



REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2007/08



1 July 2008

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 2007/08.

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 under the name.

Lim Soo Ping
Auditor-General

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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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CONTENTS

	<i>Page</i>
AUDITOR-GENERAL'S OVERVIEW	1
PART IA : AUDIT OF GOVERNMENT FINANCIAL STATEMENTS	6
PART IB : SELECTED AUDIT OBSERVATIONS ON GOVERNMENT MINISTRIES AND ORGANS OF STATE	
Ministry of Defence	7
Ministry of Education	8
Ministry of Finance	10
Ministry of Foreign Affairs	11
Ministry of Information, Communications and the Arts	12
Ministry of Law	12
Ministry of Manpower	13
Ministry of Trade and Industry	14
Prime Minister's Office	16
Common Observation	17
Other Observations	18
PART II A : AUDIT OF STATUTORY BOARDS	21
PART II B : SELECTED AUDIT OBSERVATIONS ON STATUTORY BOARDS	
Central Provident Fund Board	23

	<i>Page</i>
Health Promotion Board	24
Land Transport Authority	25
National Heritage Board	26
Singapore Land Authority	28
Singapore Tourism Board	30
Singapore Workforce Development Agency	31
Temasek Polytechnic	32
Common Observation	33
Other Observations	34
PART III A : AUDIT OF GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS	36
PART III B : SELECTED AUDIT OBSERVATIONS ON GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS	
Government of Singapore Investment Corporation Private Limited...	38
President's Challenge 2006	38
Appendix I : Duties and Powers of Auditor-General	40
Appendix II : Criteria for Appointment of Auditors	42

**AUDITOR-GENERAL'S
OVERVIEW**

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AUDITOR-GENERAL'S OVERVIEW

Role of the Auditor-General

My role is to carry out independent audits on ministries, departments, organs of state, statutory boards and other public accounts pursuant to the Constitution of the Republic of Singapore and the Audit Act.

These audits help to provide assurance to the President, Parliament and the public that expected standards of governance have been met in the accounting, management and use of public funds and resources, and thus contribute to accountability and good governance in the public sector.

The Report of the Auditor-General is tabled in Parliament and referred to the Public Accounts Committee (PAC). It is the practice of PAC to deliberate on the Report and make inquiries into selected issues. I participate in the meetings of PAC to provide clarification on my Report and related issues.

Appendix I provides more details on the duties and powers of the Auditor-General.

Audits for Financial Year 2007/08

During the year, in addition to Government ministries and organs of state, the Auditor-General's Office (AGO) audited 18 statutory boards, six Government-owned companies and three other accounts. AGO also investigated into 20 complaints from the public on matters concerning accounting, management and use of public funds and resources.

AGO's audits are carried out on a test check basis and therefore would not reveal all errors and irregularities. However, they should enable me to detect the occasional lapses in the accounting, management and use of public funds and resources. All audit observations are conveyed to the organisations audited by way of "management letters".

The audit observations in this Report are the more significant ones in terms of monetary values, frequency of occurrence, impact on accounting, or learning points for public sector management. Also included are observations involving small monetary values. Small lapses should not be regarded as isolated or trivial as they often point to weaknesses in internal control. If not addressed, the weaknesses could lead to material errors or be exploited resulting in significant loss of public moneys.

However, the lapses reported should not be seen as a reflection of the state of governance of the organisation as a whole. This is because even in an organisation with good governance and management practice, lapses do occur occasionally.

Part I A of this Report is on the audit of the Government Financial Statements. Part I B presents selected observations from the audit of ministries and organs of state. Part II A lists the statutory boards audited and Part II B presents selected observations from these audits. Parts III A and III B cover the audits of Government-owned companies and other accounts.

Areas of Concern

From this year's audits, I wish to highlight three areas of concern, viz.:

- (a) Under-utilisation of land and buildings
- (b) Undue liberty in interpreting Government Instruction Manuals
- (c) Accountability of statutory boards to Parliament

Under-utilisation of land and buildings

In last year's audit, AGO found that seven residential properties belonging to a statutory board were left vacant for 4 to 10 years. The staff apartments of the statutory board also had high vacancy rates (35 to 70 per cent). This year, another statutory board was found to have staff apartments with high vacancy rates (41 to 79 per cent) for several years. In addition, it was observed that six Government chalets were left in a dilapidated state and not let out for 14 years.

Two ministries were allocated buildings in the city area for development to be carried out by their statutory boards. The development did not materialise and the buildings were left vacant for seven years or more before they were eventually returned to the Singapore Land Authority (SLA).

There were five Government properties left vacant for three to six years while being held in reserve by SLA for a ministry and various statutory boards pending their formal application for allocation of the properties.

The observations above show a need for ministries and statutory boards to effectively manage their properties so as to maximise their usage for the public good. There should also be an overall review of the current practice of property allocation and reservation to instil greater discipline in the reservation and holding of Government properties pending development. This is to minimise opportunity cost arising from unnecessarily long holding and reservation.

Undue liberty in interpreting Government Instruction Manuals

The Government Instruction Manuals (IMs) contain guidelines on basic governance principles, internal controls and sound financial management in the public sector. In the course of the year, I observed a few instances when undue liberty was taken in interpreting an IM guideline (or the absence of an IM guideline for a specific situation) to support management action or omission. These occurred when organisational interests were being pursued without being conscious of the larger public interest, viz. the reputation for transparency and fairness of the public sector as a whole.

IM guidelines should be applied in the spirit of their underlying principles. In the case of procurement and revenue contracting, these principles would be transparency, open and fair competition, and value for money or value maximisation. Ignoring such principles will result in the perverse application of the guidelines. In fact, the Preface to the IMs specifically exhorts that the guidelines be used intelligently.

The IMs are just management tools. Ultimately what ensures good management in the public interest would be public officers imbibing and upholding the principles upon which the IMs are based.

Accountability of statutory boards to Parliament

In 2004, PAC indicated in its Report (Parl. 2 of 2004) that statutory boards should present their annual reports together with their financial statements to Parliament within six months of the end of their financial year. An AGO survey showed that 10 statutory boards took longer than six months to present their financial year 2006/07 annual reports and financial statements. One of them did not submit its audited financial statements for the previous two financial years.

In 2004, PAC also recommended that AGO audit statutory boards more frequently. On taking office last year, I had committed to auditing the larger statutory boards at least once every five years. Accordingly, AGO audited 18 statutory boards in the financial year 2007/08, up from 13 in the previous year. This is to progressively clear the current backlog of the larger statutory boards not audited by AGO for more than five years.

I have informed PAC of a limitation AGO faces in implementing its recommendation fully. Under current legal framework, AGO has power to audit a statutory board only if the Act of the statutory board has the requisite enabling provision. Currently, a few statutory boards do not have such enabling provision in their Acts. These are mainly statutory boards established prior to the introduction of the standard enabling provision for incorporation in the Acts of statutory boards.

PAC recommended in its 7 May 2008 Report (Parl. 1 of 2008) that AGO carry out a review to determine how it could “widen and deepen” its audit of statutory boards. AGO has embarked on a review and is considering, among other things, amending the Audit Act (which has not been substantively updated since it was passed in 1966) based on a study of the legislation and practices of other countries. And since last year, AGO has also been building up its capacity to ensure more effective audits. In this regard, I am grateful to the Ministry of Finance for being supportive of AGO’s resource requirements.

Acknowledgement

I am grateful for the co-operation given by the ministries and their departments, organs of state, statutory boards and other entities which AGO audited.

I also thank my staff for their contribution and dedication to duty. Despite the heavier audit workload due to the substantial increase in the number of statutory boards audited, they have contributed good quality professional work.

Lim Soo Ping
Auditor-General
Singapore
1 July 2008

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PART I

(A)

**AUDIT OF GOVERNMENT FINANCIAL
STATEMENTS**

(B)

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

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PART I A : AUDIT OF GOVERNMENT FINANCIAL STATEMENTS

1. The Financial Statements of the Government of Singapore for the financial year ended 31 March 2008 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 27 June 2008. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the report to the President on 30 June 2008.

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. In accordance with section 8(3) of the Audit Act, the President would present to Parliament these 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 I B : SELECTED AUDIT OBSERVATIONS ON GOVERNMENT MINISTRIES AND ORGANS OF STATE

1. Selected observations arising from the audits of Government ministries and organs of state are summarised in the paragraphs below.

MINISTRY OF DEFENCE

Procedures Needed to Prevent Circumvention of Debarment Rules

2. It is Government's policy to debar a company or a person from being considered for public sector contracts if the company or person has bribed a person in connection with a public sector agency or public sector contract.

3. An engineering specialist firm completed a three-year contract with the Ministry of Defence (MINDEF) for facilities maintenance from 2003 to 2006. The contract was managed by MINDEF's procurement agent, the Defence Science and Technology Agency (DSTA). However, the firm was not able to bid for the new three-year contract (\$694,000) as it had been debarred by the Government. Although the new contract was awarded to another company (one belonging to a statutory board), AGO noted that the engineering specialist firm was nevertheless able to be involved by becoming the company's subcontractor. AGO noted that the award of the contract to the company was based on its subcontractor (i.e. the debarred firm) having the relevant technical expertise and track record. AGO further noted that the firm was debarred because it had, in another MINDEF project managed by DSTA, bribed employees of the same company.

4. AGO noted that the tender specifications required proposed subcontract works to be approved by DSTA. AGO noted that the approval process required relevant information in relation to the subcontract work. However, in this case, according to DSTA, it did not reject the subcontractor because the Government Procurement Procedures did not require checking of the debarment status of subcontractors.

5. In AGO's view, this case indicates a need to tighten the rules on procurement to prevent circumvention of debarment rules. AGO has recommended that the relevant Government Procurement Procedures be reviewed by the Ministry of Finance, especially with regard to contractors debarred for corruption.

MINISTRY OF EDUCATION

Non-performance of Contracted Services

6. The Ministry of Education appointed various contractors to provide pest control, security guards, cleaning, turf and plant works and services for schools including vacant schools.

7. AGO test checks of 11 vacant schools in November 2007 revealed that the contractors had not performed some of the contracted services, for example:

- (a) There was termite infestation at three schools despite the contractual requirement for detection and treatment of termite trails once every two months.
- (b) The maintenance of five schools was unsatisfactory with debris, uncleared garbage and accumulated dead foliage in the school compounds despite the contractual requirement of twice-weekly cleaning.
- (c) Plants in one school had overgrown into corridors despite the contractual requirement of monthly pruning.
- (d) No security guard was on duty in one school despite the contractual requirement of 24-hour security guard service. The keys for the school buildings were left on the guard's table and the security guard attendance book was last signed two weeks earlier.
- (e) There were private vehicles parked in the premises of two vacant schools and graffiti on the walls of three, indicating illegal entry and trespassing.

8. The instances of non-performance of contracted services occurred despite the Ministry having appointed managing agents to administer and manage the contracts including monthly general inspections. In addition, regular inspections, at least twice a week, were required to ensure no vandalism, illegal entry and trespassing activities.

9. The Ministry has since informed AGO that it was assessing the extent to which the contractors and managing agents had not carried out the services as required in their contracts. The Ministry would recover payments made for services not performed and impose liquidated damages, where appropriate. The Ministry also informed AGO that it had tightened its monitoring of the services and works at the vacant sites to ensure that the contracted services were performed by the contractors and managing agents, before making payment.

Procurement and Other Control Weaknesses

10. AGO carried out checks at a school following a complaint that 20 notebook computers were lost immediately after purchase.

11. The checks revealed that only two notebook computers were missing. They were purchased in March 2004 for \$2,262 each and were recorded as missing since January 2007. However, as at the time of audit in September 2007, an investigation to determine control weaknesses and corrective actions had still not been conducted although this was required by the Government Instruction Manuals.

12. AGO also observed the following procurement irregularities at the school:

- (a) Nine purchases amounting to \$354,460 did not have the approval of the school principal before purchase was made, as required by the Ministry of Education's School Procurement Manual.
- (b) A \$25,480 contract for printing services was awarded without calling for competitive bids. There were no valid grounds for waiver of competition.
- (c) Four purchases with a total value of \$75,216 were not made from the lowest bidder and the reasons for rejecting the lowest bids were not documented as required by the School Procurement Manual.

13. AGO also noted that the school did not invite competitive bids, as required by the Ministry, before it appointed its bookshop vendor for 2006 and 2007.

14. The Ministry informed AGO that it was looking into the various lapses and would work with the school to strengthen internal controls to prevent similar lapses in future.

MINISTRY OF FINANCE

CENTRE FOR SHARED SERVICES

15. The Centre for Shared Services (also known as Vital.org) under the Ministry of Finance was formed on 1 April 2006 to centrally provide finance and human resource services to government bodies. It serves 14 ministries and five organs of state in its second year of operation.

Control Weaknesses over Payment Processing and Need for “Service Partnership Understanding”

16. AGO test checks revealed similar findings as last year, for example, Vital.org:

- (a) provided services to 12 agencies for 4 to 10 months without signing the “Service Partnership Understanding” (SPU) which spelt out the roles and responsibilities of the parties and the agreed service levels;
- (b) effected some payments that were certified by unauthorised client agencies’ officers or not certified at all; and
- (c) did not have the specimen signatures of a number of certifying officers of client agencies for deposit refunds and payments.

17. With regard to the non-signing of the 12 SPUs, according to Vital.org, the delay was due to the parties having decided to monitor service performance first before finalising the SPUs for signature. Another reason was that there were staff changes at the client agencies which contributed to the delay.

18. With regard to the lapses concerning payments and specimen signatures, Vital.org would review its procedures and training needs to reduce the likelihood of oversights.

Need to Revise Financial Procedures

19. Last year, AGO reported that there was a need to update the Government Instruction Manuals so that the responsibilities between Vital.org and the client agencies were clear. AGO was informed that the Government Instruction Manuals would be updated by the end of 2007.

20. A follow-up check in May 2008 showed that the target date had been changed to end of 2008.

MINISTRY OF FOREIGN AFFAIRS

Purchase of Unsuitable Property

21. The Ministry of Foreign Affairs purchased a property in 2005 for an overseas mission to use as residence for its first resident High Commissioner. After taking possession, the property was found unsuitable because of security concerns over the surrounding area. The Ministry then sought expert opinion and was advised that the location as well as surroundings of the property made it vulnerable from the security viewpoint. The Ministry therefore decided to sell the property. The property was eventually sold in 2008, after having been left unoccupied for two and a half years. A total of \$406,000 was incurred for renovation, property agent's commission, various requisite fees and expenses. Such costs could have been avoided had the evaluation leading to the purchase included a more rigorous security assessment.

22. The Ministry informed AGO that it had revised its procedures to consult security experts for all new purchases of properties for overseas missions. The Ministry also informed AGO that the property could not be sold earlier because of lack of buyers, due to the property market downturn then.

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

Building Left Vacant for Over Seven Years

23. In September 2000, the Ministry of Information, Communications and the Arts was allocated a building (the former Catholic High School) in the city area for development by the National Heritage Board (NHB) as an art gallery for local artists.

24. AGO observed that no development was carried out and the building remained vacant for more than seven years. For the four years from 2000 to 2004, NHB's development plans for the building did not meet with the Ministry's approval as the plans required "further strengthening". In 2004, NHB decided to consider another building in the vicinity instead. During the ensuing three years, the Ministry explored with other interested bodies on possible uses for the building such as housing arts organisations, but no proposals materialised. The building was eventually returned to the Singapore Land Authority on 31 March 2008.

25. The opportunity cost in terms of rental revenue forgone for leaving the building vacant was estimated to be \$420,000 per annum (based on rental for institutional use).

MINISTRY OF LAW

INSOLVENCY & PUBLIC TRUSTEE'S OFFICE

Liquidation of a Co-operative Society Not Completed After 28 Years

26. In 1995, AGO observed a 16-year delay in the completion of the liquidation of a co-operative society by the Insolvency & Public Trustee's Office (IPTO)¹. Responding to the observation, IPTO had said that it "does not dispute that the liquidation . . . should have been well completed by now [1995]".

¹ Then known as Official Assignee & Public Trustee.

27. In AGO's current audit of IPTO, it found that IPTO had still not completed the liquidation of the co-operative society. It has now been 28 years since IPTO was appointed as its liquidator in December 1979.

28. AGO also noted that there were 200 ex-members of the society who had not been paid dividends with accrued interest in 1996. It was only nine years later in 2005 that IPTO attempted to contact them; 64 were located and paid. However, five ex-members were paid twice resulting in a total overpayment of \$8,400.

29. There would be a balance of about \$28 million in the liquidation account after all claims from creditors and ex-members have been met. Under the applicable law, the balance is to be transferred to the reserve funds of appropriate co-operative societies or other entities.

30. IPTO agreed that 28 years was a "very long time" to complete the administration of a case and it would clear the backlog of 136 unpaid ex-members (owed a total of \$141,700 as at April 2008) by end August 2008. IPTO also informed AGO that to ensure that future cases could be completed within a reasonable time frame, it had taken steps to improve its system of administering cases.

MINISTRY OF MANPOWER

Procurement Irregularities

31. The principles governing Government procurement are transparency, value for money, and open and fair competition. The quotation selected should be the one with the lowest overall cost which meets the functional requirements specified in the invitation to quote (ITQ).

32. The award of a contract by the Ministry of Manpower for supplying and installing LCD monitors in its lifts did not meet this set of principles. The Ministry received two quotations, both of which did not meet some of the specifications in the ITQ. The contract was awarded to the company which submitted the higher quotation of \$41,900 although it had offered a wireless network when the ITQ specifications clearly stated that "Wireless connections are not allowed for security reasons." The quotation approving authority was not informed that the wireless system offered by the company had been specifically disallowed in the ITQ.

33. The Ministry subsequently clarified that after the bids were received, it had reassessed that the security risk was minimal as the information to be shared would be largely non-confidential and there would be less wear and tear with wireless network connection.

34. AGO also noted that the quotation did not include connectivity costs although connectivity was in the work scope laid down in the ITQ. According to the Ministry, this omission was discovered only after the contract had been awarded. As a result, the Ministry was charged an additional \$7,000 for the connectivity services.

35. The Ministry should not have awarded the contract since both quotations did not fully meet the specifications in the ITQ. When a wireless network was subsequently deemed to be acceptable, the Ministry should have re-invited quotations based on the revised requirements. This is to achieve transparency, value for money, and open and fair competition in the procurement.

36. The Ministry has since informed AGO that it had been continually making improvements and, arising from AGO's observations, steps had been taken to enhance management scrutiny and to strengthen the procurement processes.

MINISTRY OF TRADE AND INDUSTRY

Laxity in Monitoring of Grants

37. AGO test checks revealed that the Ministry of Trade and Industry did not detect accumulation of unused grants in one of its statutory boards. The accumulation occurred because the statutory board consistently over-projected its monthly grant requirements. The resulting accumulated balance of unused grants was \$39.42 million as at 30 June 2007. This amount was more than what the statutory board spent in the ensuing six months during which it continued to ask for and receive grants.

38. AGO noted that the statutory board also held on to a project grant of \$700,000 for seven years during which the project was not proceeded with.

39. The Ministry informed AGO that it had since been working with the statutory board to put in place a mechanism for more accurate projection, reporting and transfer of excess grants.

Building Taken Over Without Feasibility Study

40. Capitol Theatre was allocated to the Ministry for use as a performing arts venue for 10 years from 2000 to 2010. This was based on the Singapore Tourism Board (STB)'s justification and estimated spin-offs to the tourism industry. STB was to spearhead and manage the project to promote arts tourism, specifically by staging long running shows in the Theatre. AGO noted that all these justifications were put up by STB without a feasibility study.

41. It was only after the Ministry took over the Theatre that STB carried out feasibility studies which showed the estimated retrofitting cost to be \$9.50 million, considerably higher than its pre-allocation estimate of \$3.50 million. STB concluded that the project was not viable and attempted to return the Theatre to the Singapore Land Authority (SLA) in March 2002 but this fell through as the allocation was for 10 years and SLA was unable to take over the Theatre until it found an interim user. (According to SLA, the land had, at that time, been slated for comprehensive redevelopment in 2003. This was subsequently revised to 2008.) The Theatre which occupies a land area of 3,392 square metres remained vacant until it was eventually returned to SLA in May 2007.

42. During the seven years, STB spent \$1.51 million on feasibility studies, maintenance and reinstatement works. The opportunity cost in terms of rental revenue forgone was estimated at over \$280,000 per annum¹.

43. STB agreed that a more rigorous assessment should be made of costs and risk assessment before committing to take over a property from SLA.

¹ Based on rental paid by the previous tenant in 1997.

PRIME MINISTER'S OFFICE

ELECTIONS DEPARTMENT

Poor Store Management

44. The Elections Department (ELD) uses a 918 square metres warehouse for keeping election paraphernalia such as polling booth panels and counting tables.

45. AGO observed that about one third of the space was occupied by obsolete and condemned items such as broken furniture, rusted fans, worn carpets, and old office equipment which should have been disposed of. AGO also noted a lot of dust and overgrown vegetation despite there being a contract for quarterly cleaning. The unkempt state of the warehouse and poor storage would cause stores such as unused envelopes and document folders to deteriorate.

46. ELD informed AGO that it had no manpower to manage the warehouse. Arising from AGO's observations, ELD initiated a feasibility study on outsourcing the management and maintenance of the election paraphernalia and returning the warehouse to the Singapore Land Authority.

PUBLIC SERVICE DIVISION

Government Chalets Not Used for More than 14 Years

47. The Public Service Division (PSD) manages 45 holiday chalets at Changi which it lets out to civil servants as a staff benefit. They are also let out to officers of statutory boards and members of the public.

48. AGO observed that 39 of the 45 chalets were let out and the average occupancy rate in 2007 was about 80 per cent. However, the remaining six chalets were not let out for more than 14 years since 1993 although repair and redecoration works were carried out in 1992. They are currently in a dilapidated and uninhabitable state with broken doors, broken sinks and leaking roofs.

49. PSD agreed that there could have been better management of the six chalets during this period. PSD also informed AGO that it was exploring the return of the land and buildings to the Singapore Land Authority.

COMMON OBSERVATION

Weak Access Controls in Computer Systems

50. Access rights to computer systems should be given on a “need” basis to ensure confidentiality and integrity of systems and data. Periodic review of access rights should be carried out to confirm that access rights granted are still necessary. Access rights of officers who resign must be removed promptly. In fact, there is a recommendation in the Government’s Infocomm Security Best Practices that the access rights of users who leave or are transferred be immediately removed.

51. AGO carried out test checks on access controls in four Government-wide accounting, procurement, personnel and payroll systems, and selected computer systems at ministries and organs of state. The checks revealed lapses at 12 ministries and four organs of state. Access rights no longer required by 359 users who had resigned, retired, been transferred or had their duties changed were not promptly removed. The access rights remained valid for as long as 36 months after they were no longer required.

52. In addition, system administrators in five ministries and two organs of state did not carry out periodic review of the access rights granted to users.

53. Similar lapses had also been observed in the past in ministries and organs of state. AGO therefore recommends that ministries and organs of state look into effective ways of ensuring prompt removal of access rights when no longer required, for example linkage with the personnel system to automatically remove access rights upon resignation which had been done for some systems.

OTHER OBSERVATIONS

Procurement of Copiers Lacking Transparency and Fairness

54. AGO investigated a complaint alleging lack of transparency and fairness in the tender for the supply and maintenance of copiers to the Government and statutory boards. The tender was for five categories of copiers with an estimated value of \$6.85 million over a two-year period. Contracts were awarded for four of the five categories, with no award for the remaining category. The tender invitation, evaluation and award were carried out by a procurement agent¹ for the Government.

55. The maintenance charges payable to the supplier for one category of copiers intended for high copying volume, according to the tender specifications, was based on copying volume, with no guaranteed minimum copying volume specified.

56. In this category (with expected value of \$3.64 million), two months into the contract, the supplier found that it incurred losses because for most of the copiers supplied, the actual copying volume was lower than the “Volume Intended” stated in the tender specifications. The supplier proposed, and the agent accepted, a variation to the price structure whereby the copier price was increased and a minimum maintenance charge imposed.

57. The agent accepted the price variation as its computation showed that based on a five-year life cycle cost, this was more favourable to purchasers with high copying volume. However, AGO noted that the bulk of the users were low volume users. (Their requirements were intended to be met by the category of low volume copiers but the tendered price for these copiers was higher than that of the higher volume copiers. Hence, no contract was awarded for the low volume copiers category and these users were informed by the agent to buy the higher volume copiers instead.) AGO’s survey of nine copiers purchased under the revised price structure showed that based on their usage level, eight of these copiers would cost \$27,100 more, on a five-year life cycle basis. As this was based only on a sample of purchasers for part of the contract period, the eventual additional cost to users over the entire two-year contract period would be higher.

¹ Defence Science and Technology Agency.

58. In accepting the variation to the price structure, the agent breached the Government procurement principles of transparency, fairness and value for money. This is because other suppliers were not given a chance to bid based on the revised price structure. Furthermore, the price variation would not benefit most users.

59. For another category of copiers, the agent allowed a tenderer to change his offer to one based on a maintenance scheme different from that stated in the tender specifications and subsequently awarded the contract to him on this basis. Such action is a breach of the Government procurement principles of transparency and fairness.

60. The agent has noted AGO's observations and recommendations.

Serious Irregularities in Procurement and Payments

61. AGO received an anonymous complaint alleging favouritism to a particular contractor in the redevelopment of the Singapore Discovery Centre (SDC) funded by donation from the Singapore Totalisator Board (Tote Board). As auditor of Tote Board, AGO carried out an investigation.

62. SDC is registered as a company limited by guarantee. AGO checked 14 contracts with a total value of \$15.00 million which accounted for 92.4 per cent of the value of the contracts awarded by SDC to the contractor and another company with the same executive director-cum-major shareholder. These contracts were awarded during the period from April 2002 to January 2006.

63. AGO's investigation revealed many serious irregularities relating to these 14 contracts and these included the following:

- (a) Awarding a \$2.20 million contract under waiver of competition on the grounds that this would "motivate" the contractor to reduce his tendered price for another contract by \$0.46 million. Subsequently for the latter contract, variation orders adding \$1.15 million (25.5 per cent) to the contract price were approved; some works were repeated in the orders;
- (b) For two other contracts, variation orders adding \$1.28 million (47.3 per cent) to the total contract value were also approved; some works were repeated in the orders;

- (c) Omitting from two contracts (with a total value of \$6.70 million) critical basic specifications such as list of deliverables resulting in the contractor having leeway in its contractual performance;
- (d) Allowing down payment of 40 per cent¹ in nine out of 14 contracts. By contrast, the only other contract to a different contractor for works of similar nature had no down payment;
- (e) Consistently making progress payments without the requisite certificates of acceptance; and
- (f) Payments approved by a lower level authority than that designated for the payment amounts, and splitting payments into smaller amounts to be within the limits of a lower level approving authority.

64. As SDC is a “MINDEF-related organisation”, AGO informed MINDEF of its observations and, on AGO’s recommendation, MINDEF referred the matter to the Police for further investigation.

65. Following AGO’s observations, AGO was also informed that SDC had since February 2006, begun a number of measures to reform its governance structure and processes which included the establishment of an audit committee comprising three independent directors. Since July 2006, SDC Board had also directed the management to implement specific measures to ensure the rigour and integrity of its procurement and payment processes. These included regular internal audit checks on internal controls and implementation of a financial governance framework to provide greater transparency and to ensure effective and prudent use of resources.

1 The guideline of the Consumers Association of Singapore recommends a down payment of 10 per cent. This is also the maximum rate stated in the Government Instruction Manuals.

PART II

(A)

AUDIT OF STATUTORY BOARDS

(B)

**SELECTED AUDIT OBSERVATIONS
ON STATUTORY BOARDS**

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PART II A : AUDIT OF STATUTORY BOARDS

1. AGO audits statutory boards whose Acts provide for the Auditor-General to audit their accounts. The Monetary Authority of Singapore is audited by AGO annually as its Act does not provide for any other auditor to audit its accounts. AGO audits the other statutory boards on a rotational basis.

2. The Acts of most statutory boards require their accounts to be audited by the Auditor-General or another auditor. When the Auditor-General is not the auditor, the Minister will appoint an auditor in consultation with the Auditor-General. The Auditor-General would not object to the proposed appointment if the criteria listed in Appendix II are met.

3. During the financial year 2007 or 2007/08, AGO carried out financial statements audits and performance audits¹ on the following 10 statutory boards:

- (i) Accounting and Corporate Regulatory Authority ²
- (ii) Central Provident Fund Board
- (iii) Housing and Development Board
- (iv) Inland Revenue Authority of Singapore
- (v) Monetary Authority of Singapore
- (vi) Singapore Totalisator Board
- (vii) Agency for Science, Technology and Research ³
- (viii) Health Promotion Board ³
- (ix) Singapore Workforce Development Agency ³
- (x) Temasek Polytechnic ³

All the statutory boards listed above received unqualified audit opinions on their financial statements.

1 A performance audit involves examining whether programmes and activities have been conducted in an efficient and effective way, without wastage or extravagance.

2 The financial statements audit of the Accounting and Corporate Regulatory Authority for the financial year 2006/07 was completed on 12 September 2007.

3 AGO subcontracted the financial statements audits of these four statutory boards to public accounting firms for the financial year 2007/08.

4. AGO carried out performance audits on the following eight statutory boards:
- (i) Agri-Food and Veterinary Authority
 - (ii) Land Transport Authority of Singapore
 - (iii) Majlis Ugama Islam Singapura
 - (iv) National Heritage Board
 - (v) People's Association
 - (vi) Public Transport Council
 - (vii) Singapore Land Authority
 - (viii) Singapore Tourism Board

ACKNOWLEDGEMENT

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

PART II B : SELECTED AUDIT OBSERVATIONS ON STATUTORY BOARDS

1. Selected observations arising from the audits of the 18 statutory boards (see Part II A) are summarised in the paragraphs below.

CENTRAL PROVIDENT FUND BOARD

Inaccurate Information on Service Standard relating to Topping-up of Members' Accounts

2. This observation arose from a complaint by a member of the Central Provident Fund (CPF). The member complained that CPF Board took “more than a week” to credit the top-up amount into his Retirement Account although his “bank account has already been immediately debited”, thereby depriving him of the interest.

3. When a CPF member applies manually to top-up his Retirement Account, CPF Board takes up to 10 working days from the receipt of his cheque or electronic payment (e-payment) to credit his account. If the top-up application is made online, it takes up to eight working days. However, AGO noted that the website stated that the account would be credited within seven working days for manual applications and five working days for online applications. According to CPF Board, this was because “the web-site did not state that an additional three working days are required for clearance of cheque or e-payment” and it had since added this information.

4. AGO also noted that interest did not accrue from the date that the top-up sum was credited to a member’s account but only from the first day of the ensuing month. Without information on this and on the three additional days mentioned above, a member would not be able to time the topping-up of his account so as to optimise interest on the money involved. CPF Board informed AGO that it had since provided this information in its website.

5. On a separate aspect, AGO noted that the time CPF Board took to credit the members’ accounts was from 8 to 10 days. This seems unduly long in today’s context. CPF Board informed AGO that it had begun a study to reduce the time taken to credit members’ accounts with their top-ups.

Inaccurate Presentation of Information in Transaction History Statement

6. This observation arose from another complaint by a CPF member on the wrong amount of interest credited to his Medisave Account. On investigation, AGO found that the interest credited into his account was correct. However, the presentation of information in a CPF statement relating to his account could have led him to the wrong conclusion.

7. Currently, the interest payable to a member's CPF account is computed monthly based on the minimum balance in the account during the month. This interest is compounded and credited to the member's account at the end of each year. Members above 55 years old who withdraw from their accounts during the year can also withdraw accrued interest not yet credited into their accounts.

8. AGO noted that for such cases, the presentation of information in the Transaction History Statement to members was not accurate. The interest earned that was withdrawn was not reflected anywhere in the Statement when it should have been shown under both "interest" and "withdrawal". However, the account balance was still correct because the omissions had offset each other.

9. CPF Board informed AGO that it had since taken action and the Transaction History Statement would now show the gross interest earned during the year (i.e. including interest withdrawn) and the gross withdrawal (i.e. including the interest withdrawn).

HEALTH PROMOTION BOARD

Need for Better Management of Cash Balance

10. As at 31 March 2007, the Health Promotion Board (HPB) had a cash balance of \$45.58 million of which \$44.94 million (98.6 per cent) was placed in short-term fixed deposits.

11. In 2005, HPB ascertained that it had about \$6 million for longer term investment but deemed that the amount was too small to place with fund managers. AGO noted that as at 31 March 2007, HPB had about \$30 million available for longer term investment. However, these funds had remained in short-term fixed deposits. There was therefore a need for HPB to review its investment strategy to maximise returns on the funds.

12. HPB informed AGO that its Investment Committee would review and decide on the various investment options to ensure that HPB would earn a better return on its cash and reserves.

LAND TRANSPORT AUTHORITY

Not Dealing with Subsidiary Company at Arm's Length

13. The Land Transport Authority (LTA) provides technical consultancy resources, and finance and human resource management services to one of its subsidiary companies. For technical consultancy resources, LTA billed the company based on a 30-day credit term but the debts were not promptly collected. As at 30 June 2007, the company owed LTA \$2.36 million for more than six months of which \$366,000 was outstanding for over a year. According to LTA, it made an operational decision to facilitate its subsidiary's cash flow in the early years. In AGO's view, this amounted to a hidden subsidy. Following AGO's observation, LTA recovered the \$2.36 million.

14. For finance and human resource management services rendered, LTA did not charge the company since its establishment in 1995. For the previous financial year (2006/07), the cost of services provided was estimated at \$257,400. AGO is of the view that LTA's transactions with the company should be at arm's length. This is to ensure that there is no hidden subsidy. LTA clarified that the cost of these services was negligible in the earlier years and was recovered via inter-company mark-up built into the service fees. Following AGO's observations, LTA indicated to AGO that it would charge for these services only from the financial year 2007/08 when the cost of such support to the company became "significant".

Excess Stocks

15. The Electronic Road Pricing scheme requires every vehicle to be installed with an In-vehicle Unit (IU) for payment of road usage charges. LTA had in stock various types of IUs for local vehicles and related accessories.

16. AGO test checks of the stock as at 31 March 2007 revealed that 66,520 F-brackets (for holding IUs on motorcycles) costing \$1.77 million and 6,683 IUs of various types costing \$0.66 million had low prospects for sale to vehicle owners.

17. LTA explained to AGO that the F-brackets could not be sold as motorcyclists preferred to install their own brackets for aesthetic reason. The excess IUs included 3,064 special IUs meant for vehicles with special needs (such as vehicles with vertical windscreens and open-top vehicles). Although the number of such vehicles had fallen, LTA intended to keep these special IUs as buffer stock to meet unanticipated future demand. According to LTA, it had made “financial provisions” for the remaining IUs and the excess stock of F-brackets. LTA would explore ways to dispose of the excess stocks at the best price.

NATIONAL HERITAGE BOARD

Lack of Assurance of Fair and Reasonable Pricing in Museum Galleries Project

18. In 2001, the National Heritage Board (NHB) embarked on a project to redevelop the National Museum of Singapore (NMS)¹. For the design and construction of the Museum’s exhibition galleries, NHB adopted a two-stage approach i.e. first design and then construct, with tenders called for each stage. In the first stage, NHB awarded through tender the design contract valued at \$7.75 million to an exhibition designer.

19. Two years into the design contract, NHB enlarged the scope of the contract to include construction. As a result, the exhibition designer was awarded, under waiver of competition, an additional \$26.00 million worth of contract work. NHB had justified the enlargement of the scope of the contract on the following grounds:

- (a) The completion of the Museum would otherwise be delayed by eight months. Under the design concept proposed by the exhibition designer, “the amount of time needed for completing the design, research and procurement would need to be much longer”.
- (b) The exhibition galleries would have “substantial amount of multimedia components” and require “complex system integration work and specialized skills, which would be hard to manage by the conventional tender procurement method”.

1 Then known as the Singapore History Museum.

- (c) The work to be constructed are considered “creative works of arts”, thereby meeting a criterion in the Government Instruction Manuals for waiver of competition.
- (d) The “number of specialist exhibition contractor with relevant track record, if any, is very limited”.
- (e) A “similar approach [was] carried out at the Asian Civilisations Museum (ACM)” in 2002. (AGO noted that in this project, the design contract was enlarged to include construction so as to avoid a three-month delay in project completion.)

20. NHB explained to AGO that its proposal to enlarge the contract scope was “evaluated in detail and advocated” by a “third party”. AGO noted that the “third party” was a project management firm with a vested interest in the enlargement of the design contract scope; the firm had earlier submitted a proposal to NHB offering project management services, namely, “preparation of the design-and-construct contract” and “management of the execution and administration of such a contract” at a fee of \$320,000. The proposal was accepted in principle by NHB by way of a letter of intent issued to the firm before it put up its evaluation report advocating enlargement of the design contract into a design-and-construct contract.

21. According to NHB, the price quoted by the exhibition designer for the enlarged contract had been assessed to be fair and reasonable. However, AGO noted from NHB’s paper to the Tender Board that this assessment by the “third party” was based on a comparison with NHB’s budget for the exhibition galleries project; this budget in turn was based on the “cost estimates of projects like Sentosa’s Images of Singapore and Singapore Discovery Centre”. The “third party” assessed that the cost per square metre was “substantially lower than the unit cost” in NHB’s budget. This is not conclusive that the price was fair and reasonable; it merely showed that the price was within NHB’s budget. As regards the need for “complex system integration work”, AGO noted that the scope of the design contract had already required the exhibition designer to oversee and supervise the construction of the exhibition galleries, whether complex or otherwise.

22. Following AGO's observations, NHB explained that in both NMS and ACM projects, the respective management teams and tender boards taking into account the special circumstances of the projects, judged that there were compelling reasons to warrant waiver of competition and direct appointment of the design consultant. NHB has further explained that the delay would have severely impacted the opening date and the 120th Anniversary celebrations of the Museum in 2007.

23. In AGO's view, there is a need for NHB to review its project management and procurement practices for large projects, especially if their completion dates are critical. If a project needs more time to complete, delaying the completion date should be considered and evaluated in comparison with other options before resorting to a non-transparent approach, for example, enlarging an existing contract. Enlarging an existing contract inherently does not ensure best value for money as there is no competition. Such approach should be adopted only under exceptional circumstances, and even then only with rigorous scrutiny of pricing to ensure its fairness and reasonableness.

24. NHB informed AGO that the "current management of NHB is fully aware that there are corporate governance issues that have to be tightened" and it would strengthen its tender award process by having all waiver of competition proposals reviewed by its Finance Department or a Director not involved in the projects. It would also consider appointing independent project management consultants to evaluate proposals from suppliers in tenders for large Design and Building projects in the future. NHB would also strengthen its project management and procurement practices.

SINGAPORE LAND AUTHORITY

25. The Singapore Land Authority (SLA), under the Ministry of Law (MinLaw), is the Government's agent for the administration and management of State properties.

Tighter Control Needed for Reservation of State Property

26. Ministries and statutory boards can reserve State properties, pending their formal request for allocation.

27. AGO test checks of 10 properties revealed that five properties had been reserved for three to six years without request for allocation. The properties were also left vacant during the period of reservation.

28. AGO noted that there was neither a cap on the reservation period nor a cost or penalty to the agency making the reservation. As a result, agencies have no incentive to exercise care in making reservations with due regard to opportunity cost to the Government as a whole.

29. MinLaw and SLA agreed that there should be a system to encourage agencies to exercise greater discipline when reserving State properties and informed AGO that they had been working with the Ministry of Finance to introduce a reservation framework for State properties.

Poor Management of Rental Arrears

30. AGO test checks revealed five cases of long delay ranging from one to six years in repossessing premises after the tenants had defaulted on the rental payments. The rental arrears as at 31 August 2007 was \$4.14 million.

31. AGO also noted that in one of these cases, after the tenancy agreement lapsed, the tenant continued to occupy the premises for about six years, defaulting on its rental payments in the last year of occupation. In another case, the tenant defaulted on rental payments in the last year of the tenancy agreement but was allowed to continue to occupy the premises for the ensuing five years “for it to pursue an action against a third party which had caused damage to the State property. When it became clear that the tenant was unable to conclude its action against the third party, action was then taken to recover the arrears and repossess the State property.” The total amount of revenue arrears for these two cases as at 31 August 2007 was \$2.13 million.

32. The delay in repossessing the premises after rental default and the absence of tenancy agreements jeopardise rental arrears recovery. There is also opportunity cost involved as the properties could have been rented out to other tenants.

33. SLA accepted AGO’s recommendations and would look into the cases with the view to refining existing procedures to prevent similar delay from recurring.

SINGAPORE TOURISM BOARD

Cess Security Deposits Not Refunded

34. The Singapore Tourism Board (STB) had been collecting cess from hotels and restaurants under the Singapore Tourism (Cess Collection) Act (Cap. 305C, 1997 Revised Edition). These establishments were required to pay a security deposit. The requirement for deposits ceased on 1 January 2004 and STB took action to refund the deposits.

35. As at 31 December 2007, \$962,800 had still not been refunded to 194 establishments.

36. STB informed AGO that it had since taken steps to trace the establishments through ACRA search. It had also placed the list of outstanding cases in the Government's "Unclaimed Monies" website.

Objective for Expanding Premises Not Achieved

37. STB is the managing agent for the Singapore Expo which is owned by the Ministry of Trade and Industry (MTI). A service provider (the Licensee) was in turn engaged to operate and manage the facilities under a licence agreement.

38. In 2004, STB put up a justification paper to MTI to expand the capacity of the Singapore Expo from 6 to 10 halls at a cost of \$32.00 million. The paper sets performance targets for occupancy rate and number of new mega shows¹ to be hosted annually from 2006 for the expanded facilities. However, AGO observed that for two consecutive financial years, 2006/07 and 2007/08, the actual occupancy rates were below the targeted rate. There were also no new mega shows hosted during the period.

Performance Indicators	FY2006/07	FY2007/08
Occupancy rate (sqm-days)	Actual performance below target by 7.7%	Actual performance below target by 9.4%
No. of new mega shows hosted (>60,000 sqm)	0	0

1 Defined as exhibition events occupying a space of more than 60,000 square metres.

39. AGO noted that all the halls at the Singapore Expo were managed by the Licensee appointed by MTI, but the performance targets used in justifying the addition of the four halls were not included in the supplemental licence agreement that was entered into when these halls came into operation.

40. AGO also noted that under the licence agreement, the Licensee is required to submit annual business plans which include target occupancy/performance levels, and quarterly management reports on the state of, and the activities in, the facilities. However, such reports were not submitted by the Licensee for the past four years, and neither did STB ask for them.

41. Much public fund was invested in the Singapore Expo. It is important that STB exercise due diligence in ensuring that the objectives of the investments are met.

42. STB informed AGO that it “has been engaging the Licensee ... on several fronts including collaborations on securing business events to be staged at the Singapore Expo and reviewing the future development of the venue”.

SINGAPORE WORKFORCE DEVELOPMENT AGENCY

Excessive Funds Disbursed to Programme Partners

43. The Singapore Workforce Development Agency (WDA) enters into partnership arrangements with external parties to carry out some of its programmes. WDA provides grants to fund these programmes.

44. AGO noted that grants were paid well ahead of need; for example, for two programmes, \$4.56 million in training allowances payable to trainees over the duration of training courses lasting up to four years were disbursed to the programme partners upon their acceptance of the partnership agreements.

45. AGO test checks of six programmes showed that a total of \$25.51 million was disbursed between March and December 2006. By the end of October 2007, i.e. between 10 and 19 months after the grants were disbursed, \$16.02 million or 62.8 per cent remained unutilised.

46. AGO also noted that WDA disbursed \$10.11 million in August 2006 for a three-year programme. Nine months later, the programme was scaled down and the programme partner returned surplus grants of \$3.70 million to WDA, but without interest.

47. Another programme was also reduced in size after a review in December 2004. However, WDA did not recover the surplus grants of \$297,500 (which is 70.8 per cent of the original disbursement in April 2003), until April 2008.

48. Disbursing grants to the programme partners much earlier than needed carries an opportunity cost of interest lost. The total estimated interest forgone for the programmes cited above is \$410,000. There is also the risk of not being able to recover surplus grants.

49. WDA informed AGO that it had since recovered the surplus grants (including interest) from the programme partners whose programmes had been scaled down. In addition, it had revised its criteria for disbursement of grants and agreed that there was a risk of loss should its programme partners become insolvent. WDA would monitor the financial stability of these partners and initiate prompt recovery of surplus grants if applicable.

TEMASEK POLYTECHNIC

Original Objective of Electronic Parking System Not Met

50. Arising from a complaint received, AGO looked into the Electronic Parking System (EPS) which the Temasek Polytechnic (TP) installed in 2007. AGO found that the \$435,000 EPS with an annual maintenance cost of \$30,000 did not meet its objective of stopping “unauthorised vehicles entering the campus, parking illegally and committing offence”. As the barriers were kept in a lifted position throughout the day, unauthorised vehicles could freely enter and park in the campus.

51. With regard to the EPS not meeting its objective, TP explained that one of its primary objectives was “to enable TP to monitor vehicles entering or leaving the campus by capturing the vehicle IUs” when “the need arises (e.g. terrorism threat) or during any emergency situation”. However, AGO noted that this “primary objective” was not in the paper justifying the EPS installation.

52. AGO also noted that the cost of the EPS included \$53,000 for a fee-charging unit. This was in the tender specifications despite an earlier decision made by TP senior management (during the presentation on the EPS proposal) not to charge users for parking. Following AGO's observations, TP informed AGO that it would exclude items which were not for immediate operation or have them as optional items for future tenders.

53. In AGO's view, the EPS installed at a significant cost is not serving the objective for which it was approved.

High Vacancy Rate of Staff Apartments

54. TP owns three apartment blocks with 102 units for rental. These were built in the nineties to house expatriate staff. Since then, the apartments are also let out to local staff, exchange students and members of the public. Between 2005 and 2007, the monthly vacancy rate ranged from 41.2 to 79.4 per cent, averaging 65.2 per cent.

55. For the year 2007, had TP been able to rent out more apartments thereby achieving a lower vacancy rate of, say, 25.0 per cent, an additional \$342,000 rental could have been collected based on TP's rental charge of \$1,200 per month (for an unfurnished apartment) prevailing then.

56. In AGO's view, TP needs to be more proactive in identifying ways to rent out more apartments. TP has since informed AGO that it was exploring opening the apartments to other categories of users such as visiting academics, consultants and participants of residential training courses.

COMMON OBSERVATION

Weak Access Controls in Computer Systems

57. Access rights to computer systems should be given on a "need" basis to ensure confidentiality and integrity of systems and data. Periodic review of access rights should be carried out to confirm that access rights granted are still necessary. Access rights of officers who resign must be removed promptly. In fact, there is a recommendation in IDA's Infocomm Security Best Practices that the access rights of users who leave or are transferred be immediately removed.

58. AGO test checks on the computer systems access controls in four statutory boards revealed weaknesses in access controls. In two statutory boards, the access rights of 11 staff who resigned were not revoked promptly, in one case for as long as 18 months. In two other statutory boards, 74 staff had access rights that they did not require to carry out their work.

59. Similar lapses had also been observed in the past in other statutory boards. AGO therefore recommends that statutory boards look into effective ways of ensuring prompt removal of access rights when no longer required, for example linkage with the personnel system to automatically remove access rights upon resignation.

OTHER OBSERVATIONS

Lapse in Tendering Process for Renting Out of Airport Shops

60. AGO investigated a complaint of unfair tendering process in the renting out of a number of airport shops by the Civil Aviation Authority of Singapore (CAAS).

61. In the open tender, only one bid was received and CAAS found it “unacceptably low”. Without rejecting the bid upfront, CAAS verbally asked for proposals from a number of other companies. Two companies responded with offers.

62. CAAS evaluated the two offers together with the sole bid from the open tender and decided to accept the offer from one of the two companies which responded to the verbal request for proposal. Only then was the sole bidder in the open tender informed that it had not been successful.

63. By inviting additional offers after the tender was closed (and the tender price publicly posted), CAAS had departed from the Government’s principles of transparency, and open and fair competition.

64. CAAS explained that it had at the outset checked that there were no clauses or guidelines in the Government Instruction Manuals requiring that bids received in a tender be rejected before seeking additional offers. It regretted that “when considered in totality”, the final outcome did not fully comply with the principles of transparency, and open and fair competition. CAAS assured AGO that it would ensure that these principles were not only upheld but also seen to be so.

Late Presentation of Statutory Boards' Annual Reports and Financial Statements to Parliament

65. Most statutory boards¹ are required by law to present their annual reports and audited financial statements to Parliament as soon as practicable. The Public Accounts Committee (PAC) noted in its February 2004 report (Parl. 2 of 2004) that “since the late seventies, as part of the accountability process to Parliament, statutory boards were urged by the Committee to present their annual reports together with their financial statements to Parliament within six months of the end of their financial year. This is to ensure there could be timely scrutiny of their accounts and performance by Parliament and by the Committee.” PAC also reported that 25 statutory boards presented their annual reports six months or more after the end of their financial year, and 14 statutory boards had yet to present their annual reports and financial statements, more than nine months after the end of their financial year as at the date of its report. PAC hence recommended that in line with good governance practices, statutory boards should “take steps to ensure that the six-month deadline is adhered to” and that “supervising ministries should ensure that the boards comply with this requirement”.

66. In a survey done by AGO, it was noted that 10 statutory boards did not present their financial year 2006/07² annual reports and/or audited financial statements to Parliament within the six-month time frame recommended by PAC. Three of these boards had also been late for the previous two years. In a fourth case, the audited financial statements for the previous two financial years were inadvertently not presented to Parliament.

67. Following AGO's observation, the Ministry of Finance conducted a briefing and issued a circular to remind ministries and statutory boards to comply with PAC's recommendation.

1 An entity as defined in section 2 of the Accounting Standards Act 2007.

2 This covers financial years ending 31 December 2006 and 31 March 2007.

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PART III

(A)

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

(B)

**SELECTED AUDIT OBSERVATIONS
ON GOVERNMENT-OWNED COMPANIES
AND OTHER ACCOUNTS**

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

Government-owned Companies

1. During the financial year 2007/08, the accounts of the following six Government-owned companies were audited by AGO under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition):

- (i) GICAM Pte Ltd
- (ii) GIC Asset Management Private Limited
- (iii) GIC Real Estate Private Limited
- (iv) GIC Special Investments Private Limited
- (v) Government of Singapore Investment Corporation Private Limited
- (vi) MND Holdings (Private) Limited

2. Unqualified audit opinions were issued on these accounts.

Other Accounts

3. At the request of the President, AGO audited the accounts of the President's Challenge 2006 under section 4(1)(b) of the Audit Act.

4. The Workers' Fund accounts are audited annually by AGO as provided for under the Workmen's Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2).

5. The above audits have been completed and unqualified audit opinions were issued.

6. The ASEAN Cultural Fund (Singapore) is audited annually by AGO as required under an ASEAN agreement. The audit for the financial year ended 31 May 2007 was completed on 26 July 2007 and the audit for the current financial year is in progress.

ACKNOWLEDGEMENT

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

PART III B : SELECTED AUDIT OBSERVATIONS ON GOVERNMENT-OWNED COMPANIES AND OTHER ACCOUNTS

1. Selected observations arising from the audits of the Government-owned companies and other accounts (see Part III A) are summarised in the paragraphs below.

GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PRIVATE LIMITED

Lapse in Control Over Processing of Payment

2. AGO observed an instance where the staff processing payment in the Government of Singapore Investment Corporation Private Limited (GIC) made payment to a fund manager on an invoice for US\$3.39 million without sighting proper documentation of approval of the quantum. This related to the final payment to the fund manager before a revised fee schedule in the fund management agreement took effect. As there was no specific provision in the agreement for the computation of such final payment, approval for the payment quantum was required from the designated approving authority.

3. GIC explained that the payment quantum was correct as this was agreed with the fund manager and that the relevant approving authority had approved the payment in the conversion to the revised fee schedule. However, AGO noted that the staff processing payment did not sight documentation of this before making the payment. This is a lapse in control in the payment process.

4. GIC agreed to ensure that appropriate supporting document is sighted before effecting payments.

PRESIDENT'S CHALLENGE 2006

5. The President's Challenge (PC) is an annual series of community-based activities initiated by President S R Nathan to raise funds for the less fortunate. The main bodies involved in the organisation and administration of the PC are the Ministry of Community Development, Youth and Sports and the National Council of Social Service (NCSS). The Ministry functions as the Secretariat whilst NCSS receives money from donors and fund-raisers on behalf of PC, issues tax-exempt receipts to them and makes disbursements to PC beneficiaries.

6. In the course of the audit of the PC 2006 accounts, AGO recommended to the Ministry and NCSS a number of refinements to their internal control procedures which have since been accepted and acted upon. These included better documentation of policies, procedures and roles (of the Ministry, NCSS and fund-raising event organisers), and checking and reconciliation of accounting records.

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.

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. 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).

4. 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.

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 audits which include examining controls of selected financial systems, test-checking accounting and other records, and reviewing the effectiveness and efficiency of selected programmes and activities.

Powers of Auditor-General

7. The Audit Act provides 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.

APPENDIX II : CRITERIA FOR APPOINTMENT OF AUDITORS

1. In 2007, AGO reviewed the criteria for the appointment of auditors (which were based on the recommendations of the Public Accounts Committee in 2004) and made the following changes:
 - (a) If a director/partner is suspended or inflicted with punishment under the Accountants Act (Cap. 2, 2005 Revised Edition), only the director/partner concerned is debarred, not the whole accounting corporation/firm/limited liability partnership (LLP), unless it is the accounting corporation/firm/LLP itself that is inflicted with the punishment by the Public Accountants Oversight Committee¹.
 - (b) The period of debarment was reduced from 10 to 5 years for suspension or de-registration, and from five to three years for other penalties as the original criteria were deemed overly stringent considering that the maximum period of suspension or de-registration is two years under the Accountants Act.
 - (c) Debarment would also be imposed on an auditor who was suspended or de-registered for failing to pass a practice review carried out under the Accountants Act, or who was found by a Court to have been professionally negligent or to have failed to exercise due care in an audit. Such situations were not covered under the original criteria.
2. These changes have the endorsement of the Public Accounts Committee.
3. The revised set of criteria which took effect from 2008 is shown below (overleaf).

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

APPENDIX II — *continued*

Criteria for Appointment of Auditors

- (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 not already been the auditor of the statutory board concerned for the past five consecutive years.

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.

APPENDIX II — *continued*

4. Criteria (i) to (iv) give 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 or adverse judgment by a Court. Criterion (v) provides for the rotation of auditors. Application note (a) ensures no double penalty for the same case of professional misconduct, while application note (b) ensures that only the directors/partners concerned are debarred, not the whole corporation, firm or LLP.

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