures were ineffective as vehicles could slip through without paying the requisite fees.

78. In the financial year 2014/15, LTA collected \$63.54 million of toll on behalf of the Government. AGO observed that the estimated under-collection of \$13.93 million in toll represents 21.9 per cent of the total toll collected in that financial year.

79. LTA agreed that there was a need to review the controls and enforcement over revenue collection at the Checkpoints. LTA informed AGO that it had and would continue to work with the relevant authorities to enhance the system to address the gaps in controls.

## **Undue Delay in Finalisation of Agreement with Mass Rapid Transit System Operator**

80. AGO found from its checks on agreements between LTA and the mass rapid transit system operators that LTA had yet to enter into a Lease and Maintenance Agreement (LMA) on non-rail facilities and assets for the Circle Mass Rapid Transit Line (CCL), even though the operator of the CCL had been granted the licence with effect from May 2009. As the LMA would identify the non-rail assets leased and state the relevant lease terms and conditions, it is important for LTA to ensure that the agreement is promptly signed. This will safeguard Government's interests in the use of resources handed over and enable effective enforcement of maintenance requirements and collection of related charges.

81. At the time of audit in November 2015, more than six years since the operator of the CCL was granted the licence, LTA had yet to finalise the terms and conditions and enter into a LMA with the operator. According to the main Licence Agreement, the operator was required to enter into a LMA within 180 days after the effective date of the licence.

82. The LMA contains information on the non-rail facilities and infrastructural assets complementary to the rail operations leased to the operator. It includes a list of the land and stations handed over, the lease term, yearly rent and other payment requirements such as property tax, as well as the requirements on maintenance of these non-rail assets. Without a formal agreement, there might be difficulty in enforcing the terms and conditions intended for the lease of the non-rail facilities. AGO also noted that as a result, LTA had not recovered the property tax estimated to be \$0.96 million from the operator for the CCL stations handed over.

83. LTA explained that the finalisation of the LMA was interrupted by a number of events which resulted in negotiation between the parties having to be put on hold for some time and re-negotiations initiated based on new proposals.

84. LTA informed AGO that it has since signed the LMA with the operator on 26 April 2016. It has also recovered the outstanding property tax of \$1.13 million from the operator in March 2016.

## **PRIME MINISTER'S OFFICE (PUBLIC SERVICE DIVISION)**

### **CIVIL SERVICE COLLEGE**

85. For the audit of the Civil Service College (CSC), AGO covered the following areas in its test checks:

- a. Administration of course fees;
- b. Procurement and payment of training services; and
- c. Related party transactions.

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

### **Lapses in Administration of Course Fees**

86. AGO found that there were delays by CSC in certifying and issuing bills for collection of course fees, following the completion of courses. Delays in issuing bills to agencies increase the risk of omission, errors and duplicate billings which could result in wrong collection or non-collection of course fees.

87. AGO noted that 3,875 bills (16.3 per cent of 23,830 bills) generated from CSC's Training and Administration System for the period 1 April 2014 to 16 July 2015 were certified and issued late. Of these 3,875 bills (\$7.50 million), 702 bills (\$1.96 million) were certified more than 30 days after completion of the courses, with the longest delay being 343 days. Based on CSC's procedures, depending on the class size, bills should be certified and issued within 7 to 15 working days upon completion of the course.

88. AGO test-checked 55 bills (\$363,889) with delays of more than 90 days in issuance of bills, to ascertain the reasons for the delays. AGO found that for 33 bills (\$88,653), the delays were largely due to staff oversight and lack of coordination among CSC's departments.

89. AGO noted from its test checks that CSC took considerable time to process and reissue bills to replace erroneous bills. The delay in the reissuance of these bills ranged from 73 to 311 days. There is a need for CSC to put in place procedures to ensure proper coordination among its departments to resolve billing errors so that correct bills can be reissued promptly.

90. CSC agreed with AGO that it is important to ensure the timeliness and accuracy of its billing for course fees. CSC is reviewing its billing policy, targeted to be completed in the third quarter of 2016. CSC is also in the process of developing a new training and administration system which would automate the billing process. The new system would be integrated with its Finance system to further minimise the need for manual processes and is targeted to be ready by end 2017.

## **Lapses in Administration of Trainer Fees**

91. AGO's review of payments of trainer fees revealed significant delays in payments by CSC to its trainers. Delaying payments beyond the payment due dates without valid reasons is unfair to the trainers.

92. AGO's review of trainer fees paid during the period April 2014 to July 2015 revealed that 417 payments (17.1 per cent of 2,435 payments) amounting to \$1 million were made to trainers after the payment term of 30 days:

- a. 364 payments (\$884,664) were made between 1 and 30 days after the payment due date;
- b. 39 payments (\$90,275) were made between 31 and 60 days after the payment due date; and
- c. 14 payments (\$25,540) were made between 61 and 654 days after the payment due date.

93. AGO found that CSC did not track payments due to trainers based on the payment terms in the trainers' Letters of Appointment.

94. CSC explained that the delay was mainly due to staff oversight. It acknowledged the importance of making timely payments to its trainers. CSC would review and tighten its monitoring process to ensure that trainers are paid on time, and target to complete its review by end 2016.

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## **PART III**

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

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

### **Government-owned Companies**

1. The Auditor-General audited the financial statements of the following five Government-owned companies for the financial year 2015/16 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 2014 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 2015/16 in accordance with the Monetary Authority of Singapore Act (Cap. 186, 1999 Revised Edition).

4. The Auditor-General audited the ASEAN Cultural Fund (Singapore) accounts for the financial year 2015 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.

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# **ANNEXES**

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

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

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

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

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

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

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

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

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

*Financial Statements Audit*

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

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

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

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

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

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

## **Audit of Statutory Boards**

### *Financial Statements Audit*

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

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

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

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

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

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

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

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

### Selective Audit

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

13. The 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.

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

## **Powers of Auditor-General**

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

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

1. The Acts of a number of public agencies (that is, most statutory boards, all town councils and certain funds) require their accounts to be “audited by the Auditor-General or by an auditor appointed annually by the Minister in consultation with the Auditor-General”. The Government Instruction Manuals also require statutory boards to seek the Auditor-General’s concurrence when appointing an 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 Committee<sup>1</sup> or adverse judgment by a Court. Criterion (v) provides for the rotation of auditors and audit engagement partners. The two application notes (a) and (b) ensure that there will be no double penalty for the same case of professional misconduct and that only the directors/partners concerned are debarred, not the whole corporation, firm or LLP.

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

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

