

REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2010/11



AUDITOR-GENERAL'S OFFICE

15 July 2011

Mr S R Nathan
President
Republic of Singapore

Dear Mr President

In accordance with the provisions of the Audit Act (Cap. 17, 1999 Revised Edition), I am pleased to submit my Report on the audits carried out for the financial year 2010/11.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lim Soo Ping'.

Lim Soo Ping
Auditor-General

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REPORT
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Auditor-General's Office
Singapore

MISSION

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

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OVERVIEW

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OVERVIEW

I am pleased to present my Report on the audits carried out by the Auditor-General's Office (AGO) for the financial year 2010/11.

The audits were conducted pursuant to the Constitution of the Republic of Singapore (1999 Revised Edition), the Audit Act (Cap. 17, 1999 Revised Edition), the Financial Procedure Act (Cap. 109, 1992 Revised Edition) and other relevant Acts. Details of AGO's audit authority are in Appendix I.

Conduct of Audits

AGO's audits are broadly categorised into financial statements audits and selective audits¹. The audits help give assurance to the President, Parliament and the public on the proper accounting, management and use of public funds and resources. This strengthens the accountability of public sector bodies as custodians and stewards of public funds and resources.

With regard to financial statements audits, AGO audits the Government Financial Statements every year. AGO also audits the financial statements of a number of statutory boards; where AGO is not the auditor of the financial statements of a statutory board, the board would appoint a commercial auditor in consultation with the Auditor-General.

As for selective audits, these are carried out on statutory boards and Government funds in rotation.

AGO's audits are carried out on a test check basis and therefore would not reveal all irregularities. However, they should enable me to discover some of the occasional serious lapses.

Audit findings are conveyed to the Government ministries, statutory boards and other entities audited by way of "management letters". In the case of statutory boards, the management letters are also sent to their supervising ministries.

¹ A selective audit involves checking for financial regularity and ascertaining whether there has been excess, extravagance, or gross inefficiency tantamount to waste and whether measures to prevent them are in place.

Report of the Auditor-General

The Report of the Auditor-General is submitted to the President and presented to Parliament. The Public Accounts Committee deliberates on the Report and, where necessary, requires the Government ministries and statutory boards concerned to account for the irregularities reported. I attend the meetings of the Committee to provide clarification and views on matters discussed.

The audit findings in the Report are generally the more significant ones in terms of monetary value, frequency of occurrence or impact on accounting. Smaller lapses are also reported where they point to significant or systemic weaknesses in internal control. If not addressed, such weaknesses could lead to significant losses.

Audits for Financial Year 2010/11

For the financial year 2010/11, AGO audited the Government Financial Statements (comprising the accounts of all Government ministries and organs of state), four Government funds and 10 statutory boards. AGO also investigated 13 complaints on matters relating to the management and use of public funds and resources.

During the year, AGO also audited the financial statements of five Government-owned companies and five other accounts.

Part I of this Report is on the audit of the Government Financial Statements and on selected observations from the audit of Government ministries, organs of state and Government funds.

Part II is on the audit of statutory boards and presents selected observations from these audits.

Part III covers the audit of the financial statements of Government-owned companies and other accounts.

Highlights of Audit Observations

This year, many of the lapses found in the audits of Government ministries and statutory boards are in procurement. They arose when the Government procurement rules and principles of transparency, and open and fair competition were not adhered to. Examples are waiving competition based on weak grounds, setting an unrealistically short period for submission of bids thereby limiting competition, not giving equal opportunity to tenderers to revise their bid price when requirements were changed, and accepting a tender which did not meet tender specifications. It is important that officers not only observe procurement rules, but also uphold the principles underlying public sector procurement.

A key financial control in procurement is the scrutiny accorded by the tender approving authority. AGO found instances of inaccurate or incomplete information provided to tender approving authorities for their decision on acceptance of a tender. In the last few years, AGO has reported a number of such cases including one where a purchase commitment was made even before approval of the tender approving authority was sought to accept the tender. Public officers must exercise due diligence to ensure that accurate and complete information pertaining to tenders is provided to a tender approving authority. Only then can the approving authority make an informed decision. The role of a tender approving authority must not be regarded as perfunctory.

In the last four years, I have reported lapses in projects involving external parties appointed as project managers or consultants. This year's audits found two projects managed by an external party where lapses were pervasive resulting in a Government department being grossly overcharged and making large payments for materials before delivery. It cannot be over-emphasised that public agencies must not over-rely on external parties, acting on their behalf, to comply with Government control procedures on procurement and payment. They may not share the same values and instincts expected of public officers, with regard to financial prudence. Public agencies should be circumspect when reviewing the work or recommendations of external parties. Financial prudence cannot be outsourced.

I note that the lapses found were largely due to administrative expediency taking precedence over financial prudence. The agencies concerned can do more to ensure adequate financial vigilance in their procurement and payment practices.

Good Governance Guides for Statutory Boards

In my Report last year, I mentioned that AGO had presented two guides, namely “Good Governance Principles for Statutory Boards” and “Implementation Guidelines on Internal Auditing in Statutory Boards”, to the Ministry of Finance (MOF), with a recommendation that they be considered for adoption by statutory boards.

MOF has since circulated the two guides to statutory boards which they can refer to and adopt taking into consideration their needs and circumstances.

Amending the Audit Act

In 2009, AGO submitted a report to the Prime Minister with recommendations for enhancing the effectiveness of AGO’s audits of statutory boards. In the report, AGO recommended placing the mandate to audit statutory boards under one umbrella legislation, i.e. the Audit Act, together with the mandate to audit Government ministries and organs of state. The Prime Minister’s Office has since agreed that the Auditor-General should have the legal mandate to audit all statutory boards and to have this provision included in the Audit Act. AGO will work with the relevant Government agencies on the amendments to the Audit Act.

Enhancing Audit Coverage

For statutory boards, since the financial year 2007/08, AGO has been conducting mainly selective audits² while their financial statements are audited by commercial auditors appointed in consultation with the Auditor-General. This approach has freed up resources to help AGO audit statutory boards more frequently. As the focus of a selective audit is on checking for financial regularity and ascertaining whether there has been excess, extravagance or gross inefficiency in the management and use of public funds and resources, this approach also enables AGO to contribute more to improving public sector processes and practices in the management and use of public funds and resources.

² The authority for selective audits of statutory boards is provided for under an MOF circular, read with section 4(4) of the Audit Act. The circular was first issued in 1972 and replaced in March 2011.

As for Government ministries and departments, AGO's audits are focused on checks to enable AGO to render an opinion on the Government Financial Statements. A selective audit is carried out only as and when there are indications, usually arising from the audit of the Government Financial Statements or public complaints, that a specific area requires closer audit scrutiny. AGO's recent audits have shown that Government departments are no less vulnerable to lapses than statutory boards in the management and use of public funds and resources. As Government departments should not be different from statutory boards insofar as accountability in the management and use of public funds and resources is concerned, I intend to schedule Government departments for selective audits in rotation, just like for statutory boards, if resources permit.

In 2011, the Public Accounts Committee recommended that statutory boards be audited by AGO at least once every five years. The current audit frequency of at least once every seven years is enabled by the increased staffing level approved in 2008. AGO will carry out a review to determine the additional resources required to implement the Committee's 2011 recommendation as well as to carry out selective audits of Government departments on a rotation basis.

Acknowledgements

I acknowledge with thanks the co-operation given to my audit teams by Government ministries, organs of state, statutory boards and other entities audited.

I also thank my staff for their professionalism, diligence and dedication to duty.

LIM SOO PING
Auditor-General
Singapore

15 July 2011

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PART I

(A)

**AUDIT OF GOVERNMENT FINANCIAL
STATEMENTS**

(B)

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

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PART 1A : AUDIT OF GOVERNMENT FINANCIAL STATEMENTS

1. The Financial Statements of the Government of Singapore for the financial year ended 31 March 2011 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) on 14 July 2011.

2. The audit has been completed and the Auditor-General issued his audit report on the Financial Statements to the Minister for Finance on 14 July 2011. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the audit report to the President on 15 July 2011.

3. The Minister is required to submit the audited Financial Statements to the President under Article 147(5) of the Constitution of the Republic of Singapore and section 18 of the Financial Procedure Act.

4. In accordance with section 8(3) of the Audit Act, the President would present to Parliament these audited Financial Statements with the audit report thereon. If Parliament is not in session, the presentation has to be within 14 days after the commencement of the next sitting of Parliament.

Acknowledgements

5. AGO would like to thank the Accountant-General's Department for its co-operation in the audit.

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

1. In the course of the audit of the Government Financial Statements (GFS), AGO carries out test checks of internal controls of selected areas in Government ministries and organs of state. As and when a test check points to irregularities or when certain matters of concern come to AGO's attention, for example, through a complaint, AGO may carry out a separate audit into the specific area concerned. The authority for such audits is provided by section 5 of the Audit Act.

2. The enabling Acts of certain Government funds within the GFS require separate accounts to be prepared and audited by the Auditor-General or another auditor. When the Auditor-General is not the auditor, the Minister concerned will appoint an auditor in consultation with the Auditor-General. In advising on the appointment, the Auditor-General would take into account the criteria listed in Appendix II. For Government funds whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation.

3. In the financial year 2010/11, AGO carried out selective audits of the following Government funds:

- (i) Edusave Endowment Fund
- (ii) Edusave Pupils Fund
- (iii) INVEST Fund
- (iv) Post-Secondary Education Fund

Acknowledgements

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

Selected Observations

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

MINISTRY OF DEFENCE

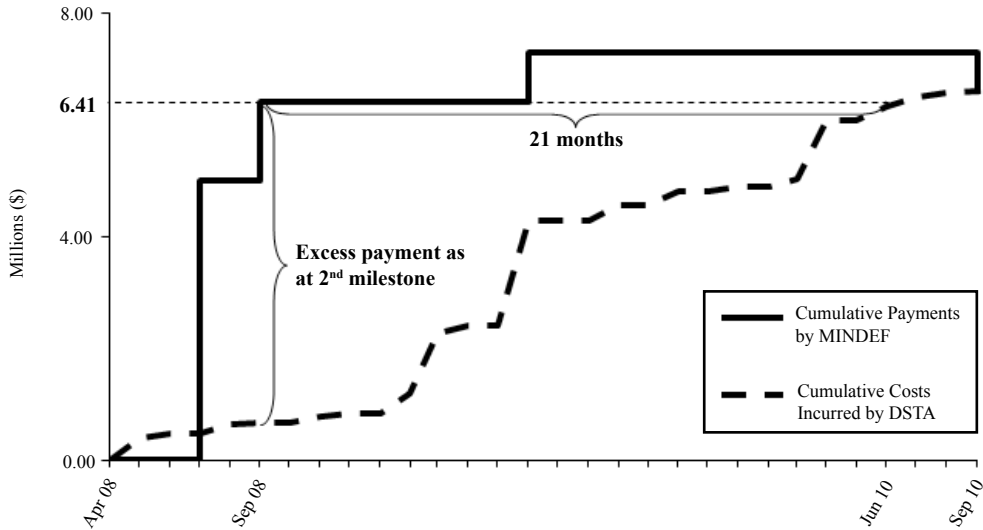
Substantial Advance Payments Made for Development Projects

6. Under Government instructions, payments should be made only after goods are delivered or services satisfactorily rendered, unless advance payment is a normal industry practice.

7. The Ministry of Defence (MINDEF) assigns development projects to the Defence Science and Technology Agency (DSTA). At specified milestones, MINDEF makes payment to DSTA based on the materials cost estimated at the time the projects are assigned. Reconciliation based on actual materials cost would be done before the final milestone.

8. AGO observed instances where payments made to DSTA at specified milestones far exceeded the actual materials cost incurred by DSTA. For example, in a certain project, by the second payment milestone, MINDEF had paid DSTA \$6.41 million which is nearly nine times in excess of the actual materials cost incurred by DSTA. This translates to about 87.8 per cent of the total estimated materials cost being paid out by the fifth month of the 29-month-long project. It took DSTA 21 months to use up this excess payment received (see graph).

Payments by MINDEF for Materials Compared to Costs Incurred by DSTA



9. MINDEF’s payment to DSTA for materials cost long before it was incurred constitutes advance payment which is unnecessary and goes against the Government instructions.

10. As at 31 March 2010, the cumulative advance payments made to DSTA for materials for various such projects were \$333 million. This is a substantial amount of Government funds being kept at DSTA. Advance payments could have been avoided if MINDEF’s arrangement with DSTA had been to pay DSTA based on actual materials cost incurred at the project milestones, which were available at the time of payment, instead of costs estimated at the time of project assignment.

11. In May 2011, MINDEF informed AGO that it had since reviewed the payment schedules with DSTA; the cumulative advance payments as at 31 March 2011 had been reduced to \$90 million. MINDEF would continue to carry out such reviews, on a quarterly basis, to ensure that payments made to DSTA are to meet obligations due in the short-term only.

Lapses in Verifying Project Assets Acquired

12. In a certain project that commenced in 1998, one and a half years after the project was completed and final payment made in January 2009, MINDEF was still trying to verify the asset handover lists provided by DSTA. Many discrepancies were found with regard to the quantity and identification of the assets (such as computers and printers). AGO was not able to conclude whether the assets (involving materials cost of about \$11 million) which MINDEF had paid for were received in good order.

13. MINDEF informed AGO in May 2011 that it had since verified and reconciled the assets handed over by DSTA with the delivery orders and other supporting documents.

Lapses in Monitoring and Recovery of Outstanding Debts

14. As at July 2009, \$3.03 million in advances had not been recovered from 358 Singapore Armed Forces (SAF) personnel who had left the service. Of this amount, about \$1.78 million (58.7 per cent) had been outstanding for more than two years.

15. MINDEF directives require adequate steps to be taken promptly to collect moneys due to the Government and to follow up on cases of non-payment. AGO's test checks revealed the following lapses in the management of debts:

- (a) No action was taken to recover the debts.
(36 cases totalling \$202,700)
- (b) Reminders and letters of demand for payment were not promptly issued.
(22 cases totalling \$364,000)
- (c) Information needed by the Attorney-General's Chambers to initiate legal action was not furnished promptly.
(25 cases totalling \$348,000)
- (d) No action was taken to file proof of claim with the Official Assignee for the outstanding debts of ex-SAF personnel who were made bankrupt.
(5 cases totalling \$87,000)

16. Following AGO's observations, MINDEF took action to recover the outstanding debts and reminded its external recovery agency to adhere to MINDEF's requirements. It also formed a task force to review and tighten the controls over the debt recovery process.

17. According to MINDEF, as at April 2011, almost half of the outstanding cases had been recovered or written off. Arising from the task force's review, improvements were also implemented. These include automating the debt recovery process, monthly reporting of outstanding debts and putting in place standard operating procedures.

MINISTRY OF EDUCATION

Excess Withdrawals from Post-Secondary Education Fund

18. The Post-Secondary Education (PSE) Fund was established in January 2008 to help parents save for their children's post-secondary education. The Fund comprises individual PSE accounts kept for each eligible child. The Fund is administered by the Ministry of Education.

19. Moneys in the accounts can be withdrawn to pay fees and charges for certain courses or programmes at approved institutions attended by the PSE account holders or their siblings. In the financial year 2009/10, \$40.59 million from the Fund was used. Under arrangements with the Ministry, the institutions concerned would receive students' applications for withdrawals from their PSE accounts, determine the fees and charges to be borne by the applicants and submit the withdrawal claims to the Ministry for processing. The Ministry would inform the PSE account holders of all transactions affecting their accounts through a monthly Statement of Account.

20. AGO carried out test checks at selected institutions and observed at one private institution excess withdrawals from the Fund for payment of tuition fees and overseas study trips.

Tuition Fees

21. AGO's test checks found 1,629 instances of excess withdrawals totalling \$237,813. The excess withdrawals arose from duplicate claims, and claims for payment of full tuition fees when these had already been partly or fully paid through scholarship/bursary awards or other means.

22. The excess amounts withdrawn were not refunded to the PSE accounts but held by the institution to pay the students' tuition fees for subsequent semesters. AGO noted that as at 30 November 2010, the excess held per affected student ranged from \$2 to \$4,000, and five of the affected students had left the institution as far back as 15 months earlier. Not returning the excess would deprive the affected students of the availability of the moneys for other programmes.

23. Under the law¹, the institutions can retain the excess withdrawals if so allowed by the Ministry. AGO understands that the Ministry's position is that institutions should not be keeping excess amounts to meet anticipated future payments but this was not communicated to the institutions.

Overseas Study Trips

24. AGO's test checks found several instances of excess withdrawals and the unused amounts were not returned to the Fund. This arose because the institution allowed students to withdraw funds in excess of the fees quoted by travel agents. The institution did not verify the actual amounts paid by the students for the trips and did not require students to return any unused amounts to the Fund.

25. AGO recommended that the Ministry introduce measures to ensure that institutions withdraw from PSE accounts only what is needed and that excess withdrawals are refunded promptly to the affected accounts.

26. The Ministry informed AGO that the private institution has since completed refunding the excess amounts to the affected PSE accounts, and the institution would implement checks to ensure that unused amounts are returned promptly to the Fund. The Ministry would also share the lessons learnt from this institution's handling of PSE funds with all other approved institutions to improve the PSE-related processes, including the need to refund excess withdrawals promptly.

¹ Education Endowment and Savings Schemes (Post-Secondary Education Scheme) Regulations (Cap. 87A, Rg 3)

MINISTRY OF FINANCE

VITAL

Weak Access Controls in Computer Systems

27. To reduce the risk of fraudulent or unauthorised transactions being put through computer systems, it is important that access is granted on a need basis. Access no longer required by users to perform assigned functions should be removed immediately.

28. AGO's test checks revealed that Vital, a department under the Ministry of Finance, had granted 33 officers access rights to the Government-wide accounting and payroll systems in excess of what they required to perform their assigned functions. In addition, there was a delay of 3 to 24 months in removing access rights of eight officers who no longer needed access to the systems because of resignation, transfer or change of duties.

29. Vital informed AGO that it would take action to remove the access rights which were not required. It would also improve its procedures and tighten controls to address the weaknesses.

MINISTRY OF HOME AFFAIRS

Lapses in Administration of INVEST Fund

30. The INVEST Fund was established on 1 October 2001 as a retirement fund for the uniformed service officers of the Ministry of Home Affairs. Among other things, the Home Affairs Uniformed Services (INVEST Fund) Regulations (Cap. 126B, Rg 1) prescribe how the Fund is to be administered and the various accounts to be maintained within the Fund to meet various objectives.

31. AGO's test checks revealed a number of lapses in the administration of the Fund. These include:

- (a) The law requires expenses for administering the Fund to be charged to the Fund, i.e. borne by members of the Fund. However, the expenses for the last nine years had been wrongly charged to the Government. The expenses for administering the Fund in the financial years 2009/10 and 2010/11 were \$1.00 million and \$1.02 million respectively.
- (b) \$7.23 million of investment income was wrongly put into a particular account in the Fund. The law does not allow investment income to be put into this account.

32. The Ministry informed AGO that it would take the necessary actions to rectify the lapses and ensure compliance with the law.

SINGAPORE POLICE FORCE

Irregularities in Procurement and Payment

33. AGO audited two projects (totalling \$6.86 million in value) undertaken by the Police Coast Guard (PCG) of the Singapore Police Force (SPF) in the financial year 2009/10. The audit revealed irregularities at every stage of the projects, namely purchase commitment and approval stage, contract management stage and payment stage. PCG engaged a project management company to manage these projects.

34. AGO found that there was purchase commitment in excess of the approved budget (in one project), inappropriate use of term contracts, gross overcharging for materials, materials not delivered at time of payment, delivered materials not meeting specifications, and possible falsification of documents provided to AGO by the project manager (from the project management company) as proof of delivery of goods and services.

35. Details of the audit observations are in the following paragraphs.

PROJECT 1 – Supply of Floating Sea Barriers

36. This project, costing \$5.73 million, involved the supply and installation of floating sea barriers (FSBs) at various coastal locations. At the time of audit, \$4.40 million had been paid to the two term contractors who carried out the project. In addition, \$198,116 had been paid to the project management company as fees.

Purchase Commitment Exceeded Approved Budget

37. PCG committed to purchases worth \$5.73 million. This exceeded the approved project budget of \$4.76 million.

38. SPF explained that the additional purchases were justifiable and needed operationally, and approval would have been given if sought.

Inappropriate Use of Term Contracts

39. For this project, PCG had inappropriately used two existing “Addition & Alteration” (A&A) term contracts meant for general repairs, upgrading and additional works to existing buildings, facilities and structures belonging to the Ministry of Home Affairs. The works and materials required for the FSB project are fundamentally different from those covered by the A&A term contracts. The FSBs are floating devices installed out at sea and the materials required include:

- (a) High-density polyethylene (HDPE) drums in-filled with polyurethane foam
- (b) Marker buoys (with LED signalling lights)
- (c) Stainless steel chains and shackles
- (d) Concrete sinkers

40. As the use of the A&A term contracts is not appropriate for this project, tenders should have been called in accordance with Government instructions. Without calling tenders, there is no assurance that the procurement was open, fair and transparent, and that the price paid was reasonable.

41. According to PCG, it had used the A&A term contracts for this project in view of the operational urgency to install the FSBs.

Inappropriate Pricing of FSB Items

42. Under the A&A term contracts, works carried out are charged using the prices spelled out in a Schedule of Rates in the contracts. For the FSBs, most of the items are not in the Schedule. Instead, items in the Schedule (and in some cases from another contract) were used as proxies to price the FSB items when this was clearly inappropriate. For example, PVC duct (for air-conditioning and ventilation works) was used as a proxy to price the HDPE drums.

PCG Overcharged by about \$0.89 million

43. The pricing of the FSB items using inappropriate proxies resulted in PCG being grossly overcharged. In respect of two items (for which AGO was able to obtain market prices), PCG was overcharged by an estimated \$885,000 (20.2 per cent of the amount paid):

- (i) For the HDPE drums, the pricing based on PVC duct for air-conditioning and ventilation works was two to three times the market price of the drums. AGO estimates the amount overcharged to be \$712,000.
- (ii) For steel shackles, the pricing was based on shackles of a larger size (with installation) than the shackles required and delivered (without installation). AGO estimates the amount overcharged to be \$173,000.

Payment for Materials Not Delivered

44. At the time of the audit, a total of \$4.40 million had been paid to the two term contractors. This was based on certification by the project manager that the materials had been delivered. However, AGO's test checks showed that at least \$1.65 million (37.5 per cent) worth of materials had not been delivered at the time of payment. At the time of the audit in November 2010, seven months after the payment, some of the materials had still not been delivered. Payment before delivery of goods is in breach of the Financial Regulations (Cap. 109, Rg 1). SPF informed AGO that it had since conducted a stock-take in April 2011 and all the materials paid for were accounted for.

Payments Made for Materials Not Meeting Specifications

45. A significant portion of the materials paid for did not meet PCG's specifications. For example, the HDPE drums supplied by one term contractor were of 200 litres capacity although PCG required drums of 220 litres capacity. SPF explained that its operations had not been compromised although 200 litres drums were used.

Failure in Payment Control

46. In processing payment claims from the term contractors, the Certifying Officer checked only the correctness of the expenditure account code and cost centre to charge the payments to. This is not enough to comply with the Financial Regulations (Cap. 109, Rg 1) which also requires the Certifying Officer to check, inter alia, that the prices charged are as contracted for.

Documents could have been Falsified

47. During the audit, AGO observed telltale signs of falsification in documents provided to AGO by the project manager to support payments of \$2.64 million to one term contractor. AGO recommended that the matter be investigated.

48. In response to AGO's findings, SPF explained that the FSB project was a totally new initiative launched with urgency and without previous experience as reference. Considering the time criticality, cost and suitability of open market products, the decision then was to use the A&A term contracts. SPF acknowledged that there were lapses in the procurement including the use of the A&A term contracts, and in the making of payments in the FSB project. It has since taken immediate corrective actions. These include:

- (a) Studying the feasibility of recovering from the A&A term contractors the amount that PCG was overcharged and the corresponding fees paid to the project management company;
- (b) Rectifying the lapses in the procurement and payment control systems to be in line with the Government instructions and the Ministry's directives on procurement and payment; and
- (c) Putting in place an oversight mechanism to ensure the integrity of the procurement and payment processes.

49. AGO was also informed that the possible falsification of documents has been referred to the Commercial Affairs Department.

PROJECT 2 – Repair Works on a Coastal Barrier

50. This project involved the repair of a coastal barrier. The total project cost of \$1.13 million has been fully paid. AGO found irregularities of the same nature as those in the FSB project.

Inappropriate Use of Term Contract

51. Instead of calling open tender, PCG made use of one of the existing A&A term contracts. The works required for this project entailed the use of granite rocks to seal openings underneath the barrier.

52. The materials and works are different from those under the term contract; these were not found in the Schedule of Rates of the A&A term contract, for example, hiring of barges and tug boats, and hydrographic survey. (The prices from a different contract were used instead.)

53. This is therefore another instance of inappropriate use of the A&A term contract.

PCG could have been Overcharged

54. PCG paid \$870,443 for 19,369 cubic metres of granite purportedly used for the works. Based on AGO's site inspection, the quantity of granite used is estimated to be less than half of the quantity paid for and hence, PCG was likely to have been overcharged.

Document could have been Falsified

55. The contractor was required to carry out a post-hydrographic survey and submit the survey report to the relevant public authority. PCG paid \$25,680 in March 2010 for the survey based on the project manager's certification that the survey had been carried out.

56. The document provided to AGO by the project manager as proof of work done before payment was a post-hydrographic survey report dated March 2010. AGO observed telltale signs of falsification in the contents of the document. This is reinforced by AGO's check with the public authority which showed that a post-hydrographic survey was conducted only in March 2011, i.e. after AGO asked PCG for the supporting document.

57. AGO recommended that the matter be investigated.

Failure in Payment Control

58. As in the case of the FSB project, when processing the payment claims, the Certifying Officer did not verify that the prices charged were as contracted for.

59. In response to AGO's findings, SPF acknowledged that there were lapses in the procurement and payment of the project, and has since taken immediate corrective actions as in the case of the FSB project. With regard to the possible overcharging for materials not used, PCG has engaged a professional surveyor to ascertain the volume of the granite actually used in order to determine the appropriate follow-up actions to be taken. AGO was also informed that SPF has referred to the Commercial Affairs Department the possible falsification of the survey report.

60. In light of the lapses in the two projects, the Ministry of Home Affairs informed AGO that it would be issuing a letter to the project management company on the lapses found and on the need to exercise greater vigilance. The Ministry takes a serious view of the lapses and would be issuing a directive to guide its departments on the proper use of term contracts and their dealings with contractors and project managers.

Lapses in IT Security

61. The Traffic Police Department (TPD) of the Singapore Police Force (SPF) collected \$38.25 million in traffic fines and \$7.70 million in driving licence fees in the financial year 2009/10. TPD uses two systems, namely the Traffic Incident Management System (TIMS) and the Electronic Licensing and Testing System (ELITES), to record revenue collection, and related traffic offences and drivers' records. The Police Technology Department (PTD) provides support to TPD including overseeing the work of the IT contractor engaged to maintain the systems.

62. AGO's test checks revealed various lapses in access controls for the two systems, for example:

- (a) Access rights were not granted on the basis of need, contrary to Government instructions on IT security. Six users who were not System Administrators were given privileged rights in TIMS. Seven users were given access rights to create and update records in ELITES when such access was not needed for their work. The IT contractor and PTD officers were given permanent and unrestricted access to TIMS and/or ELITES, when they only needed the access on an ad hoc basis for troubleshooting purpose.
- (b) There were no periodic reviews of user accounts in the systems, including those of privileged users, to ensure that the access rights given are appropriate and still needed. Government instructions require such periodic checks to be carried out.
- (c) The activity logs of privileged users in both systems were not reviewed. The Government's Infocomm Security Best Practices recommend such periodic reviews to ensure that activities performed by privileged users are authorised and legitimate.

63. SPF informed AGO that TPD has since taken immediate action to revoke the access rights no longer needed. TPD would also carry out monthly reviews of access rights to remove those that are no longer needed. SPF also informed AGO that, notwithstanding the above control lapses, it did not come across incidents which indicated that the integrity of the systems had been compromised.

MINISTRY OF NATIONAL DEVELOPMENT

Lapses in Contract Management (National Parks Board)

64. AGO test-checked the expenditure on a park development project (carried out under two construction contracts and a consultancy service contract, totalling \$13.04 million in value). The checks revealed the following lapses in the management of the project by the National Parks Board (NParks) acting as agent of the Ministry of National Development.

Incorrect Payments

65. There was an incorrect payment of \$50,000 made under one of the construction contracts. The contract provided for a provisional sum² for certain works with a 10 per cent mark-up (amounting to \$50,000) to be added to the price of these works. In the course of the project, NParks decided to omit the works from the construction contract (and have it carried out separately by another contractor). However, AGO noted that the \$50,000 was still paid to the contractor who was no longer required to carry out the works.

66. In the other construction contract, errors were found in the valuation of variation works resulting in overpayment of \$11,987 to the contractor.

67. NParks explained that in making the above payments, it had followed the recommendations of its consultant. The Ministry informed AGO that NParks has since recovered the amounts from the contractors and has put in place measures to ensure that similar oversights are minimised.

² Amount set aside for work to be carried out only upon instruction by the Superintending Officer for the project.

Late Payments

68. The Building and Construction Industry Security of Payment Act (Cap. 30B, 2006 Revised Edition) stipulates time frames for responding to a payment claim, and for making payment. AGO's test checks revealed the following instances where NParks did not adhere to the stipulated time frames:

- (a) Five instances of late response to contractors' claims (duration as long as 42 days), totalling \$1.65 million; and
- (b) Three instances of late payment to contractors (duration as long as 25 days), totalling \$2.70 million.

69. AGO also found 27 instances of late payment to consultants; two of the payments were made more than 13 months after the stipulated contractual time frame³. The late payments amounted to \$0.48 million.

70. Late payment or response to a payment claim may cause the claimant to apply for adjudication under the Act. In the case of late response to a payment claim, the agency concerned risks becoming legally liable to pay the full amount claimed, even if there is an underlying need for the agency to withhold the amount.

71. The Ministry informed AGO that the bulk of these instances of late payment were before 2009 and NParks has since streamlined its payment system to prevent future occurrences.

Weaknesses in IT System (Urban Redevelopment Authority)

72. Under the Planning Act (Cap. 232, 1998 Revised Edition), the Government imposes development charges (DCs) on the increase in land value which results from the Government approving a higher value development proposal for that land. DCs are collected from developers by the Urban Redevelopment Authority (URA) on behalf of the Ministry of National Development. The total DC collected in the financial year 2010/11 amounted to \$548.45 million.

³ The time frame for making payment as stipulated in the Act is not applicable to these 27 instances as the consultancy service contract was entered into before the Act came into effect.

73. The URA uses an IT application system to compute the amount of DC based on the gross floor area, the applicable DC rate and other factors. AGO's test checks revealed three cases of incorrect DC computation, as a result of certain limitations in the system design. Of these, two cases led to over-collection of DCs totalling \$20,443 and one case led to under-collection of \$58.

74. It was also observed that the system allowed Approving Officers (AOs) to amend the data that had been submitted by their officers for approval, and subsequently approve the DC amount computed based on the data they themselves had amended. To ensure effective segregation of duties, an AO should not be able to amend data submitted for his approval.

75. AGO also observed that some of the logs in the system were incomplete. For example, in one instance the approved DC amount and related supporting figures were not captured in the relevant log owing to a system defect.

76. URA informed AGO that it has since refunded the DCs in the two cases of over-collection and recovered the under-collection in the remaining case. It has also reviewed all DCs imposed from December 2007 and found no other discrepancies. In addition, URA has taken action to enhance the IT controls including removing the AO's access rights to amend data in the system.

MINISTRY OF TRADE AND INDUSTRY

Non-compliance with Public Service Division's Directive

77. The Economic Development Board (EDB) is required under a circular issued by the Public Service Division (PSD) to seek approval of the Permanent Secretary (PS) of its supervising ministry i.e. the Ministry of Trade and Industry when setting salaries and other conditions of services. The circular also requires the PS to seek, and take into account, the views of PSD when giving such approval.

78. AGO observed that the PS of the Ministry delegated his authority to approve such matters to EDB with effect from February 2007. Since then EDB has made various changes to its staff salary structure and conditions of service but did not seek the views of PSD on these changes.

79. Although the Ministry has delegated its authority on such matters to EDB, it remains responsible for ensuring compliance with the requirements in the PSD circular. AGO recommended that the Ministry work with EDB to establish procedures for consulting PSD before EDB decides on matters relating to staff salaries and conditions of service.

PART II

AUDIT OF STATUTORY BOARDS

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PART II : AUDIT OF STATUTORY BOARDS

Financial Statements Audits

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

2. The Acts of most statutory boards require their accounts to be audited by the Auditor-General or another auditor. When the Auditor-General is not the auditor, the Minister concerned will appoint an auditor in consultation with the Auditor-General. In advising on the appointment, the Auditor-General would take into account the criteria listed in Appendix II.

3. AGO audited the financial statements of the following three statutory boards for the financial year 2010/11:

- (i) Accounting and Corporate Regulatory Authority
- (ii) Inland Revenue Authority of Singapore
- (iii) Monetary Authority of Singapore¹

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

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

Selective Audits

4. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation. A selective audit is an independent selective examination of activities and operations, carried out in relation to the accounts, to check for financial regularity (not for the purpose of rendering an opinion on the financial statements), and to ascertain whether there has been excess, extravagance, or gross inefficiency tantamount to waste, and whether measures to prevent them are in place. The authority for selective audits of statutory boards is provided for under a Ministry of Finance circular, read with section 4(4) of the Audit Act.

5. In the financial year 2010/11, AGO carried out selective audits of the following seven statutory boards:

- (i) Building and Construction Authority
- (ii) Central Provident Fund Board
- (iii) Economic Development Board
- (iv) Housing and Development Board
- (v) International Enterprise Singapore Board
- (vi) Land Transport Authority of Singapore
- (vii) Maritime and Port Authority of Singapore

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

Acknowledgements

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

Selected Observations

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

MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS

MAJLIS UGAMA ISLAM SINGAPURA

No Compelling Reasons for Waivers of Competition

9. Arising from a complaint, AGO carried out test checks of selected IT contracts awarded by Majlis Ugama Islam Singapura (MUIS). AGO found that between 2005 and 2010, MUIS awarded nine contracts for IT services (at a total cost of \$438,550) to the incumbent vendor without competition even though there were no compelling reasons for waiver of competition. The reasons given by MUIS included the risks of a new vendor having a longer learning curve and being less flexible and less reliable than the incumbent; and that the incumbent had in-depth knowledge of the operations.

10. Two of these contracts, each of one-year duration, were awarded in 2008 and 2009 for maintenance of an application system. The contract price was \$23,985 and \$26,460 respectively. In 2010, when an open procurement exercise was carried out, the contract for maintenance of this application system was awarded to a new vendor at \$12,000, which was less than half the prices of the previous contracts. This indicates that MUIS could have paid less had the earlier purchases been open to competitive bids.

11. MUIS has taken note of the above observation.

MINISTRY OF FINANCE

INLAND REVENUE AUTHORITY OF SINGAPORE

Inadequate Controls over Certain Taxpayers' Records

12. The Inland Revenue Authority of Singapore (IRAS) maintains records of taxpayers in a computerised system.

13. AGO carried out an audit of the tax clearance process for foreigners leaving Singapore. The audit revealed a risk of fraudulent tax refunds as controls were inadequate to prevent or detect unauthorised creation of taxpayers' records and amendment of critical information in taxpayers' records. Hence, there is a need for tighter controls in order to reduce the risk of fraudulent tax refunds made from the accounts of these taxpayers.

14. IRAS informed AGO that it has since checked these taxpayers' records for 2009 and 2010 and confirmed that there were no unauthorised changes and that refunds made were in order. It has also reviewed the access rights of its officers and introduced independent checks on changes made to critical information in taxpayers' records.

MINISTRY OF INFORMATION, COMMUNICATIONS AND THE ARTS

INFO-COMMUNICATIONS DEVELOPMENT AUTHORITY OF SINGAPORE

Lapses in Procurement

15. In the course of following up on a complaint, AGO reviewed selected tenders called by the Info-communications Development Authority of Singapore (IDA). AGO's test checks revealed a number of lapses in IDA's procurement process.

Lapses in the Process of Obtaining Revised Bids

16. IDA called a tender (estimated value of \$2.48 million) to appoint a panel of vendors to provide manpower services.

17. As the basis for pricing the contract fees was not made clear in the requirement specifications, after the tender had closed, IDA clarified its intended basis with seven tenderers who had been shortlisted. Four of the tenderers revised their bid prices.

18. AGO observed that there was no assurance that IDA's process of obtaining revised bids was fair and non-discriminatory. There was no evidence that all seven tenderers were given the same information and equal opportunity to revise their bids within a stipulated common deadline. AGO noted that there was no documentation of what IDA communicated to two of the tenderers as the communication was by phone. Furthermore, one of the revised bids was also not in line with the pricing basis intended by IDA. Eventually all seven tenderers were appointed to the panel.

19. In another tender (estimated value of \$464,000), IDA did not obtain approval before accepting pricing alterations made by tenderers after the tender had closed. IDA acknowledged that this is not in accordance with Government procurement procedures. It also said that the lapse did not change the outcome of the selection of the successful tenderer.

Lapses in Tender Evaluation

20. AGO's test checks revealed two tenders (total estimated value of \$2.94 million) where IDA did not disqualify four tenderers for non-compliance with critical evaluation criteria specified in the tender documents. For example, a tenderer who did not meet the required financial category was not disqualified. These tenderers were awarded the tenders. This is not in line with the Government procurement principles of transparency and fairness.

Inaccurate or Incomplete Information Submitted to Approving Authorities

21. There were also five instances (in relation to three tenders) where inaccurate or incomplete information was provided to the tender approving authorities. These include not disclosing, as specifically required by Government procurement procedures, the rationale for using an alternative procurement approach i.e. "Request for Proposal" (estimated value of \$39.83 million), and wrongly stating that two tenderers were not Government-registered vendors (in relation to a tender with estimated value of \$2.48 million).

22. It is important to ensure that the tender evaluation reports are accurate and complete so that the approving authorities can make informed decisions.

23. IDA informed AGO that it has since implemented or would implement procedures to address the lapses and has reminded its staff about their responsibility to ensure that information stated in the tender evaluation reports is accurate and complete.

MINISTRY OF NATIONAL DEVELOPMENT

BUILDING AND CONSTRUCTION AUTHORITY

Mistaken Use of Waiver of Competition

24. AGO's test checks of contracts awarded by the Building and Construction Authority (BCA) revealed two contracts (with a total value of \$275,500) which should not have been awarded to a company through waiver of competition. BCA had awarded the contracts to the company on the grounds that the company owned the intellectual property (IP) rights to reuse themes and graphics that it had created in its two contracts with BCA previously.

25. Checks by AGO, however, showed that it was BCA that owned the IP rights arising from the two previous contracts with the company.

26. BCA explained that it was under the impression that the company held the IP rights as it was a "common industry practice for creative agencies to hold the IP rights". Following AGO's observation, BCA tightened controls over waivers of competition.

MINISTRY OF TRADE AND INDUSTRY

ECONOMIC DEVELOPMENT BOARD

Lapses in Procurement

27. AGO's test checks of the Economic Development Board (EDB)'s procurement process revealed a number of lapses as described below:

Contracts Without Binding Prices

28. Two period contracts for printing and production services were awarded without binding prices. The prices stated in the contracts were just indicative prices. There were also items in the contracts that were not priced.

29. EDB made purchases totalling \$230,650 under the contracts. AGO's test checks revealed instances where EDB paid more than the indicative prices, twice as much in some cases. The purchases also included \$58,875 worth of items which were not priced in the contracts. These purchases were based on prices set by the two suppliers.

30. As the prices paid for purchases under the contracts were not set through a competitive process, there is no assurance that they were fair and reasonable.

Lapse in Allowing Price Revision

31. EDB called an open tender in 2009 for renovation works. AGO observed that, after the tender was closed, EDB changed its requirements and asked one of the tenderers to revise his bid price. There was no evidence that EDB had similarly asked the other tenderers to revise their bid prices. The contract (with a value of \$484,143) was awarded to the tenderer who was allowed to revise his bid price.

32. Not allowing tenderers equal opportunity to revise their bid prices contravenes the principles of fairness and transparency which are key Government procurement principles.

Need to Assess Reasonableness of Sole Bid

33. EDB called two tenders for advertising and marketing services. AGO's test checks showed that each of the tenders had only one bidder who was subsequently awarded the contract, but there was no evidence of assessment made to ascertain whether prices offered were reasonable. The total value of the two tenders was \$2.48 million. In accordance with Government procurement procedures, such assessment should be made when fewer than three bids are received.

34. EDB informed AGO that it would implement measures to prevent such procurement lapses in future.

INTERNATIONAL ENTERPRISE SINGAPORE BOARD

Lapses in Procurement

35. AGO's test checks of procurement carried out by International Enterprise Singapore Board (IE) revealed the following:

Unduly Short Quotation Period

36. IE conducted four quotation exercises for the provision of retail space at overseas supermarkets for a food promotion event. AGO observed that the quotation period in each exercise was three days; this was unduly short given that the retail space required was not in Singapore.

37. One bid was received for each exercise. All the bids were from a company which was IE's consultant for the event whose role was, among other things, to "negotiate with retailers for space and acceptance of Singapore manufacturers' products for in-store promotion". As such, the company would have prior knowledge of IE's plan for the event which could be the reason it was able to submit the bids within the three-day quotation period.

38. The company was awarded all four contracts at the bid prices ranging from \$40,930 to \$59,070. There was no documentation to show that IE had evaluated whether the prices from the sole bidder for each quotation exercise were reasonable.

Use of Wrong Procurement Method

39. Under Government procurement procedures, tenders should be called for purchases above \$70,000. AGO observed that for the procurement of venue, catering services and guest accommodation for a trade promotion event, IE called for quotations instead of a tender as it had not included guest accommodation in estimating the procurement value.

40. IE awarded the contract at the price of \$113,032. As this exceeded the maximum value (\$80,000) allowed under Government procurement procedures for acceptance of a quotation, the quotation exercise should have been voided and a tender called.

41. IE subsequently decided to change the venue. It terminated the contract and approached two of the five vendors who had submitted quotations earlier. At the same time, IE also decided to scale down the event. The contract was awarded to one of the two vendors at a price based on the revised requirements. As there was a change in requirements that is not immaterial, fresh bids should have been called to obtain more competitive pricing.

Inaccurate or Incomplete Information Submitted to Approving Authorities

42. AGO observed four instances (in relation to three quotation exercises with total award amount of \$120,885) where inaccurate or incomplete information was provided to the approving authorities when seeking approval for the award of quotations. The lapses include submitting an incomplete listing of bids received, omitting the value of the contract to be awarded and stating the wrong price in respect of one bid.

43. It is important that complete and accurate information is presented to the approving authorities so that they can make informed decisions.

44. IE informed AGO that it would implement measures to prevent such procurement lapses in future.

MINISTRY OF TRANSPORT

LAND TRANSPORT AUTHORITY OF SINGAPORE

Acceptance of Tender Not Meeting Tender Specifications

45. AGO observed that the sole tenderer for a road camera system was awarded the \$2.16 million contract although the offer did not meet a number of technical requirements specified in the tender. Among other things, the camera system offered was not bi-directional i.e. not able to operate for both approaching and receding traffic.

46. As the Land Transport Authority of Singapore (LTA) had stipulated in the tender instructions that all tenderers were required to submit a fully compliant tender, LTA should have disqualified the tenderer. LTA's acceptance of the tender indicates that it was prepared to lower its requirement. As this was not a minor change in specifications, based on Government procurement rules, LTA should have called for fresh tenders. AGO noted that 13 companies had collected the tender documents but only one company submitted a bid. Had LTA called a fresh tender, there could have been more bidders and hence more competitive pricing.

47. LTA informed AGO that it would comply with procurement rules.

Paying More than Contract Price for Extension of Contract

48. LTA awarded a contract in 2005 for the provision of traffic wardens to carry out enforcement duties for three years with an option to extend the contract for two years at an agreed price.

49. AGO observed that LTA exercised the renewal option but agreed to pay \$547,200 instead of the contracted price of \$292,800, following an appeal by the contractor to increase the rates. Not adhering to the rates agreed upon in a contract is unfair to tenderers who submit tender proposals on the basis that a tender bid, once accepted, is contractually binding.

50. LTA explained that “if LTA had gone ahead with the contracted rates, the contractor would likely not have been able to fulfil its obligations as the labour costs had gone up significantly in 2008”. It also stated that another tender called for the supply of additional traffic warden services showed that prices had gone up substantially, and the “revised rates arising from the appeal were lower than the prices in the new tender called”, hence it accepted the appeal by the contractor.

51. Nevertheless, LTA has taken note of AGO’s view that contractual terms should be followed.

Non-compliance with Contract Specification

52. The construction of the Kallang-Paya Lebar Expressway (KPE) was carried out under various contracts awarded by LTA. AGO test-checked payments made under one of the contracts. The scope of the contract covered the design and construction of a section of the KPE.

53. Government procurement procedures require payments to be made only upon satisfactory delivery of goods and services. AGO noted that LTA had received several complaints from the public on road surface quality of the KPE soon after its opening in 2008.

54. Under the contract specifications, the contractor was required to lay the road such that the location of the asphalt joints is at lane lines (where the wheels of vehicles do not normally travel on) and not within a lane. According to LTA, the asphalt joints for this section of the KPE, unlike for other roads, are located directly under the left wheel path of vehicles and this could be the cause of the “bumpy ride phenomena”. Based on LTA’s explanation, AGO noted that the location of the asphalt joints within the lanes is not in accordance with the contract specifications.

55. AGO recommended that LTA look into measures to ensure that work done by its contractors is fully in compliance with contract specifications before payment is made.

MARITIME AND PORT AUTHORITY OF SINGAPORE

Incomplete Financial Terms in Agency Agreement

56. The Maritime and Port Authority of Singapore (MPA) is empowered to supply water to vessels under the Maritime and Port Authority of Singapore Act (Cap. 170A, 1997 Revised Edition). The law prescribes the water tariffs to be collected and, in the case of supply of water using water-boats, a distance surcharge as well.

57. The supply of water to vessels using water-boats, including the collection of distance surcharge, is carried out on MPA's behalf by an agent contracted by MPA since 1996. Under the agreement between MPA and the agent, the agent receives a fee from MPA which covers "all costs and expenses relating to the operation of the water-boats". AGO observed that the agent was also allowed to retain the distance surcharge that it collects although this is not provided for in the agreement. The agreement is silent on the distance surcharge.

58. The distance surcharge collected by the agent, besides not being featured in the agreement, is also not accounted for in MPA's revenue accounts. The total amount collected and retained by the agent since 1996 is \$14.18 million.

59. Upon AGO's query, MPA searched for and retrieved certain archived documents from 1997 which indicate that MPA had "policy intent" to allow the agent to retain the distance surcharge, in addition to being paid a water service fee. In AGO's view, MPA's "policy intent", in the interest of transparency, should be incorporated in the agreement as a term of agreement. This would also help ensure that in any renewal of the agreement or review of the service fees, the fact that distance surcharges are retained by the agent would not be inadvertently overlooked. Otherwise, this may result in the agent being over-compensated. The agreement was last renewed in 2005.

60. MPA informed AGO that it would take remedial action to reflect its intent in the water sales agreement.

Revenue from Sale of Water to Vessels could be Under-collected

61. MPA appointed 21 agents to supply water to vessels docked at ports and shipyards. The price charged for the water supplied to vessels (water tariffs) is set by MPA and it is 4 to 11 times the cost of the water. The agents collect the water tariffs from the vessel owners and remit these collections to MPA. In the financial year 2009/10, MPA collected, through these agents, \$19.77 million from the sale of water.

62. The agents are required to supply water to vessels from outlets with designated meters. These meters measure the volume of water supplied to vessels and the readings taken determine the water sales revenue collected by the agents on behalf of MPA.

63. AGO's audit revealed a risk that the volume of water supplied to vessels is not measured using the designated meters. This is because of a lack of controls to ensure that water is supplied to vessels only from outlets with the designated meters. Hence it is possible that not all water supplied to vessels is accounted for to MPA, resulting in under-collection of revenue.

64. Following AGO's observation, MPA informed AGO that it would review the current practices relating to sale of water to vessels.

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PART III

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

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

Government-owned Companies

1. The financial statements of the following five Government-owned companies for the financial year 2010/11 were audited by the Auditor-General under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition):

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

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

Other Accounts

2. At the request of the President, the Auditor-General audited the accounts of the President's Challenge 2009 under section 4(1)(b) of the Audit Act.

3. The accounts of the Deposit Insurance Fund and the Singapore Deposit Insurance Corporation Limited¹ for the financial year 2010/11 were audited by the Auditor-General as provided for under the Deposit Insurance Act (Cap. 77A, 2006 Revised Edition)².

¹ A public company limited by guarantee, designated by the Minister under the Deposit Insurance Act (Cap. 77A, 2006 Revised Edition), to administer the Deposit Insurance Scheme and to administer and manage the Deposit Insurance Fund.

² This Act was repealed on 1 May 2011 when the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 (Act 15 of 2011) came into operation.

4. The Workers' Fund accounts for the financial year 2010/11 were audited by the Auditor-General as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2).

5. The ASEAN Cultural Fund (Singapore) accounts for the financial year 2009/10³ were audited by the Auditor-General as required under an ASEAN agreement.

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

Acknowledgements

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

³ The accounts for the financial year 2009/10 covered 19 months from 1 June 2009 to 31 December 2010 because the financial year-end was changed from 31 May to 31 December.

APPENDICES

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APPENDIX I : AUDIT AUTHORITY

Audit of Government Ministries, Organs of State and Government Funds

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

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

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

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

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

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

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

APPENDIX I — *continued*

Financial Statements Audit

5. The Auditor-General is required to audit and report (i.e. express an opinion) on the annual Government Financial Statements as provided for under *section 8(1)* of the Audit Act which is read with *section 18* of the Financial Procedure Act (Cap. 109, 1992 Revised Edition).

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

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

- (a) to safeguard the collection and custody of public moneys or other moneys subject to his audit;
- (b) to ensure that issues and payments of moneys subject to his audit were made in accordance with proper authority and payments were properly chargeable and are supported by sufficient vouchers or proof of payment; and
- (c) to ensure that the provisions of the Constitution and of the Financial Procedure Act (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*

8. Specifically, an audit under *section 5(c)* of the Audit Act would require checks to ensure compliance with, inter alia, provisions of the Financial Procedure Act including the Financial Regulations (Cap. 109, Rg 1). In assessing compliance with the Financial Regulations, AGO would check whether Government ministries and organs of state have in place precautions against, inter alia, negligence⁴ and measures to detect apparent extravagance⁵. In other words, AGO would also check whether there has been excess, extravagance or gross inefficiency tantamount to waste.

Audit of Statutory Boards

Financial Statements Audit

9. Under *section 4(1)(a)* of the Audit Act, the Auditor-General shall audit the accounts of any public authority⁶ if it is so provided for by any written law.

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

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

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

⁴ Regulation 3(e) of the Financial Regulations.

⁵ Regulation 3(f) of the Financial Regulations.

⁶ The definition of “public authority” includes statutory boards.

APPENDIX I — *continued*

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

Selective Audit

12. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation. The authority for selective audits of statutory boards is provided for under a Ministry of Finance (MOF) Circular Minute⁷, read with *section 4(4)* of the Audit Act.

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

Audit of Other Entities

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

⁷ Ref. Finance Circular Minute No. M3/2011 dated 10 March 2011. This replaces an earlier MOF Circular Minute Try F 10/1-5 dated 10 November 1972.

APPENDIX I — *continued*

Powers of Auditor-General

15. *Section 6* of the Audit Act provides powers to the Auditor-General for him to carry out his audits. The Auditor-General may, for example, have access to all records and documents subject to his audit, call upon any person to provide explanation or information, and authorise any person to conduct any inquiry, examination or audit on his behalf.

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APPENDIX II : CRITERIA FOR APPOINTMENT OF AUDITORS

1. The Acts of a number of public agencies (i.e. most statutory boards, all town councils and certain funds) require their accounts to be “audited by the Auditor-General or by an auditor appointed annually by the Minister in consultation with the Auditor-General”. The Government Instruction Manuals also require statutory boards to seek the Auditor-General’s concurrence when appointing an auditing firm.
2. When the Auditor-General is not the auditor and he is consulted on the appointment of an auditor, he will give his advice based on the five criteria below:
 - (i) The proposed person, accounting corporation, accounting firm or accounting limited liability partnership (LLP) is not precluded by the Companies Act (Cap. 50, 2006 Revised Edition) from acting as auditor of a company.
 - (ii) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not been suspended from practice or have not been de-registered, during the last five years, under section 38, 52 or 53 of the Accountants Act (Cap. 2, 2005 Revised Edition) or the equivalent sections of the predecessor Act.
 - (iii) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not been inflicted with a penalty, fine or censure, during the last three years, under section 52 or 53 of the Accountants Act or the equivalent sections of the predecessor Act.
 - (iv) The proposed person, or all the directors/partners of the accounting corporation, accounting firm or accounting LLP have not, in the past five years, been found by a Court to have been professionally negligent or to have failed to exercise due care in an audit.

APPENDIX II — *continued*

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

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

Application Notes:

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

APPENDIX II — *continued*

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

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

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

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