



REPUBLIC OF SINGAPORE

**REPORT**  
OF THE  
**AUDITOR-GENERAL**  
FOR THE FINANCIAL YEAR  
**2006/07**



2 July 2007

Mr S R Nathan  
President  
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 2006/07.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lim Soo Ping'. The signature is written in a cursive style with a horizontal line underneath the name.

Lim Soo Ping  
Auditor-General



REPUBLIC OF SINGAPORE

**REPORT**  
OF THE  
**AUDITOR-GENERAL**  
FOR THE FINANCIAL YEAR  
**2006/07**

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**MISSION**  
**OF THE**  
**AUDITOR-GENERAL'S OFFICE**

To carry out independent audits and report to the President and Parliament on the proper accounting of public moneys and the economic, efficient and effective use of public resources to enhance public accountability.

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**AUDITOR-GENERAL'S  
OVERVIEW**

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## **AUDITOR-GENERAL'S OVERVIEW**

My duty is to carry out independent audits of the accounts of the Government and to report to the President and Parliament on the proper accounting of public moneys and the economic, efficient and effective use of public funds and other resources. I may also audit the accounts of other public authorities and bodies administering public funds as may be prescribed by any written law. This is provided for under the Constitution of the Republic of Singapore and the Audit Act. Where it is not provided for under any written law, I may, with the consent of the Minister for Finance, audit the accounts of a public authority or body if the public authority or body concerned requests me to do so. Appendix I provides more details on my duties and powers.

The Public Accounts Committee examines the accounts of the Government and statutory boards, reviews the Report of the Auditor-General and conducts inquiries into selected issues. I attend the meetings of the Public Accounts Committee and provide clarification on my Report and other audit issues raised by the Committee.

Audits are carried out on a test check basis and would therefore not reveal all errors and irregularities. However, they should enable me to discover the occasional lapses in the management of public funds by the ministries and statutory boards. Through these audits, the Auditor-General's Office (AGO) performs an important role in upholding accountability and enhancing governance in the public sector.

### **Audits for Financial Year 2006/07**

I was appointed Auditor-General by the President on 8 February 2007. At the time, AGO was well into the financial year 2006/07 audits. I thank my predecessor for his stewardship in this regard.

During the year, AGO audited all 15 Government ministries, seven organs of state, 13 statutory boards, six Government-owned companies and two funds.

Part I of this Report is on the audit of the Government Financial Statements while Part III gives an account of the statutory boards, Government-owned companies and other accounts that were audited.

Parts II and IV present selected observations arising from our audits of ministries and statutory boards respectively. These highlight the more significant audit findings and areas of concern. Some observations which involve relatively small monetary values or non-compliance with routine control procedures are also reported. This is to raise awareness of the need for effective internal controls. Small lapses, if regarded as trivial and allowed to perpetuate, would lower the standard of governance in the public sector. They could lead to material errors or be exploited resulting in significant loss of public moneys.

### **Areas of Concern**

From the audit observations in Parts II and IV, I have identified three broad areas of concern:

- Financial dealings between ministries and statutory boards or corporatised agencies
- Oversight of outsourced functions
- Management of assets by statutory boards

#### ***Financial dealings between ministries and statutory boards or corporatised agencies***

Statutory boards are no different from Government ministries in terms of their responsibility for the management of public funds and accountability to Parliament. However, each statutory board is a separate accounting entity from the Government. It is the general policy of the Government that transactions between ministries and statutory boards should be at fair market value. This applies to transactions with corporatised agencies as well.

Our audit observations over the years revealed many instances of inadequate vigilance exercised by ministries in their financial dealings with statutory boards and corporatised agencies. There was also a misplaced presumption that unused grants received by, and overpayments to, statutory boards would be promptly returned. While unused grants or overpayments are not a loss of public moneys from the overall perspective of the public sector coffers, they represent a misallocation of public resources as these moneys are then not available in the Consolidated Fund or Development Fund for Parliament to channel to other uses for the public good.

In this year's audit, we uncovered more cases of Government moneys wrongfully kept by statutory boards, for example:

- A statutory board returned \$6.9 million of excess grants to its Ministry two to five years after receiving the grants
- A statutory board accumulated \$4.9 million of unused grants
- A statutory board held on to \$5.0 million of unused grants and the interest earned from it for more than 10 years

In most of the cases, the ministries did not have effective systems of monitoring the grants given. We also noted two tenancy agreements signed over a year late between a company and a statutory board acting as managing agent of a ministry.

In last year's audit, there were similar observations, for example, long outstanding debts owed to the Government by a statutory board and two corporatised agencies for assets transferred to them, moneys not promptly refunded by two statutory boards, and overpayment of grants to a statutory board.

All these observations show that some ministries were lax in their financial dealings with statutory boards and corporatised agencies. I urge all ministries to guard against having too cosy a relationship with statutory boards and corporatised agencies in so far as financial dealings are concerned.

### ***Oversight of outsourced functions***

In recent years, more and more government activities were outsourced by ministries and statutory boards to the private sector.

Our past audits revealed many instances of inadequate action being taken to safeguard the use of public funds in relation to outsourced functions. The observations included failure to effectively oversee the work of a project consultant, large amounts of debts written off by an agent of a ministry without approval, and failure of agents to collect debts promptly resulting in large amounts of bad debts.

In this year's audit, more lapses have surfaced. One ministry did not adequately monitor the disbursements of financial aid by its agent resulting in overpayments. Another public body, in adopting certain recommendations of its consultant, incurred unnecessary additional costs. A statutory board did not ensure that the agency carrying out procurement work on its behalf was familiar with Government Procurement Procedures. We also observed that a statutory board did not ensure adequate documentation of computer system enhancements carried out by its subsidiary.

When government agencies outsource any activities or functions, they must ensure that the service providers are aware of, and can comply with, the applicable government procedures. The reports and recommendations of service providers should be carefully scrutinised to ensure value for money. Government agencies are ultimately responsible for the outcome delivered by service providers they engage. Accountability cannot be outsourced.

### ***Management of assets by statutory boards***

Statutory boards are accountable for the public funds that they receive; they have to ensure that these are used and managed efficiently and effectively. In the past, we observed instances of government property left vacant for long periods of time while their ownership status was being decided. In the current audit, we found properties of a statutory board being left vacant for periods of 4 to 10 years. Another statutory board could have better managed its cash reserves of more than \$200 million to earn higher returns.

AGO also found that a computer server installed in a statutory board at a cost of \$2.0 million was not used for its intended purpose. In addition, a "business continuity system" software acquired at a significant cost was underutilised while another software developed was eventually left unused as it could not fully meet business requirements.

In managing their assets, statutory boards have a responsibility for ensuring their efficient and effective use to achieve optimal returns and outcomes.

## **Improvements Observed**

I note that by and large ministries and statutory boards have been diligent in following up on past audit observations and taking remedial action. For example, our audit reports in the past three financial years disclosed many cases of late payments to suppliers. I am pleased to note that ministries have made good efforts to ensure that suppliers were paid in a timely manner. The number of instances of late payments identified from our test checks has been declining steadily from 421 cases (total value of \$49.0 million) identified in the financial year 2003/04 to 56 cases (total value of \$0.6 million) identified in the current financial year. This represents a drop of 99 per cent in the total value of late payments.

However, I have also noted instances of invoice dates having been changed by officers in some ministries with or without the agreement of the suppliers, and also unjustified requests for extension of credit terms. Ministries should take action to deter such practices lest they become a trend.

## **Enhancing Accountability of Statutory Boards**

Statutory boards not audited by AGO in a particular year are audited by commercial auditors. Commercial auditors are appointed annually by the relevant Ministers in consultation with the Auditor-General. I note that over 20 statutory boards have been audited by commercial auditors for more than five successive years, three of them for over 10 years.

In 2004, the Public Accounts Committee recommended that “statutory boards that have been audited over a considerable period of time by commercial auditors be rotated back for audit by the Auditor-General’s Office. This would enable the boards to receive detailed scrutiny by the Auditor-General’s Office.” I fully agree with the recommendation and I aim to audit each of the larger statutory boards at least once every five years. I will give priority to obtaining the manpower and other resources needed to implement this.

## **Acknowledgement**

I am grateful for the co-operation given by the Accountant-General's Department, ministries, organs of state, statutory boards and other entities which AGO audited. I also thank my staff for their professionalism and dedication to duty.

Lim Soo Ping  
Auditor-General  
Singapore

2 July 2007

# **PART I**

## **AUDIT OF GOVERNMENT FINANCIAL STATEMENTS**

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## **PART I. AUDIT OF GOVERNMENT FINANCIAL STATEMENTS**

1. The Financial Statements of the Government of Singapore for the financial year ended 31 March 2007 prepared by the Minister for Finance under article 147(5) of the Constitution of the Republic of Singapore (1999 Revised Edition) and section 18 of the Financial Procedure Act (Cap. 109, 1992 Revised Edition) were submitted to the Auditor-General for audit under section 8(1) of the Audit Act (Cap. 17, 1999 Revised Edition).
2. The audit has been completed and the Auditor-General issued his audit report on the Financial Statements to the Minister for Finance on 25 June 2007. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the report to the President on 26 June 2007.
3. The Minister has submitted the audited Financial Statements to the President as required under article 147(5) of the Constitution of the Republic of Singapore and section 18 of the Financial Procedure Act. 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.
4. The Auditor-General's Office would like to thank the Accountant-General's Department for its co-operation and timely submission of the Government Financial Statements. This has enabled the audit to be completed within three months of the close of the financial year.

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## **PART II**

# **SELECTED AUDIT OBSERVATIONS ON GOVERNMENT MINISTRIES AND ORGANS OF STATE**

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## **PART II. SELECTED AUDIT OBSERVATIONS ON GOVERNMENT MINISTRIES AND ORGANS OF STATE**

1. The audit of the Government accounts under Article 148F(3) of the Constitution of the Republic of Singapore (1999 Revised Edition) and the Audit Act (Cap. 17, 1999 Revised Edition) includes examining controls of selected financial systems, test-checking accounting and other records and reviewing the effectiveness and efficiency of selected activities and operations of 15 ministries and their departments and seven organs of state.

2. In the course of AGO's audits, observations on irregularities, control weaknesses, wastages and other lapses, together with recommendations, were reported to the ministries and organs of state concerned through management letters.

3. Selected audit observations are summarised in the paragraphs below. These are the more significant, prevalent or recurring findings such as failure of key controls, for example, payments without proper supporting documents; losses and wastages of public moneys, for example, through overpayment and unnecessary expenditure; and procurement actions inconsistent with principles of fairness, transparency and value for money.

### **MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS**

#### **Overprovision of Grants to Statutory Board**

4. The Ministry of Community Development, Youth and Sports provides grants to the People's Association (PA) to defray its rental expenditure incurred for land and buildings. AGO test checks revealed that in February 2006, the Ministry received from PA \$6.9 million being refund of excess grants accumulated from financial year 2001 to 2004. The excess grants came about because PA ceased to occupy certain properties and when there were reductions in rental.

5. The Ministry provided the grants on a quarterly basis with the quantum being based on PA's projected expenditure. It relied on PA's certification without performing independent verification of the actual expenditure incurred by PA. The Ministry was not aware of the excess grants until these were returned by PA two to five years after the grants were made.

6. Following AGO's observation, the Ministry asked PA's Internal Audit Unit to verify the unused grants. This resulted in the return of another \$71,618 in March 2007. The Ministry said that it would require PA's Internal Audit Unit to audit all PA's future grant requests.

### **Accumulation of Unused Grants**

7. The Ministry of Community Development, Youth and Sports provides grants to the National Volunteer & Philanthropy Centre (NVPC) of the National Council of Social Services (NCSS) to promote volunteerism and philanthropy in Singapore. AGO noted that the unused grants of NVPC grew from \$1.6 million in March 2000 to \$4.9 million in March 2006. The Ministry did not have the practice of adjusting its quarterly disbursement of grants to prevent undue build-up of unused grants.

8. NVPC's fund balance shown in the audited accounts of NCSS did not include all the grants given by the Ministry for specific programmes. As at March 2006, of the \$4.9 million in unused grants, only \$3.5 million was included in NVPC's fund balance.

9. The Ministry said that starting from the financial year 2006/07, it would require separate audited accounts of NVPC with a detailed balance sheet and disclosure of income, expenditure and unused grants. The Ministry would also match its quarterly grant disbursements to the exact net expenditure of NVPC in the previous quarter.

## **MINISTRY OF DEFENCE**

### **Delay in Executing Tenancy Agreements**

10. AGO carried out test checks of tenancies managed for the Ministry of Defence (MINDEF) by its agent, the Defence Science and Technology Agency. The checks revealed that approval to renew a \$9.5 million three-year tenancy was obtained 13 days after the expiry of the old tenancy agreement; the new agreement was executed 40 days after the start of the new tenancy. Another tenancy agreement valued at \$5.9 million was signed 39 days late.

11. Two other tenancies valued at \$0.6 million and \$0.2 million were signed 17 and 18 months respectively after their commencement.

12. MINDEF informed AGO that the first two cases were “within norm”. The third and fourth cases involved a Government-linked company which required the premises urgently. The subsequent negotiations on certain clauses took a long time to resolve.

13. MINDEF informed AGO that the General Orders of MINDEF have since made it a requirement for tenancy agreements to be signed before tenants are allowed to occupy property. The General Orders also require a new lease agreement or contract variation to be made should the tenant continue to occupy the property after the expiry date of the agreement.

## **MINISTRY OF FINANCE**

### **CENTRE FOR SHARED SERVICES**

14. The Centre for Shared Services (also known as Vital.org) of the Ministry of Finance was formed on 1 April 2006 to provide finance and human resource services to government bodies. Eight ministries were among the agencies served by Vital.org in its first year of operations.

### **Weakness in Chain of Control between Vital.org and Client Agencies**

15. In this outsourcing arrangement where neither Vital.org nor the client agency has direct control over the entire process such as the payment function, there could be control gaps. For example, in the payment process, the chain of duties and responsibilities as spelled out in the Government Instruction Manuals straddles both parties. AGO test checks revealed instances where Vital.org approved payments without evidence that the goods had been received or services rendered to the agencies concerned. There were also cases where Vital.org did not have the specimen signatures of the client agencies’ authorised certifying officers. These observations point to the fundamental issue of clarity of responsibilities between Vital.org and the client agencies, and the working arrangements between both to ensure that there are no gaps or other weaknesses in the entire chain of accountability. A review and update of the Government Instruction Manuals are necessary in this regard.

## **Weak Access Controls in Computer Systems**

16. To ensure that only legitimate transactions are processed and personnel data are kept confidential, access rights to the accounting and personnel systems used by Vital.org should be given on a “need” basis. AGO test checks revealed the following access control weaknesses in these systems:

- (a) Access rights no longer needed by 15 users were not promptly revoked.
- (b) Thirty-one officers had access rights which they did not need.
- (c) One officer had access rights to create vendor accounts as well as to initiate and approve payment.

17. Vital.org did not review the monthly reports which facilitate review of user access rights, thus breaching a provision in the “Service Partnership Understanding” between Vital.org and its clients.

## **Need for “Service Partnership Understanding”**

18. Vital.org served two agencies without signing the “Service Partnership Understanding” which spells out the roles and responsibilities of the parties and the agreed service levels.

## **Action Taken**

19. AGO notes that Vital.org is a new organisation and the outsourcing of finance and personnel functions is also new to the client agencies. The fine-tuning of processes and responsibilities in the new operating arrangement also requires an update of the Government Instruction Manuals which come under the purview of the Ministry of Finance.

20. The Ministry of Finance has informed AGO that a task force has been set up to conduct a fundamental review of the financial controls which would address AGO’s concerns. The Ministry would update the Government Instruction Manuals in phases, to be completed by the end of 2007. In the meantime, the Ministry has issued an advisory to address the issues raised.

21. Vital.org said that it has since obtained all the necessary specimen signatures of the client agencies' authorised certifying officers and has verified payments previously approved. Vital.org has also rectified the access control observations and instituted measures to prevent their recurrence.

## **MINISTRY OF FOREIGN AFFAIRS**

### **Not Claiming Medical Expenses from Insurer**

22. Tests checks of three overseas missions revealed that medical expenses of \$71,540 incurred 8 to 14 months before the audit had not been claimed under an insurance policy purchased by the Ministry of Foreign Affairs. The insurance policy covers medical expenses of staff and dependent family members at overseas missions subject to certain limits and the coverage took effect from April 2003.

23. In analysing the insurance claims of the Ministry's other 39 overseas missions, AGO noted that 10 missions did not claim any of the \$171,974 in medical expenses incurred between April 2003 and September 2006. Ten other missions claimed less than 10 per cent of the \$358,647 in medical expenses incurred during the same period.

24. According to the Ministry, it has since reviewed and improved the system to ensure that insurance claims are duly made and is in the process of determining the claimable medical expenses incurred since April 2003.

### **Other Observations**

25. Other audit observations included the payment of three medical claims to a locally-recruited staff of an overseas mission where the supporting receipts had obvious alterations. Following the audit, the staff concerned confessed to the fraudulent claims. The Ministry informed AGO that it has investigated the matter and confirmed that it was an isolated incident caused by an individual act and it has also reminded staff processing medical claims to increase their vigilance to prevent a recurrence. The Ministry has recovered the payment from the staff concerned and taken disciplinary action against him.

26. Another observation relates to the non-recovery of \$87,212 in rental from two statutory boards occupying premises at overseas missions. AGO also found 145 instances of overpayment of medical and dental expenses, and subsistence allowances totalling \$8,256 by overseas missions. The rental and most of the overpayments have since been recovered.

## **MINISTRY OF HEALTH**

### **Financial Assistance Not Discontinued for Deceased Persons**

27. The Ministry of Health has an assistance scheme administered by an agent to provide financial aid to needy disabled Singapore citizens. AGO found that payments to 106 persons did not cease when they passed away and these continued for 4 to 40 months after their deaths. The Ministry recovered \$55,850 of the \$178,150 that had been paid. At the time of audit, 11 others who had passed away 4 to 22 months earlier were still on the scheme and a total of \$12,550 had been disbursed posthumously.

28. The Ministry said that the overpayments would be recovered and its agent would be given timely notification of the death of beneficiaries under the scheme.

## **MINISTRY OF HOME AFFAIRS**

### **Lapses in Contract Administration and Payment**

29. The Ministry of Home Affairs awarded a consultancy contract valued at \$405,000. AGO test checks revealed lapses in payments made under the contract:

- (a) A \$1,549 hotel bill was paid twice, first to the consultant who claimed reimbursement without attaching the hotel bill, and a second time to the hotel on receipt of the hotel bill with a zero outstanding balance, indicating that the bill had already been paid.
- (b) \$5,832 was reimbursed for meals, taxi fares, telephone charges and other expenses although such expenses were not reimbursable under the consultancy contract.

- (c) \$65,859 was reimbursed for air fares and related costs without adequate supporting documents to show that the claims were correct and were for travel related to the consultancy contract.

30. The Ministry said that action has since been taken to recover the overpayments and that all supporting documents for the payments have been verified. Checks and tightened payment procedures would be put in place to ensure that claims are fully substantiated with supporting documents before payments are made.

### **Procurement Irregularities**

31. The Singapore Police Force (SPF) awarded through tender a two-year contract, which was later extended by three years, to a company for the supply of information technology personnel to manage SPF's computer systems.

32. Before awarding the contract, SPF agreed to allow long leave for personnel supplied under the contract without cost reduction or staff replacement. The change in tender terms for only one tenderer was unfair to the other tenderers. This concession to the selected tenderer was not disclosed to the Tender Approving Committee. It cost SPF \$23,079 for the 12 weeks when a project manager was on leave without replacement.

33. SPF said that the procurement process would be improved to avoid similar irregularities in future.

## **MINISTRY OF INFORMATION, COMMUNICATIONS AND THE ARTS**

### **Delay in Renewing Tenancy Agreements**

34. The Ministry of Information, Communications and the Arts was late in executing renewal of tenancy agreements with two of its statutory boards (the Media Development Authority and National Heritage Board). The agreements, valued at \$1.38 million and \$0.45 million respectively, were signed two and five months after commencement of the new tenancies. The Ministry informed AGO that it has since implemented preventive measures to ensure that future agreements are executed on a timely basis.

## MINISTRY OF LAW

### Lapses in Procurement Processes

35. AGO test checks revealed the following lapses by the Singapore Land Authority (SLA), acting as agent of the Ministry of Law, in two contracts in a landscaping and signage project:

- (a) In the first contract, a subsidiary of a statutory board was engaged as consultant for the project at \$25,000, without competition on grounds that the project was “unique”, that it was “difficult to ask for various quotations from the design consultancy firms” and that the chosen firm had a “wealth of experience in such landscape and signage design”. These reasons for waiver of open competition were questionable.
- (b) There was neither a letter of acceptance of the consultant’s quotation, formal contract, nor works order.
- (c) In recommending the award of the second contract for the landscaping and signage works at \$451,599, the consultant did not provide justification for the calling of limited tender, as required by Government Procurement Procedures.
- (d) The consultant issued the letter of acceptance of the tender for the second contract without waiting for the approval of the tender approving authority; the approval was given six days later.

36. SLA explained that the two contracts in question related to an urgent project and the procurement procedures were overlooked because of pressure to complete the project within a short time frame. It would implement measures to prevent such non-compliance from recurring.

## MINISTRY OF MANPOWER

### **Excessive Advances to Managing Agent**

37. Under a contract for estate management services, the Ministry of Manpower would make advance payments to the estate management company based on the projected payments the company would need to pay to its contractors in the ensuing three months for related works.

38. AGO test checks revealed that advances made to the company far exceeded what the company actually required. Of the \$3.0 million in advances made in March 2005 and November 2005 for 10 projects, only \$0.3 million was used by the company to pay its contractors within three months of receiving the advances. Of the balance, \$2.5 million was used up to 20 months from receipt of the advances and \$152,322 was not used at all as the projects they related to had been completed 9 to 17 months earlier.

39. The Ministry informed AGO that it has since recovered the unused balances from the company and was seeking legal advice on the recovery of interest.

## MINISTRY OF TRADE AND INDUSTRY

### **Double Payment to Statutory Board**

40. AGO test checks revealed that the Ministry of Trade and Industry made double payment to the International Enterprise Singapore Board (IE Singapore) under a grant scheme administered by IE Singapore.

41. The overpayment of \$19,356 has since been recovered. The Ministry said that the double payment occurred partly due to the lack of a robust system for checking payments, and that the Ministry and IE Singapore would review the system to improve the process.

## **Delay in Recovering Interest from Statutory Boards**

42. In last year's audit, it was reported that the Ministry did not promptly recover interest earned on unused grants from three of its statutory boards. AGO test checks in the current year's audit showed that such lapses had persisted. One of its statutory boards, IE Singapore, accumulated interest (totalling \$298,254 in the financial year 2006/07) for four to five months before returning it, although instructed by the Ministry to do so on a monthly basis. Two research institutes under the Agency for Science, Technology and Research (A\*STAR) also did not return interest on unused grants promptly – in one case returning \$207,469 after nine months and in the other returning \$15,873 after 2½ years.

43. The Ministry acknowledged that there was a lapse in its statutory board's reporting of interest earned on unused grants on a monthly basis. A\*STAR has since instituted a standard operating procedure for its research institutions to report the interest earned on a quarterly basis.

## **MINISTRY OF TRANSPORT**

### **\$5 Million Unused Grants Not Recovered from Statutory Board**

44. AGO test checks revealed that the Land Transport Authority (LTA) held \$5.0 million in unused development grants for more than 10 years from September 1995 to June 2006. Part of the interest on the amount, estimated at \$230,000, was also not returned to the Government.

45. When LTA was formed in September 1995, it absorbed the Mass Rapid Transit Corporation (MRTC). In the process, \$5.0 million of unused government grants for rail projects held by MRTC was transferred to LTA. The Ministry of Transport did not track the unused grants transferred to LTA and did not offset it against subsequent requests for grant disbursements by LTA.

46. Following the audit, the Ministry recovered the \$5.0 million in unused grants and \$230,155 in backdated interest.

47. This was not the first time that AGO found unused grants that the Ministry should have recovered from LTA. AGO reported two years ago that the Ministry paid \$28.8 million more in grants than what LTA needed to pay as interest on bonds issued for its rail projects.

## **Interest on Staff Loans Not Claimed**

48. LTA held an advance from the Ministry of Transport for staff loans and it was required to remit the interest earned to the Ministry. AGO found that an amount of \$338,806 in interest earned between September 1995 and March 2000 was still owed to the Ministry.

49. The Ministry has since recovered the interest earned.

## **JUDICATURE**

### **Unnecessary Expenditure in Construction Project**

50. The contract to construct the new Supreme Court building had a clause which required the contractor to rectify defects, at its own cost, during the defects liability period.

51. The Supreme Court Administration identified nine damaged glass panels, two at Level 1 and the rest at various levels, in the new building to be rectified under the defects liability clause. These panels were of ribbed glass which were specially designed and fabricated for the building. As the contractor did not have stock of the panels, the Administration engaged another contractor to replace all 223 ribbed glass panels at Level 1 of the building with panels of a different type of glass. The damaged panels at other levels of the building were replaced by undamaged panels removed from Level 1. The Administration explained that this was done also to create a buffer stock for future replacements.

52. The replacement contract cost the Supreme Court Administration \$90,489. The project consultant who recommended this course of action had asked for \$8,650 as additional project consulting and management fees and also advised that \$3,397, being the replacement cost of the nine damaged glass panels, could be recovered from the original contractor.

53. Following the audit, the Supreme Court Administration informed AGO that the contractor has since agreed to pay \$59,700 as compensation for failure to replace the damaged ribbed glass and that the project consultant and manager have decided not to charge the additional fees.

## COMMON OBSERVATIONS

### Unnecessary Expenditure

54. AGO checked the expenditure incurred by 13 ministries and organs of state on excess disk storage for emails. Eight were found to have incurred unnecessary expenditure in excess of \$10,000 and more than \$30 per user in the financial year 2006/07. The total spent by these eight ministries was about \$1.03 million or an average of \$147 per user.

55. Each ministry is allocated storage space on the email server based on the number of its users. This total allocation for a ministry should be adequate if users regularly delete or archive their emails. All ministries need to check that its users carry out regular housekeeping of their emails. Otherwise, the total storage used would keep increasing and additional charges would be incurred.

56. The ministries concerned have informed AGO of the actions they would take such as educating their users, regularly monitoring disk usage, reminding users to archive their emails, and providing instructions on how to do so.

### Late Payments

57. Fair business practice requires timely payment to suppliers and service providers after satisfactory delivery of goods and services. If the payment terms are not explicit in the contract, the Government's practice is to pay within 30 days of the invoice date. To help ministries monitor late payments, the Accountant-General's Department of the Ministry of Finance, since October 2003, has been providing monthly reports to the ministries on payments made after the due dates.

58. AGO test checks of payments in the financial year 2006/07 revealed 56 invoices amounting to \$555,992 paid more than three months from the invoice date. This represented a drop of 99 per cent in the total value of late payments compared to the financial year 2003/04. Details are shown on the following page:

<i>Financial Year</i>	<i>Invoices Paid more than 3 Months from Invoice Date</i>	
	<i>No. of Invoices</i>	<i>Total Value (\$ Million)</i>
2003/04	421	49.0
2004/05	240	8.6
2005/06	161	1.4
2006/07	56	0.6

59. However, the test checks also revealed cases where suppliers and service providers had been asked by officers of the ministries to extend credit terms or to change invoice dates when payments could not be made to them by the due dates. AGO found in nine ministries 150 invoices with credit periods extended by 5 to 90 days, four invoices with dates moved forward by 63 to 93 days and one invoice with its date moved forward by more than two years. There was also a total of 97 instances in seven ministries where the invoice dates or credit terms recorded in the Payment System did not tally with those in the invoices. As a result of these changes, the cases were not deemed to be late payments in the Payment System and hence were not included in the reports on late payments generated monthly by the Accountant-General's Department.

60. Ministries should continue their efforts to make timely payment. Asking suppliers to extend credit terms or to change invoice dates when payment is delayed through no fault of theirs is unfair to them. Measures should be taken by ministries to detect and deter wilful entry of wrong invoice dates in the Payment System.

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## **PART III**

# **AUDIT OF FINANCIAL STATEMENTS OF STATUTORY BOARDS, GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS**

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## **PART III. AUDIT OF FINANCIAL STATEMENTS OF STATUTORY BOARDS, GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS**

### **STATUTORY BOARDS**

1. For the financial year 2006 or 2006/07, the accounts of the following 13 statutory boards were audited by AGO under Article 148F of the Constitution of the Republic of Singapore (1999 Revised Edition) and the enabling legislation of the statutory boards:

- (a) Accounting and Corporate Regulatory Authority<sup>1</sup>
- (b) Agri-Food and Veterinary Authority
- (c) Central Provident Fund Board
- (d) Civil Aviation Authority of Singapore
- (e) Housing and Development Board
- (f) Info-communications Development Authority of Singapore
- (g) Inland Revenue Authority of Singapore
- (h) Monetary Authority of Singapore
- (i) National Library Board
- (j) Ngee Ann Polytechnic
- (k) Republic Polytechnic
- (l) Singapore Sports Council
- (m) Singapore Totalisator Board

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<sup>1</sup> The audit is in progress and scheduled for completion by end July 2007.

2. Under the Monetary Authority of Singapore Act (Cap. 186, 1999 Revised Edition), the accounts of the Monetary Authority of Singapore is to be audited by the Auditor-General.

3. The Acts of most other statutory boards require the accounts to be “audited by the Auditor-General or by an auditor appointed annually by the Minister in consultation with the Auditor-General”. Where the Auditor-General is not the auditor, and he is consulted by the Minister on the appointment of an auditor for the statutory board, he would not object to the proposed appointment by the Minister if certain criteria are met. The criteria are listed in Appendix II.

## **GOVERNMENT-OWNED COMPANIES**

4. The accounts of the following six Government-owned companies for the financial year 2006/07 were audited by AGO under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition):

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

## **OTHER ACCOUNTS**

5. The Workers' Fund accounts are audited annually by AGO as provided for under the Workmen's Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2). The audit for the financial year 2006/07 has been completed.

6. The ASEAN Cultural Fund (Singapore) is also audited annually by AGO as required under an ASEAN agreement. The audit for the financial year ended 31 May 2007 is in progress.

## **ACKNOWLEDGEMENT**

7. The Auditor-General's Office would like to thank the statutory boards, Government-owned companies and the administrators of the other accounts for their co-operation in the audits.

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## **PART IV**

# **SELECTED AUDIT OBSERVATIONS ON STATUTORY BOARDS**

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## **PART IV. SELECTED AUDIT OBSERVATIONS ON STATUTORY BOARDS**

### **CIVIL AVIATION AUTHORITY OF SINGAPORE**

#### **Delay in Publishing Tender Results**

1. The Government Procurement Procedures require statutory boards to publish their tender results in the Government Electronic Business (GeBIZ) portal not later than three working days after the date of tender award.
2. AGO test checks on 99 tenders called by the Civil Aviation Authority of Singapore (CAAS) revealed undue delays in publishing the results of 22 tenders, in five cases by more than three months from the date of tender award.
3. Publishing of tender results is part of the system of transparency and fairness in government procurement. It is also helpful to the unsuccessful tenderers to be informed of the results promptly so that they can release their resources for other projects.
4. CAAS informed AGO that the delays were due mainly to staff's oversight or unfamiliarity with procurement procedures. It has since taken various measures to improve compliance with procurement policies.

### **INFO-COMMUNICATIONS DEVELOPMENT AUTHORITY OF SINGAPORE**

#### **Management of Cash Reserve Needs Improvement**

5. The audit of the Info-communications Development Authority of Singapore (IDA) revealed the need for improvement in IDA's management of its cash reserve.
6. AGO observed that IDA's cash reserves included more than \$200 million which could have been better managed for higher returns. This reserve could have earned at least \$1.1 million more in 2006 had it been placed in monthly time deposits.

7. IDA explained that the money was placed in a special current account earning \$7.8 million in interest in 2006 while waiting to purchase suitable bonds. It acknowledged that placing the reserve in longer-period time deposits would have earned better returns. IDA will strengthen the management of its cash reserve and intends to appoint a professional fund manager for this purpose.

## **NATIONAL LIBRARY BOARD**

### **Lack of Independence of Trustees of The Library Fund**

8. In 2003, in response to new guidelines from the Ministry of Finance, the National Library Board (NLB) set up a trust fund called The Library Fund (TLF) for the purpose of receiving tax-exempt donations for the benefit of NLB and other beneficiaries in Singapore as approved by trustees of the Fund.

9. For this purpose, TLF is required by the Comptroller of Income Tax to be administered by a board of independent trustees. Consequently, its trust deed provides that not more than half of the trustees should have vested interest in NLB. At the time of the audit, all the trustees were NLB board members or management staff and therefore the requirement for TLF to have a board of independent trustees was not complied with.

10. NLB informed AGO that it had obtained clarification from the relevant authorities that “the board of directors of NLB is sufficiently independent to act as trustees of the Library Fund”. NLB plans to seek further clarification on the issue.

### **Loss of Library Books**

11. NLB runs 23 public libraries and the Lee Kong Chian Reference Library (LKCRL). AGO observed that, as at 17 May 2007, NLB could not locate 3,616 books that were listed in the catalogue of LKCRL. In the public libraries, 117,193 books could not be located. While some loss in any library is to be expected, AGO noted that at LKCRL, a reference library where books are not for loan to the public and where security is tighter, the loss rate was 0.8 per cent. This rate was significantly higher than that for the public libraries (0.4 per cent).

12. NLB informed AGO that there was no proper clean-up of its past records to reflect that the items were long lost, some books might have been stolen and that “a collection stocktake policy will be formalized to ensure that collections are accounted for through periodic stocktakes”. Regarding the book loss at LKCRL, NLB explained that “some reference items may have been lost in transit” during its move to temporary locations and finally to its present location.

### **Rare Materials Not Adequately Accounted For**

13. As at 31 March 2007, NLB had a collection of over 7,000 items of rare materials costing \$5.6 million comprising rare books, maps and other heritage items.

14. NLB had not carried out a complete stock-take of its rare materials collection. AGO test checks showed that 109 items with a total cost of \$724,065 could not be located at the time of audit. AGO also enquired on 1,165 items whose location was not indicated in the relevant records. Following the audit, NLB reported that the 109 items have been located, and that 1,148 of the 1,165 items have been physically accounted for. NLB “targets to complete the final checks by end Jul 07 as the remaining 17 items may need more detailed checking”.

### **Long Outstanding Book Fines and Charges**

15. NLB imposes fines on library users to deter late returns of borrowed books. It also imposes charges for books declared lost by borrowers.

16. In the financial year 2005/06, NLB wrote off \$3.5 million in unpaid fines and charges. As at 31 March 2007, \$5.4 million was still being owed by borrowers for more than a year. NLB’s own staff had long outstanding book fines and charges. At the time of the audit, seven NLB staff had \$100 to \$500 each in unpaid fines and charges accumulated over periods of one to five years. Another 27 staff owed NLB for more than five years a total of \$1,306 in unpaid fines and charges.

17. NLB has informed AGO that it was “balancing the resources for collection against the benefits of doing so” and would “recover staff fines through payroll”. NLB also stated that it had taken concrete action to recover outstanding book fines and charges before it wrote off \$3.5 million in unpaid fines and charges.

## **Lapses in IT Security**

18. AGO observed that NLB did not establish a number of information technology (IT) security policies and standards required by the Government Instruction Manuals.

19. AGO test checks revealed five usernames being used as “superuser” passwords, two IDs intended only for use in system testing being used in the “live” system, and access rights having been given to two contractors beyond their needs. These lapses had increased the risks of unauthorised access and hacking. NLB had also not acted on many observations of weaknesses in IT security raised by other auditors since the financial year 2003/04.

20. NLB has informed AGO that it was taking action to improve its management of IT security, and that based on its self-assessment conducted in May 2007, it had already complied with about 80 per cent of the Government Instruction Manuals on IT. NLB targets to comply with the remaining relevant requirements by the end of the financial year 2007/08. NLB has since deleted the five usernames and two IDs and removed the access rights given to the two contractors.

## **Outsourcing of IT Services Not Adequately Managed**

21. AGO observed that an ex-NLB staff was engaged by a NLB subsidiary as an IT consultant to enhance NLB’s library management system. However, there was inadequate documentation of the enhancements. After NLB took over the subsidiary’s IT services when the subsidiary was being wound up, NLB re-engaged him at \$1,000 per day (totalling \$137,000) to assist NLB in completing the documentation and to provide other IT support and guidance.

22. NLB explained that it had considered various options before deciding that the most cost effective option was to engage the ex-NLB staff. NLB also informed AGO that it would improve its governance of IT outsourcing, including ensuring adequate documentation of systems developed.

## **IT Project Management Needs Improvement**

23. AGO found that a business continuity system acquired in 2001 at a cost of \$1.5 million was not effective. There were problems in the use of the data replication software, a critical component of the system, and it was not used during the period from January 2004 to March 2005. A computer server purchased at a cost of \$2.0 million for “disaster recovery” in the business continuity system was also not used for its intended purpose then.

24. In another project, a book procurement software developed in 2003 by a NLB subsidiary in a joint venture with another company at a cost of \$857,750 had its net book value written down to \$80,000 in 2005. The software did not fully meet NLB’s business requirements, and the subsidiary was unable to provide a satisfactory level of support after the company withdrew from the joint venture upon knowing NLB’s decision to wind up the subsidiary.

25. NLB informed AGO that it would “introduce a tighter IT investment framework for NLB and its subsidiaries” and improve the controls over acquisition of hardware and software. According to NLB, it was winding up its subsidiary as the subsidiary “had been incurring losses since incorporation, even though the majority of its revenue was derived from NLB”.

## **NGEE ANN POLYTECHNIC**

### **Management of Properties Needs Improvement**

26. The Ngee Ann Polytechnic manages 61 buildings and several other properties in its campus. A number of these properties are rented out for use as canteens, shops, childcare centres and staff apartments. The Polytechnic also has seven residential properties outside the campus. AGO test checks revealed that the management of properties could be improved.

27. The Polytechnic’s fixed assets register records the cost of buildings in groups. The cost of individual buildings is not captured separately and therefore when a building is demolished, the assets register could not be accurately updated. Following AGO’s observation, the Polytechnic carried out a review and found that the cost of buildings valued at \$3.2 million remained in the assets register even though the buildings had been demolished.

28. The seven residential properties outside the campus have been left vacant for periods of 4 to 10 years. Five of them were in a bad physical state, for example, having doors missing, stained floors, spalling of concrete and corroded water pipes. The staff apartments had a vacancy rate that fluctuated between 35 per cent and 70 per cent over a 12-month period from December 2005.

29. The Polytechnic has since updated the cost of buildings in its fixed assets register. It has also formed a committee to recommend policies on the management of the residential properties and conduct a comprehensive review of these properties.

## **REPUBLIC POLYTECHNIC**

### **Change of Tender Specifications**

30. AGO test checks carried out at the Republic Polytechnic revealed an instance where, after a tender for the operation of staff and student apartments was approved, a new clause was added without the approval of the tender approving authority. The added clause significantly changed the terms of the contract in that the Polytechnic instead of the operator would bear the risk of non-occupancy of the apartments. Consequently, the operator had to pay the Polytechnic rental charges of only \$27,075 instead of \$120,000 for the period from August to November 2006. In AGO's view, a fresh tender should have been called to ensure that the tender process would be seen as fair.

31. The Polytechnic explained that the omission was due to the urgency of appointing an operator for the staff and student apartments. It informed AGO that it would ensure that the omission would not occur for future contracts.

## **Non-payment of Stamp Duties on Tenancy Agreements**

32. Section 4(1) of the Stamp Duties Act (Cap. 312, 2006 Revised Edition) requires stamp duties to be paid on tenancy agreements. AGO test checks revealed that the Republic Polytechnic did not pay stamp duties on 10 tenancy agreements which were valued at \$8.5 million. Under the Act, failure to pay stamp duties is an offence and may result in fines and other penalties. Furthermore, such agreements are not admissible as court evidence in a legal dispute. This means that the Polytechnic's interests may not be adequately protected should there be a dispute concerning any of the tenancy agreements.

33. The Polytechnic informed AGO that it would take immediate steps to regularise the situation. It also informed AGO that the stamp duties of \$11,588 were recoverable from the tenants according to the tenancy agreements.

## **SINGAPORE TOTALISATOR BOARD**

### **Weak Access Controls in Financial System**

34. AGO test checks on a system used for preparing financial statements of the Singapore Totalisator Board (SINGTOTE) revealed certain weaknesses which increased the risk of unauthorised transactions.

35. According to SINGTOTE's password policy, all vendor-supplied passwords must be changed before any computer system is used. However, a number of such passwords including that for a "superuser" account which allows unlimited access to the system were not changed after the system was put into operation in January 2005. Access to financial tables in the system was not restricted on a "need-to-know" basis; some users were given access rights in excess of their needs. The audit trail system which should be operational at all times was found not activated. During the period from January 2005 to August 2006, there was an instance of no segregation of duties; the main user handling financial matters was also performing the duties of the system administrator.

36. SINGTOTE informed AGO that the lapses were mainly due to shortage of manpower and it has since put in place new processes to address the weaknesses.

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## **APPENDICES**

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## APPENDIX I

### DUTIES AND POWERS OF AUDITOR-GENERAL

#### Duties of Auditor-General

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 the departments and offices of the Government, the Public Service Commission, the Legal Service Commission, the Supreme Court, all subordinate courts and Parliament. Under Article 148F(4), he shall perform such other duties and exercise such other powers in relation to the accounts of the Government and accounts of other public authorities and other bodies administering public funds as may be prescribed by or under any written law. He has also been given the additional 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.

2. Where it is not provided for under 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. This is provided for under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition).

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

- (a) to safeguard the collection and custody of public moneys or other moneys subject to his audit;
- (b) to ensure that issues and payments of moneys subject to his audit were made in accordance with proper authority and payments were properly chargeable and are supported by sufficient vouchers or proof of payment; and
- (c) to ensure that the provisions of the Constitution and of the Financial Procedure Act (Cap. 109, 1992 Revised Edition) and any other written law relating to moneys or stores subject to his audit have been in all respects complied with.

4. Under section 8(1) of the Audit Act, the Financial Statements of the Government of Singapore prepared in accordance with section 18 of the Financial Procedure Act shall be transmitted to the Auditor-General for audit and his report thereon.

## APPENDIX I — *continued*

5. Section 8(7) of the Audit Act allows the Auditor-General, in any report submitted in accordance with the provisions of the Act or otherwise, to make recommendations and generally comment upon all matters relating to public accounts, public moneys and public stores.

6. The duties of the Auditor-General are discharged through conducting annual financial statements audits, examining controls of selected financial systems, test-checking accounting and other records, and reviewing the effectiveness and efficiency of selected activities and operations.

### **Powers of Auditor-General**

7. The Audit Act provides the powers to the Auditor-General for the performance of his duties under the Constitution and the Audit Act. Section 6 of the Act states that the Auditor-General may call upon any person for any explanation and information which he requires in order to enable him to discharge his duties. He shall also have access to all records and documents subject to his audit.

8. Any person called upon to provide explanation or information shall be legally bound to furnish such explanation or information as the case may be. The Auditor-General can also authorise any person to conduct any inquiry, examination or audit on his behalf, and to report the results to him.

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## APPENDIX II

### CRITERIA FOR APPOINTMENT OF AUDITORS

1. The criteria used by the Auditor-General when consulted by the Minister on the appointment of an auditor for a statutory board are:
  - (a) 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.
  - (b) The proposed person, or all the directors of the accounting corporation and ex-directors whilst in practice in the corporation, or all the partners of the accounting firm or accounting LLP and ex-partners whilst in the practice in the firm or LLP, had not been suspended from practice or had not been de-registered, during the past 10 years, under section 52 or 53 of the Accountants Act (Cap. 2, 2005 Revised Edition) or the equivalent sections of the predecessor Act. The period of debarment can be reviewed on appeal, after five years have elapsed, if circumstances warrant it.
  - (c) The proposed person, or all the directors of the accounting corporation and ex-directors whilst in practice in the corporation, or all the partners of the accounting firm or accounting LLP and ex-partners whilst in practice in the firm or LLP, had not been inflicted with a penalty, fine or censure, during the last five years, under section 52 or 53 of the Accountants Act or the equivalent sections of the predecessor Act.
  - (d) The proposed person, accounting corporation, accounting firm or accounting LLP has not already been the auditor of the board for the past five consecutive years.
2. These criteria are based on the recommendations of the Public Accounts Committee of Parliament in 2004.
3. Criteria (a), (b) and (c) give the assurance that the person, the accounting corporation and its directors, or the accounting firm or accounting LLP and its 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. Under the Accountants Act, the Public Accountants Oversight Committee is the authority for the registration and professional conduct and discipline of public accountants, accounting corporations, accounting firms and accounting LLPs. Criterion (d) provides for the rotation of auditors.

## APPENDIX II — *continued*

4. Where the proposed person, accounting corporation, accounting firm or accounting LLP which does not meet the criteria makes an appeal, and the Auditor-General is satisfied that the grounds for the appeal are acceptable and the intent of the criteria is fulfilled if he imposes certain conditions, the Auditor-General would not object should a Minister choose to appoint the auditor.

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