



REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2009/10



AUDITOR-GENERAL'S OFFICE

13 July 2010

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 2009/10.

Yours sincerely

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

Lim Soo Ping
Auditor-General

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REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2009/10

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Auditor-General's Office
Singapore

MISSION

To audit and report to the President and Parliament on the proper accounting of public moneys and the economic, efficient and effective use of public resources so as to enhance public accountability.

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CONTENTS

Page

OVERVIEW	1
PART I A : AUDIT OF GOVERNMENT FINANCIAL STATEMENTS	5
PART I B : AUDIT OF GOVERNMENT MINISTRIES AND ORGANS OF STATE	6
Ministry of Community Development, Youth and Sports	7
Ministry of Defence	9
Ministry of Finance	10
Ministry of Foreign Affairs	11
Ministry of Health	12
Ministry of Home Affairs	13
Prime Minister's Office	15
Judicature	16
PART II : AUDIT OF STATUTORY BOARDS	18
Ministry of Finance	
Accounting and Corporate Regulatory Authority	20
Inland Revenue Authority of Singapore	21

Ministry of Information, Communications and the Arts

National Arts Council 22

National Heritage Board 23

Governance Framework and Practices 25

Other Observations 28

**PART III : AUDIT OF GOVERNMENT-OWNED COMPANIES AND
OTHER ACCOUNTS** 29

APPENDICES

Appendix I : Audit Authority 31

Appendix II : Criteria for Appointment of Auditors 35

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 2009/10. The audits were performed 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.

Conduct of Audits

The audits conducted, namely financial statements audits, compliance audits and performance (value-for-money) audits¹, help to give assurance to the President, Parliament and the public on the proper accounting, management and use of public funds and resources. This strengthens public accountability of public sector bodies as custodians and stewards of public funds and resources.

Appendix I sets out the authority for the audits carried out.

AGO audits the Government Financial Statements, financial statements of a number of statutory boards and other accounts every year. The financial statements of other statutory boards are audited by commercial auditors while AGO rotates these boards for selective audits, i.e. performance (value-for-money) audits or compliance audits or both. This approach has freed up resources to help AGO implement the Public Accounts Committee (PAC)'s 2004 recommendation that statutory boards be audited more frequently by AGO. In this regard, in my Report for the financial year 2007/08, I had committed to auditing the larger statutory boards at least once in five years. Other statutory boards would be audited at least once in seven years.

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.

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

¹ Also known as "efficiency audits" and "propriety audits".

Report of the Auditor-General

The Report of the Auditor-General is submitted to the President and presented to Parliament. PAC deliberates on the Report and, where necessary, requires particular ministries to account for the lapses reported. I attend the meetings of the PAC 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. Selected smaller lapses are also reported where they point to significant or systemic weaknesses in internal control. If not addressed, such weaknesses could be exploited leading to real or larger losses.

Audits for Financial Year 2009/10

For the financial year 2009/10, AGO audited all Government ministries, organs of state, 10 statutory boards and four Government funds². In addition, AGO audited five Government-owned companies and three other accounts, and investigated into 11 complaints received from the public on matters relating to the management and use of public funds and resources.

Part I of this Report is on the audit of the Government Financial Statements and on selected observations from the audit of 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 Government-owned companies and other accounts.

The main audit findings are in the following areas.

1. *Internal Controls and Information Technology (IT) Security*

Most of the findings in this year's Report relate to internal controls over the management of public funds, for example, in the areas of payments and refunds. Also reported are lapses and weaknesses in IT security in a number of public sector bodies.

² The statutory boards and Government funds were selected for audit in rotation.

The reported lapses should not be seen as reflecting the general quality of the internal controls in the bodies concerned, but they do point to the need for greater vigilance in such controls, especially in IT security as Government ministries and statutory boards are extensively computerised.

2. *Governance Framework and Practices of Statutory Boards*

Good governance contributes to sound stewardship of public funds and resources. In the last two years, AGO observed weaknesses in governance practices in a number of the statutory boards audited. Consequently, AGO carried out a horizontal audit of the governance framework and practices, and a survey on internal audit functions across statutory boards.

The horizontal audit and survey culminated in the compilation of two guides, namely “Good Governance Principles for Statutory Boards” and “Implementation Guidelines on Internal Auditing in Statutory Boards”. These were presented to the Ministry of Finance (MOF)³ with a recommendation that they be considered for adoption by statutory boards upon which to model or improve their own governance framework and internal audit functions.

Towards More Effective Auditing of Statutory Boards

In my Report last year, I mentioned that AGO had submitted a review report to the Prime Minister. The report was in response to PAC’s 2008 recommendation that AGO carry out a review to see how it could “widen and deepen” its audit of statutory boards to make its audit more effective, and to study the best practices of other national audit institutions. The recommendations in the review report include placing the mandate to audit statutory boards under one umbrella legislation, i.e. the Audit Act, along with the mandate to audit ministries and organs of state. The review report is currently under consideration by the Prime Minister’s Office following its consultation with MOF and AGO.

The latest PAC report dated 25 May 2010 states that “Although AGO’s policy is to audit statutory boards at least once in seven years, the Committee recommends more frequent audits for entities where many lapses have been found.” AGO has noted the recommendation for implementation.

³ The authority for issuing finance-related instructions to public sector bodies.

Acknowledgement

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

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

Lim Soo Ping
Auditor-General
Singapore
13 July 2010

PART I

(A)

**AUDIT OF GOVERNMENT FINANCIAL
STATEMENTS**

(B)

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

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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 2010 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)¹ on 9 July 2010.
2. The audit has been completed and the Auditor-General issued his audit report on the Financial Statements to the Minister for Finance on 9 July 2010. In accordance with section 8(3) of the Audit Act¹, the Auditor-General submitted the audit report to the President on 12 July 2010.
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 in the audit.

¹ See Appendix I (Audit Authority).

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

1. Under section 5 of the Audit Act¹, the Auditor-General carries out test checks of internal controls of selected areas in ministries and organs of state, including the following Government funds²:

- (i) Community Care Endowment Fund
- (ii) ElderCare Fund
- (iii) National Research Fund
- (iv) SAVER-Premium Fund

The financial statements of the Government funds are audited by commercial auditors appointed by the Minister concerned in consultation with the Auditor-General. In advising on the appointment, the Auditor-General would take into account the criteria listed in Appendix II.

2. Under section 8(7) of the Audit Act¹, it has been the practice for AGO to report instances of waste, extravagance, inefficiency or ineffectiveness in the use of public funds and resources observed in the course of its audits.

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

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

1 See Appendix I (Audit Authority).

2 These Government funds were selected in rotation.

MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS

Financial Management in Welfare Homes

5. The Ministry of Community Development, Youth and Sports has 10 welfare homes and one activity centre for the care and rehabilitation of destitute persons.

6. The Ministry appointed Voluntary Welfare Organisations (VWOs) as managing agents (MAs) to run and manage these welfare homes and activity centre. The five-year management contracts with the MAs require them to comply with the Standard Operating Procedures and Service Standards Requirements set by the Ministry. These procedures and requirements, among other things, serve to protect the interests of the welfare home residents.

7. In the financial years 2007/08 and 2008/09, the Ministry provided grants amounting to \$20.41 million and \$21.78 million respectively to the MAs for the running of the welfare homes and activity centre.

8. In 2009, AGO carried out an audit on selected areas of the welfare homes and activity centre and observed the following:

(i) Financial Management Lapses

9. AGO's review of the financial controls revealed a number of lapses which include the following:

- (a) The MAs of three welfare homes transferred donations, totalling \$34,907, received for the homes to the accounts of their respective VWOs instead of using the donations for the benefit of the homes.
- (b) Cash sales to residents of a welfare home amounting to \$3,425, for the period from April 2007 to December 2008, from a "shop" operated by the home as a rehabilitative activity could not be accounted for.
- (c) Valuables and \$12,637 in cash belonging to the residents in one welfare home were not kept under lock and key. They were kept in cardboard boxes and shopping bags in the Superintendent's office.

10. The Ministry informed AGO that, following the audit observations, the Ministry had conducted a thorough review of the governance system of the MAs and introduced additional measures to enhance the existing controls. The Ministry would also conduct regular inspections on the safekeeping of residents' properties in the homes.

(ii) Treatment of Donations Vis-à-vis Grants Needs Review

11. The MAs receive grants from the Ministry for the operating expenditure of the homes and activity centre on a per capita basis. Under the Ministry's outcome-based approach of funding its welfare homes, the MAs are allowed to retain grants not spent at the end of their 5-year agreements with the Ministry.

12. Besides receiving grants from the Ministry, the homes and activity centre also receive donations from the public. AGO noted that one welfare home received a total of \$1.10 million in donations in the financial year 2007/08.

13. As the MA agreements do not specify the treatment of donations vis-à-vis the grants, the MAs may use the donations for expenditure already covered by the grants from the Ministry. This may have the unintended effect of allowing donations to be retained by the MAs in the form of unspent grants.

14. The Ministry informed AGO that when the outcome-based funding policy for MAs was first implemented, donation was not an issue as the amounts involved then were small and insignificant. The Ministry has noted AGO's comments and would review the treatment of donations vis-à-vis grants.

(iii) Unusual "Reward" Paid by a Resident

15. In the course of the audit, AGO noted a case of a welfare home resident paying a lawyer a "reward" for recovering her landed property and helping to sell it. The welfare home handled most of the administrative matters relating to the case and a staff member of the home witnessed the signing of the "reward" agreement. The resident, who was then under psychiatric treatment, had been residing in a welfare home since 1980 and had no visiting relatives.

16. As the "reward" paid by the resident was unusually high, equivalent to about 40 per cent of the selling price of the property, AGO drew the matter to the attention of the Ministry and the matter has been referred to the Police.

17. The Ministry informed AGO that this was an isolated incident and that it had a procedure requiring MAs to keep the Ministry informed of significant financial transactions relating to welfare home residents since 2007.

MINISTRY OF DEFENCE

Excess Meal Indents Covered Up through Falsification of Records

18. The Singapore Armed Forces (SAF) provides meals to servicemen in SAF camps. The meals indented and consumed by servicemen are recorded at each camp for the purpose of determining the payments to be made to the meal supply contractors.

19. AGO carried out an audit of the meal indent and consumption records for the period from June to August 2008 at two randomly selected camps. The test checks revealed 63 instances of excess meal indents which were covered up by the personnel managing the cookhouses or by servicemen through the falsification of meal consumption records. The meal wastage had resulted in unnecessary expenditure of \$22,231.

20. AGO observed that inadequate controls over meal indents and recording of meal consumption had allowed the irregularities to occur.

21. Following AGO's findings, the Ministry of Defence (MINDEF) convened a Higher Board of Inquiry (HBOI) to investigate into the findings and to identify gaps in the controls over meal indents and recording of consumption. MINDEF also conducted checks at the other SAF camps. HBOI has since made recommendations to MINDEF on the tightening of controls in these areas, including the enhancement of procedures to ensure accurate and prudent meal indents. MINDEF has also taken disciplinary action against the personnel involved in the falsification of records.

MINISTRY OF FINANCE

Nursing Homes Used Government Payouts Without Patients' Authorisation

22. The Ministry of Finance (MOF) made arrangements with the Ministry of Health (MOH) and the Central Provident Fund Board for Intermediate and Long-Term Care (ILTC) institutions³ to help eligible patients sign up for the various Government payouts such as GST Credits. As at 31 December 2009, an estimated 8,500 patients in 67 ILTC institutions were eligible for such payouts. The institutions also act as proxies, under MOF's Guidelines for Encashment by Third Party, to cash the cheques of patients who are unable to do so themselves. These Guidelines which were circulated to the ILTC institutions, and briefings that were conducted by MOF for the institutions, made it clear that the payouts belonged to the patients.

23. AGO test checks on six nursing homes showed that between 2005 and 2009, an estimated \$1.19 million in Government payouts was cashed by the homes on behalf of patients. AGO observed that one home treated the money as its revenue while the other five homes used the money to pay for medical treatment, consumables and charges incurred by the respective patients without the patients' authorisation. Prior to September 2007, one of these homes used the money to buy general supplies and equipment such as shower trolleys, wheelchairs and safety vests for the home.

24. MOF informed AGO that the ILTC institutions have to be responsible for how they use their patients' money and that MOF would work with MOH and other relevant agencies to highlight this to all ILTC institutions. MOF also said that to help the institutions, it would make its Guidelines even clearer and remind them of their responsibilities.

ACCOUNTANT-GENERAL'S DEPARTMENT

Lapses in Information Technology (IT) Security

25. The "NFS@Gov" system is the Government accounting system administered by the Accountant-General's Department (AGD) for processing payments and receipts, and maintaining general ledger and asset records, among other things.

3 ILTC institutions include community hospitals, chronic sick hospitals, hospices, nursing homes, community-based day rehabilitation services, home medical services and home nursing services run by voluntary welfare organisations and private companies.

26. AGO found a number of lapses in the security of the system during its audit, including the following:

- (a) 642 end-user accounts were wrongly given access rights to an application designer tool. Thirteen of these accounts would allow the users to modify programs and/or records in the system.
- (b) Three operating system user accounts with privileged access rights not used for 18 months or more were not deactivated.
- (c) The passwords of two database administrator accounts were not changed for six years. The system was also not set to limit the number of failed attempts to log in to the database.

27. With regard to (a), AGD informed AGO that it has since removed the access rights from the 642 end-user accounts.

28. As regards (b) and (c), AGD informed AGO that the IT vendor who was engaged by AGD to maintain the “NFS@Gov” system had not complied with its IT security policy in these areas. AGD has since taken action to ensure compliance by the IT vendor.

MINISTRY OF FOREIGN AFFAIRS

Inadequate Controls Resulting in Overpayments to Staff

29. AGO test checks of an overseas mission revealed 50 instances of overpayment of salaries, bonuses, overtime claims, medical and dental subsidies to the mission staff and double payment of medical expenses. These amounted to at least \$5,800. There were six other instances where overtime claims were certified and approved before the overtime occurred. Other lapses observed include non-compliance with Government instructions and guidelines such as an officer certifying his own claims.

30. Although the amount of overpayments observed from the test checks is not significant, the control lapses need to be rectified so that the system of internal controls is rigorous enough to ensure that payments made are correct and for valid purposes.

31. The Ministry of Foreign Affairs informed AGO that it would recover the overpayments and tighten the controls over payments.

MINISTRY OF HEALTH

ELDERCARE FUND

Need to Review Implementation Aspects of Means-testing

32. Elderly patients at over 100 approved Intermediate and Long-Term Care (ILTC) institutions⁴ who seek healthcare subsidies are subject to means-testing set by the Ministry of Health to determine the patients' eligibility and subsidy rate. In the financial year 2008/09, the Ministry disbursed \$53.95 million from the ElderCare Fund to the ILTC institutions to subsidise their eligible patients.

33. In auditing the disbursements, AGO carried out test checks of six nursing homes and found a number of instances of non-compliance with the Ministry's guidelines on means-testing. These include not obtaining the approval of the head of the ILTC institution for deviation cases (e.g. those granted financial assistance without means-testing), not reporting such cases to the Ministry as deviation cases, and not carrying out means-testing in the prescribed manner because of practical difficulties in obtaining information on the income of a patient's family members.

34. AGO recommended that the Ministry look into the implementation aspects of means-testing by the ILTC institutions to help ensure that eligible patients are paid the correct level of subsidy.

35. According to the Ministry, it has been meeting the ILTC institutions regularly to clarify its means-testing criteria and to discuss common mistakes and best practices. The Ministry has also codified learning points into its guidelines. It would continue to enhance its framework and guidelines and penalise ILTC institutions in cases of non-compliance if necessary.

4 ILTC institutions include community hospitals, chronic sick hospitals, hospices, nursing homes, community-based day rehabilitation services, home medical services and home nursing services run by voluntary welfare organisations and private companies.

Under-disbursement of \$200,000 to Five Nursing Homes

36. AGO observed that from the financial year 2009/10, the quarterly subsidies paid by the Ministry to the ILTC institutions were based not on their actual entitlement for the respective quarter, but on what had been paid in the last quarter of the financial year 2008/09. Based on data for the first two quarters of the financial year 2009/10 available at five⁵ of the six nursing homes test-checked by AGO, this resulted in under-disbursement of an estimated \$200,000.

37. AGO noted that the Ministry had implemented a new ILTC information system in May 2009 at a capital cost of \$1.95 million and an average annual recurrent cost of \$337,000. All ILTC institutions receiving subsidies from the Ministry are required to transmit data to the Ministry through the system on a quarterly basis. The system would then compute the quarterly subsidy payable to each ILTC institution.

38. AGO observed that a year after its implementation, the ILTC information system was still not able to compute the quarterly subsidies payable to the ILTC institutions because of system bugs.

39. The Ministry informed AGO that the difference between the subsidies paid and the actual subsidy entitlement of the ILTC institutions for the financial year 2009/10 would be adjusted when the system bugs are rectified.

MINISTRY OF HOME AFFAIRS

SINGAPORE CIVIL DEFENCE FORCE (SCDF)

Irregularities in SCDF's Dealings with Its Co-operative

40. To achieve the objectives of providing second career opportunities for retired SCDF officers and exporting SCDF's expertise and services overseas, the Co-operative of the SCDF Employees Limited (COSEM) was set up in June 2005.

5 The sixth nursing home did not have the relevant records for AGO to compute the subsidy it should have received.

41. Arising from a complaint, AGO carried out an audit of selected SCDF transactions with COSEM. AGO observed that a number of SCDF's dealings with COSEM were not in compliance with the relevant Government instructions. For example, SCDF had:

- (a) Paid \$30,811 for renovating space rented to COSEM. The renovation works included refurbishment of a general office and conversion of a dormitory into office space. The cost of renovation was not recovered from COSEM nor was the rental rate revised to take into account the renovation cost.
- (b) Paid \$36,163 for overseas travel expenses incurred by SCDF officers seconded to COSEM travelling on COSEM's business trips.

42. SCDF informed AGO that the amounts incurred for the renovation and overseas travel have since been recovered from COSEM.

SINGAPORE POLICE FORCE

Fees Not Imposed on Several Prosecuting Agencies for Enforcement of Warrants of Arrest

43. The Warrant Enforcement Unit of the Singapore Police Force (SPF) enforces Warrants of Arrest against offenders who fail to answer summons served on them by various prosecuting agencies for regulatory offences committed (such as littering, unlicensed hawking and illegal parking at car parks). Under the law, SPF is required to impose on the prosecuting agencies, mainly statutory boards and town councils, a fee of \$25 for each Warrant of Arrest enforced. For the financial year 2009/10, a total of about \$1.36 million was collected by SPF for such enforcement.

44. AGO test checks revealed that SPF did not impose fees for Warrants of Arrest enforced for several prosecuting agencies during the period from 1997 to 2009. As a result, revenue of about \$648,000 in total was not collected.

45. The Ministry of Home Affairs informed AGO that it would be following up on this matter and reviewing the levying of charges on the prosecuting agencies.

Lapses in Contract Management

46. SPF engaged two contractors to maintain its surveillance camera systems. AGO test checks of the maintenance contracts amounting to \$2.60 million revealed the following lapses:

- (a) From 2008 to 2009, SPF paid one contractor \$48,950 for calibration of equipment. Under the contract, the calibrations were to be carried out overseas by the equipment manufacturer. As proof of a calibration carried out, the contractor would submit to SPF a “certificate of calibration” issued by the manufacturer. However, AGO found telltale signs on the “certificates” submitted by the contractor indicating that they did not originate from the manufacturer. Checks by AGO confirmed that the equipment was never sent overseas for calibration. The SPF officers concerned had overlooked the telltale signs. As a result, SPF paid for work not carried out in accordance with the contract.
- (b) Under the contracts with the two contractors, SPF would have to impose liquidated damages for any service not carried out in accordance with the contracts. Although both contractors had consistently failed to deliver the services required, SPF did not impose liquidated damages on them. The total amount of liquidated damages not imposed was estimated at \$242,000 for the period from 2008 to 2009.

47. The Ministry informed AGO that SPF’s internal controls and procedures would be tightened to address the lapses. Action would also be taken to impose liquidated damages on the contractors for non-performance of services. An investigation has commenced on the suspected falsification of documents by the contractor.

PRIME MINISTER’S OFFICE

PUBLIC SERVICE DIVISION

Weakness in System Access Control

48. The Public Service Division (PSD) uses a Government-wide human resource (HR) system to manage Government HR and salary data. The system is maintained by a contractor engaged by PSD.

49. As part of its audit of Government expenditure on manpower for the financial year 2009/10, AGO reviewed the information technology (IT) controls over the HR system. AGO observed that there was inadequate restriction on the access of eight of the contractor's operators and their supervisor to confidential data in the system. There is a need for stricter IT controls to ensure that data is accessed on a need basis.

50. Based on test checks of the system access logs, AGO found that between 1 February 2010 and 31 March 2010, there were 148 instances of access to salary data and 902 instances of access to other HR data by the operators and their supervisor. AGO also found that these logs had not been reviewed to detect any instances of unauthorised access although such review is required under PSD's IT security policy.

51. PSD informed AGO that it has since taken action to address AGO's observations. The measures taken include giving appropriate authorisation to the supervisor and removing the operators' access rights to HR and salary data. PSD would also implement a process for the review of audit logs.

JUDICATURE

SUBORDINATE COURTS

Late Refund of Cash Bail

52. AGO test checks on cash bail held by the Subordinate Courts as at 31 August 2009 revealed 46 cases amounting to \$440,450 not refunded despite judicial decision (made on conclusion of the court cases) to refund the cash bail. As at 31 August 2009, these refunds had been outstanding for periods ranging from 41 days to 1,694 days, far exceeding the Subordinate Courts' published timeline of 15 or 23 working days for refunds⁶.

53. In addition, AGO test checks on refunds of cash bail made before 31 August 2009 found 59 refunds that were late. These 59 cases, amounting to \$571,500, were refunded 49 days to 340 days after the conclusion of the court cases.

⁶ Fifteen working days for crediting to the three local bank accounts and 23 working days for other bank accounts.

54. Cash bail which is no longer required should be promptly refunded upon the conclusion of the court case. The Subordinate Courts should not retain the bail for such a long period, as the bailor would have been informed (at the time of posting bail) that refund, if any, would be made within 15 or 23 working days upon conclusion of the court case.

55. The Subordinate Courts had taken action to refund the 46 outstanding cases of cash bail and also conducted an “After Action Review” to identify areas for improvement. The Subordinate Courts informed AGO that it has since introduced a series of processes and long term measures to ensure prompt refunds upon conclusion of each case.

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)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.

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 four statutory boards for the financial year 2009/10:

- (i) Accounting and Corporate Regulatory Authority
- (ii) Defence Science and Technology Agency²
- (iii) Inland Revenue Authority of Singapore
- (iv) Monetary Authority of Singapore

Unqualified audit opinions were issued on these financial statements.

1 See Appendix I (Audit Authority).

2 The accounts of the Defence Science and Technology Agency for the financial year 2009/10 were audited by the Auditor-General under section 4(1)(b) of the Audit Act.

Performance (Value-for-Money) Audits

4. AGO carries out performance (value-for-money) audits³ of statutory boards in rotation. The authority for such audits is provided for under a 1972 Ministry of Finance circular⁴, read with section 4(4) of the Audit Act. This has enabled AGO to audit statutory boards separately from the audit of their financial statements, a function which can be carried out by commercial auditors. In the financial year 2009/10, AGO carried out performance (value-for-money) audits of the following six statutory boards:

- (i) Energy Market Authority of Singapore
- (ii) Intellectual Property Office of Singapore⁵
- (iii) Jurong Town Corporation⁶
- (iv) National Arts Council
- (v) Public Utilities Board⁶
- (vi) Singapore Corporation of Rehabilitative Enterprises⁶

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

Acknowledgement

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

3 Also known as "efficiency audits" and "propriety audits".

4 See Appendix I (Audit Authority), paragraph 12.

5 The audit is in progress.

6 AGO outsourced the audit.

Selected Observations

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

MINISTRY OF FINANCE

ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

Unauthorised Testing of Computer System

8. The Accounting and Corporate Regulatory Authority (ACRA) has a computer system for managing a repository of documents and information relating to business entities and public accountants. The transactions processed by the system generated revenue amounting to \$38.56 million for the financial year 2008/09.

9. AGO observed that there were three occasions in 2009 when the contractor engaged to provide maintenance and support services to the computer system had carried out unauthorised testing of the computer system in a live environment. Testing of computer programmes is normally carried out in a test environment. Should testing in a live environment be necessary, there should be proper authorisation and stringent controls to ensure that information in the system is not corrupted and normal transactions are not affected.

10. The unauthorised testing resulted in the generation of two invoices with incorrect amounts.

11. ACRA informed AGO that it has tightened the controls and would continue to review the control process to prevent unauthorised testing.

INLAND REVENUE AUTHORITY OF SINGAPORE

Dormant Accounts Not Deactivated on a Timely Basis

12. Any person who has paid tax in excess of the tax payable is entitled to have the excess tax refunded under the Income Tax Act (Cap. 134, 2008 Revised Edition).

13. AGO had reported in the Report of the Auditor-General for the Financial Year 2003/04 that dormant accounts with long outstanding excess tax should be subject to tighter controls as they were more susceptible to fraud. Subsequently, to tighten controls, the Inland Revenue Authority of Singapore (IRAS) introduced a policy in 2004 to deactivate such dormant accounts. In that same year, IRAS carried out a deactivation exercise.

14. For prudence, such deactivation exercises should be conducted on a timely basis. AGO noted that since 2004, no deactivation exercise was carried out until 2009 when 73,726 dormant accounts with long outstanding excess tax totalling \$27.12 million were deactivated.

15. IRAS explained that it did not carry out any deactivation exercises during the period from 2005 to 2008 because it had then understood that Government finance instructions required unclaimed monies to be published on the website for six years before they could be deactivated. It would henceforth conduct annual deactivation exercises for dormant accounts with long outstanding excess tax.

Inadequate Controls over Refund of Excess Tax to Third Party Bank Accounts

16. Taxpayers may apply for tax refund to be credited to a third party bank account via GIRO. It is very important to have proper controls over such refunds to ensure that the refund is credited to the bank account authorised by the taxpayer.

17. AGO observed that there were inadequate controls by IRAS to ensure that the third party bank account is indeed authorised by the taxpayer.

18. IRAS informed AGO that it has since taken action to enhance the controls.

MINISTRY OF INFORMATION, COMMUNICATIONS AND THE ARTS

NATIONAL ARTS COUNCIL

Optimising the Use of Resources for Arts Housing Scheme

19. Under its Arts Housing Scheme (AHS), the National Arts Council (NAC) would lease suitable buildings from the Government at market rate and renovate and rent them out to artists and arts groups at subsidised rates. The main objective of the AHS is to facilitate the development and growth of artists and arts groups so that they can play a greater role in the cultural development of Singapore.

20. Since 1994, NAC had incurred \$12.56 million on renovations for the AHS. As for rental subsidies, NAC incurs an average of \$2.68 million every year. As at April 2009, there were 100 tenants in the AHS. Fifty-seven of them had been on the AHS for 10 years or more; 13 of these for more than 20 years. All the tenants were charged 10 per cent of the market rent, except for one who was charged 100 per cent.

21. AGO had recommended that NAC review its criteria for the allocation and renewal of tenancies under the AHS so as to optimise the use of its funding resources while achieving the objectives of the AHS.

22. NAC agreed with AGO that the criteria for allocation and renewal of tenancies could be improved to ensure that resources are more effectively channelled to deserving artists and arts groups and that the level of support can be adjusted to better meet their specific needs and stage of development. Following a review, NAC had implemented a pilot project in end 2008 to make facilities available to a larger group of artists and arts groups through booking instead of allocation to a particular group.

23. In the financial year 2009/10, NAC started a study of the arts sector's housing needs with a view to replacing the AHS with a new arts housing framework. The new framework will provide infrastructure support (which includes subsidised housing) that takes into consideration the varying stages of development and maturation of artists and arts groups. There will be a new selection process aligned with the desired outcomes of the framework. NAC expects the new framework to be rolled out in phases from end 2010 to 2011 after consultation with the arts community, the public and relevant agencies.

Lapses in Management of a Tenancy

24. One of NAC's properties was leased to a cafe operator without competition since late 1997, i.e. 13 years to date. The cafe is currently on its fifth tenancy agreement with NAC. Not opening the tenancy to competition is a breach of the principles of open and fair competition, transparency and value maximisation, which underlie the Government revenue contracting procedures, notwithstanding that the rental was based on market valuation.

25. AGO also observed irregularities in NAC's submissions to its Tender Board seeking extensions of tenancy for the cafe operator. These include wrongly stating that the Government revenue contracting procedures allow extensions of tenancy for up to nine years and failing to comply with a decision by the Tender Board that the third tenancy should be the last extension with the same operator.

26. NAC agreed that tenancies should be awarded on the basis of open competition and has since instituted a more rigorous procedure for revenue-generating contracts, and will ensure full compliance with Government revenue contracting procedures for future contracts.

NATIONAL HERITAGE BOARD

Unduly Short Opening Period for Quotations

27. Arising from a complaint, AGO carried out test checks on the opening period⁷ of quotations called by the National Heritage Board (NHB) from February to July 2009. Government procurement procedures state that the quotation opening period must be of a reasonable period of time⁸ to allow interested suppliers sufficient time to submit a quotation.

7 The interval of time between the date of publication of a quotation notice and the closing date for receipt of quotation.

8 The Government procurement procedures state that as a guide, quotations should stay open for seven days. If a shorter period is necessary, it should not be less than three working days.

28. AGO found 16 cases (with value ranging from about \$4,000 to \$68,700) where NHB gave suppliers three working days or less to submit quotations for goods and services which were not available off-the-shelf, for example:

- (a) Construction and installation of partitions, special showcases, plinths, text panels, etc. for a special exhibition gallery; and
- (b) Professional engineering services requiring the engineer to certify and advise on the “design for the Light and Sound interactive art installation . . . on the steel structure frame works, column support and foundation of the entire art work structure”. The engineer was required to work with the appointed contractor and the company supplying the art work “for the installation, de-installation and maintenance of the art work”.

29. Of these 16 cases, four did not receive any quotations and another seven received only one or two quotations.

30. Not providing sufficient time for submission of quotations would deprive the purchasing agency of access to more choices and more competitive pricing. AGO recommended that NHB implement procedures to ensure that if the opening period for any quotation is less than the Government’s guideline of seven days, there are strong reasons for doing so.

31. NHB informed AGO that it had tightened its procurement procedures in November 2009. A circular had been issued to staff to emphasise the need to comply with the seven-day quotation opening period, and if the opening period is less than seven days, there are good justifications and approval has been obtained for doing so.

GOVERNANCE FRAMEWORK AND PRACTICES

Horizontal Audit of Governance Framework and Practices

32. In the course of AGO's audit of individual statutory boards in the past two years, AGO raised a number of audit observations on weaknesses in governance practices. Good governance of a statutory board contributes to giving, among other things, reasonable assurance that assets are safeguarded and public funds and resources are properly used, managed and accounted for. AGO therefore conducted a horizontal audit across statutory boards to identify any gaps or shortcomings in governance framework and practices. The audit comprised a survey of the governance practices of statutory boards⁹ and a comparative study of the legislation of statutory boards with regard to governance requirements.

33. AGO observed from the audit that in general, statutory boards had in place systems and processes for governance. Good governance practices in the majority of the statutory boards and governance requirements found in most of their enabling Acts include:

- (a) Having a requirement in the Acts of statutory boards that their audited financial statements, auditor's report and annual report be presented to Parliament;
- (b) Conducting annual reviews of the statutory board's internal controls and risk management system;
- (c) Having a governing board-approved investment policy statement for statutory boards with investments; and
- (d) Having a conflict of interests policy for governing board members.

34. Examples of gaps and shortcomings found in a number of statutory boards are as follows:

- (a) Their governing boards do not oversee the establishment and implementation of the statutory board's risk management system.

⁹ AGO engaged the Corporate Governance and Financial Reporting Centre of the National University of Singapore to carry out the survey.

- (b) Their Acts do not require them to submit annual budgets to their governing boards for approval/adoption.
- (c) Their Acts do not specify the term of office for governing board members and/or do not specify the maximum number of terms allowed for governing board members.

35. Drawing from the findings in the horizontal audit and from relevant best practice guides, AGO developed a guide on “Good Governance Principles for Statutory Boards”. AGO recommended that the Ministry of Finance (MOF)¹⁰ consider adopting it as a guide for statutory boards upon which to model their own governance framework and processes.

36. AGO also recommended that MOF consider providing a template on the governance provisions that should be considered for incorporation into the Acts of statutory boards.

37. Following AGO’s recommendations, MOF informed AGO that both MOF and the Public Service Division have also been studying the issue of statutory board governance, with a view towards formulating guidelines that can be shared with ministries and statutory boards. MOF will incorporate elements of AGO’s recommendations into the guidelines where appropriate, taking into account the differences across statutory boards’ enabling statutes and their existing governance framework and practices.

Survey of Internal Audit Function

38. The Internal Audit (IA) function is an important component of the governance framework. The IA function provides assurance that, among other things, controls are in place to ensure that assets are safeguarded and public funds and resources are properly used, managed and accounted for.

39. In 2009, AGO conducted a survey of the IA practices in statutory boards¹¹. From the survey results, AGO observed that majority of statutory boards generally had good IA practices in place. These IA practices include:

¹⁰ The authority for issuing finance-related instructions to public sector bodies.

¹¹ The survey was carried out by a consultant engaged by AGO. The survey covered the top 40 statutory boards in terms of the sum of assets, liabilities, revenue and expenditure.

- (a) Obtaining feedback from the Audit Committee;
- (b) Discussing scope of audit projects with auditees before project commencement;
- (c) Briefing the auditees on IA findings and obtaining feedback prior to issuing the final audit report; and
- (d) Having a continuing professional development policy in place for the IA team.

40. AGO observed a few areas for improvement which include the following:

- (a) To ensure independence, the Audit Committee should not include any member from the executive management team.
- (b) The IA function should have an IA charter, approved by the Audit Committee or the governing board, setting out the purpose, authority, responsibilities and reporting lines of the IA function.
- (c) There should be an IA manual that sets out the audit methodology, approach and documentation standards.

41. Based on results of the survey and a study of relevant guides, AGO developed a baseline guide on “Implementation Guidelines on Internal Auditing in Statutory Boards”. AGO recommended that the Ministry of Finance (MOF) consider adopting the guide for the IA function in statutory boards.

42. MOF informed AGO that the Accountant-General’s Department (AGD) had submitted a similar report proposing implementation guidelines for IAs in ministries and that it would consider AGD’s suggestions and AGO’s recommendations where appropriate, taking into consideration the different circumstances across statutory boards.

OTHER OBSERVATIONS

Presentation of Audited Financial Statements to Parliament

43. AGO checked whether the audited financial statements of statutory boards for the financial year 2008/09¹² were presented to Parliament within six months of the end of the financial year as recommended by the Public Accounts Committee (PAC)¹³.

44. All except two statutory boards presented their audited financial statements for the financial year 2008/09 to Parliament within the six-month timeframe recommended by PAC.

12 This covers the financial years ending 31 December 2008 or 31 March 2009.

13 Second Report of the Public Accounts Committee (Parl. 2 of 2004).

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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 2009/10 were audited by the Auditor-General under section 4(1)(b) of the Audit Act (Cap. 17, 1999 Revised Edition)¹:

- (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

Unqualified audit opinions were issued on these financial statements.

Other Accounts

2. At the request of the President, the Auditor-General audited the accounts of the President's Challenge 2008 under section 4(1)(b) of the Audit Act¹.

3. The Workers' Fund accounts are audited annually by the Auditor-General as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2).

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

¹ See Appendix I (Audit Authority).

5. The ASEAN Cultural Fund (Singapore) accounts are audited annually by the Auditor-General as required under an ASEAN agreement. The audit for the financial year ended 31 May 2009 was completed on 24 August 2009. As the financial year-end for the Fund has been changed to 31 December², the next set of accounts will be for the period 1 June 2009 to 31 December 2010. The audit for this set of accounts will commence in January 2011.

Acknowledgement

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

2 As decided by the ASEAN Committee on Culture and Information.

APPENDICES

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APPENDIX I : AUDIT AUTHORITY

Audit of Ministries and Organs of State

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. 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 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).

5. *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.”

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

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

APPENDIX I — *continued*

6. 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.

7. 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 ministries and organs of state have in place precautions against (inter alia) negligence³ and measures to detect apparent extravagance⁴. In other words, AGO would also check whether there has been excess, extravagance or gross inefficiency tantamount to waste.

3 *Regulation 3(e)* of the Financial Regulations.

4 *Regulation 3(f)* of the Financial Regulations.

APPENDIX I — *continued*

8. *Section 8(7)* of the Audit Act⁵ allows the Auditor-General to make recommendations and comments on all matters relating to public accounts, public moneys and public stores. In this regard, it has been a practice for AGO to report under this section, instances of waste, extravagance, inefficiency or ineffectiveness in the use of public funds and resources noted in the course of its audits.

Audit of Statutory Boards

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;
- (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.

5 *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.”

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

12. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out performance (value-for-money) audits in rotation. The authority for performance (value-for-money) audits is provided for under a Ministry of Finance (MOF) circular⁷, read with *section 4(4)* of the Audit Act. The circular stipulates that the Auditor-General would carry out “efficiency and proprietary audit of statutory boards which are fields not covered by the commercial auditors”. This allows the scope of the Auditor-General’s audit to include matters of performance/ administration *in relation to the accounts of statutory boards*, for example, checking on issues of excess, extravagance, inefficiency and waste. The MOF circular has enabled AGO to audit statutory boards separately from the audit of their financial statements, a function which can be carried out by commercial auditors.

Audit of Other Entities

13. 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.

Powers of Auditor-General

14. *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.

7 Ref. Try F 10/1-5 dated 10 November 1972.

APPENDIX II : CRITERIA FOR APPOINTMENT OF AUDITORS

1. 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.
2. In giving his views to the Minister, the Auditor-General will use the five criteria below.

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.

APPENDIX II — *continued*

Application Notes:

(a) Where, on the same matter, the person, accounting corporation, accounting firm or accounting LLP is disciplined under section 38, 52 or 53 of the Accountants Act [criteria (ii) and (iii)] and also found by a Court to have been professionally negligent or to have failed to exercise due care in an audit [criterion (iv)], the five-year debarment period will take effect from the date of disciplinary action imposed under the Act or the date of the Court verdict, whichever is earlier.

(b) Where an accounting corporation, accounting firm or accounting LLP does not meet criterion (ii), (iii) or (iv), the accounting corporation, accounting firm or accounting LLP will not be debarred if the director or partner concerned will not be involved in the proposed audit engagement.

3. Criteria (i) to (iv) give the assurance that the person, the accounting corporation, accounting firm or accounting LLP and its directors/partners, are suitably qualified and have a clean record for a sustained period, with regard to disciplinary action meted out by the Public Accountants Oversight Committee¹ or adverse judgment by a Court. Criterion (v) provides for the rotation of auditors. 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.

